



NCREIF

# NFI-ODCE

## Performance Attribution Webinar

### Fourth Quarter 2020 Review



# Panelist Overview

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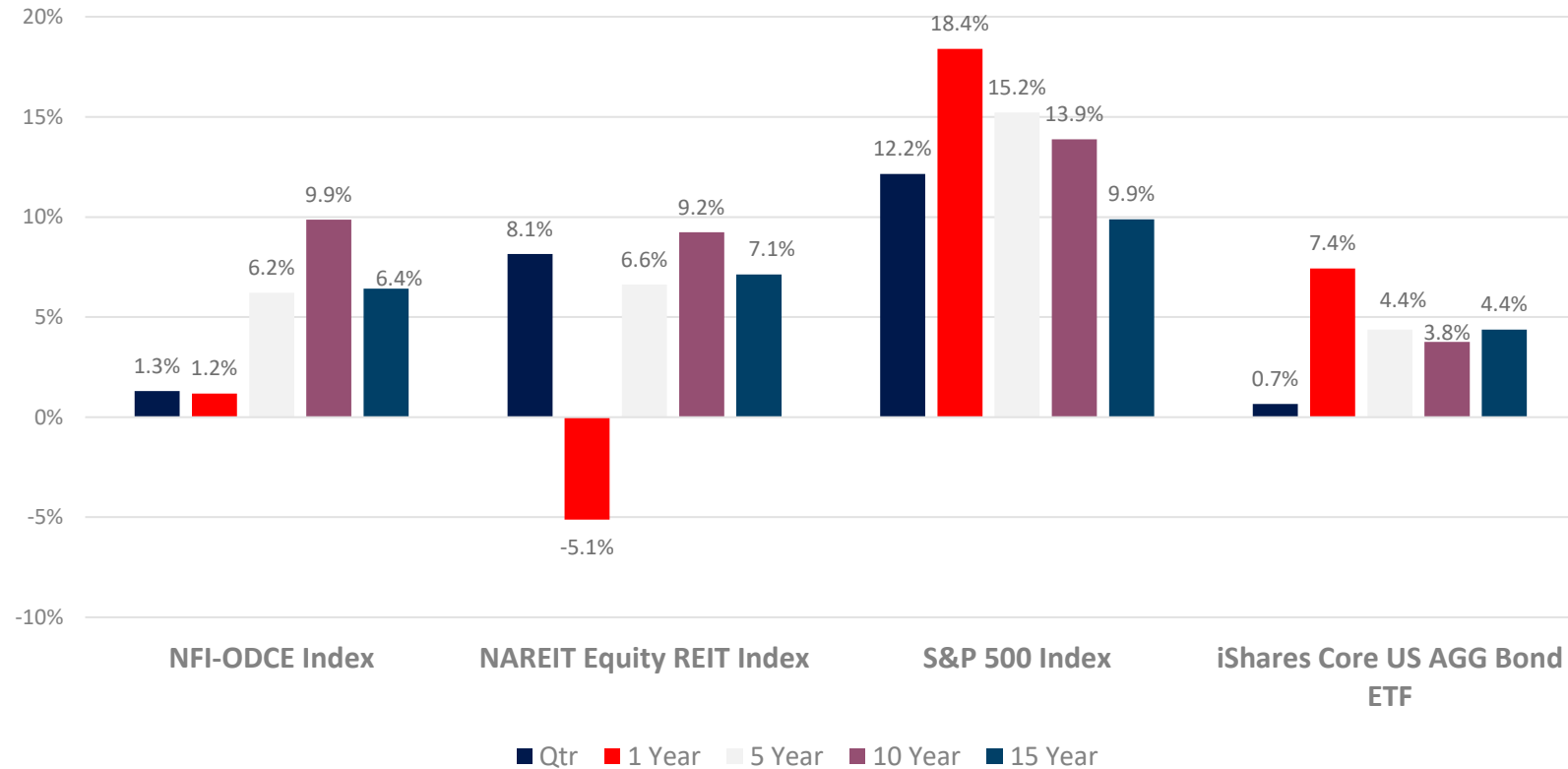
# Agenda

