

NCREIF

National Council of Real Estate Investment Fiduciaries



Fourth Quarter 2023

Data and Indices Results Webinar

The \$Million Question

Bottoming in '24 OR Stay Alive to '25





Today's Panelists

Jeff Fisher, Ph.D.

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Martha Peyton

Research Consultant, LGIM

Abigail Rosenbaum

Associate Director, Oxford Economics

Ryan Severino

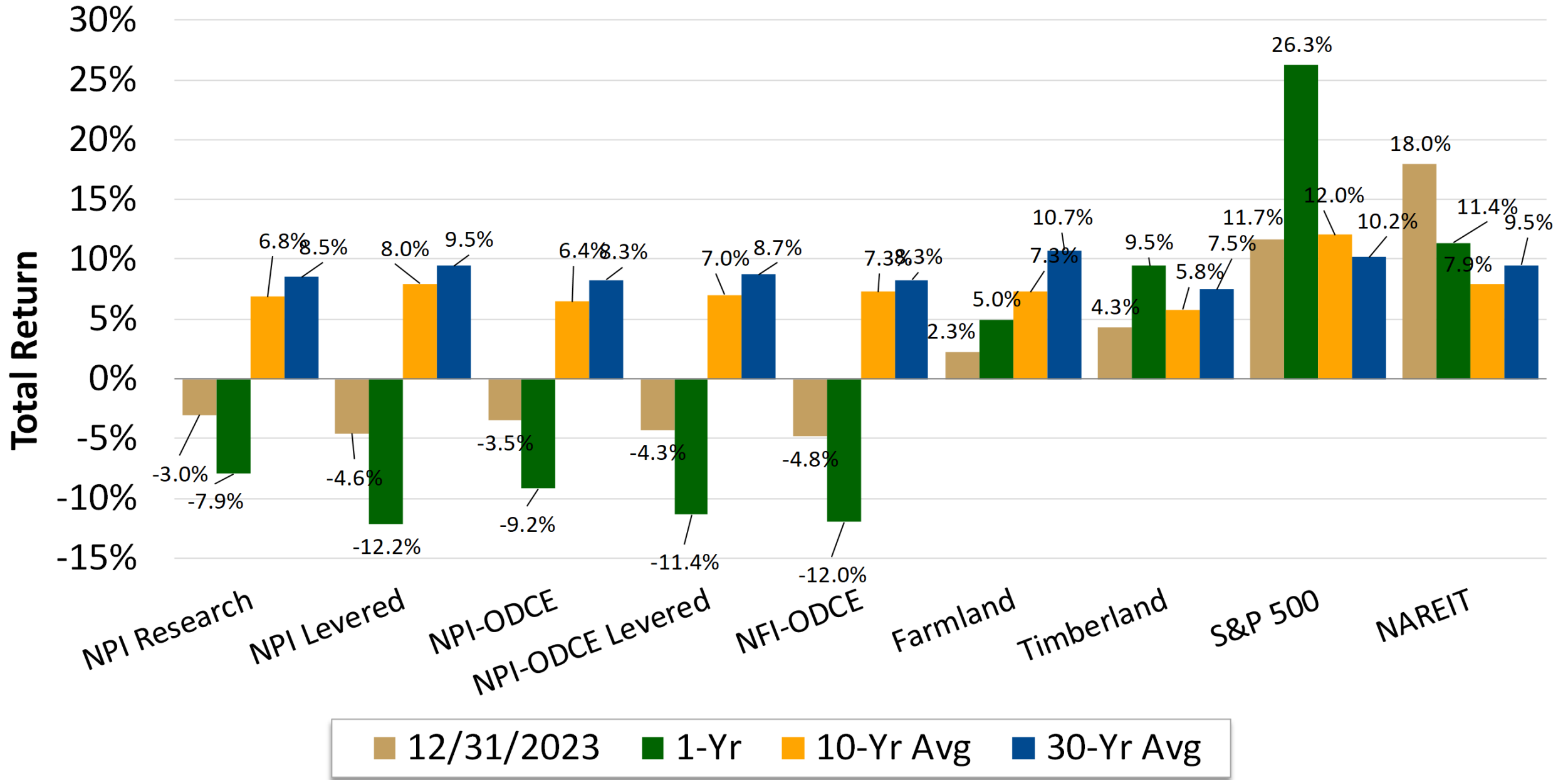
Managing Director & Chief Economist, BGO



Disclaimer

All comments about future expectations are the personal views of the speakers and **NOT** a “NCREIF opinion” or forecast, and should not be relied upon for investment decisions.

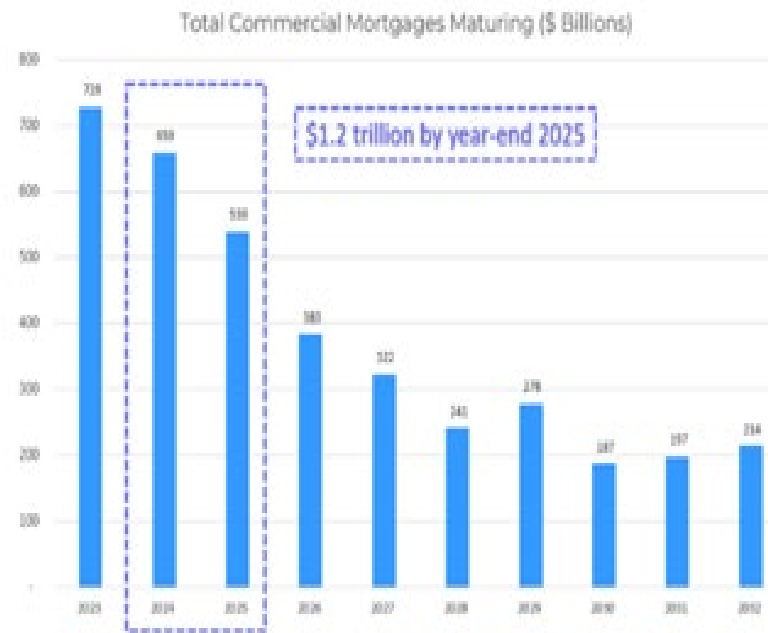
Total Returns by Asset Class



I am optimistic for US CRE investment performance in 2024. Why?

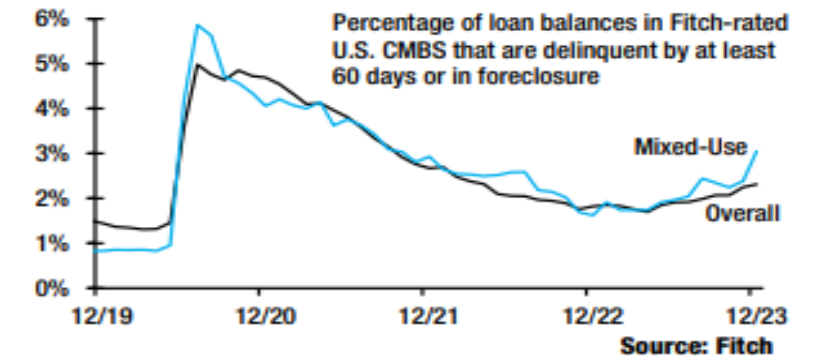
- Look at maturing debt last year... enormous... but delinquency rates remained modest and property values did not collapse... Why?
- Lots of capital available despite bank pull back. Lots more in new private debt funds ready to deploy this year. See recent announcements from Goldman, Carlyle SL Green, etc.

Commercial Mortgages Maturing



Source: Wall Of Maturities, CRED IQ, December 12, 2023

CMBS Delinquencies

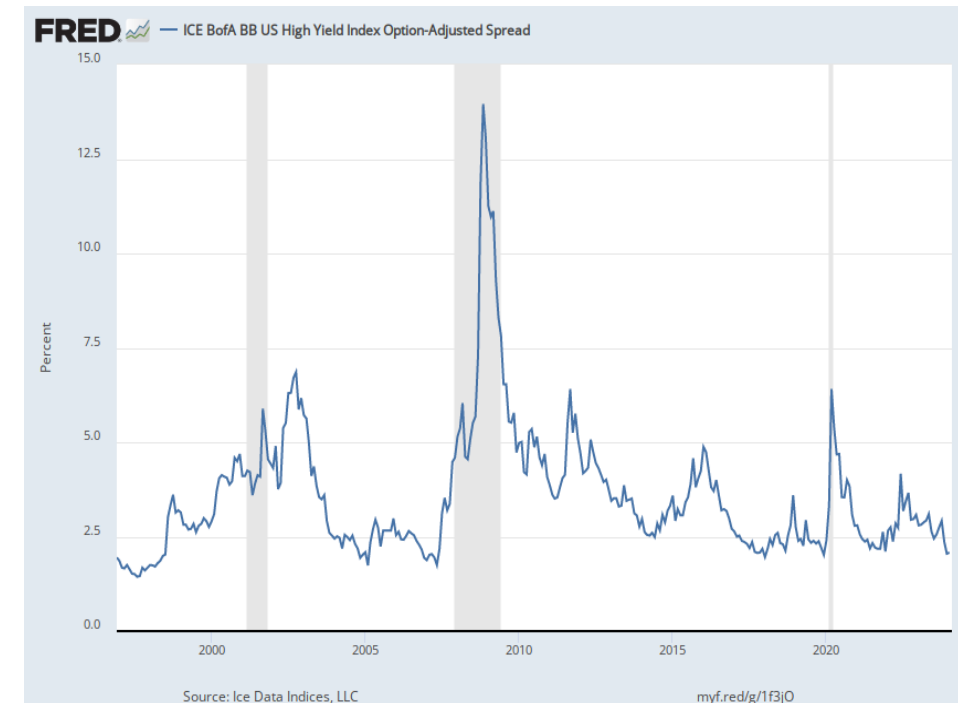
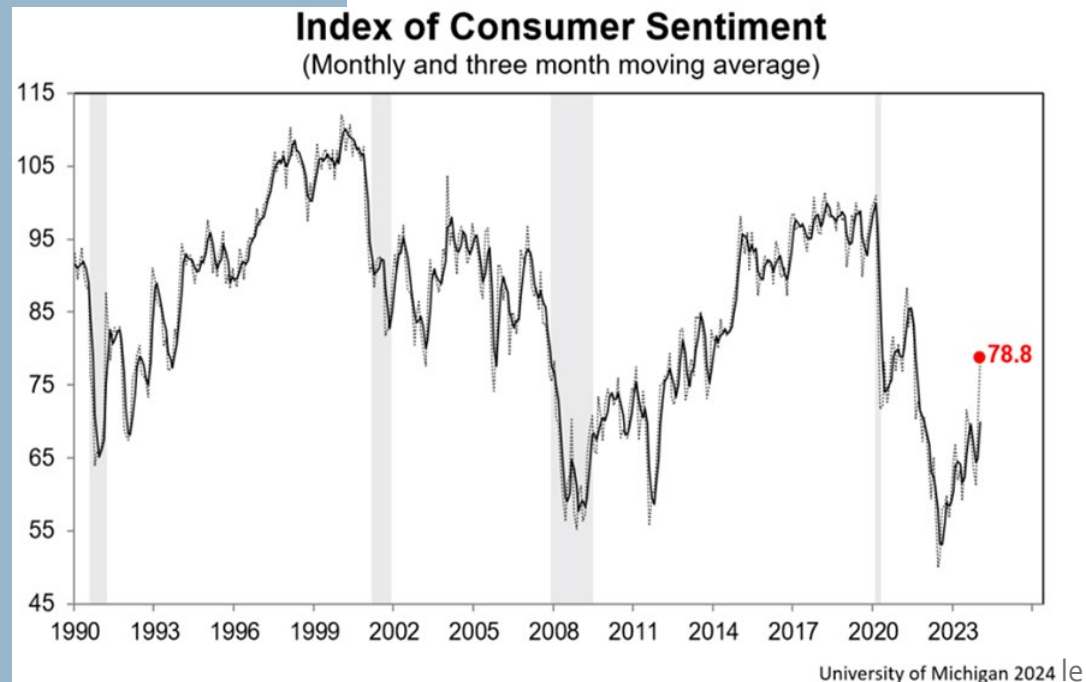


	December (%)	Month Earlier (%)	Year Earlier (%)
Hotel	3.38	3.37	4.30
Retail	4.75	4.78	5.33
Mixed-use	3.05	2.39	1.62
Office	3.30	3.48	1.18
Industrial	0.51	0.40	0.44
Multifamily	0.72	0.62	0.55
Self-storage	0.00	0.00	0.02
Other	2.88	2.73	1.05
OVERALL	2.31	2.25	1.82

