Returns for the NCREIF Property Index (NPI) returns continued the downward trend during the fourth quarter of 2018 but still managed to have positive price appreciation (net of capex). The current quarter’s total return was 1.37% down from 1.67% last quarter. The total return consisted of an income return of 1.11% and a capital return was 0.26%. The average quarterly return over the past five years was 2.28% or 9.85% annualized. These are unleveraged returns, but leverage was only slightly favorable for the quarter due to lower returns and rising costs of debt.

NPI Quarterly Unleveraged Returns

Rent grew at 1.5% for the quarter which was up from about 0.7% last quarter. Rent growth for retail was surprisingly high at over 3.5% for the quarter, followed by industrial at just over 2%. Office and apartments were both around 0.5%.

Cap rates
Cap rates edged up very slightly to 4.81% from 4.79% last quarter despite the rising interest rate environment.

Conclusion
The NPI managed price appreciation during the quarter mainly because industrial properties more than offset the declines in retail properties. This divergence appears likely to continue as we enter 2009 and may ultimately determine the direction of the entire NPI. It is unlikely that cap rate compression can add to any price appreciation so continued positive returns will depend on the income return and NOI growth.