COMMERCIAL REAL ESTATE RETURNS LOWEST SINCE FINANCIAL CRISIS

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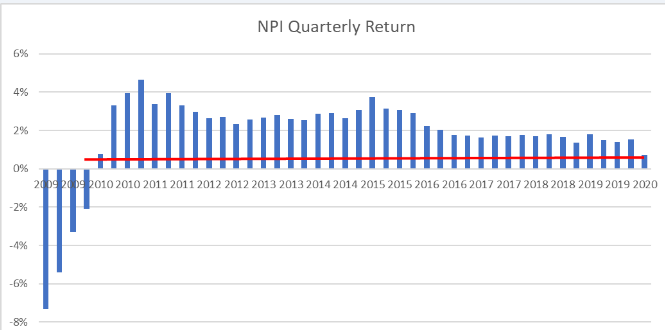
The total return was 0.71% in the first quarter which was a decrease from the 1.55% return for the prior quarter. This is the lowest return since the fourth quarter of 2009 which was the midst of the financial crisis that lead to the Great Recession. This is an unleveraged return for what is primarily "core" real estate held by institutional investors throughout the US.

NPI Total Returns

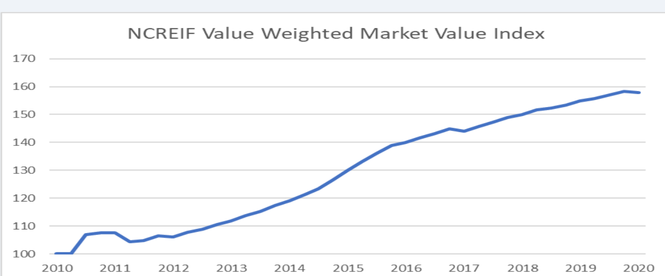


The total return of 0.71% consisted of an income return of 1.10% from net operating income (NOI) and a capital return (change in value net of capital expenditures) of -0.39%. This is the first negative capital return since the 1st quarter of 2010.

Market Value Peaked

The NCREIF Market Value Index (MVI) tracks how estimated sale prices are changing over time for properties in the NCREIF Property Index. Market values had been rising steadily since the recovery from the Great Recession began in 2010. But this quarter the index flattened if measured on an equal weighted basis and declined slightly if shown on a value weighted basis.

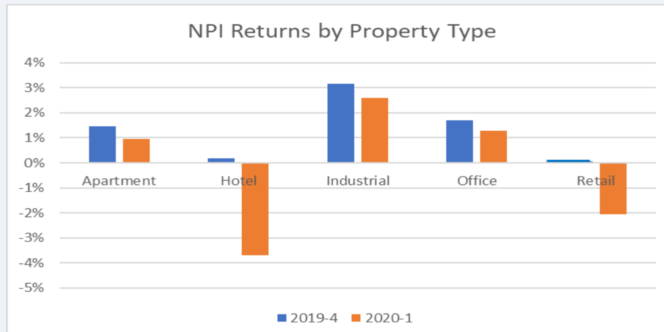
NCREIF Market Value Index



Returns Drop for all Sectors

Returns dropped for all property types this quarter with hotels being impacted the most at a negative 3.86% return for the quarter. This was followed by retail with a negative 2.06% return. The other property sectors were positive even though they all dropped from the prior quarter. Industrial properties (primarily warehouse) continued to be the top performer with a quarterly return of 2.58% followed by office at 1.28%. Apartments managed to have a slightly positive return of 0.95% for the quarter.

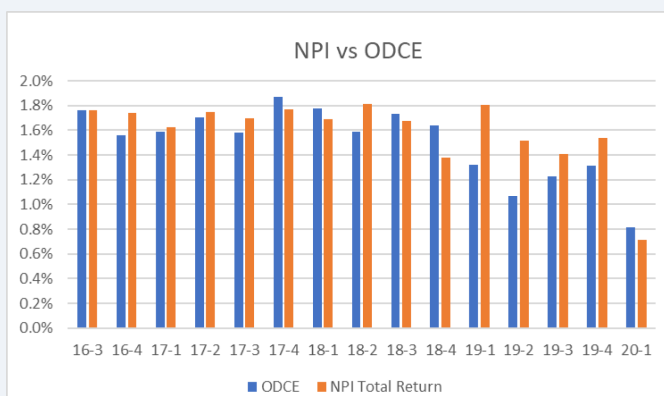
NPI Total Returns by Property Type



Returns for ODCE Properties vs NPI

The returns for ODCE properties also declined during the quarter although slightly less than for the NPI. This contrasts with the prior four quarters when the NPI had higher returns than the ODCE properties in the NPI. As open-end funds with the most rigorous valuation policies, the ODCE properties would be expected to lead the NPI. It may be that the ODCE properties had already taken more write-downs – especially in the retail sector – in the prior quarters.

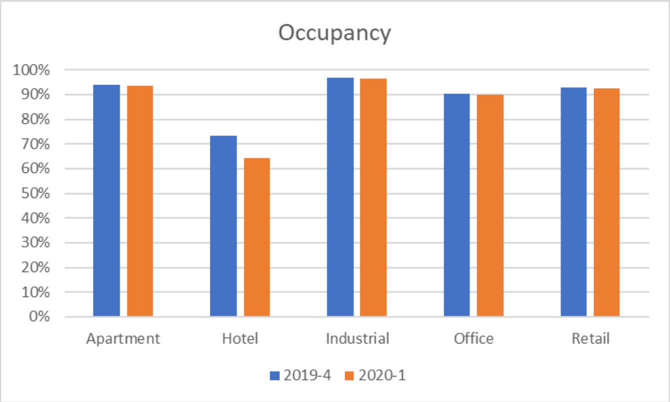
Returns for Properties in ODCE Index



Occupancy

Occupancy was largely unchanged for the quarter except for a decline in occupancy for hotel properties. It should be noted that occupancy is based on space being under a lease regardless of whether rent is being collected. It is questionable how soon and to what extent the impacts of COVID-19 are reflected in occupancy reported to NCREIF.

Occupancy for NPI Properties



Conclusion

The trends that we see in the 1st quarter data may be giving us a glimpse of what may be coming due to the impact of COVID-19. The impacts of the virus were only starting to be known as valuations were being completed for the quarter. The valuations for the 2nd quarter are more likely to reflect how real estate values are being impacted by COVID-19 although that depends a lot on having a sufficient volume of transactions activity for price discovery. It is too soon to predict the extent of any further write-downs and the length of time until the market recovers to pre-Covid-19 levels. What seems clear is that there will be a "new normal" that will impact real estate to various degrees depending on the property type and location.