

NCREIF

National Council of Real Estate Investment Fiduciaries



First Quarter 2024

Data and Indices Results Webinar



Today's Panelists



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Expanded NPI Launched

- Beginning this quarter the NPI incorporates the expanded property sectors (formerly referred to as NPI Plus).
- This will be the NPI. The former NPI will be referred to as the “Classic” NPI.
- The Expanded NPI includes all operating property types, versus the five in NPI.
- New subtypes are included.
- Will have a transition period of at least one year.
- During transition, the “Classic” NPI will still be produced.
- The Expanded NPI will not be frozen during transition period.
- New Reports and Query tool database now reflect Expanded NPI.

Expanded 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 Housing	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

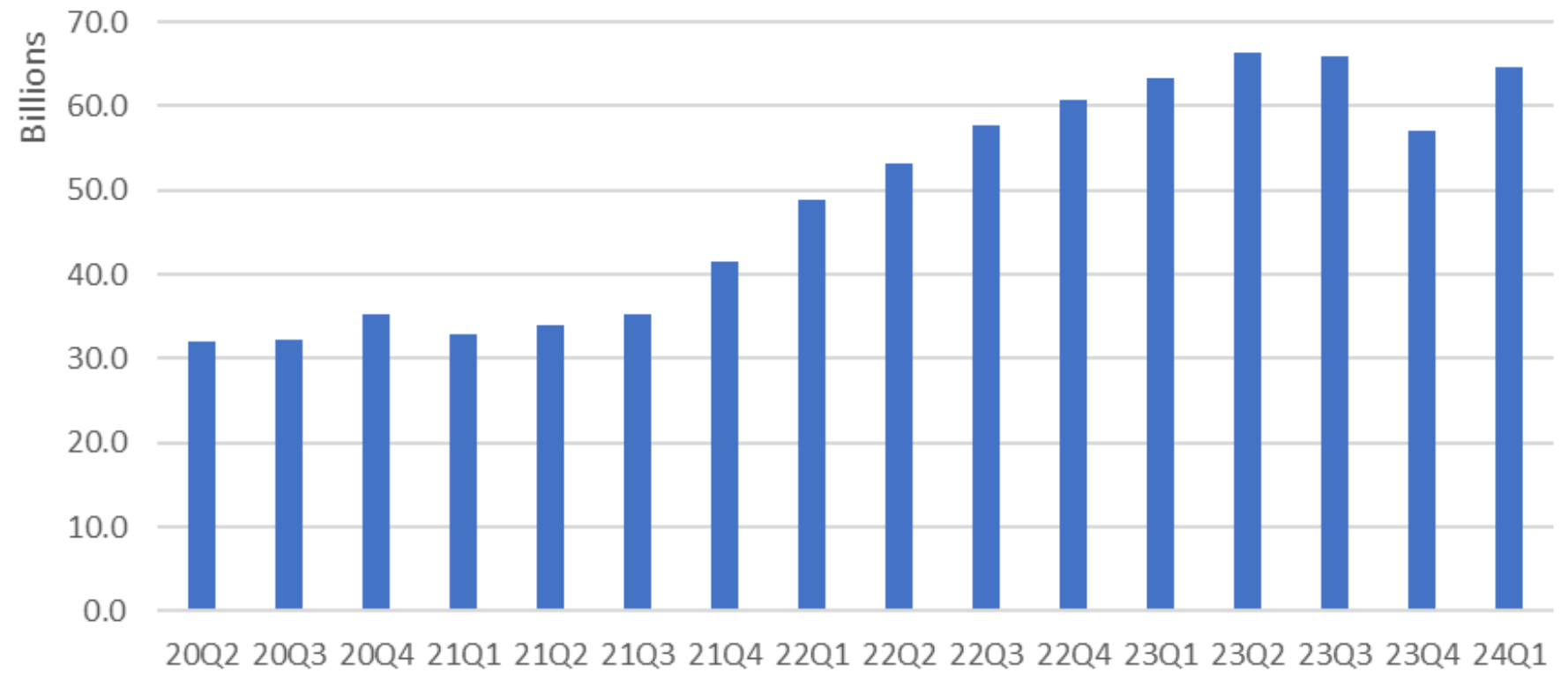
For more information visit the NCREIF Member Website at www.NCREIF.org.

