

## SIGNIFICANT WRITE-DOWNS LEAD TO NEGATIVE APPRECIATION FOR NPI

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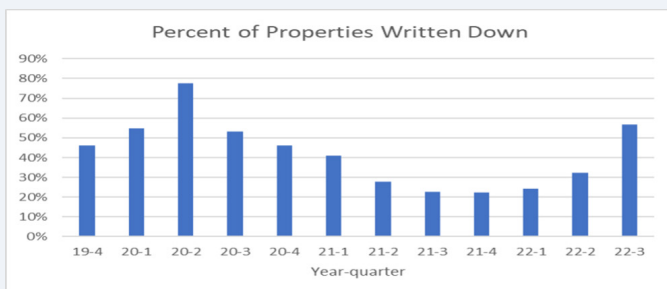
The quarterly total return was 0.57% for the third quarter which is down from 3.24% the second quarter. The quarterly return consisted of 0.93% from income and -0.37% from appreciation – the first negative appreciation return since the 2nd quarter of 2020. Appreciation is after the deduction of capital expenditures. Market values before considering capital expenditures decreased by 0.09% - the first decline in the index since the 3rd quarter of 2020.

### Unleveraged NPI Returns



The decline was due in part to a significant increase in the number of properties that had their values written down this quarter versus those that were written up. More than half the properties in the index were written down which also hasn't happened since the 3rd quarter of 2020.

### Write-downs



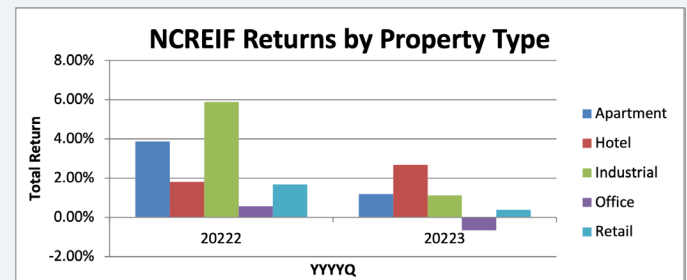
The 0.57% return is the unleveraged return for what is primarily “core” real estate held by institutional investors throughout the U.S. As of quarter-end there were 4,584 properties with leverage and the weighted average loan to

value ratio was 41%. Leverage turned negative this quarter as properties with debt financing had a leveraged total quarterly return of 0.36%. The average interest rate on the leveraged properties rose to 3.89% for the third quarter, up from 3.73% the second quarter and 3.43% the first quarter of 2022.

### Hotels the Best Performing Sector

Hotels took the leadership away from Industrial properties this quarter to have the highest total return. Note, however, that there is a much smaller sample of hotel properties in the NCREIF index. Apartments came in second with a return of 1.20% for the quarter, followed by Industrial at 1.11%, retail at 0.39% and office at -0.66%.

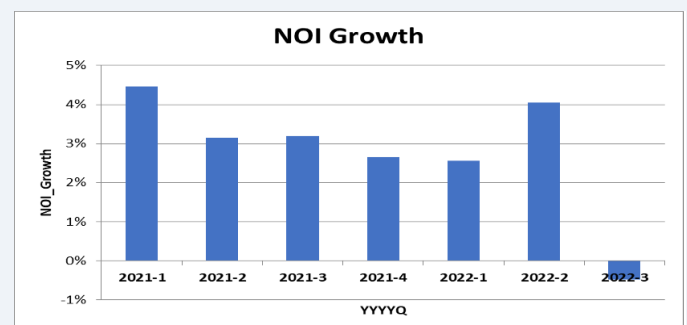
### Returns by Property Sector



### NOI Growth Turns Negative

NOI growth was negative at -0.49% for the third quarter, down significantly from the 4.05% growth the prior quarter. This was a result of negative NOI growth for office and retail properties.

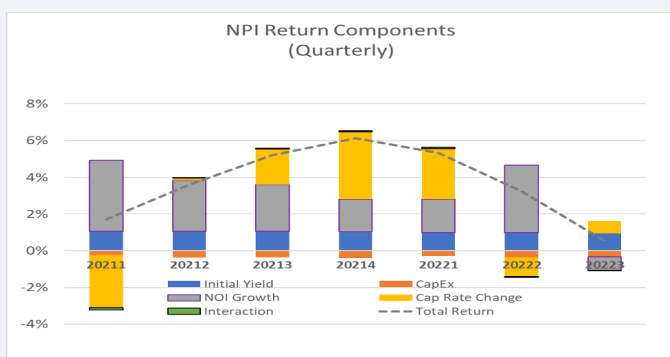
### NOI Growth



## Components of the NPI

Market value weighted capitalization (cap) dropped fractionally to 3.82% during the quarter. The income return for the NPI was 0.93% for the quarter. The stable cap rate and positive income return helped keep the total return for the NPI positive for the quarter while negative NOI growth and capital expenditures were a drag on the return.

### NPI Return Components



### Conclusion

Returns have managed to stay in positive territory despite negative capital appreciation returns. Whether they stay positive will depend on the tug of war between the various components of return discussed above. If NOI growth becomes more negative and cap rates start to rise, returns are likely to dip into negative territory.