DOWN BUT NOT OUT – RETURNS DOWN FOR QUARTER BUT PRICES STILL INCREASED

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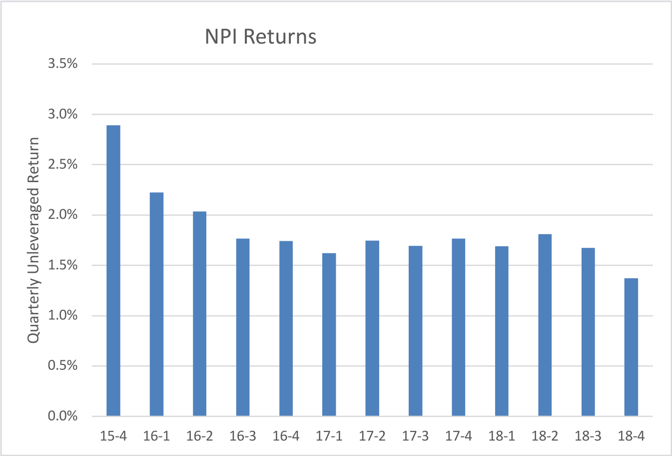
Returns for the NCREIF Property Index (NPI) returns continued the downward trend during the fourth quarter of 2018 but still managed to have positive price appreciation (net of capex). The current quarter's total return was 1.37% down from 1.67% last quarter. The total return consisted of an income return 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.

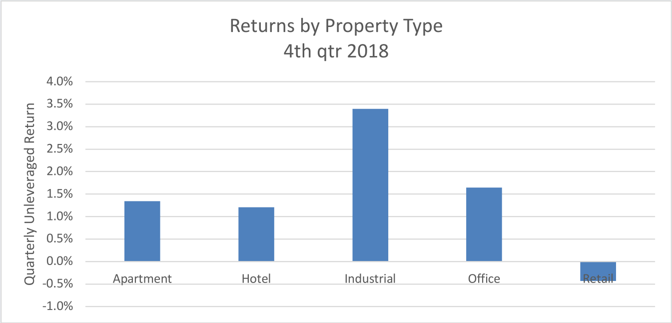
NPI Quarterly Unleveraged Returns



Industrial Once Again Saving the Quarter While Retail Returns Turn Negative

Industrial properties, which are primarily warehouse, continue to be the stellar performer with a return of 3.40% for the quarter which was up from the prior quarter return of 3.36%. Office followed with a return of 1.65% followed by apartment at 1.35%, hotel at 1.21% and the continuing laggard retail had a negative 0.43% return for the quarter. This is the first quarter that we have seen a negative return since the fourth quarter of 2009.

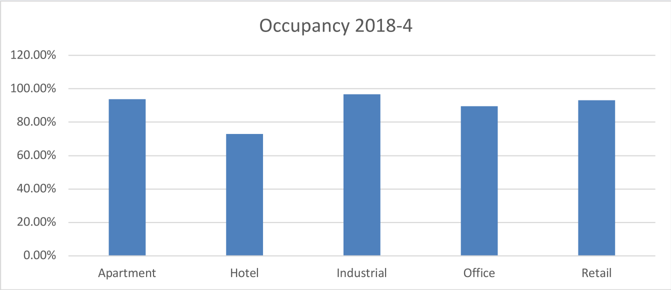
NPI Total Returns by Property Type



Return Drivers

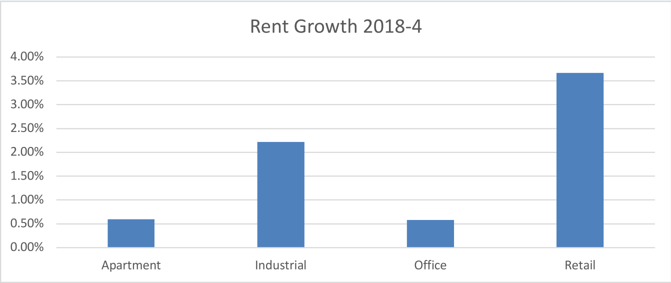
Occupancy for NCREIF-tracked properties was at 94.0% which is only down slightly from the occupancy last quarter of 94.17% that was the highest since the 4th quarter of 2000. Industrial properties had the highest occupancy rate.

Occupancy by Property Type



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%.

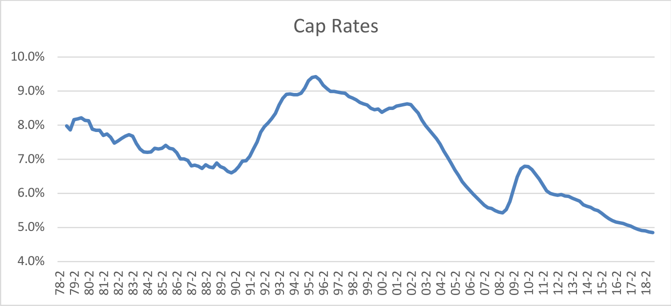
Rent Growth by Property Type



Cap rates

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

Cap Rate History



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.