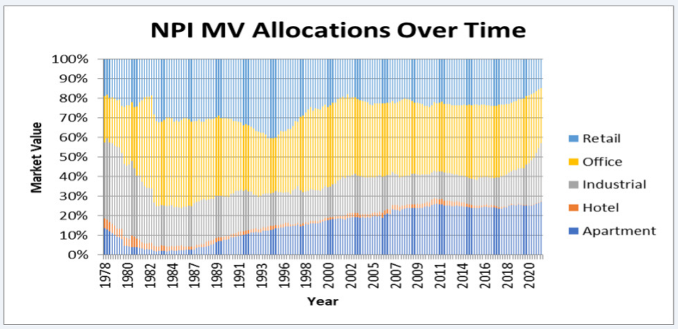
STRONG PERFORMANCE CONTINUES FOR THE NPI IN THE FIRST QUARTER

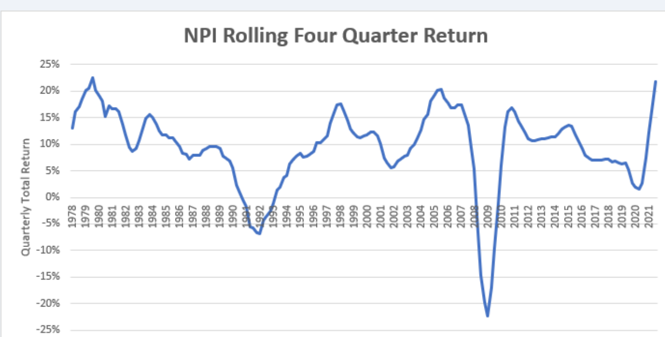
By Jeffrey D. Fisher, Ph.D., NCREIF Senior Consultant

The quarterly total return for the NCREIF Property Index (NPI) was 5.33% for the first quarter of 2022. The number of properties in the NPI surpassed 10,000 for the first time with a market value of $897 billion. The market value breakdown by property type is now about 28% office, 27% apartment, 15% retail, 30% industrial and less than 1% hotel properties. Not surprising, the greatest increase has been the allocation to industrial properties in recent years and the greatest decline has been to the retail sector. A longer trend has been an increase in apartment allocation and a decrease in office. The NPI includes property data covering over 100 CBSAs.



The rolling annual return for the past four quarters was 21.86% which is the highest since the first quarter of 1980 and the second highest in the 44-year history of the NPI.

Rolling Four Quarter Unleveraged NPI Returns



The quarterly return of 5.33% consisted of 0.99% from income and 4.34% from appreciation. Appreciation is after the deduction of capital expenditures. Market values before considering capital expenditures increased by 4.49%.

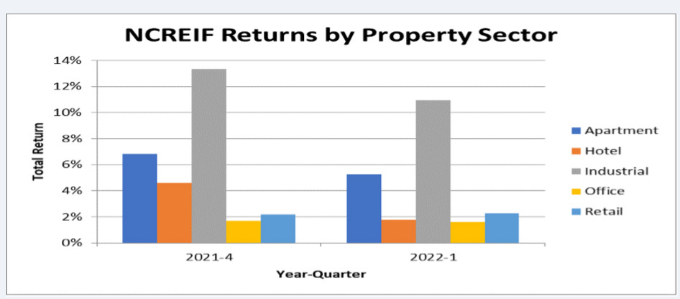
NCREIF Market Value Index

The 5.33% 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 6.59%. As of quarter-end there were 4,374 properties with leverage and the weighted average loan to value ratio was 43%.

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 first quarter was 10.96% which was down from 13.34% the prior quarter but still the highest of any property sector. Apartment properties had the second highest return at 5.25%. Surprisingly, the third best performance was from retail properties with a first quarter return of 2.26%. Hotel and office returns were 1.76% and 1.60% respectively for the first quarter.

Unleveraged Total Returns by Property Sector



Capitalization Rates

Market value weighted capitalization rates dropped from 3.83% during the fourth quarter to 3.71% for the first quarter of 2022 despite rising interest rates. This suggests that for the portfolio of NCREIF properties, investors are willing to buy at a 3.71% current yield. This would translate to a price-earnings ratio of 26.95 and suggests that investors expect some growth in the price of institutional grade commercial real estate. The average market value weighted cap rate over the history of the NPI is 6.59% which implies a PE ratio of 15.18. The PE ratio for the S&P 500 as of April 25th is 21.33 compared to the end of quarter NPI PE of 26.95.

