RECORD PRICE APPRECIATION FOR INSTITUTIONAL REAL ESTATE

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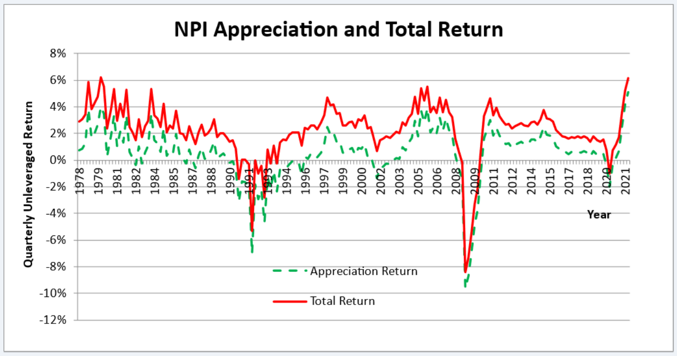
The quarterly total return for the NCREIF Property Index (NPI) was 6.15% for the fourth quarter of 2021, which consisted of 1.03% from income and 5.12% of appreciation. This was the highest appreciation in the history of the NPI which began in the first quarter of 1978. Appreciation is after the deduction of capital expenditures. Market values before considering capital expenditures also increased at a record level of 5.40%.

The 6.15% return is the unleveraged returns for what is primarily "core" real estate held by institutional investors throughout the U.S. Properties with debt financing had a leveraged total quarterly return of 8.05%. As of quarter-end there were 4,399 properties with leverage and the weighted average loan to value ratio was 44%.

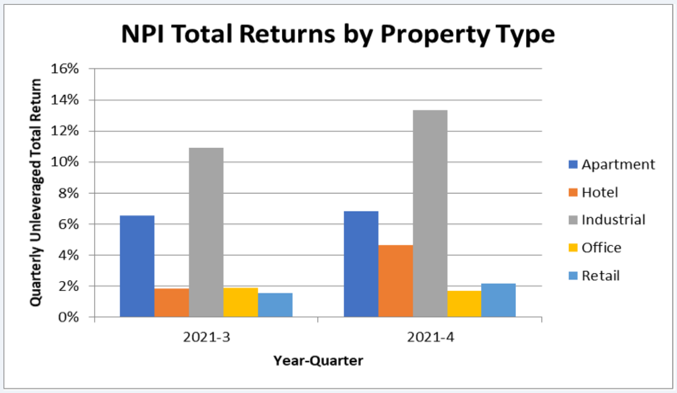
Quarterly NPI Unleveraged Appreciation and Total Returns



Industrial Sector Continues to Propel Entire Index

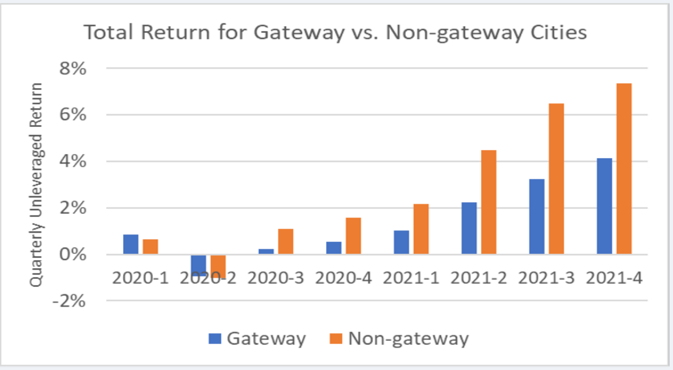
The story continues to be the exceptionally strong performance of the industrial (primarily warehouse) sector. The total return for the fourth quarter was 13.34% which was up from 10.92% the prior quarter. Apartment properties had the second highest return at 6.82% although this was only up slightly from 6.53% the prior quarter. Surprisingly, the third best performance was from hotel properties with a fourth quarter return of 4.64% which was up from 1.83% the third quarter. Retail and office returns were 2.18% and 1.68% respectively for the fourth quarter.

Unleveraged Total Returns by Property Sector



The strong performance for the fourth quarter of 2021 was also driven by record returns for non-gateway vs. gateway cities. The so called "gateway cities" are generally considered to be Boston, Chicago, Los Angeles, New York, San Francisco, and DC. Perhaps due to COVID causing migration to less dense urban areas, the non-gateway cities have increased relative to the gateway cities and reached a record level in the history of the NPI this quarter with a 7.36% quarterly total return.

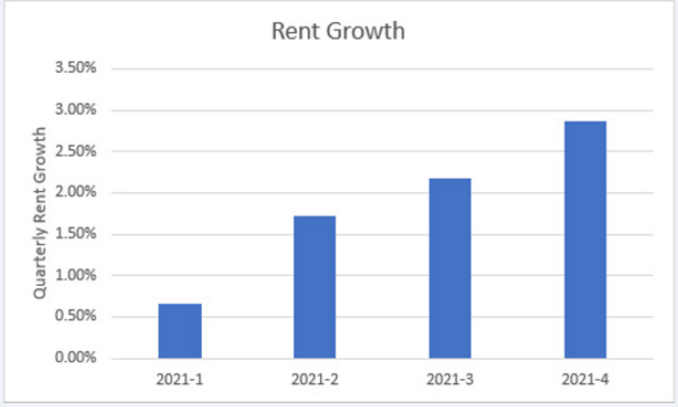
Total Returns for Gateway vs. Non-gateway Cities



Rent Growth

The strong returns for the quarter were also due to a steady increase in the rental growth rate during recent quarters as shown in the chart below. Rental growth approached 3% during the fourth quarter of 2021.

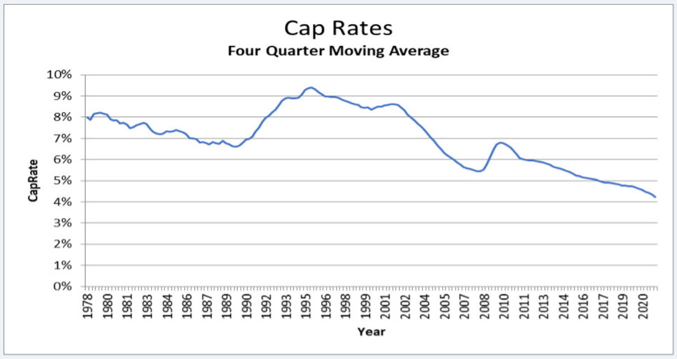
Rent Growth for NPI Properties



Cap Rates

The increase in rental growth also contributes to continued decline in capitalization rates since investors are willing to pay a lower cap rate if they expect more rent growth.

Cap Rates for NPI Properties



Conclusion

This quarter experienced record capital appreciation, record industrial returns and record returns for non-gateway cities. With rising inflation and expected increases in interest rates, the question for 2022 is whether real estate will be an inflation hedge as it has been historically and offset the impact of the expected increase in interest rates on cap rates.