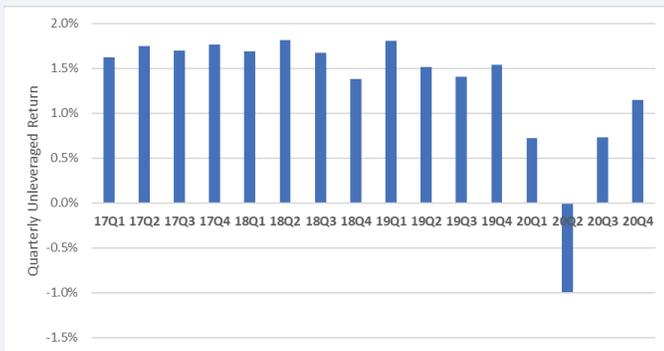


THE V RECOVERY CONTINUES - THANKS TO INDUSTRIAL

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

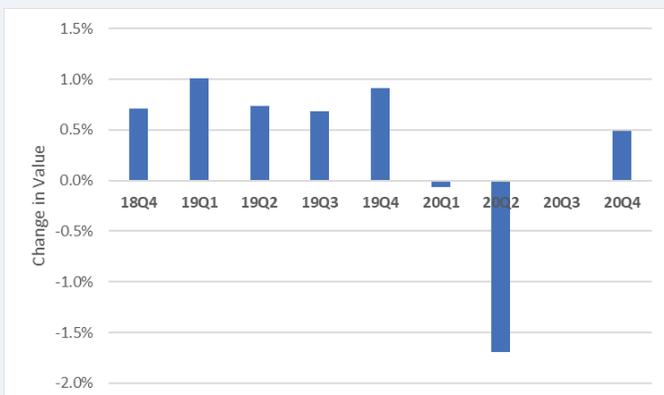
The NCREIF Property Index (NPI) increased during the fourth quarter of 2020. The quarterly total return was 1.15%, up from 0.74% in the prior quarter. The return for the current quarter was the highest for the year 2020 although off the highs from the prior year. This is an unleveraged return for what is primarily “core” real estate held by institutional investors throughout the US. Although leverage was negative for the quarter, the leveraged properties also managed to have a slightly positive return of 0.33%. The LTV for those properties with leverage was 45%.

NPI Unleveraged Total Quarterly Returns



The total return of 1.15% for the quarter was primarily due to an income return of 1.01%. Price levels before capital expenditures increased by 0.49% but the capital expenditures offset most of that increase.

NCREIF Market Value Index



Continued Disparity Across Property Sectors

The turnaround in total returns this quarter is largely due to the strong performance of industrial warehouse properties although all property types

except retail improved from last quarter. Returns for industrial properties were 4.68% for the quarter (over 17% annualized). Apartments had the second highest return at 0.99% for the quarter followed by office at 0.48% and retail with a negative 1.24%. Returns for hotel properties were negative 3.31% for the quarter.

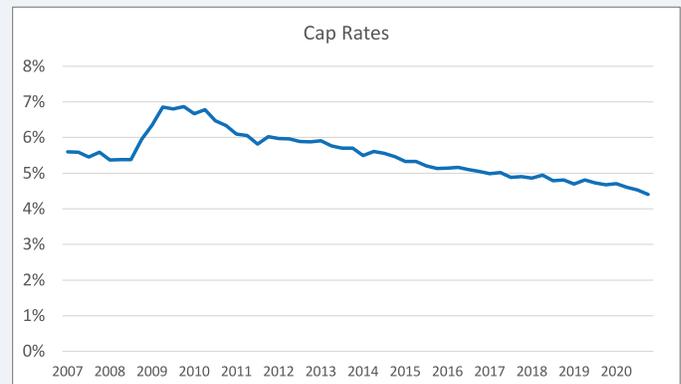
Returns by Property Type



Cap Rates Continue at Low Levels

Cap rates for properties in the NPI continued to decline at record low levels. This has also contributed to the recovery in returns. Cap rates have been declining steadily since they rose during the financial crisis. Whether cap rates will remain at this low level is hard to predict but certainly the low interest rate environment globally has been a factor in keeping cap rates low.

NCREIF Cap Rates



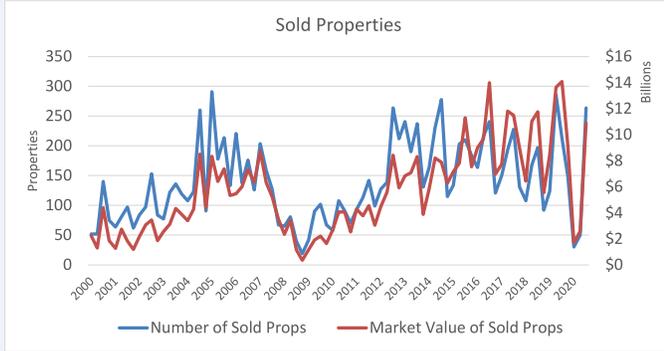
Transactions Back to Normal Range

While NCREIF members are long-term investors for most of the funds, there are typically between

100 and 200 sales of properties each quarter. The

number of transactions rebounded this quarter to 264 properties, up from only 50 sales the prior quarter and 30 during the 2nd quarter of 2020.

Transactions of NPI Properties



Conclusion

Whether returns continue to increase will depend to a large extent between the tug of war between industrial and retail properties. There seems to be a lot of momentum with industrial properties and continued headwinds for retail properties. Office and apartment properties also showed signs of improvement so they might also help keep the recovery in a V shape.