- Short and long-term performance trends – major market indices
- Build-up of fund returns
- Sector performance trends
- A closer look at office performance
- Accessing new NCREIF data fields



# Levered Returns by Asset Class

*Private Real Estate has been more resilient than Real Estate Public Equities*



# Build-up of Returns (Impact Analysis)



*Leverage has contributed negatively in the short term*

	<i>Annualized</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>
<b>NFI-ODCE Unleveraged Property-level Total Return at Ownership Share</b>		<b>2.09%</b>	<b>5.07%</b>	<b>6.06%</b>
Leverage		-0.57%	0.11%	0.50%
Acquisitions (partial period)		0.04%	0.01%	0.01%
Other Non-Property Equity Investments		-0.16%	-0.02%	0.01%
Cash Balances	(a)	0.02%	-0.09%	-0.18%
Other Assets and Liabilities		0.02%	0.06%	0.08%
Fund Costs		-0.10%	-0.09%	-0.10%
Other (includes Joint Venture Deal Structuring)		-0.15%	-0.13%	-0.17%
<b>Total Return Gross of Fees</b>		<b>1.19%</b>	<b>4.92%</b>	<b>6.21%</b>

(a) All Other Items -0.90% -0.15% 0.15%

# Quarterly Leverage Impact Trends



*Leverage effects positive in fourth quarter*

	<b>3/31/20</b>	<b>6/30/20</b>	<b>9/30/20</b>	<b>12/31/20</b>	<b>1 YR</b>
Property-level leverage at principal balance	-0.01%	-0.33%	-0.05%	0.04%	-0.36%
Property-level leverage marked to market	0.03%	0.03%	-0.04%	0.01%	0.03%
Fund-level leverage at principal balance	0.01%	-0.20%	-0.03%	0.04%	-0.19%
Fund-level leverage marked to market	0.06%	-0.08%	-0.06%	0.03%	-0.05%
<b>Total effects of leverage</b>	<b>0.09%</b>	<b>-0.58%</b>	<b>-0.18%</b>	<b>0.12%</b>	<b>-0.57%</b>

	<b>3/31/2020</b>	<b>6/30/2020</b>	<b>9/30/2020</b>	<b>12/31/2020</b>	<b>One Year</b>
<b>Principal</b>	0.00%	-0.53%	-0.08%	0.08%	-0.55%
<b>Mark to Market</b>	0.09%	-0.05%	-0.10%	0.04%	-0.02%
<b>TOTAL</b>	<b>0.09%</b>	<b>-0.58%</b>	<b>-0.18%</b>	<b>0.12%</b>	<b>-0.57%</b>
<b>10 Year Treasury Rate</b>	0.70%	0.66%	0.69%	0.93%	

*10 yr. Treasury Rate on 12/31/2019 was 1.92 and on 3/15/21 was 1.62%*

Source: NFI-ODCE Performance Attribution Report page 4



# Sector performance has diverged

*Sector weighting effects are more prominent in the near term*

CTR is contribution to return

	<b>Annualized</b>	<b>1 Yr</b>		<b>3 Yr</b>		<b>5 Yr</b>	
	<i>Avg. Weights for 1 yr</i>	<i>Return</i>	<i>CTR</i>	<i>Return</i>	<i>CTR</i>	<i>Return</i>	<i>CTR</i>
Apartment	26.7%	1.57%	0.42%	4.11%	1.08%	5.00%	1.29%
Industrial	19.9%	11.38%	2.21%	13.03%	2.24%	13.02%	2.09%
Office	34.7%	1.22%	0.42%	4.98%	1.79%	5.69%	2.11%
Retail	14.3%	-8.33%	-1.25%	-2.24%	-0.33%	1.27%	0.26%
Hotel	0.3%	-23.71%	-0.07%	-5.41%	-0.01%	-1.97%	0.00%
Land	0.4%	9.99%	0.04%	6.25%	0.03%	5.70%	0.02%
Other	3.7%	8.55%	0.31%	8.09%	0.28%	9.06%	0.28%
<b>Unlev Property-level</b>							
<b>Total Return</b>	<b>100.0%</b>		<b>2.09%</b>		<b>5.07%</b>		<b>6.06%</b>