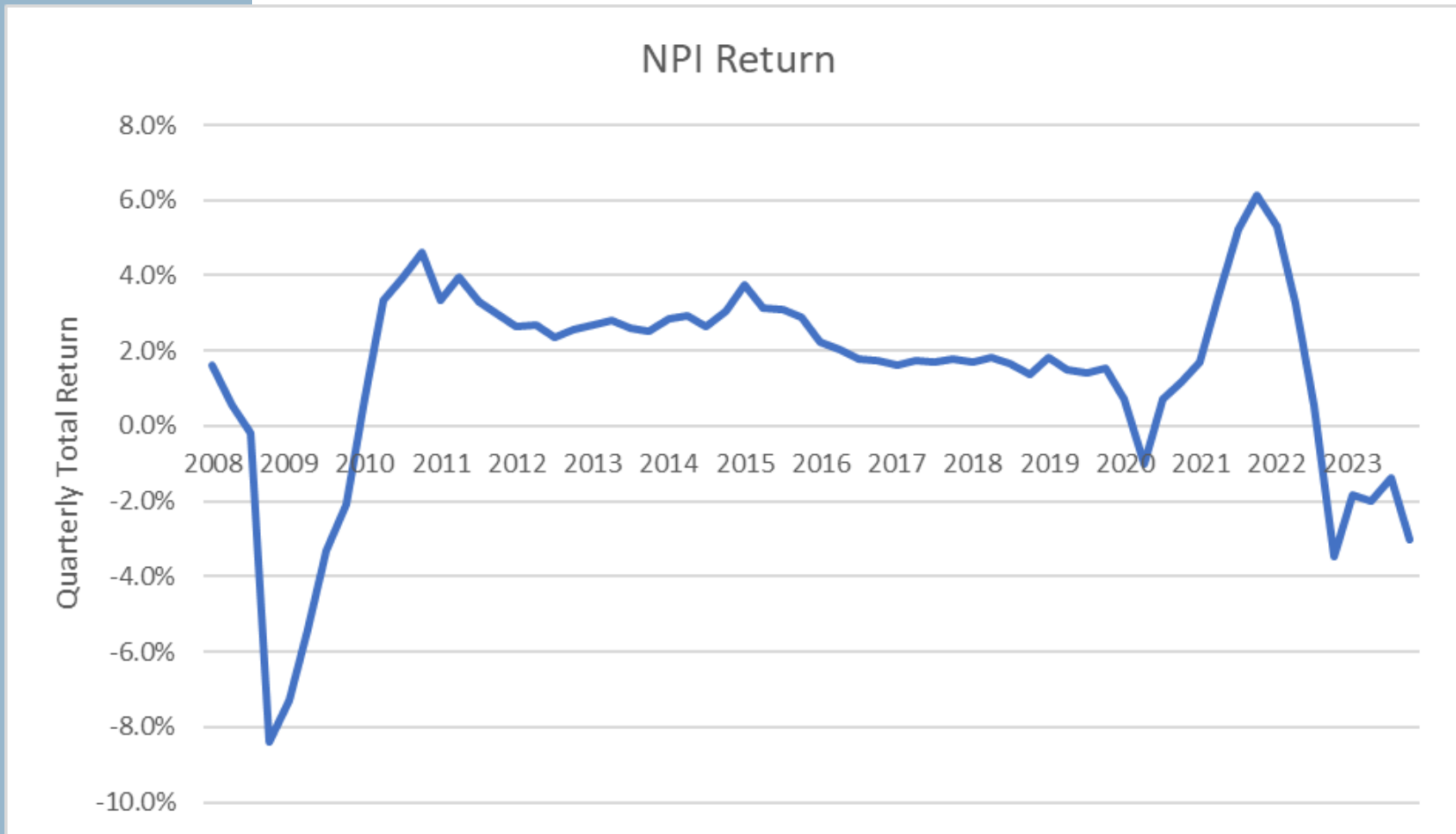
Source: Fitch

I am optimistic for US economic growth in 2024. Why?

- Look at the upswing in consumer sentiment, perhaps driven by the strong growth in real disposable personal income over the latter half of 2023. Looking like consumers are getting over gloom and doom...better mood is good for spending!
- Look at how narrow spreads are for high-risk BB bonds... back to pre-GFC tightness. Investors are getting hungry to take risk perhaps as lower interest rates are expected. Dry powder in private equity funds is at record level. Capital availability will drive emerging growth sectors – renewable energy and batteries, AI, reshoring critical manufacturing – and drive growth prospects, which supports CRE performance.

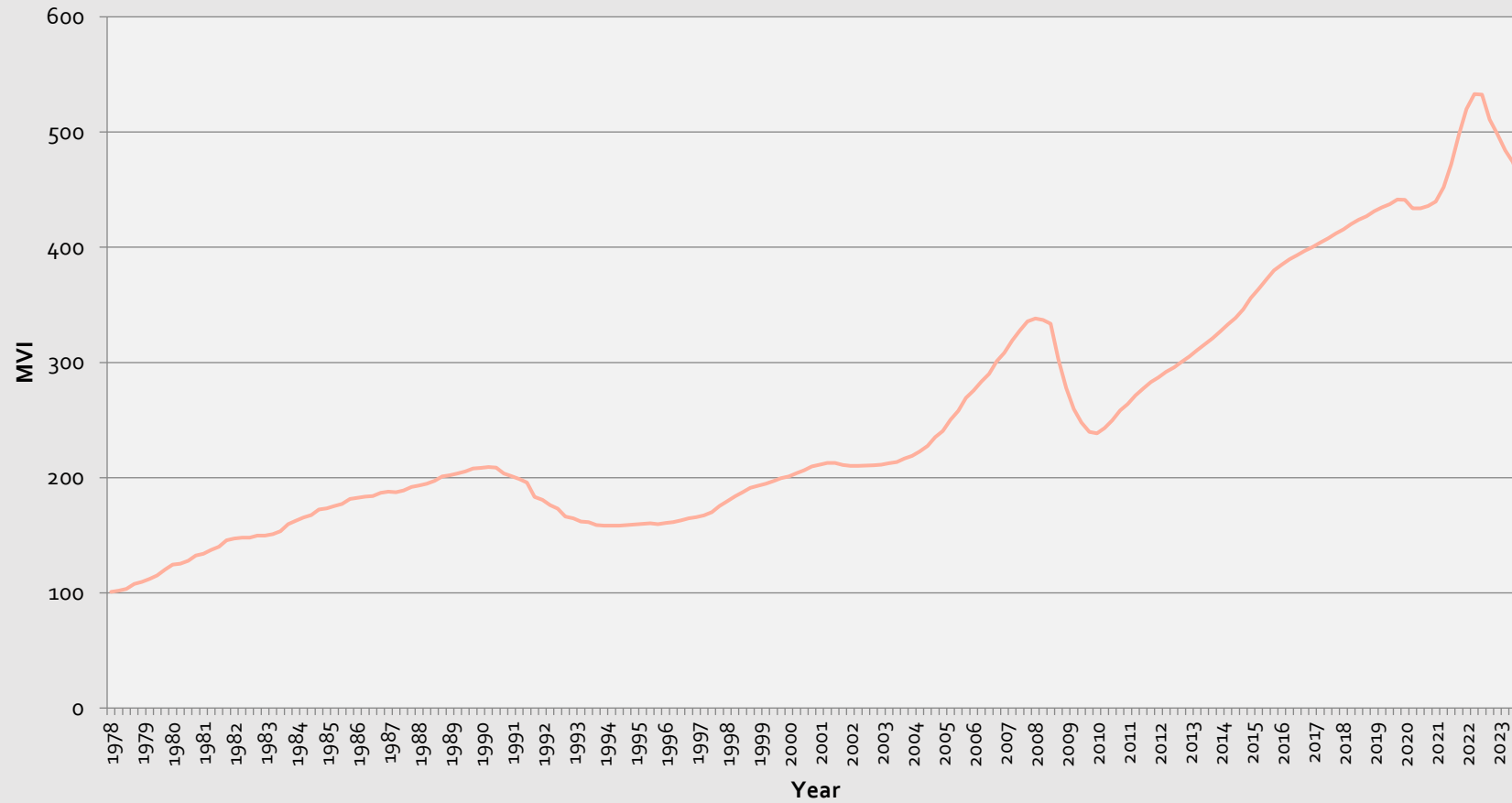


Returns Continue in Negative Territory



No V in Recovery?

Market Value Index



Market Values Down
14% from peak.

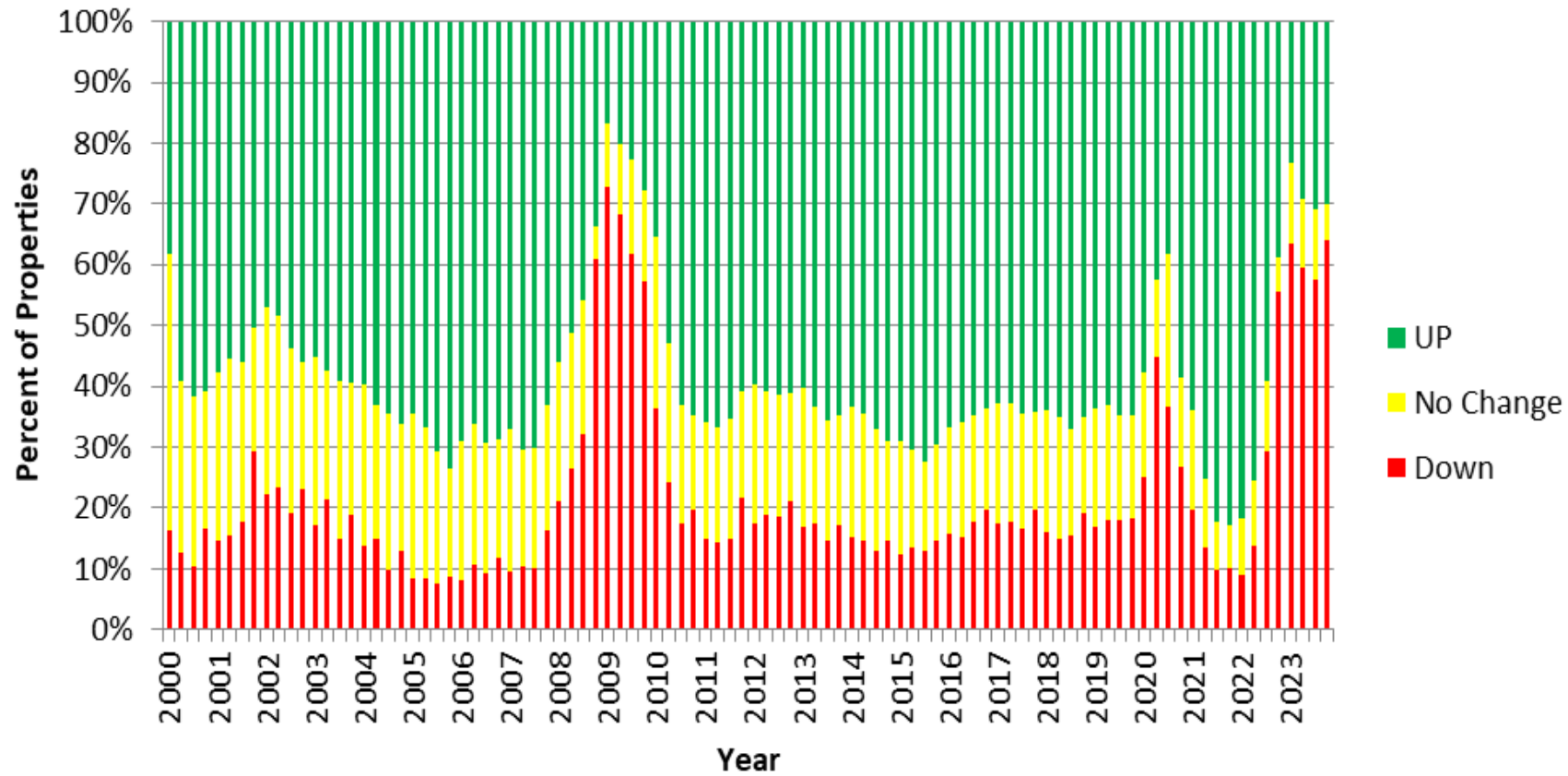
Properties sold this
quarter were down 21%
from the peak appraised
value.

