NATIONAL RETURNS DOWN SLIGHTLY FOR THIRD QUARTER BUT OCCUPANCY AT ALL-TIME HIGH AND CAP RATES AT HISTORIC LOW

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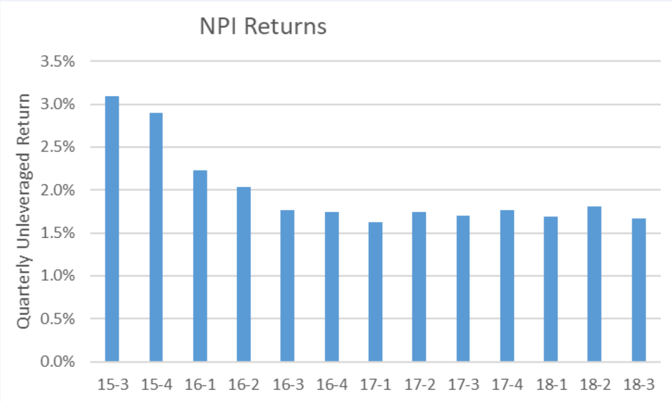
The unleveraged quarterly NPI total return dropped slightly during the third quarter of 2018. 1.67% in the third quarter, down slightly from 1.81% last quarter. The average quarterly return over the past five years was 2.38% or 9.85% annualized. Although the current quarter's return of 1.81% or 7.44% annualized is down slightly, the downward drop in returns that we witnessed for several years stopped at the beginning of 2017 and returns have held remarkably steady since then.

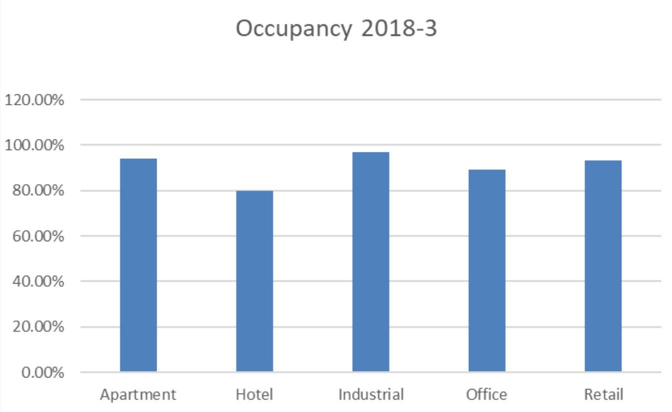
NPI Quarterly Unleveraged Returns



Return Drivers: Vacancy and Cap Rates at Historic Lows

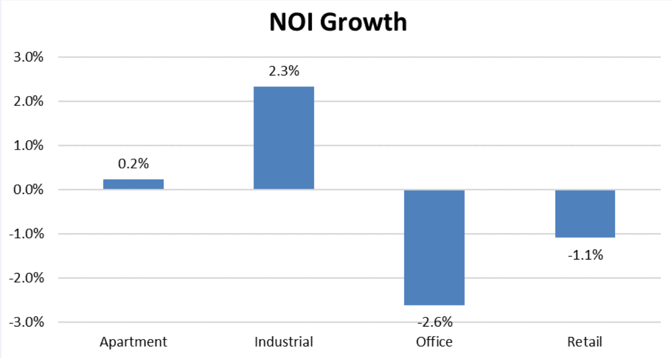
Occupancy for NCREIF-tracked properties rose to 94.17% which is the highest since the 4th quarter of 2000. The highest occupancy was for industrial properties at 96.94%. At the same time, cap rates declined to the lowest level in the entire history of the NCREIF Property Index which started in the 1st quarter of 1978. Cap rates dropped to 4.32% which represents the blended rate at which the portfolio of all NPI properties were being valued.

Despite the 18-year high in occupancy, rent growth slowed for the quarter to about 0.7% compared to 1.54% last quarter.



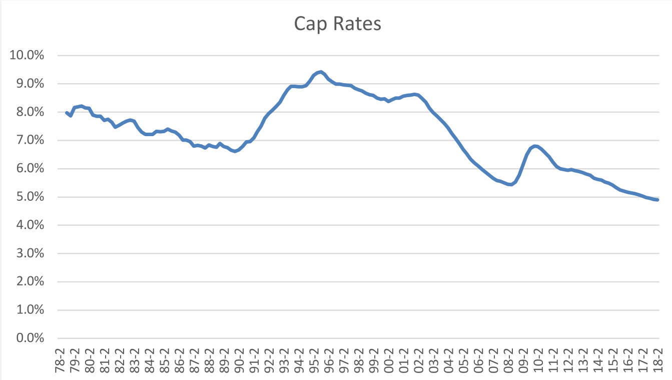
NOI Growth

After strong NOI growth of 6.6% last quarter, NOI growth was a negative 2.6% this quarter. But NOI growth tends to be very seasonal and "noisy." Not surprising, industrial properties had strong NOI growth. Apartment NOI growth was just slightly positive and retail was negative.



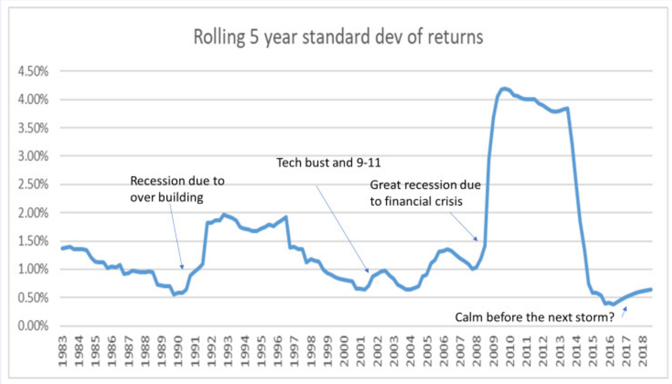
Cap rates

Cap rates dropped slightly to the lowest cap rate in the history of the NCREIF property index.



Volatility at Historically Low Levels

The following chart shows the rolling five-year standard deviation of the NPI total returns. This risk measure jumps whenever there is a recession as shown in the graph. It reached a record high during the financial crisis and resulting great recession. Volatility then started to decline as markets recovered and are now at historic lows although rose slightly over the past year.



Conclusion

Although the NPI dropped slightly this quarter, returns have been very steady with historically low volatility in recent years. Cap rates declined slightly and are at the lowest level in this history of the NPI. It is hard to imagine that there will be much further declines in cap rates with interest rates in general starting to rise. Occupancy for the nation is at the highest level since before the tech bust of 2001 but a lot of that is due to industrial warehouse space. NOI growth is strong for industrial but weak for the other property sectors.