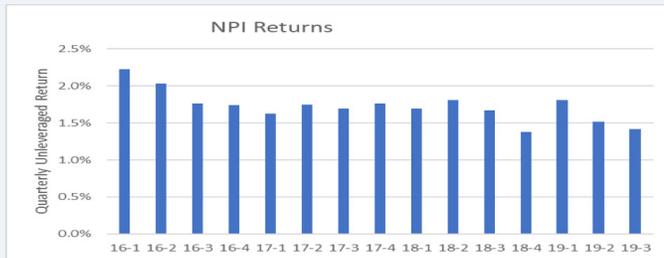


MARKET VALUES REACH ANOTHER NEW HIGH DESPITE LOWER RETURNS

By Jeffrey D. Fisher, Ph.D., NCREIF Senior Consultant

The NPI total return was 1.41% in the third quarter, down from 1.51% last quarter. This was slightly below the average quarterly return over the past four quarters which was 1.53% or 6.25% annualized.

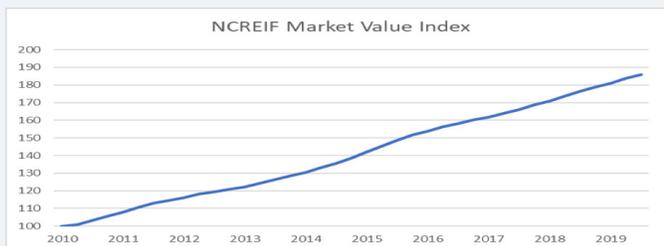
NPI Total Returns



The total return of 1.41% consisted of an income return of 1.11% from NOI and a capital return of 0.30%.

Market Value Index Reaches Another New High

Although returns were down for the quarter, market values reached another new high as indicated by the NCREIF Market Value Index (MVI). The MVI tracks how estimated sale prices are changing over time for properties in the NCREIF Property Index. Capital expenditures are in effect added back to the NPI capital return which is net of capex. But properties with significant capex are excluded for that quarter in order to remove the impact of new investment on the price index. The MVI has been rising steadily since the recovery from the great recession began in 2010.

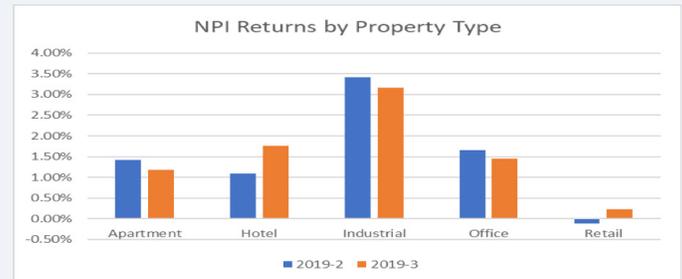


All Property Types have Positive NPI Returns for Quarter

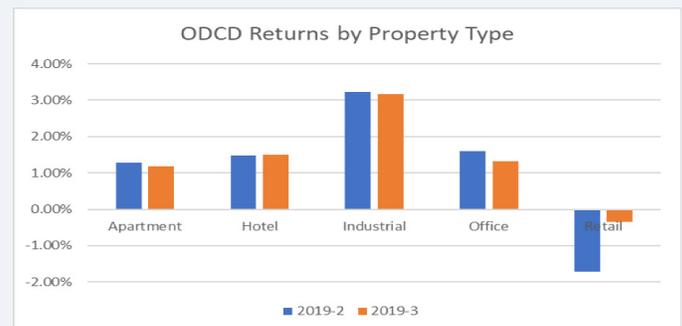
Returns for retail properties reversed course from last quarter in the NPI and managed to have a positive return of 0.22% compared to -0.11% last quarter. Hotel returns were also up for the quarter,

increasing from 1.09% to 1.77%. Returns for the remaining property types in the NPI decreased slightly for the quarter but remained in positive territory. Industrial properties continued to have the highest return of all property types at 3.16% although down from 3.42% last quarter. Office returns were next at 1.45% which was down from 1.66% last quarter. Finally, apartment returns at 1.18% versus 1.42% the prior quarter.

NPI Total Returns by Property Type



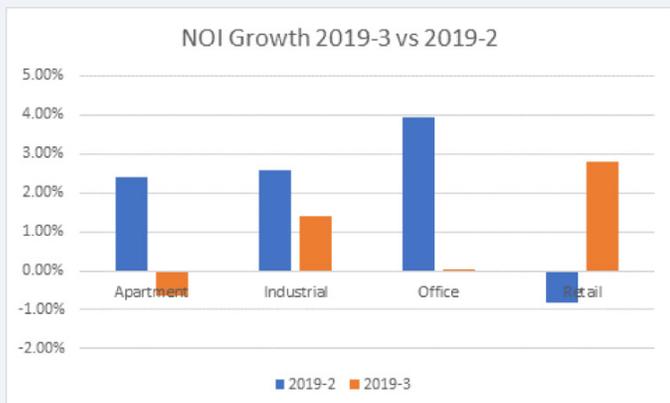
It should be noted, however, that retail returns in the ODCE subset of the NPI had another negative return after turning negative last quarter. ODCE properties tend to rely more in external appraisals but there are other differences as well in the characteristics of properties and locations of the investments so it isn't clear if external appraisals are more pessimistic on the direction of retail values and this suggests the NPI retail returns are likely to turn negative again next quarter.



NOI Growth Positive for all Property Types Except Retail

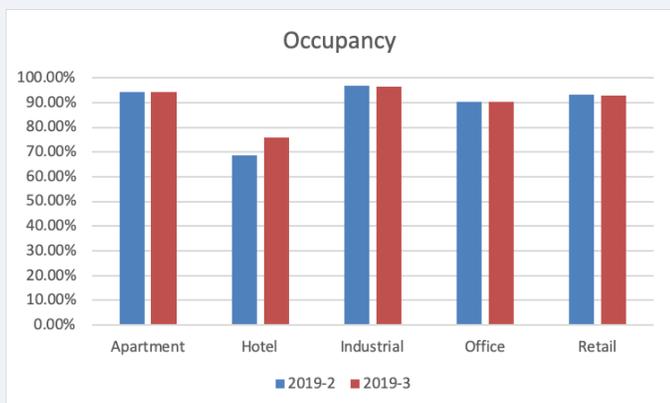
Another clue as to the direction of retail may be in the NOI growth which turned positive for retail properties in the NPI this quarter. But we have to be careful about putting too much weight on a single quarter as there is a lot of seasonality and "noise" in the reported NOI from quarter to quarter due to the way income and expenses are

accounted for including the impact of things like lease buyouts.



Occupancy Remains High

Occupancy remains high on all property types including retail. Occupancy was virtually unchanged from last quarter except hotel which was up slightly although a much smaller sample of properties.



Conclusion

Price levels managed to reach a new record high again this quarter amid positive NOI growth and continuing low cap rates. The new high in market values was due largely to the strong performance of Industrial which continues to be the strongest performer due to the demand for warehouse space and retail returns continue to be the weakest amid store closings of some retailers. All things considered, it is hard to see a reason that the NPI won't continue around its current level although it is usually that "unknown unknown" that wasn't expected that causes a major shift in returns and values.