NPI Sold Props Percent Decline from Peak 2022-2



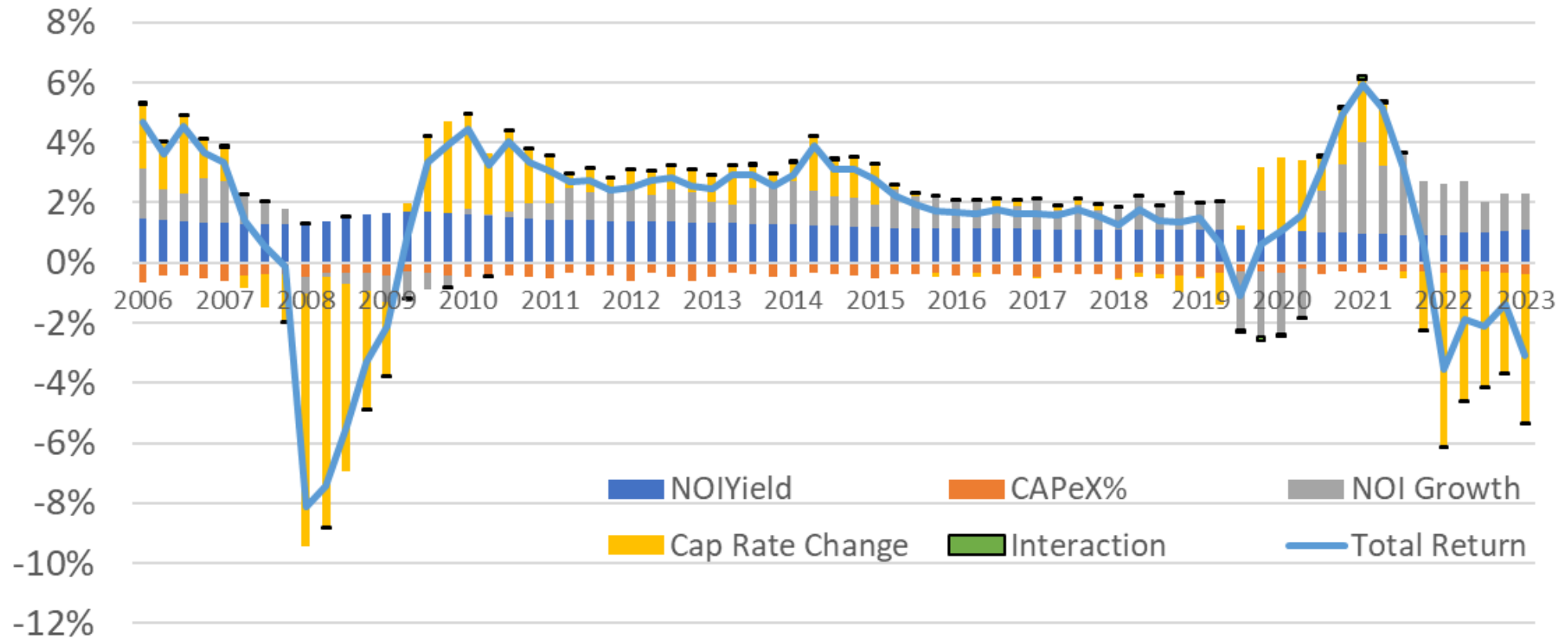
Write-Downs Remain Elevated

Write-ups vs Write-downs for NPI



Number of write-downs jump back up.

Return Components (Quarterly)



Introducing NPI+



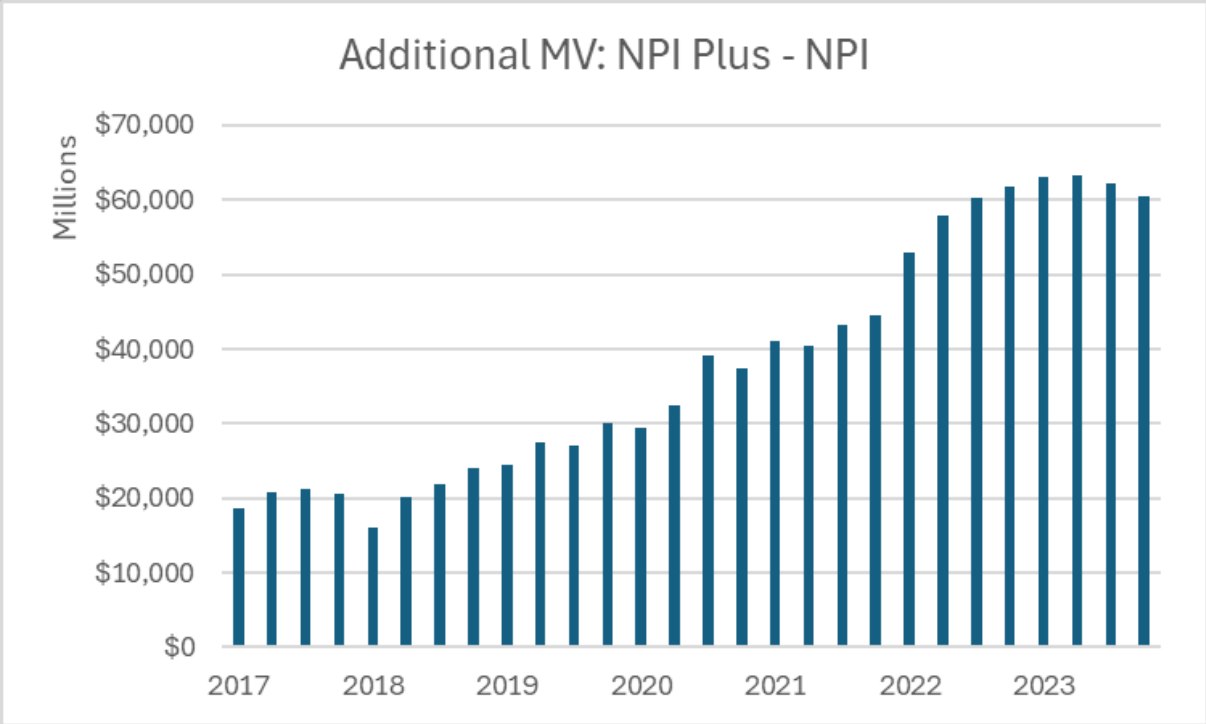
- Beginning with 2024 Q1 data release, NCREIF will begin its official transition to the NPI-Plus (NPI+).
- The NPI-Plus includes all property types, versus the five in NPI.
- New subtypes will be included.
- Launching with Q1 2024 data release in April 2024.
- Will have a transition period of at least one year.
- During transition, the traditional NPI will still be produced.
- NPI+ will not be frozen during transition period.
- New Reports and Query tool database will reflect NPI+.
- March webinar will introduce reports and query tool.

Introducing NPI+

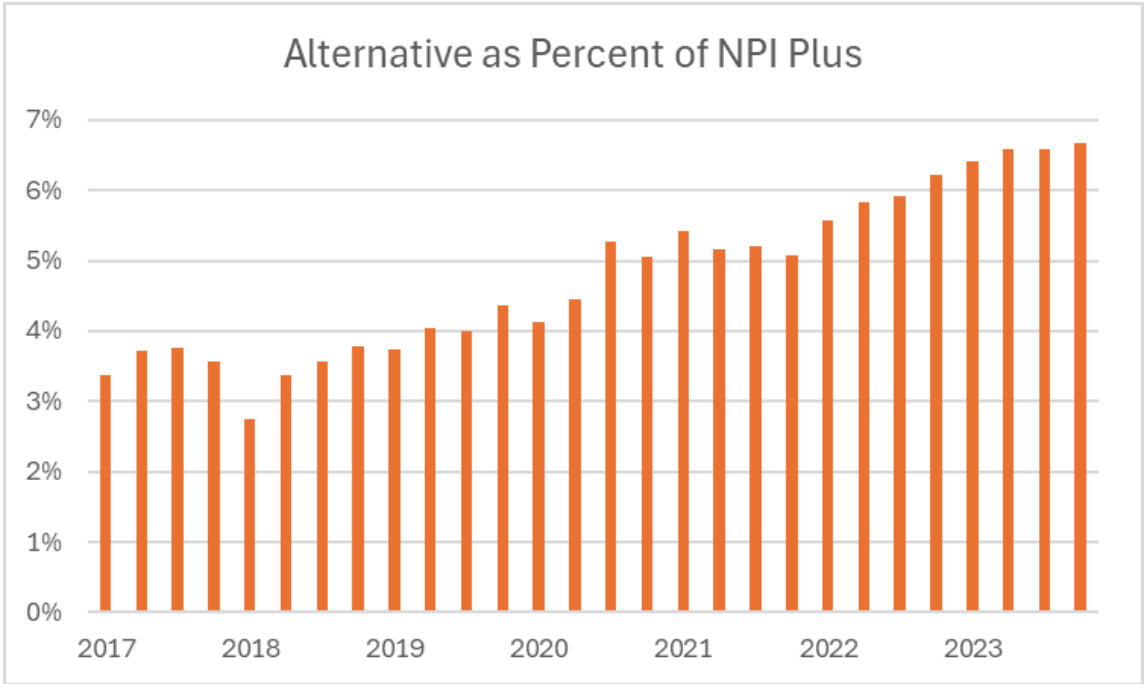
Residential	Hotel	Industrial	Office
<ul style="list-style-type: none">• Apartment• Student• Manufactured Housing• Single Family	<ul style="list-style-type: none">• Full Service• Limited Service	<ul style="list-style-type: none">• Manufacturing• Flex• Warehouse• Specialized• Life Science	<ul style="list-style-type: none">• Medical• Life Science• CBD• Urban• Secondary Business District• Suburban
Retail	Senior Living	Self-Storage	Other
<ul style="list-style-type: none">• Street• Strip• Mall	<ul style="list-style-type: none">• Independent living• Assisted Living• Continuing Care• Skilled Nursing	<ul style="list-style-type: none">• No-Subtypes	<ul style="list-style-type: none">• Data Center• Operating Land• Entertainment• Parking• Other

For more information visit the NCREIF Member Website at www.NCREIF.org.

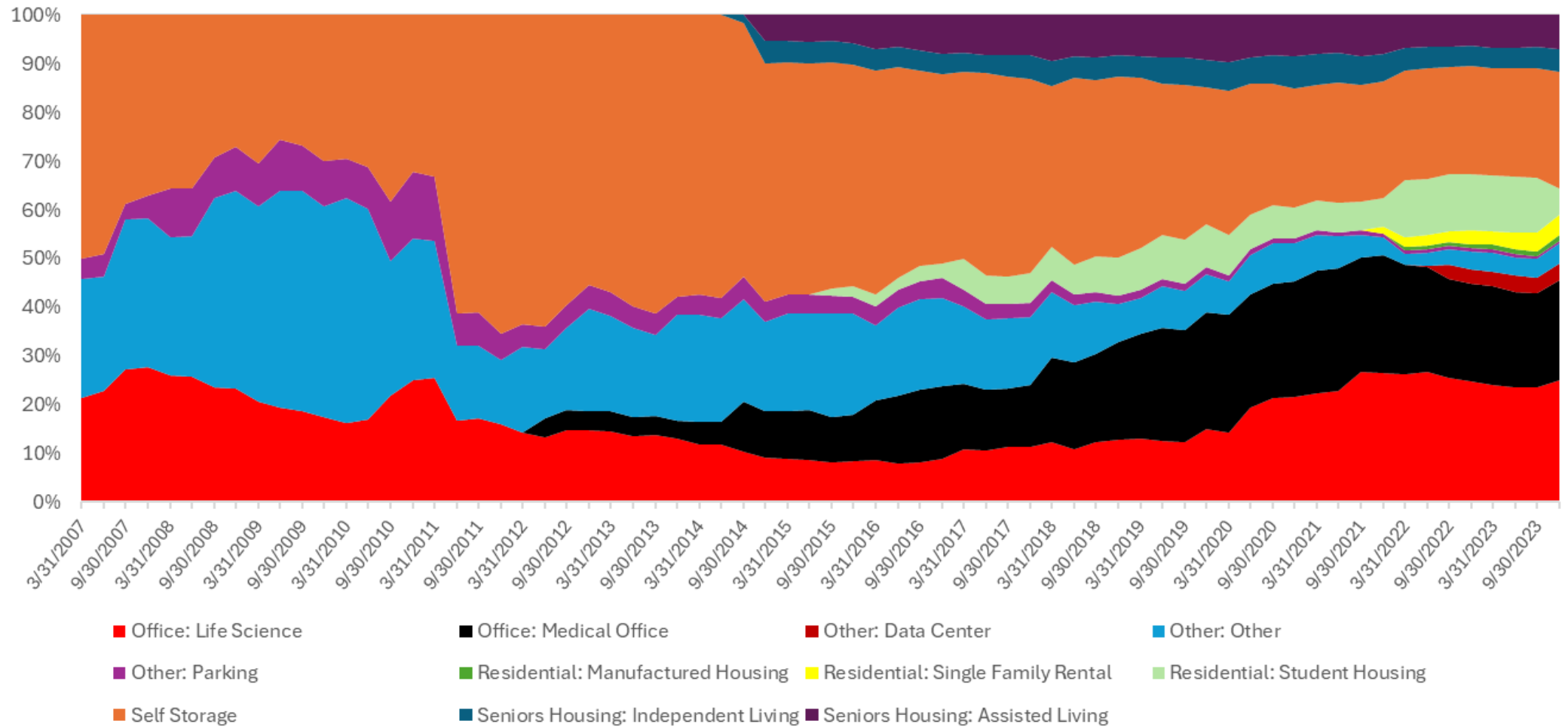
NPI Plus adds \$60 billion in MV to the Index



Additional Market Value added by NPI Plus properties has tripled since 2017.