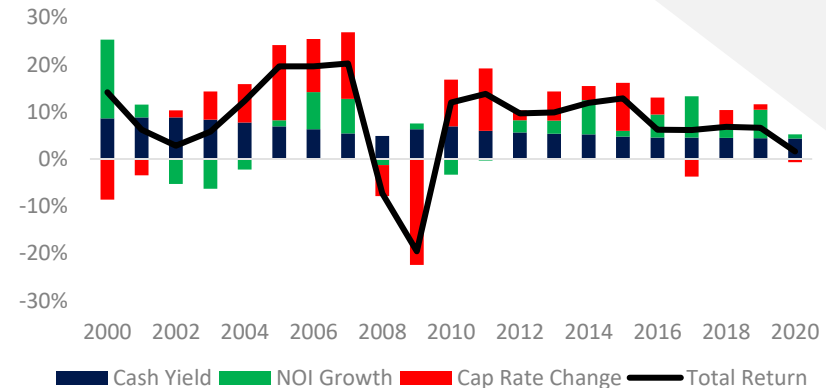
# COVID-19 Office Sector Impacts

*Fundamentals driven recession more akin to dot.com than GFC*

- Despite challenges to the office sector in 2020, NOI growth was positive for the year.
- Unlike the GFC, the low interest rate environment and functioning capital market mitigated cap rate expansion.
- Market expectations are for the office sector to experience further deterioration in 2021 before starting to recover in 2022.



Components of annual Office TROR



Sources: MIM, NCREIF

PREA Consensus Office Forecast, 1Q2021

Component	2020 (Actual)	2021	2022	2023
Income Return	4.3%	4.3%	4.5%	4.5%
Appreciation Return	-2.7%	-3.2%	0.6%	2.2%
Total Return	1.6%	1.1%	5.1%	6.7%

Sources: MIM, PREA



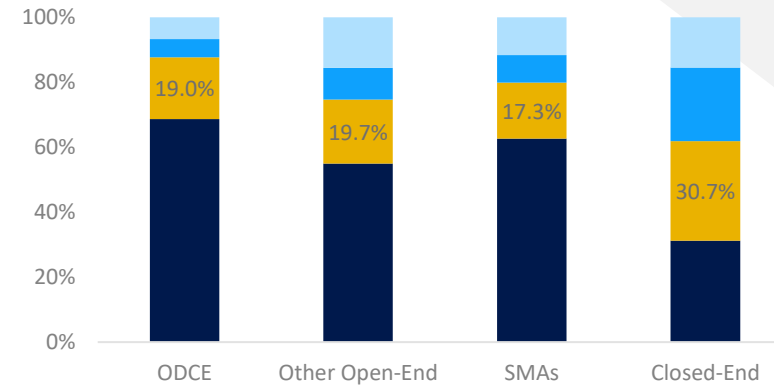


# What is urban office?

## Definitions and summary statistics

- **Urban Office as defined by NCREIF:** Geographic area with high population and/or commercial density but not reaching the office concentration of a CBD. This area contains total commercial and residential density of 6 to 11 million square feet per mile.<sup>1</sup>
- Original NCREIF office designations (CBD / suburban) largely (but not exclusively) classified urban offices as suburban.
- New office subtype definitions were developed to more accurately describe various office geographies.
- This is a new dataset still under review by NCREIF and should be considered preliminary.