Allocations to Expanded NPI

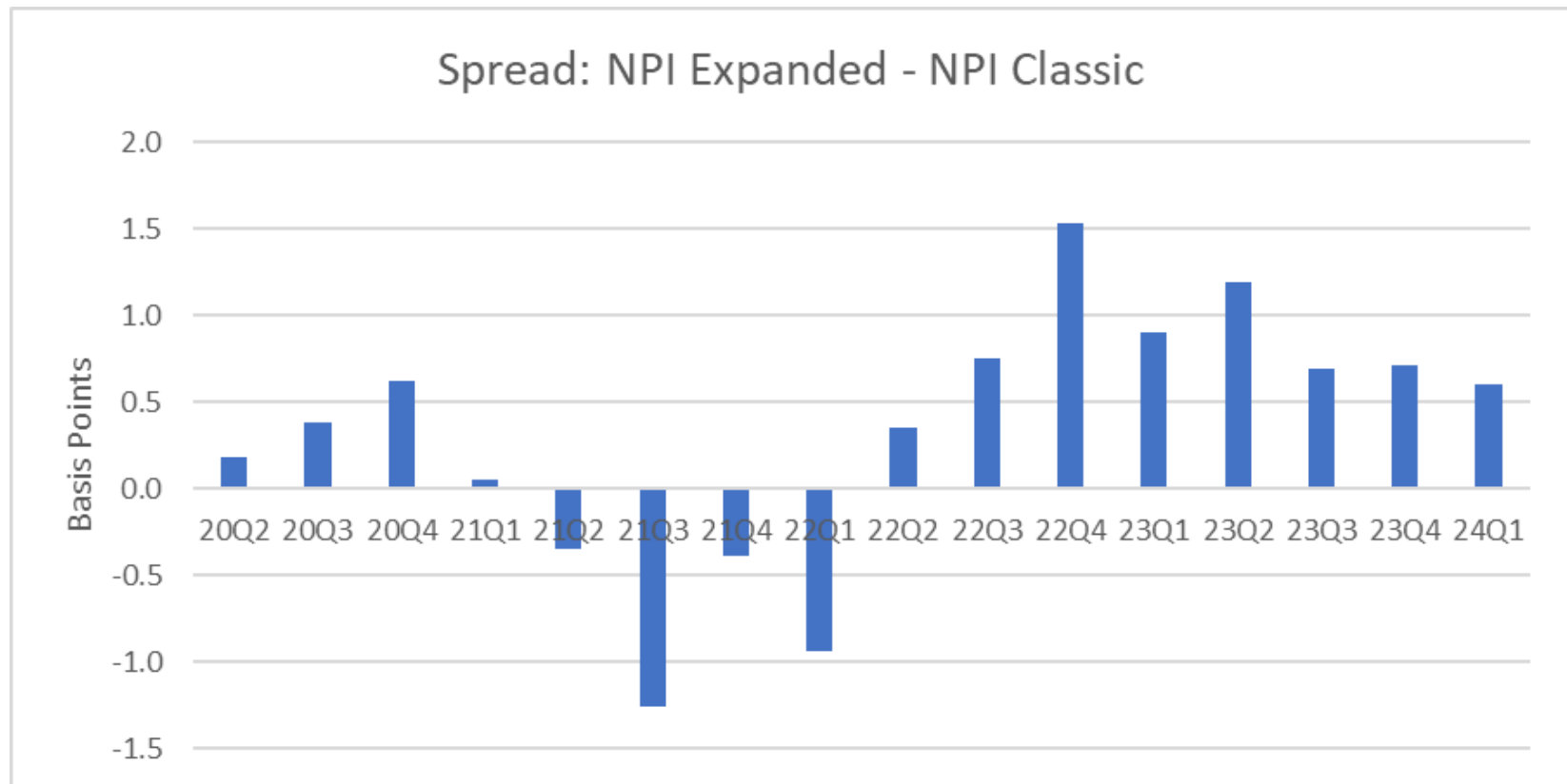


- Hotel
- Industrial
- Office
- Other
- Residential
- Retail
- Self Storage
- Seniors Housing