Composition of Alternatives

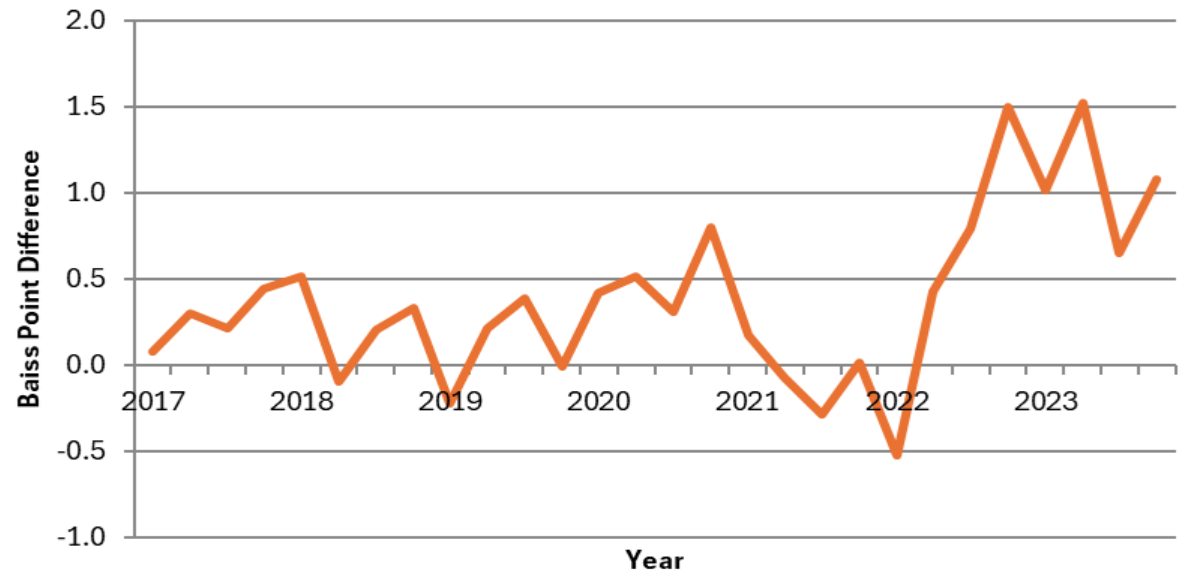


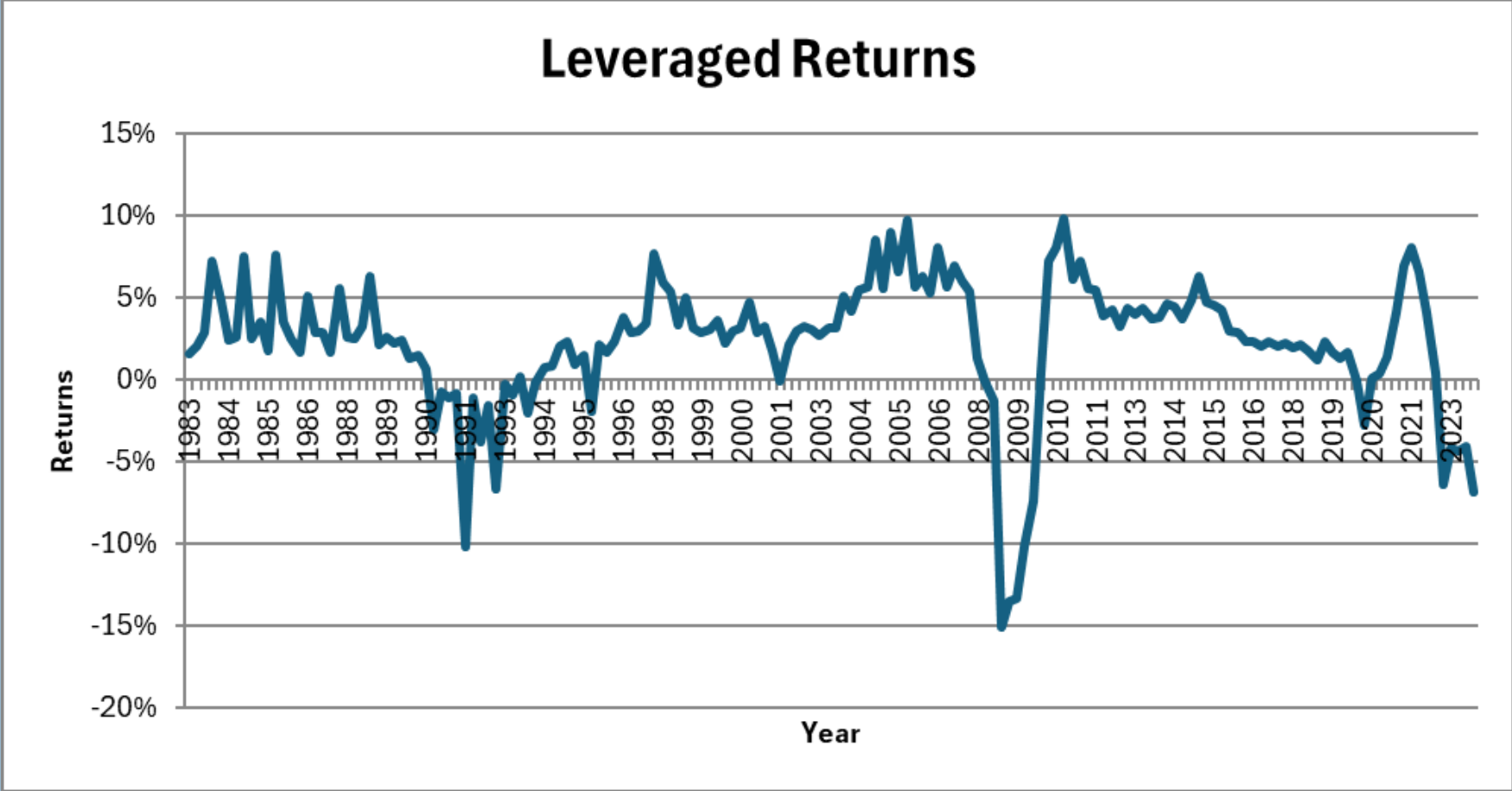
Return for NPI vs Alternatives Added



The alternatives being added to the NPI Plus have performed slightly better than the NPI in recent quarters but the impact on the NPI would have only been about one basis point in recent quarters since it is only 6% of the index.

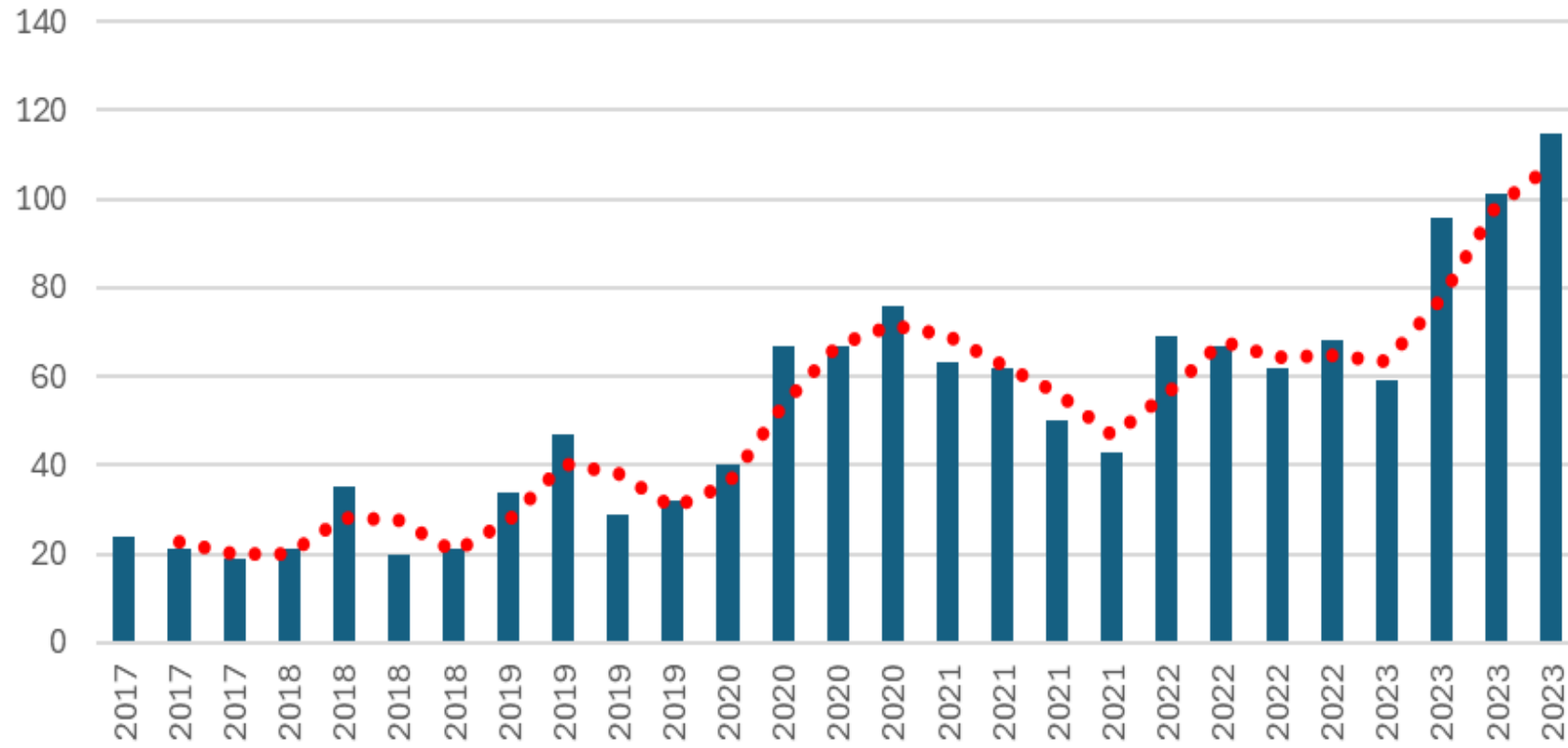
NPI Plus - NPI Return Spread (Basis Points)





Eight properties returned to lender this quarter.

Loans with LTV >=1



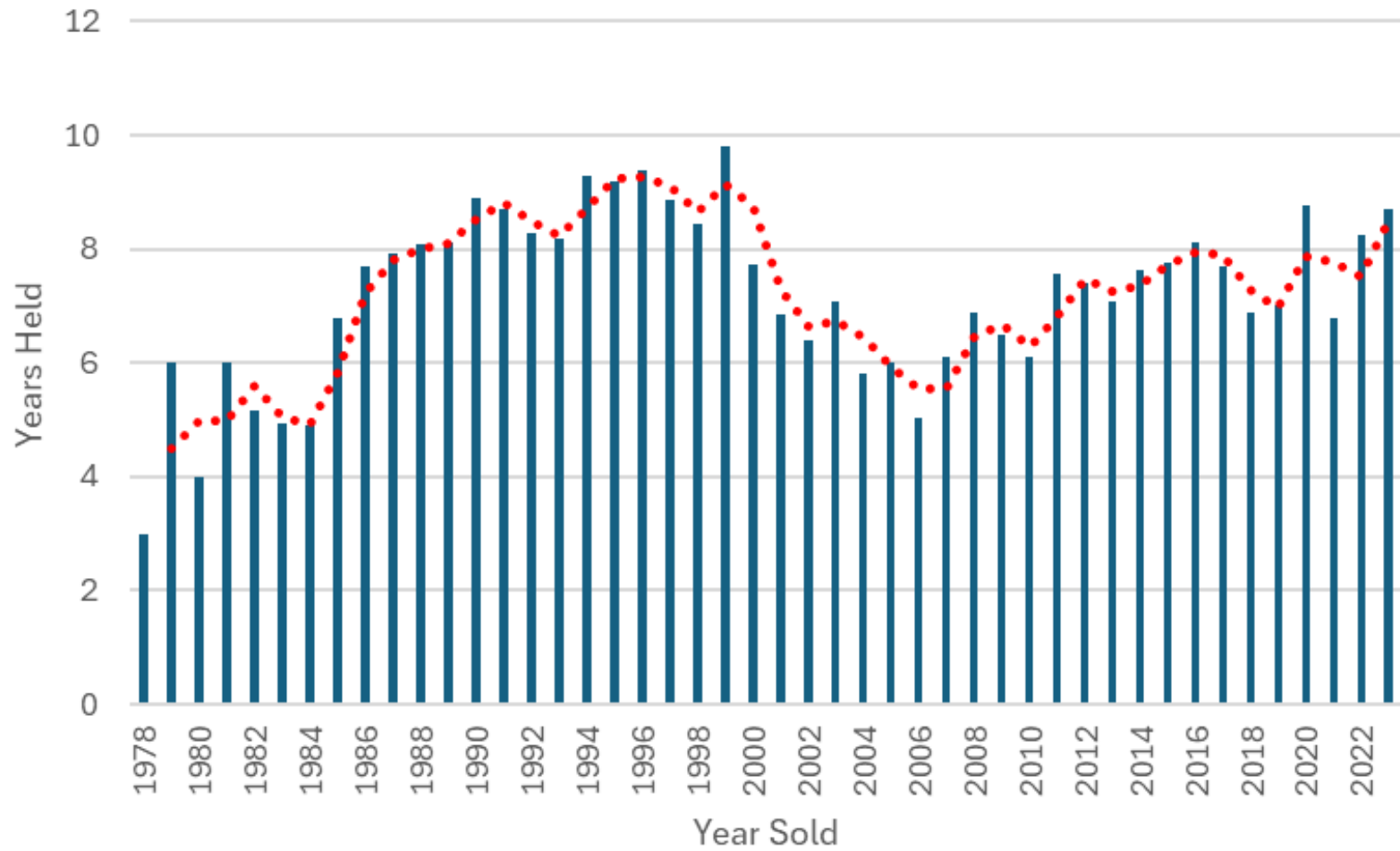
Loans under water increasing.