Allocation to urban varies by investor type



Sources: MIM, NCREIF

■ CBD ■ Urban ■ SBD ■ Suburban

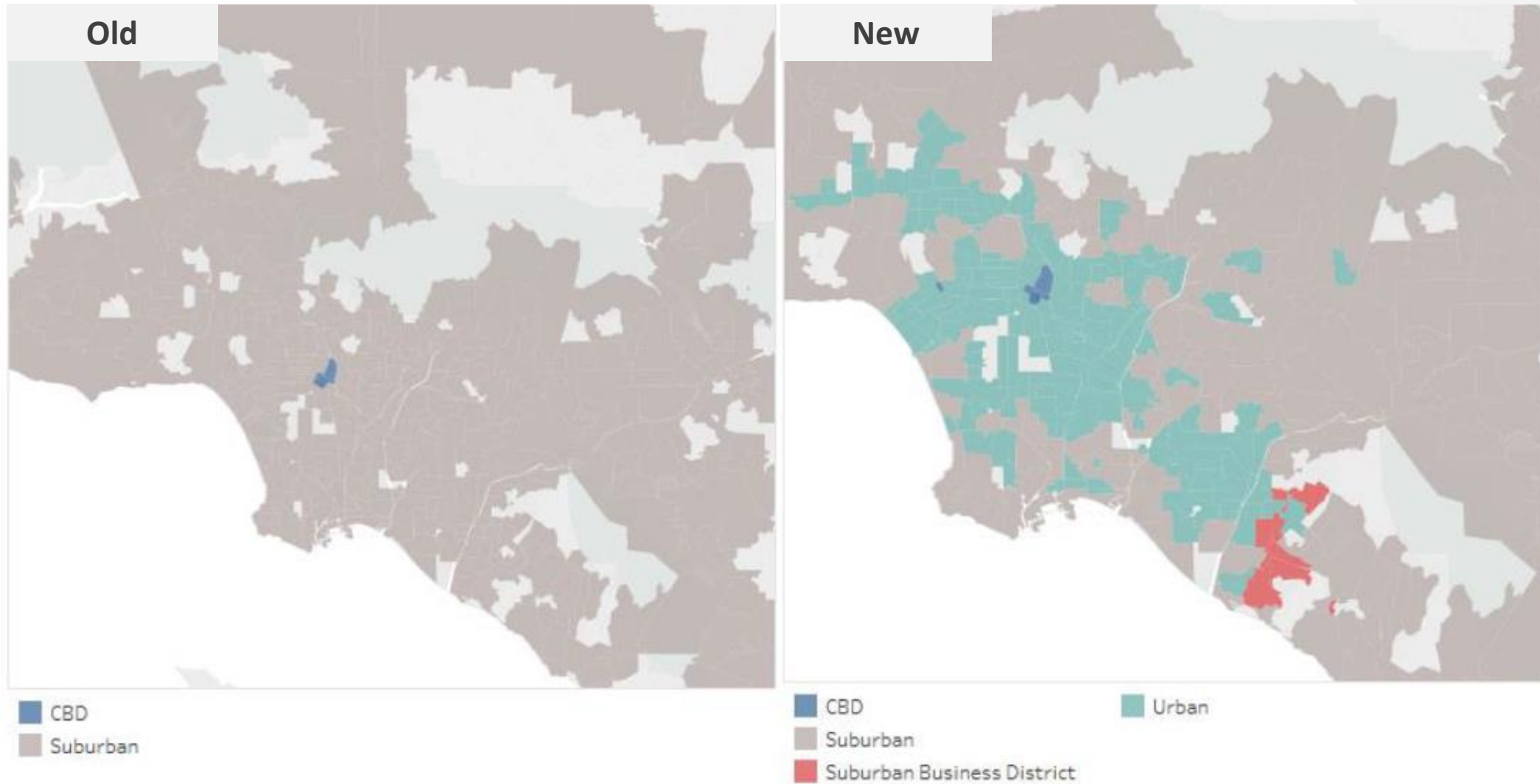
Summary Statistics

	Property Count	Avg. Prop. Value (\$mm)	Cap Rate	2020 CapEx PSF	2020 OpEx Ratio
CBD	486	\$310	4.0%	\$15.18	44.2%
Urban	372	\$128	4.5%	\$11.79	39.9%
SBD	161	\$122	5.1%	\$7.91	40.5%
Suburban	589	\$43	5.5%	\$6.60	37.3%