Conclusion

While returns were off the record highs in the 4th quarter of 2021, the 1st quarter returns were still well above the average over the history of the NPI. The rolling 4 quarter returns were the highest since 1980 and second highest return ever. Despite higher interest rates, capitalization rates continued to fall which contributed to the higher returns. It remains to be seen whether real estate will continue to be an inflation hedge as it has been historically. Cap rates will hold steady if the increase in discount rates is offset by an expected increase in property values as inflation pushes up rents, construction costs and property values.

FIRST QUARTER 2022 SENIORS HOUSING INCOME RETURNS IMPROVE

By Beth Burnham Mace, Chief Economist, National Investment Center for Seniors Housing & Care (NIC)

The total investment return for the senior housing sector was a positive 1.08% in the first quarter of 2022. This marked the seventh consecutive quarterly gain after one quarter of pandemic-related negative returns in the second quarter of 2020 (negative 1.00%). Short-term total returns for senior housing remain low compared with the broader NPI, which saw total returns of 5.33% in the first quarter. Appreciation returns for the NPI dwarf those of senior housing, as the NPI was boosted in part by outsized returns in industrial properties (10.96%). Many investors have reduced their appreciation expectations for seniors housing as the impact of the coronavirus has weighed heavily on their view of the sector.

The income return in the first quarter was 0.91%, its best showing since late 2020. This was stronger than industrial and nearly on par with apartments, and slightly less than the NPI (0.99%). The appreciation (capital/valuation) return was 0.18%, the third consecutive quarterly increase after seven quarters of declines that began in late 2019. The appreciation return was below the other main property types. The appreciation return is the change in value net of any capital expenditures incurred during the quarter.

On a longer-term basis, the ten-year return for senior housing was the strongest of the main property types, except for industrial. For this time frame, the income returns for senior housing (5.47%) surpassed the NPI (4.83%), while the appreciation return (4.49%) was slightly less than the NPI (4.61%).

Note that the performance measurements cited above for senior housing reflect the returns of 175 senior housing properties valued at $9.54 billion in the first quarter. This was the highest property count and market value in the NCREIF time series for senior housing. It's also notable that the number of properties tracked by this index has grown significantly since the beginning of the pandemic, having been 134 properties in the first quarter of 2020, valued at $6.3 billion. The additional properties may be influencing the overall performance returns of the index.

First quarter 2022 market fundamentals data for senior housing showed improved demand patterns compared with the pandemic-related losses and moderate growth in inventory in the 31 Primary Markets, according to NIC MAP® Data powered by NIC MAP Vision. The occupancy rate for senior housing stood at 80.6% in the first quarter, up 2.5 percentage points from its low point, but still 6.7 percentage points below its pre-pandemic level of 87.2% in the first quarter of 2020. The average masks the wide range of occupancy rates by property, however, with 30% of properties having occupancy levels at or above 90%. While these statistics are promising, future occupancy improvement will be shaped by local patterns of inventory growth and demand, and will be influenced by the broad economy, consumer confidence, inflation pressures, rising interest rates, the ease of development, COVID-19 variants, and vaccination rates.

TOTAL RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
1st Qtr 2022	5.33	5.25	1.08
4th Qtr 2021	6.15	6.82	0.88
One Year	21.87	24.12	4.04
Three Years	9.60	10.19	3.60
Five Years	8.54	8.55	6.35
Ten Years	9.61	9.23	10.13

INCOME RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
1st Qtr 2022	0.99	0.93	0.91
4th Qtr 2021	1.03	0.97	0.82
One Year	4.18	3.81	3.27
Three Years	4.28	3.95	4.09
Five Years	4.41	4.10	4.67
Ten Years	4.83	4.51	5.47

APPRECIATION RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
1st Qtr 2022	4.34	4.32	0.18
4th Qtr 2021	5.12	5.85	0.06
One Year	17.16	19.76	0.77
Three Years	5.16	6.06	-0.46
Five Years	4.00	4.32	1.64
Ten Years	4.61	4.57	4.49

Source: NCREIF, NIC Research & Analytics