Loans with LTV ≥ 1



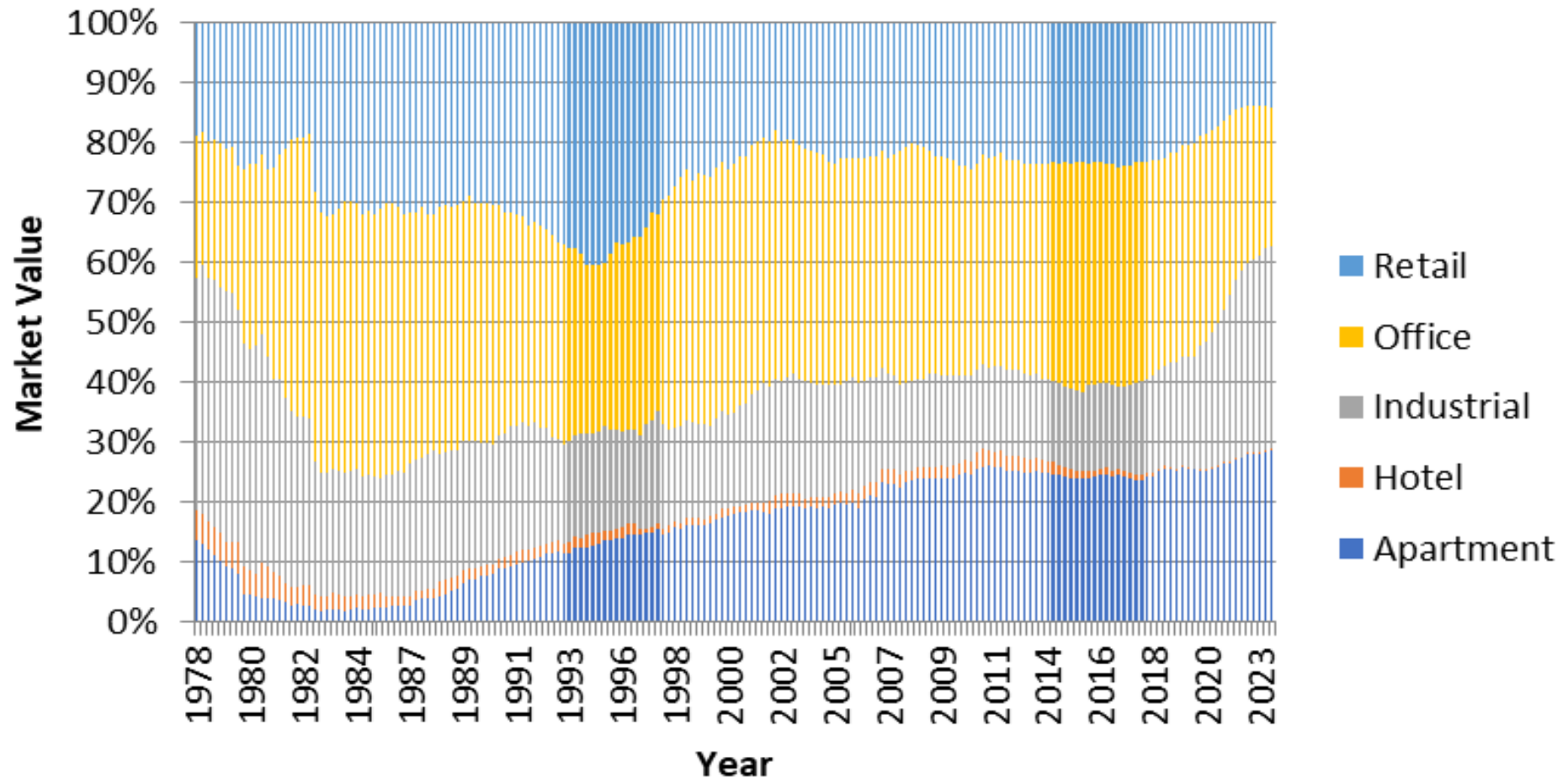
Although nowhere near financial crisis.

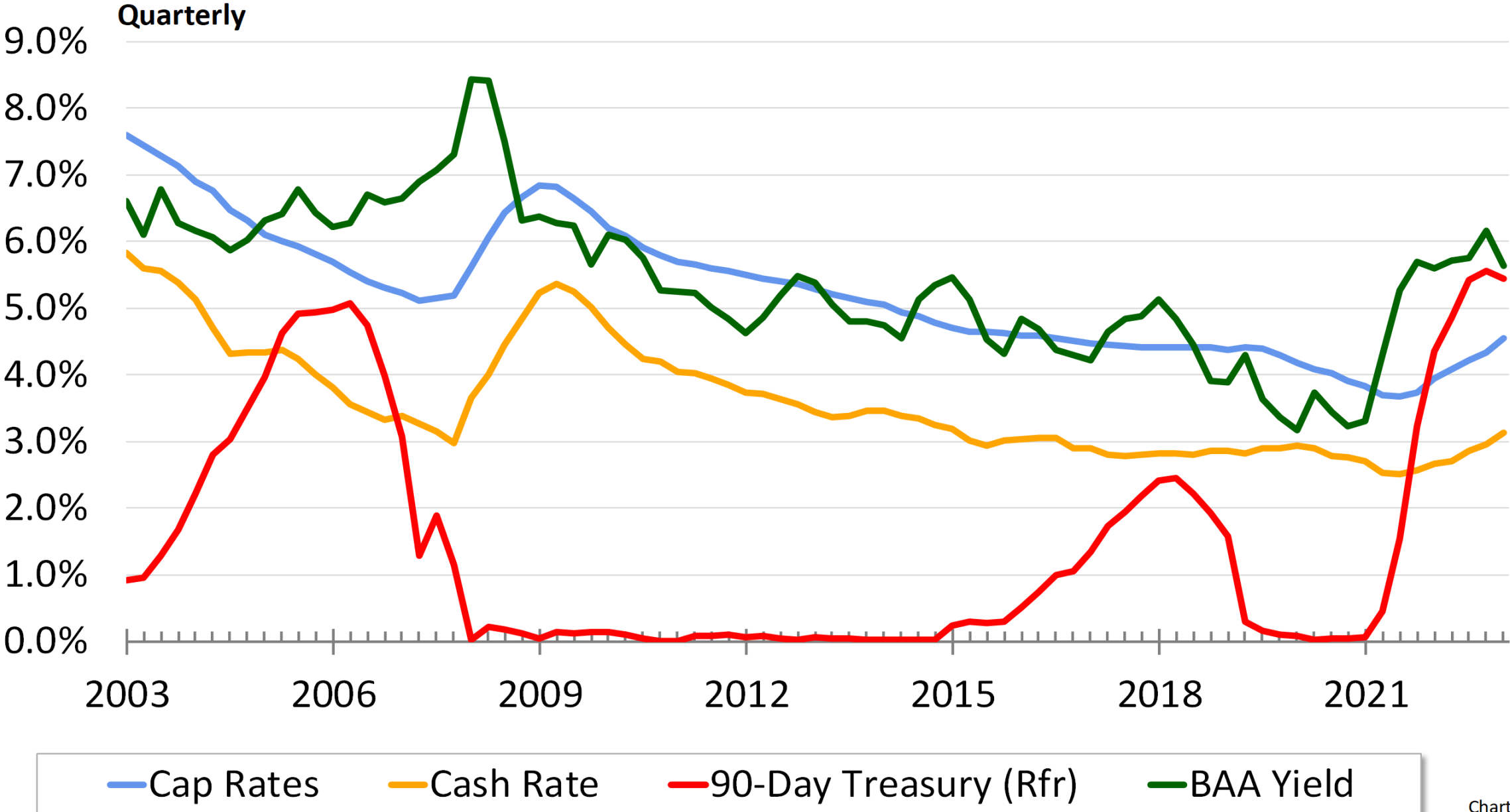
Holding Periods



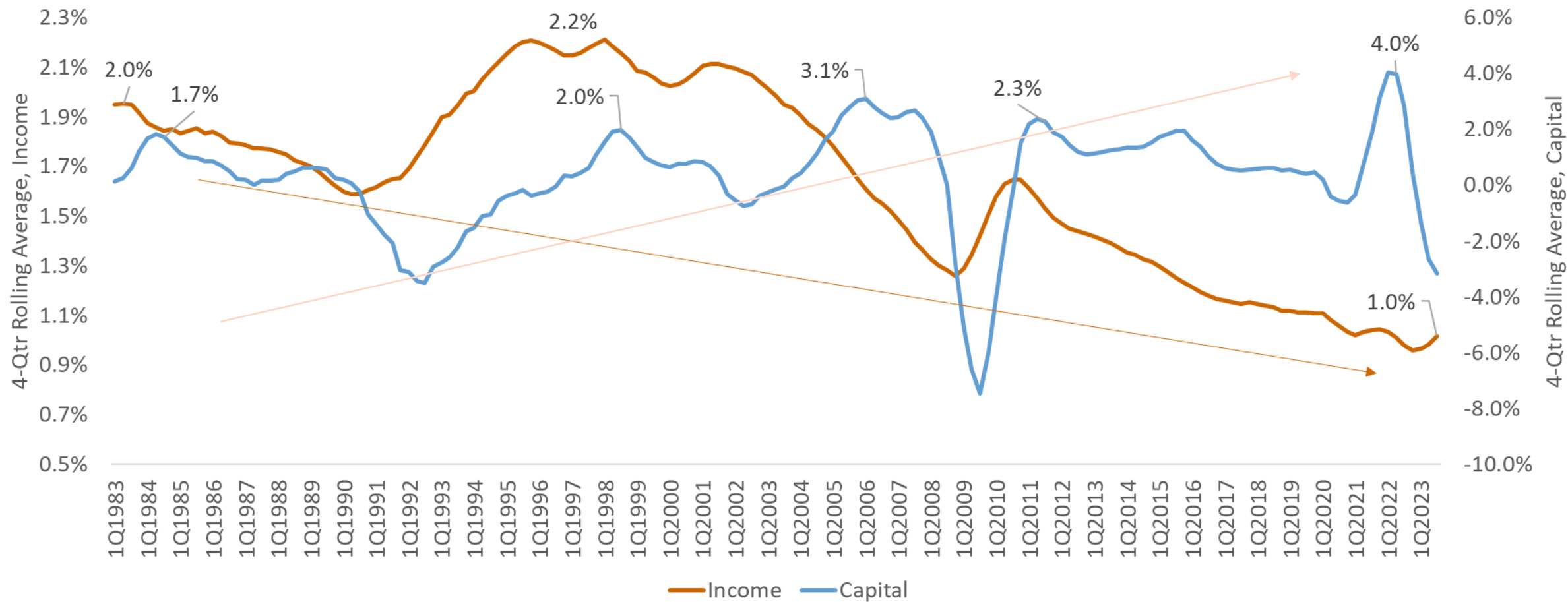
Holding periods creeping up in recent years.