Sources: MIM, NCREIF

1. Excludes medical office property subtype.

# Los Angeles Office Market



# Which office markets outperformed during COVID?

## *New NCREIF office subtypes reveal performance divergences*

- During normal market conditions, urban office markets offer higher income returns than CBDs. They also offer higher appreciation returns than secondary business districts (SBD) and suburban markets.
- Urban markets have outperformed CBDs during COVID. This may be due to CBD reliance on public transit.
- Urban markets have also outperformed suburban office markets during COVID. This may indicate that access to talent pools and transportation links remain primary office demand drivers.



Office TROR CAGR, 2010-2020

	Income Return	Appreciation Return	Total Return
CBD	4.5%	4.2%	8.9%
<b>Urban</b>	<b>5.2%</b>	<b>3.6%</b>	<b>8.9%</b>
Suburban Business District	5.6%	2.3%	8.0%
Suburban	6.2%	1.1%	7.3%

Sources: MIM, NCREIF

Office TROR, 2020

	Income Return	Appreciation Return	Total Return
CBD	3.9%	-3.4%	0.6%
<b>Urban</b>	<b>4.6%</b>	<b>-1.0%</b>	<b>3.6%</b>
Suburban Business District	5.0%	-2.1%	2.8%
Suburban	5.6%	-2.2%	3.4%

Sources: MIM, NCREIF

# Trends in urban office outperformance



- Urban office markets with exposure to life science and defense industries are performing well.
- Urban office markets with a concentration of computer science employees, or exposure to tourism and energy sectors, have underperformed other urban office markets.
- Although market selection is an important consideration, urban office markets were more likely to significantly outperform their metro average in 2020.

Best and worst urban office markets in 2020

	Metro	2020 Appreciation (Urban)	2020 Appreciation (Full market)
Top 5	Cambridge	14.8%	6.7%
	Boston	9.2%	0.1%
	Chicago	7.1%	-3.6%
	Oakland	4.1%	-0.4%
	Seattle	2.1%	0.5%
Bottom 5	San Francisco	-3.6%	-2.8%
	San Diego	-4.7%	-1.2%
	Miami	-6.6%	-4.7%
	Phoenix	-7.0%	-7.6%
	Houston	-11.6%	-10.1%

Sources: MIM, NCREIF



# Accessing the Data

*New subtypes can be accessed via the Advanced Query Tool*

- Navigate to the Query Tool.
- Click “Advanced”.
- Use **[secondaryusetype2]** to query new property subtypes.
- Area subtypes can be applied to all property types, not just office.
- See the [Query Tool Manual](#) for additional information on advanced queries.

Navigating the Advanced Query Tool

Grouping Condition (Group By Clause)

```
[secondaryusetype2],  
[PropertyType]
```



**RUN QUERY**

# Conclusions



- Total return for the ODCE was positive 1.2% in 2020.
- Leverage was a drag on the headline.
- Performance was widely divergent by property type.
- Office uncertainty persists. New NCREIF data fields allow for more granular analysis during these uncertain times.
- The Advanced Query Tool can be used for non-standard data queries. NCREIF offers training on the use of the Advanced Query Tool.

# Thank You!



## Upcoming 2021 Events

NCREIF Virtual Winter Conference continues until March 25<sup>th</sup>!

NCREIF exploring Commercial Real Estate Debt Investment product. Email sent to Membership March 6<sup>th</sup>. Data due April 30<sup>th</sup>.