

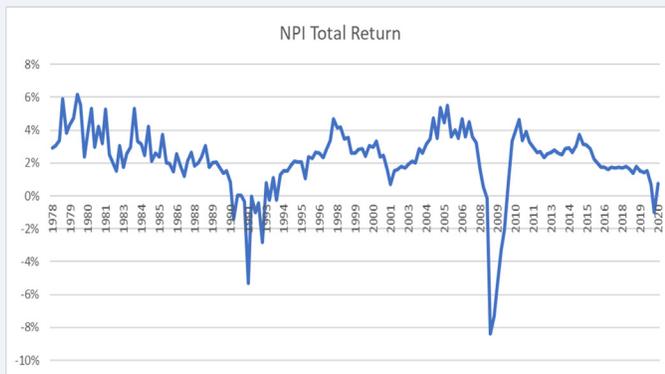
NPI BACK IN POSITIVE TERRITORY – BUT WILL THE RECOVERY HAVE A V OR W SHAPE?

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

The NCREIF Property Index (NPI) turned positive during the third quarter of 2020. The total return was 0.74% for the quarter, up from -0.99% in the prior quarter. The return for the current quarter was also just slightly higher than the 0.72% return in the 1st quarter of the year. The return for those properties that have leverage also managed to have a slightly positive return of 0.12%.

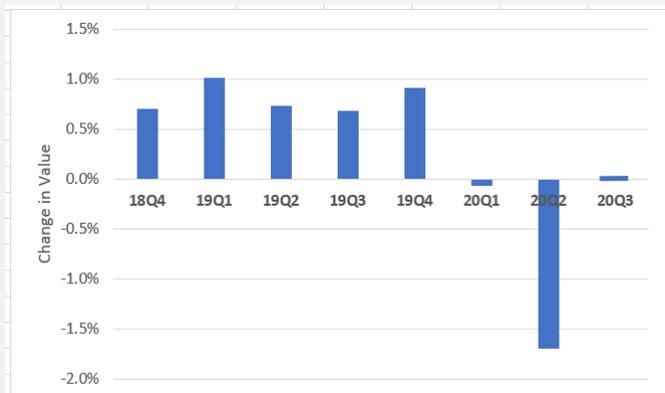
If the return continues to be in positive territory in the fourth quarter and during 2021, that will be a recovery with a shape that is like what we saw after the financial crisis. Looking back to the early 1990s, we see a very different pattern that was more of a sloppy W than a V. The cause of every recession is different so it is hard to say what shape the recovery from this downturn will eventually take.

NPI Unleveraged Total Quarterly Returns



The total return turned positive for the quarter because the 1.02% income portion of the return exceeded the capital portion of the return which was negative 0.28%. The capital return is the change in value net of any capital expenditures incurred during the quarter. Price levels before capital expenditures which is measured by the NCREIF Market Value Index remained essentially constant for the quarter.

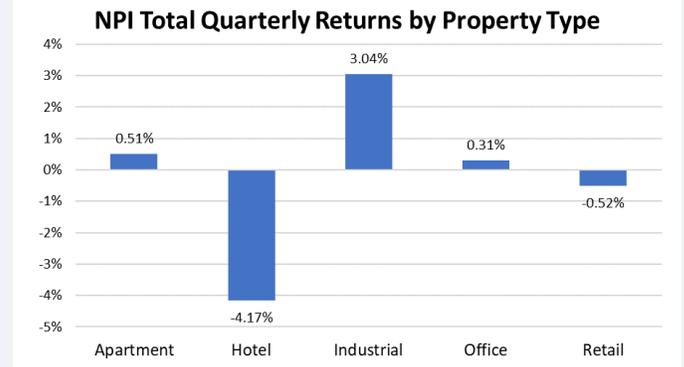
NCREIF Market Value Index



Continued Disparity Across Property Sectors

The turnaround in total returns this quarter can be attributed almost solely to the strong performance of industrial warehouse properties. Returns for industrial properties were 3.04% for the quarter (over 12% annualized). Apartments had the second highest return at 0.51% for the quarter followed by office at 0.31% and retail with a negative 0.52%. Returns for hotel properties were negative 4.17% for the quarter.

Returns by Property Type



Transactions Remain Low

While institutional real estate investors generally hold long-term, there are typically between 100 and 200 sales of properties each quarter. This quarter the number of sales was only 50 properties, up slightly from the 30 transactions last quarter. The lack of transactions in the overall commercial real estate market continues to make price discovery challenging for appraisers resulting in less liquidity for investors.

Transactions of NPI Properties



Conclusion

Whether returns will increase further during the fourth quarter or turn back into negative territory is hard to say at this point and may depend a lot on the

tug of war between industrial properties and retail properties. Participants in the most recent NCREIF data release webinar mostly thought that returns for the NPI would remain around the current level through the end of 2020.