NPI MV Allocations Over Time

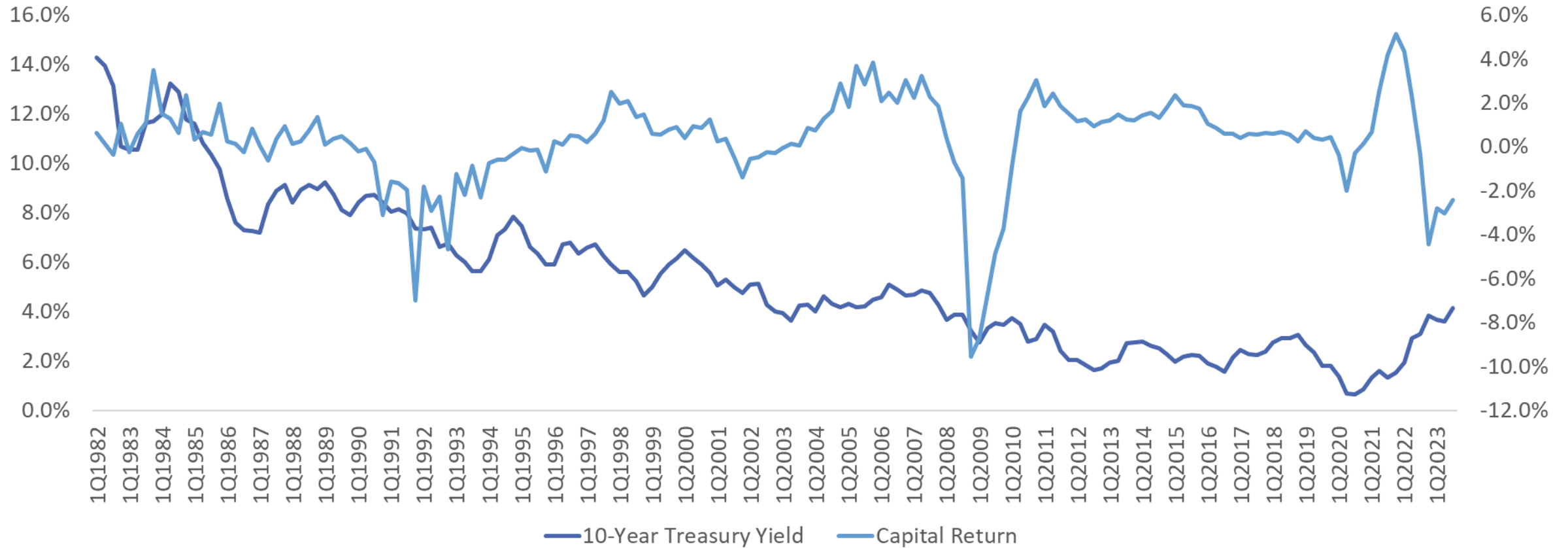




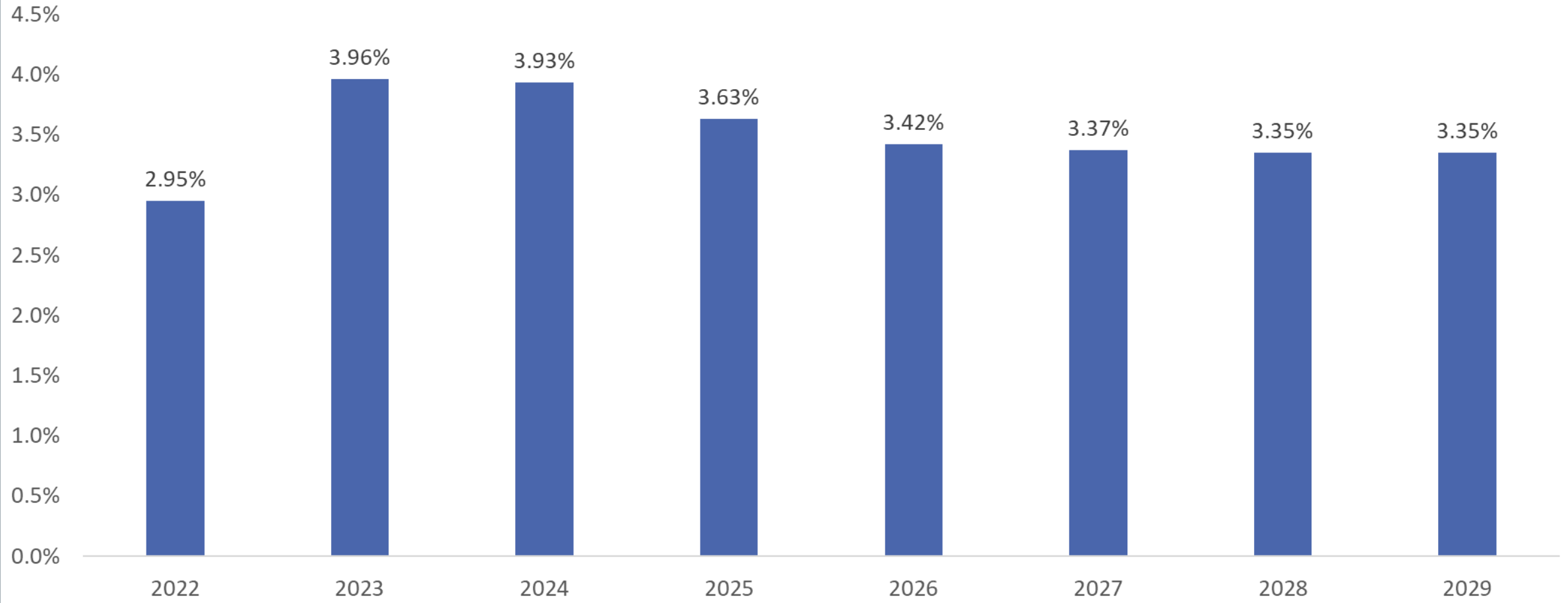
Constituent Return Time Series



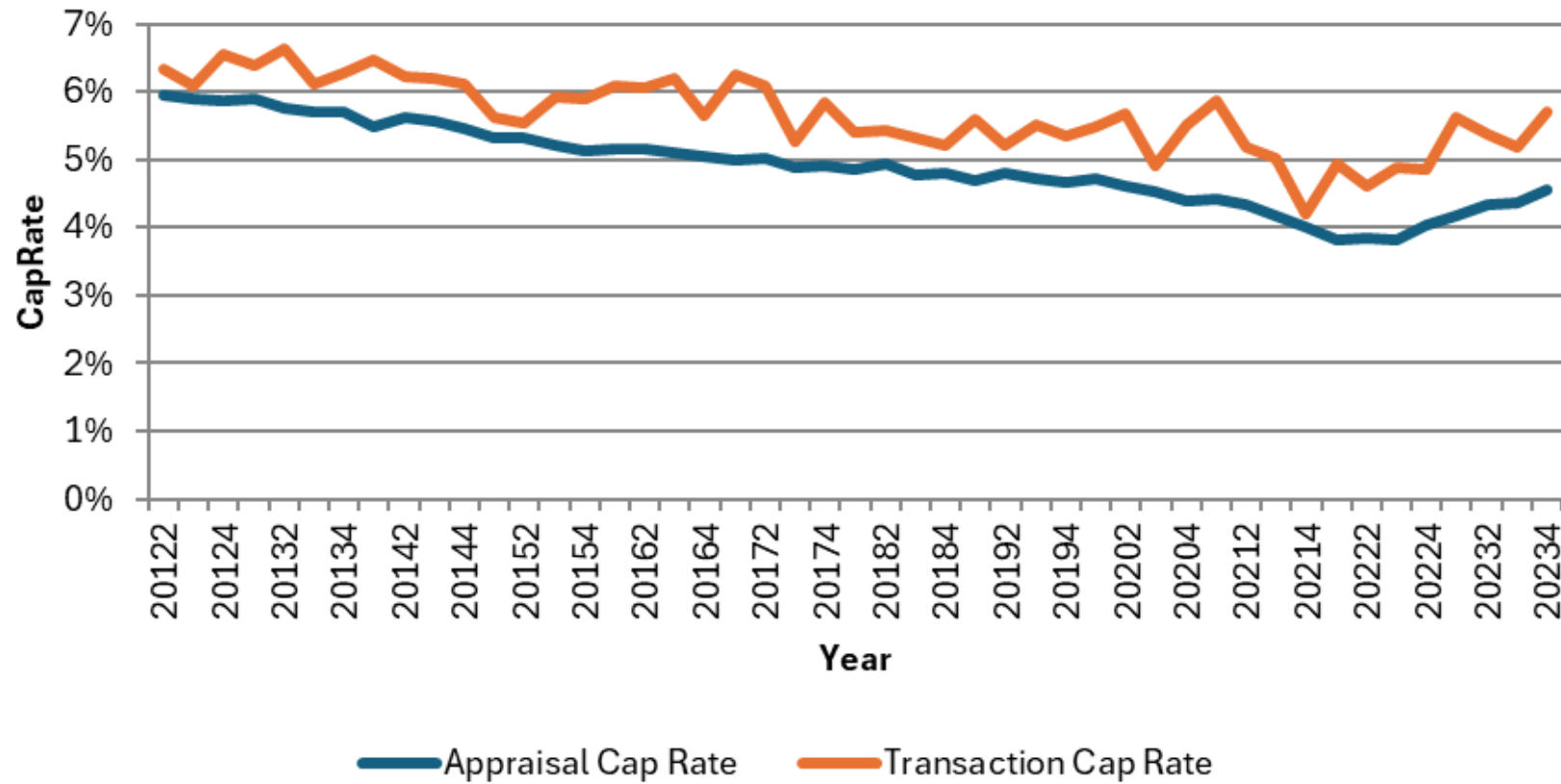
Impact Of Declining Rates



10-Year Treasury Forecast



Appraisal vs Transaction Cap Rates



Gap widens between appraisal and transaction cap rates.

Question

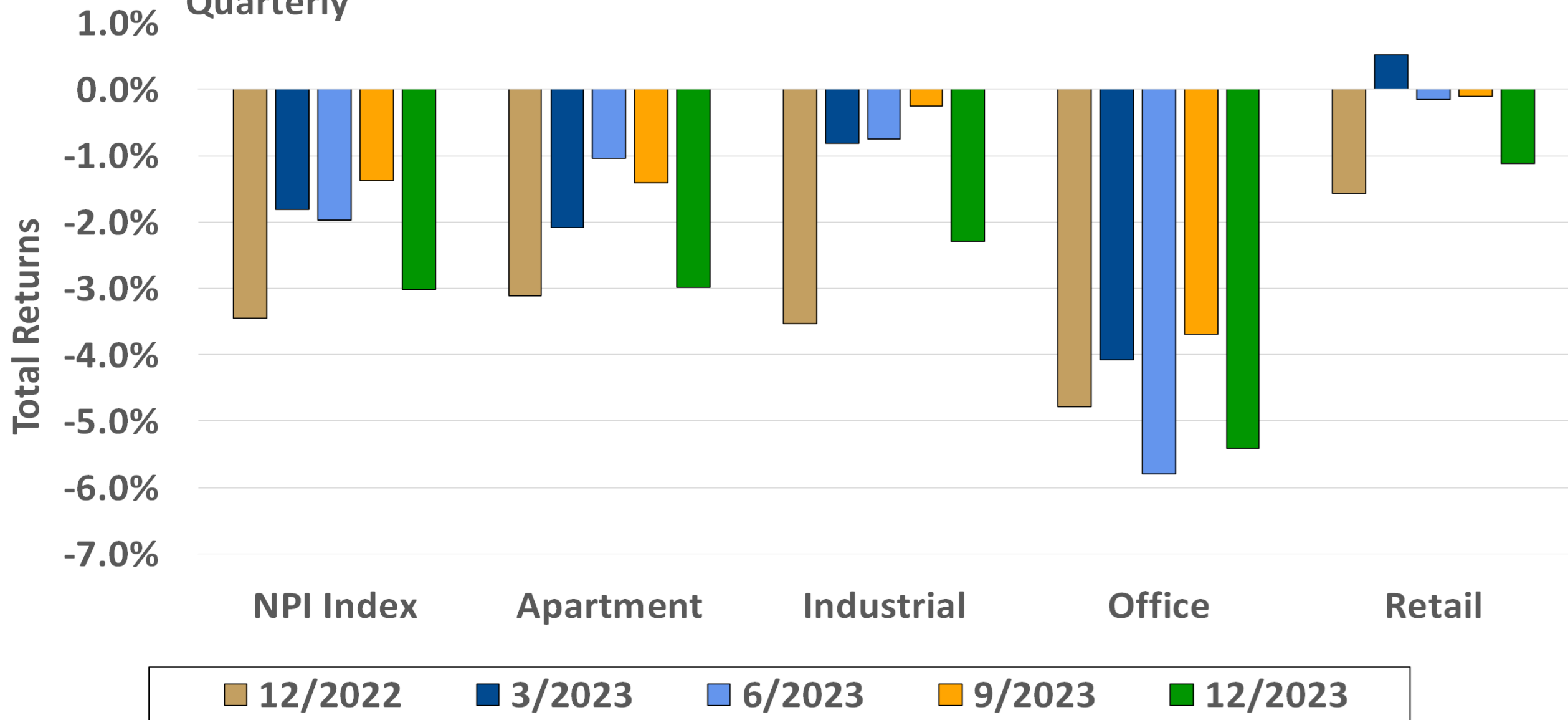


Where will NPI be by the end of 2024?

- A. Values will be somewhat lower by the end of 2024.
- B. Values will stabilize at the current level
- C. Values will be somewhat higher by the end of 2024.
- D. I have no idea!

