INSTITUTIONAL REAL ESTATE BACK TO PRE-COVID RETURNS

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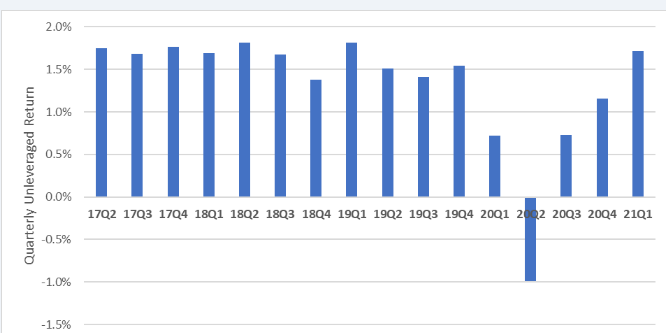
The return for institutional investors as measured by the NCREIF Property Index (NPI) increased again during the first quarter of 2021 reaching pre-COVID levels. The NPI reflects investment performance for 9,442 commercial properties, totaling $717 billion of market value.

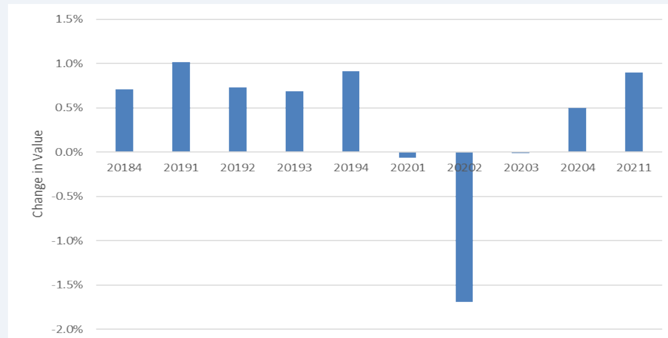
The quarterly total return was 1.72%, up from 1.15% in the prior quarter, higher than 2020q1's return of 0.71%, and slightly below 2019q1's return of 1.80%. These are unleveraged returns for what is primarily "core" real estate held by institutional investors throughout the US. Properties with debt financing had a leveraged total return of 1.38% and a 1.16% unleveraged return for the current quarter. Although these properties had positive leverage, the return before any leverage was lower than the NPI unleveraged return of 1.72%. As of quarter-end there were 4,069 properties with leverage and the weighted average loan to value ratio was 45%.

NPI Unleveraged Total Quarterly Returns

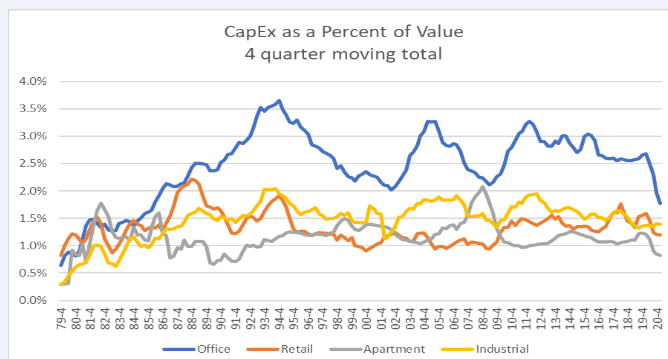


The total return of 1.72% for the quarter consisted of 1.04% of income and 0.68% of appreciation compared to 1.00% of income and 0.14% of appreciation last quarter. While appreciation is after the deduction of capital expenditures, market values in the NCREIF Market Value Index (MVI) increased by 0.90% this quarter compared to 0.49% last quarter.

NCREIF Market Value Index



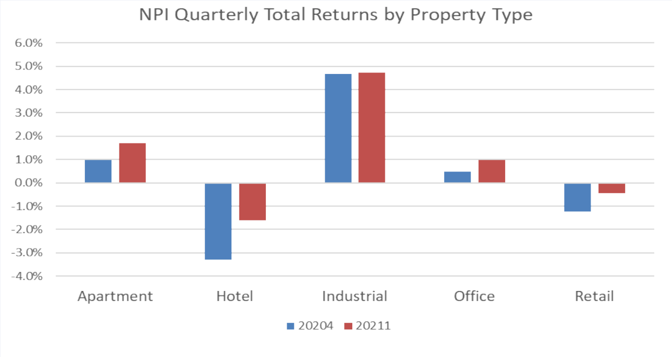
Capital expenditures have generally been in the range of 1% to 1.5% of value over the history of the NPI for apartment, industrial and retail properties. But office capital expenditures have been much more volatile reaching a peak of about 3.5% of value. It tends to drop during recessions as it did over the past year as leasing activity declined due to COVID.



Continued Disparity Across Property Sectors

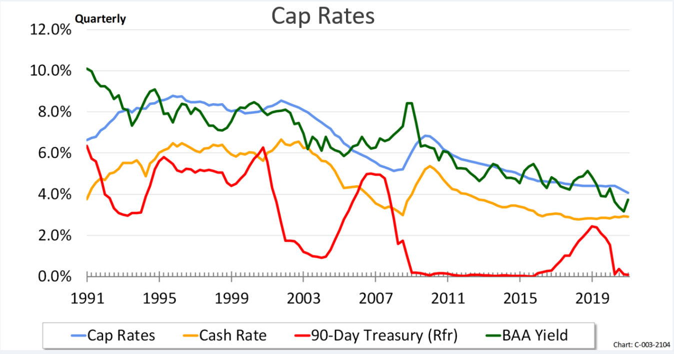
The increase in total returns this quarter is largely due to improved performance of all property types, including retail and hotel which remained in negative, but less negative territory than prior quarters. Industrial returns of 4.72% were slightly above prior quarter and has led all property types since 2016q1. The second highest total return after industrial was 1.69% for apartments, followed by office, retail and hotel of 0.99%, -0.45% and -1.61%, respectively. Considering the property type sector weights (dollar allocations) and returns, industrial contributed 1.03%, apartments 0.43%, office 0.34%, retail -0.08% and hotel 0.00%, totaling the 1.72% NPI total return.

Returns by Property Type



Capitalization Rates

Cap rates continued to fall to historic lows which helped to push values up this quarter, offsetting declines in Net Operating Income.



Conclusion

It appears that the worst is over in terms of the impact of COVID on returns for commercial real estate. But there is still likely to be winners and losers across property sectors and geographic areas beyond what we have been seeing for industrial vs. retail properties. We are clearly still in a period of transition as the market adjusts to how people will shop and work going forward.