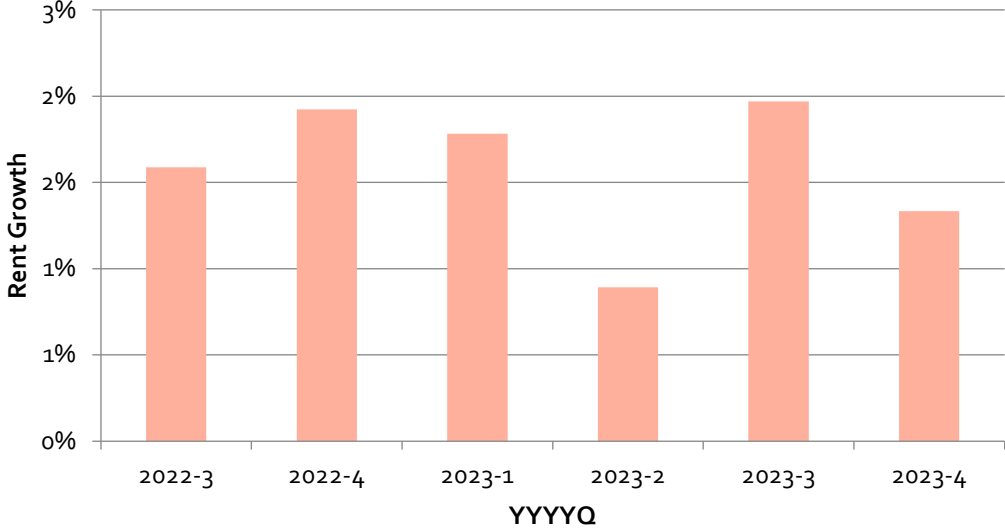
NPI Property Total Returns by Property Type

Quarterly

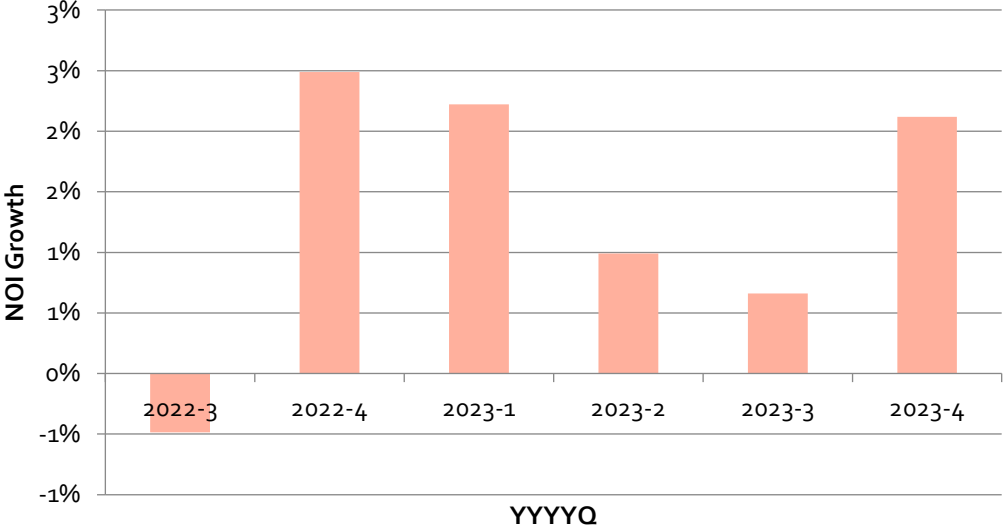


Rent and NOI Growth

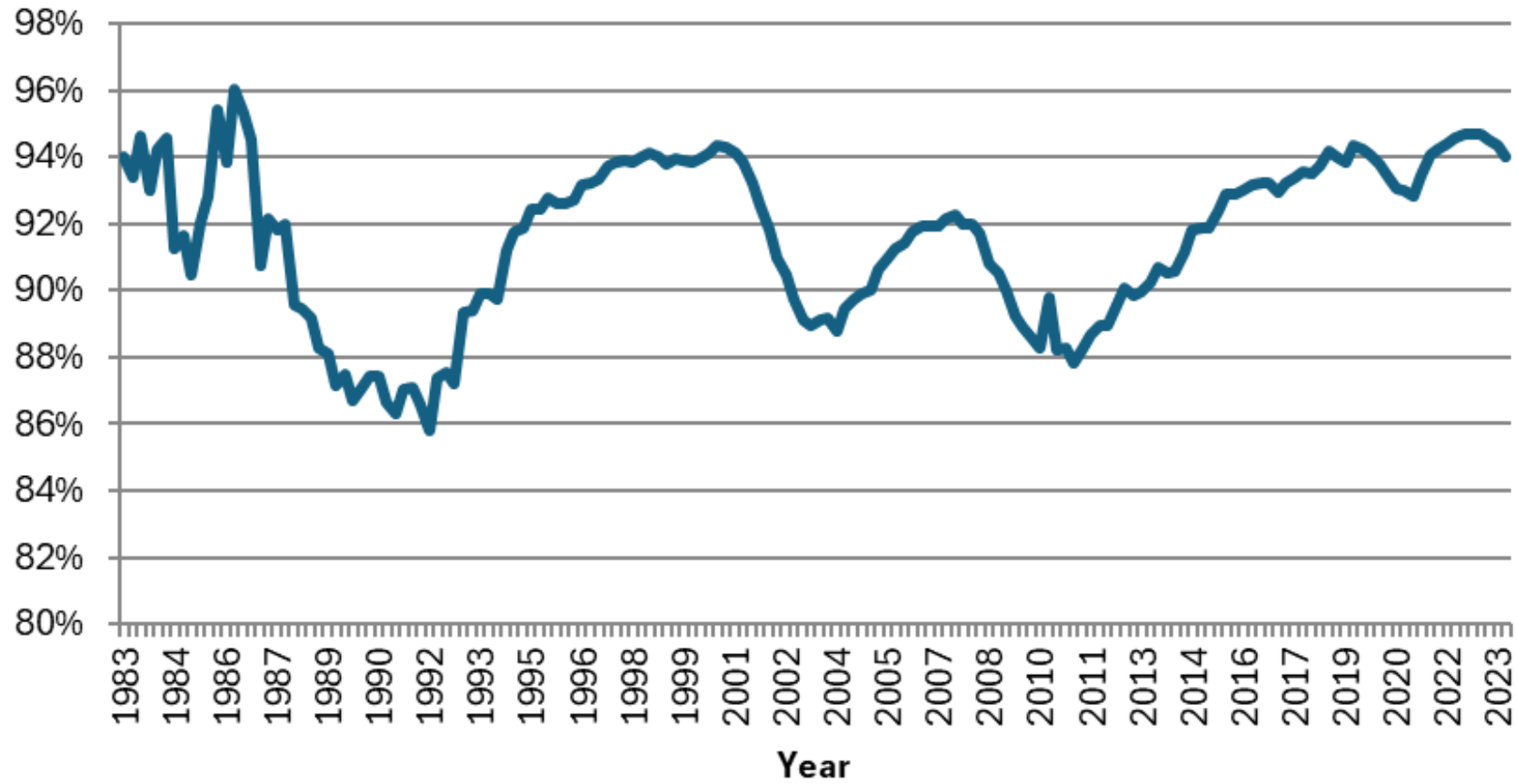
Rent Growth



NOI Growth



Percent Leased

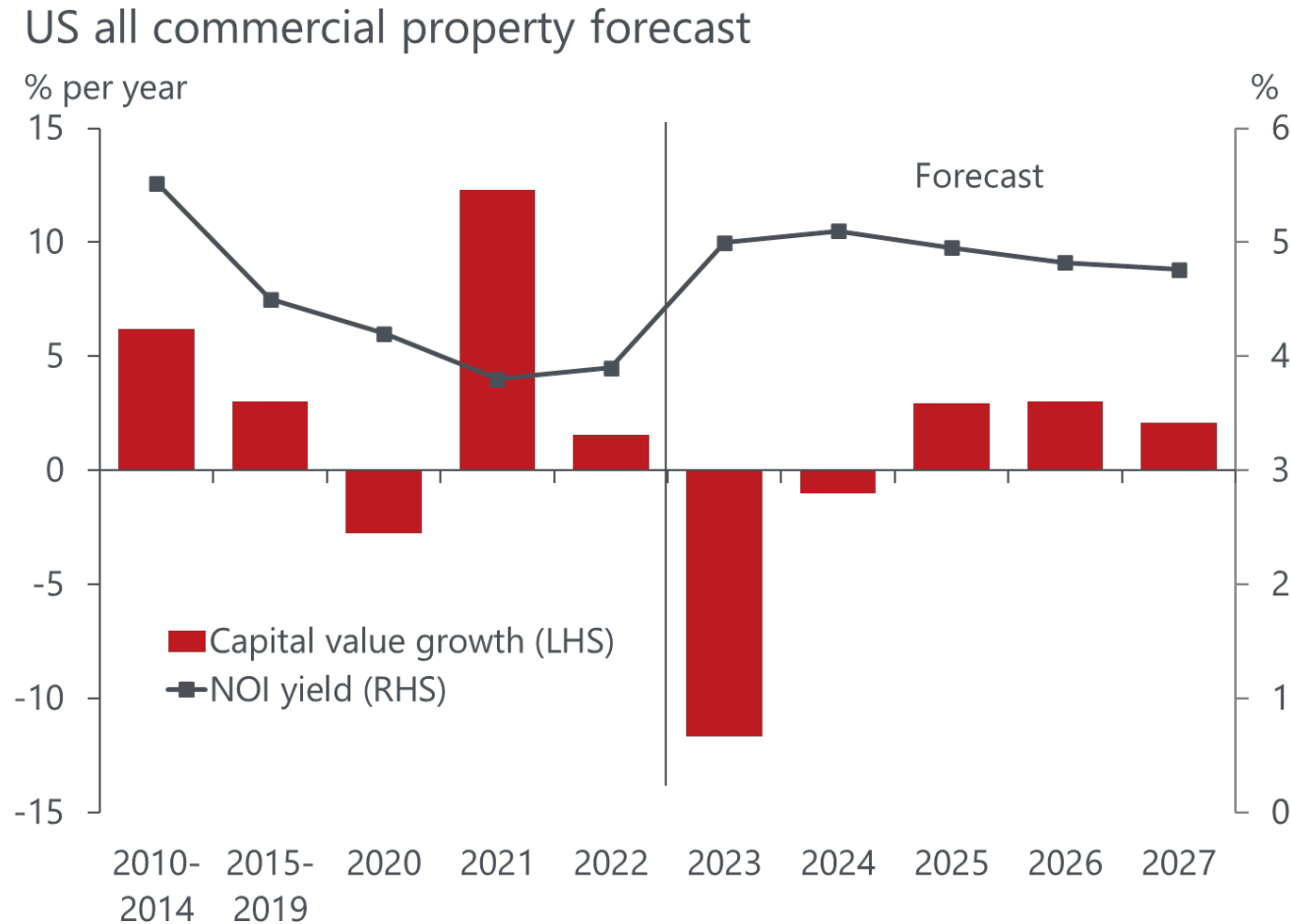


Percent leased drops slightly – doesn't reflect shadow space.

Values begin to recover in 2025

• Highlights

- We expect the current pricing correction to last through 2024.
- In general, we predict NOI yields will expand by 120bps peak-to-trough (low in 2021) by the end of 2024 (from 3.8% to 5.0%) and capital values will fall 12.6% (peak in 2022).
- NOI yields will stabilize and compress slightly starting in 2025 but their recovery will be slow.
- In 2025, values will begin to recover and by 2027 they will have grown by 2.7% per year, slightly below the 2015-2019 average.



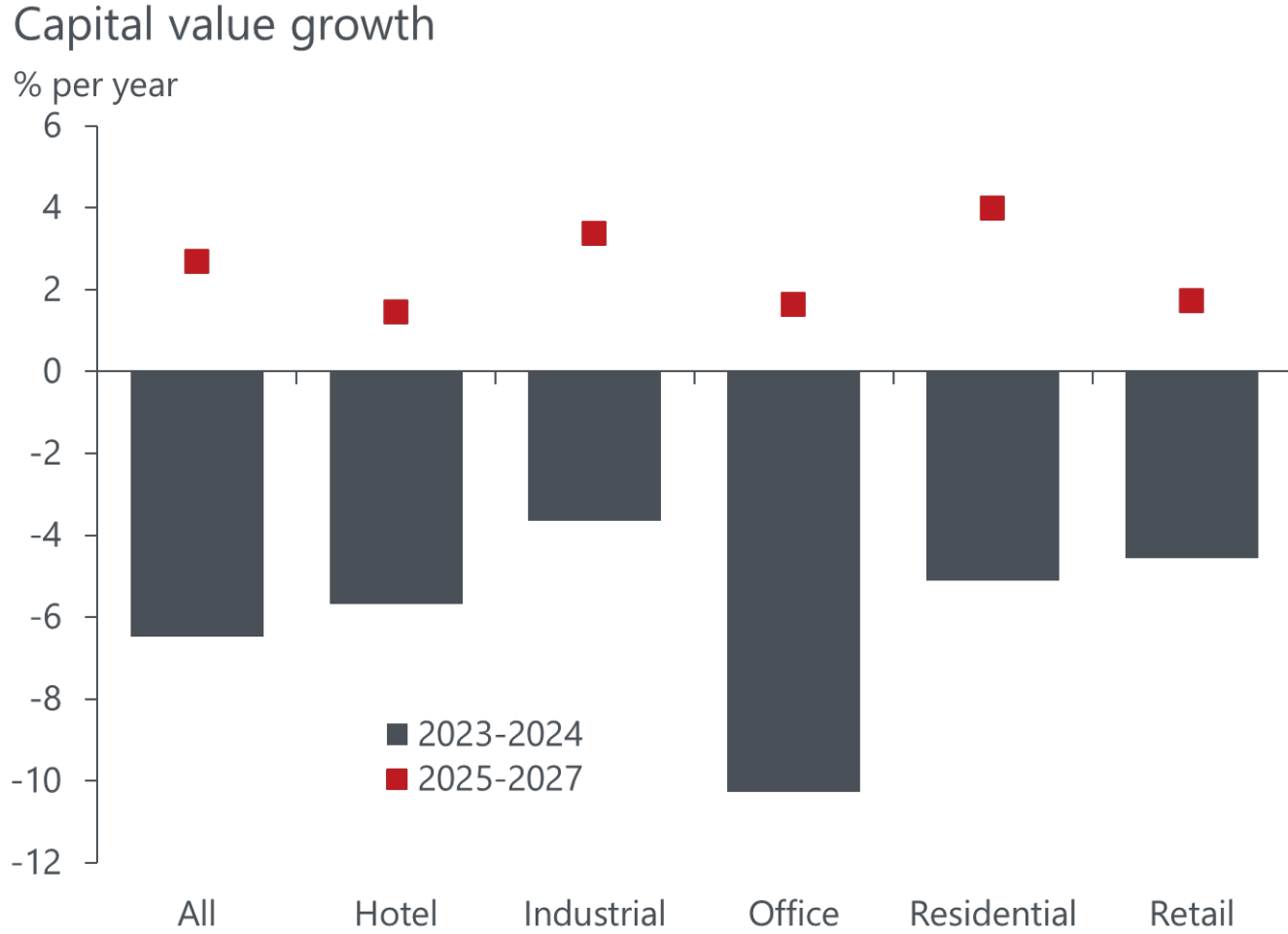
Source: Oxford Economics/MSCI

Question

- What Property Sector do you think will perform best (highest total return) for all of 2024?
 - A. Apartment
 - B. Hotel
 - C. Industrial
 - D. Office
 - E. Retail

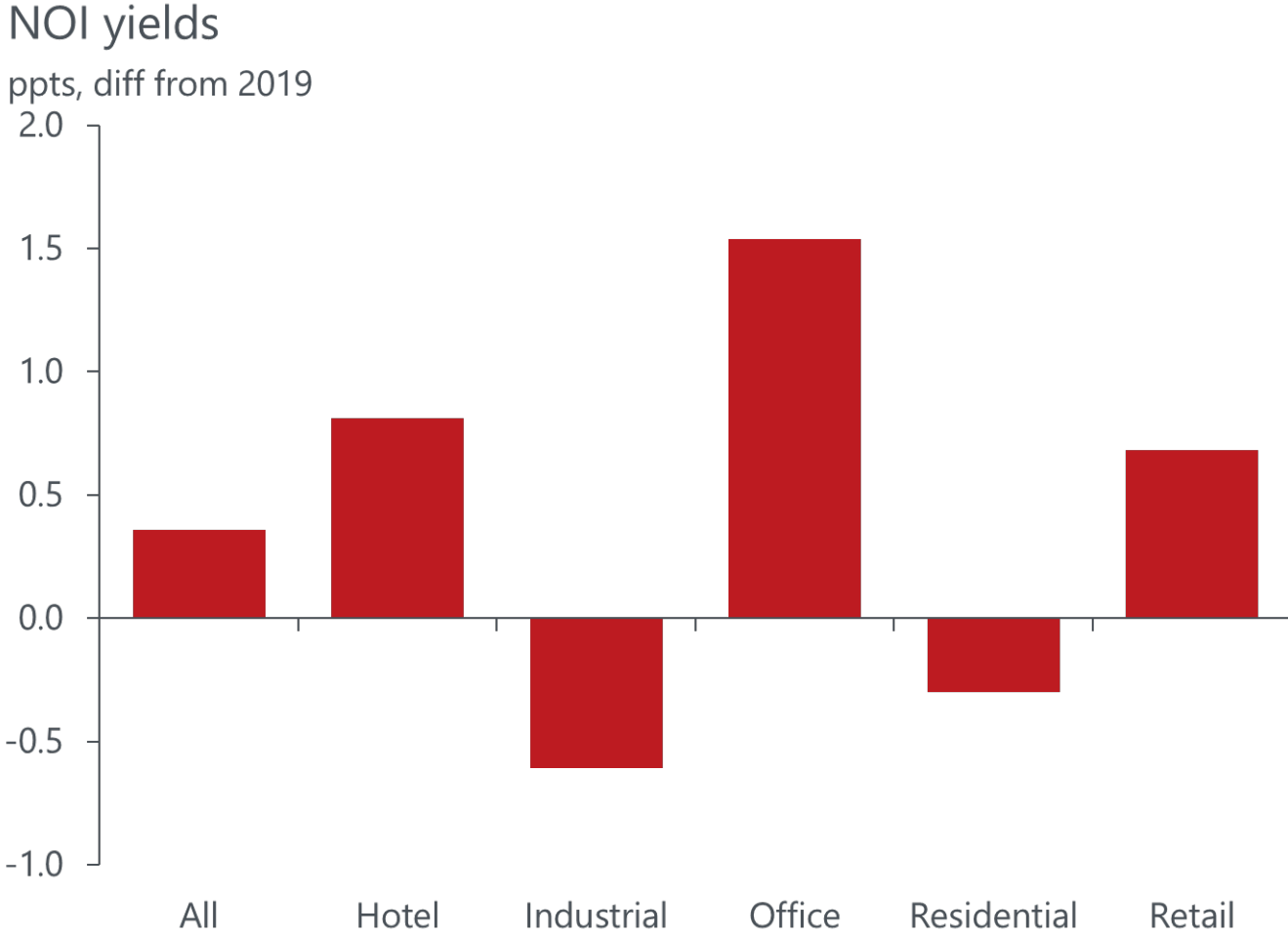


Industrial and residential lead the pricing recovery



Source: Oxford Economics/MSCI

Most yields will not return to pre-pandemic levels by 2027

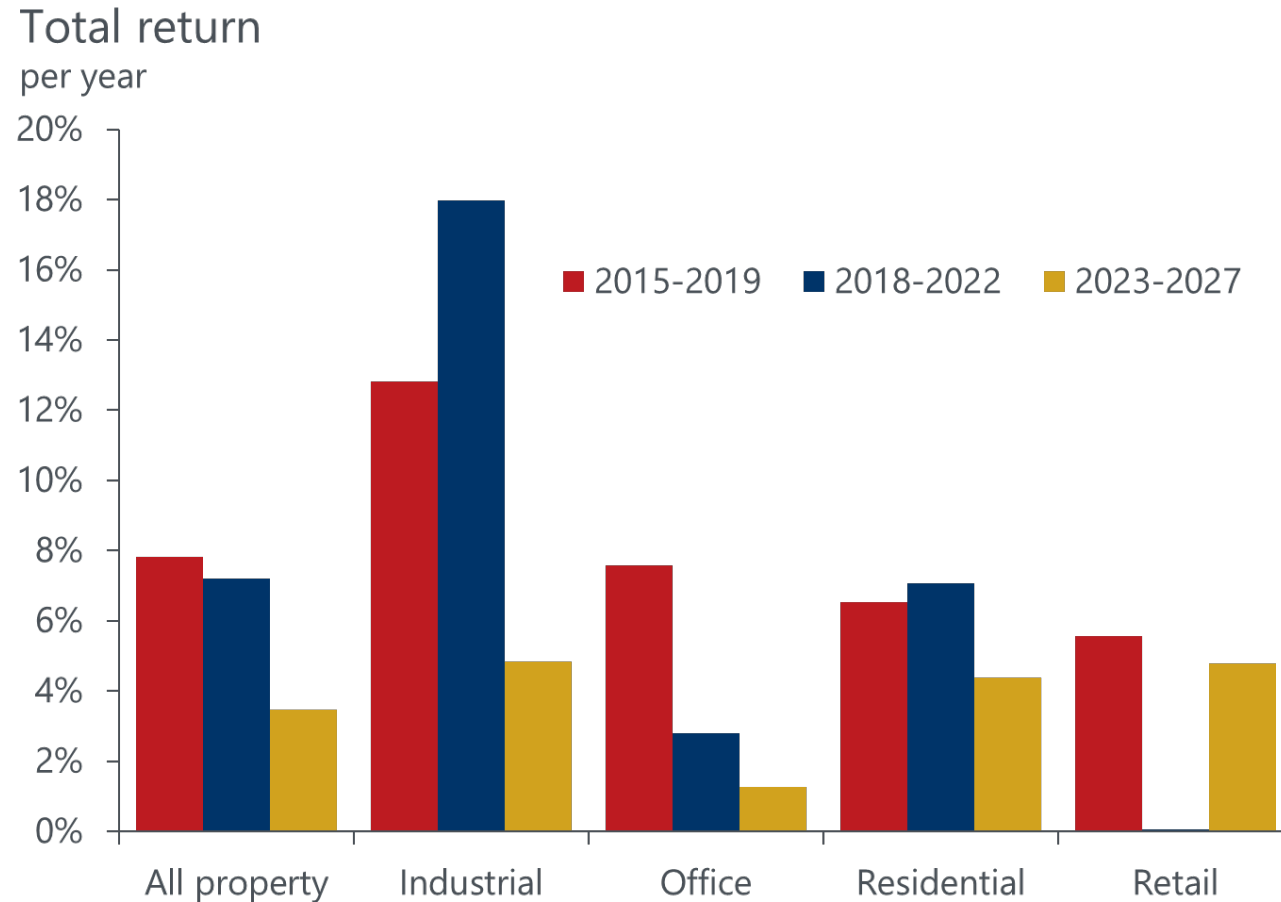


Source: Oxford Economics/MSCI

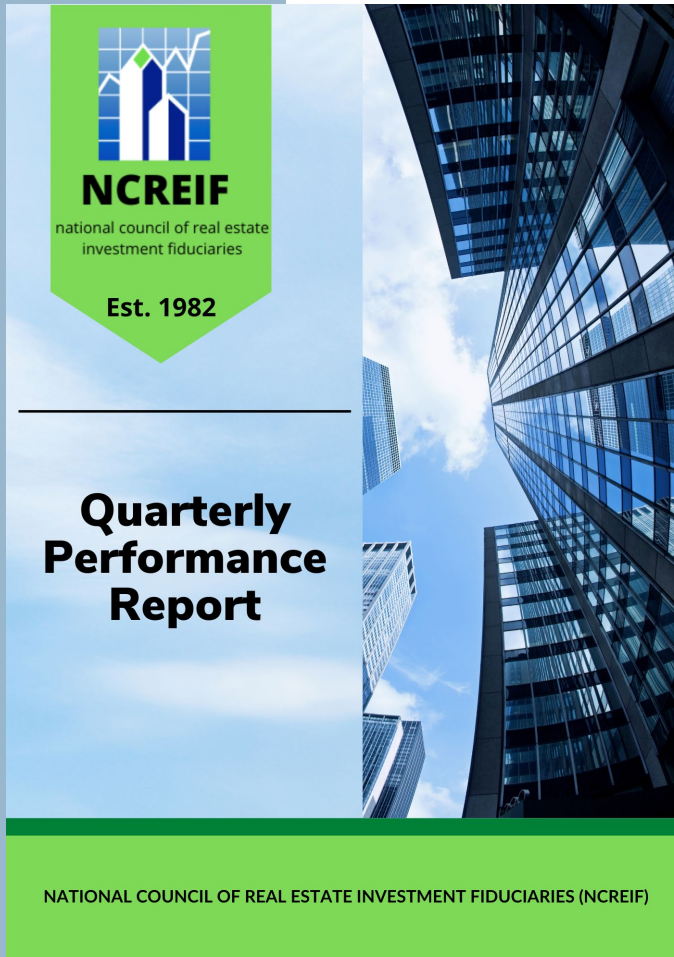
Total returns turn positive in 2024

• Highlights

- We forecast all-property total returns to average at 3.5% per year over 2023-2027.
- As fundamentals return to pre-pandemic norms (trends set from 2015-2019) we expect total returns to be below the average annual pace set between either 2015-2019 or 2018-2022 (retail is the exception).
- Modest yield compression in the later forecast years, coupled with slower capital value growth, will keep returns from matching past performance.



Source: Oxford Economics/MSCI



Question

What will be the return for the NPI for calendar year 2024 (annual return)?

- A. Lower than negative 5%
- B. Negative 5% to Zero .
- C. Zero to positive 5%.
- D. Greater than 5%.



Summary of 4th Quarter 2023

- Returns continue negative for fifth straight quarter
- Market values fall for sixth straight quarter
- Hotels continue to have positive returns
- Office continues to be the biggest drag on returns
- Rent and NOI growth holding up surprisingly well
- Percent leased down a little
- Cap rates continue still rising
- A handful of properties in the NPI returned to the lender
- About 90 properties have a market value less than the loan balance



Thank you

For more information on NCREIF or the
NCREIF data and indices, please visit:

www.NCREIF.org