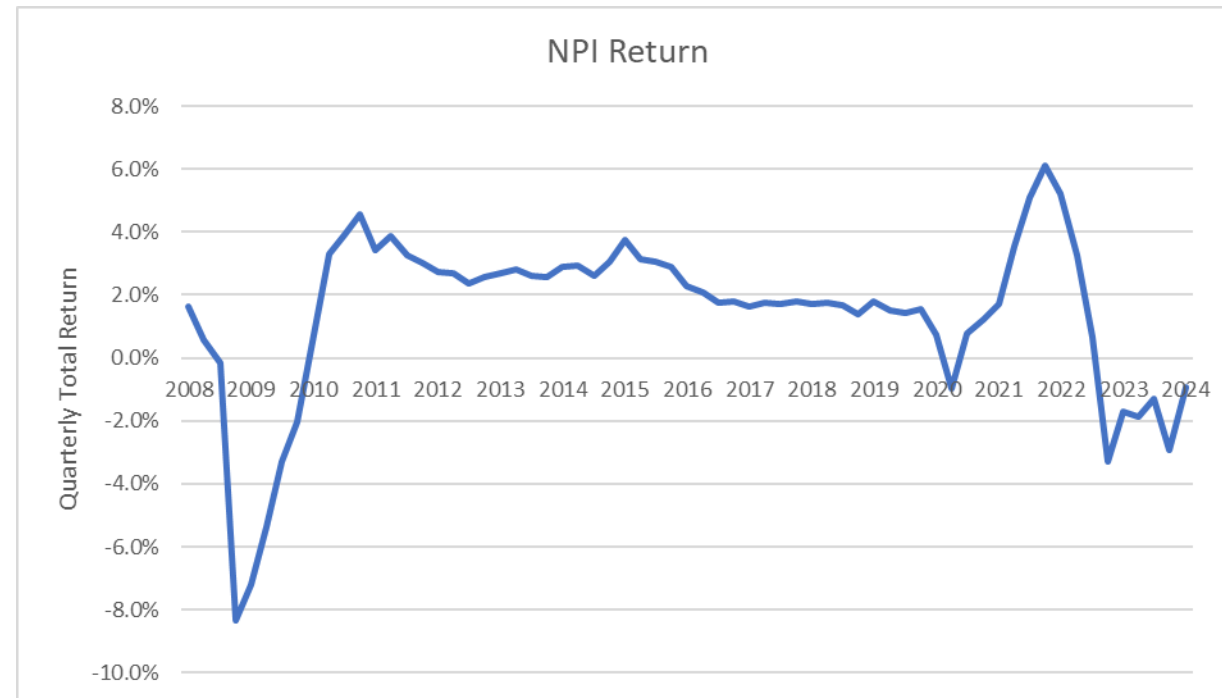
MV Added to Expanded NPI



Props added to Expanded NPI Perform Better Past 8 Quarters (But difference is only a few basis points)

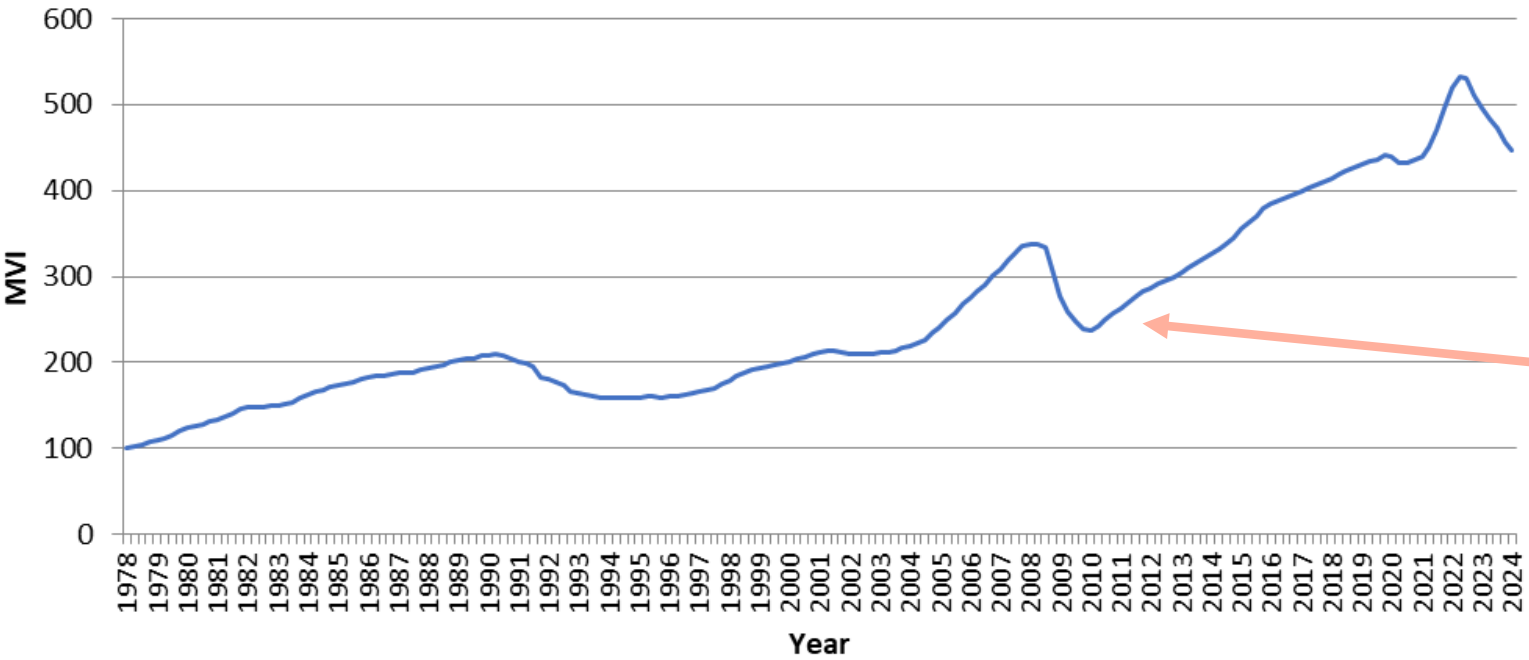


Returns (NPI Expanded) Continue in Negative Territory – but some improvement from last quarter



A W recovery?

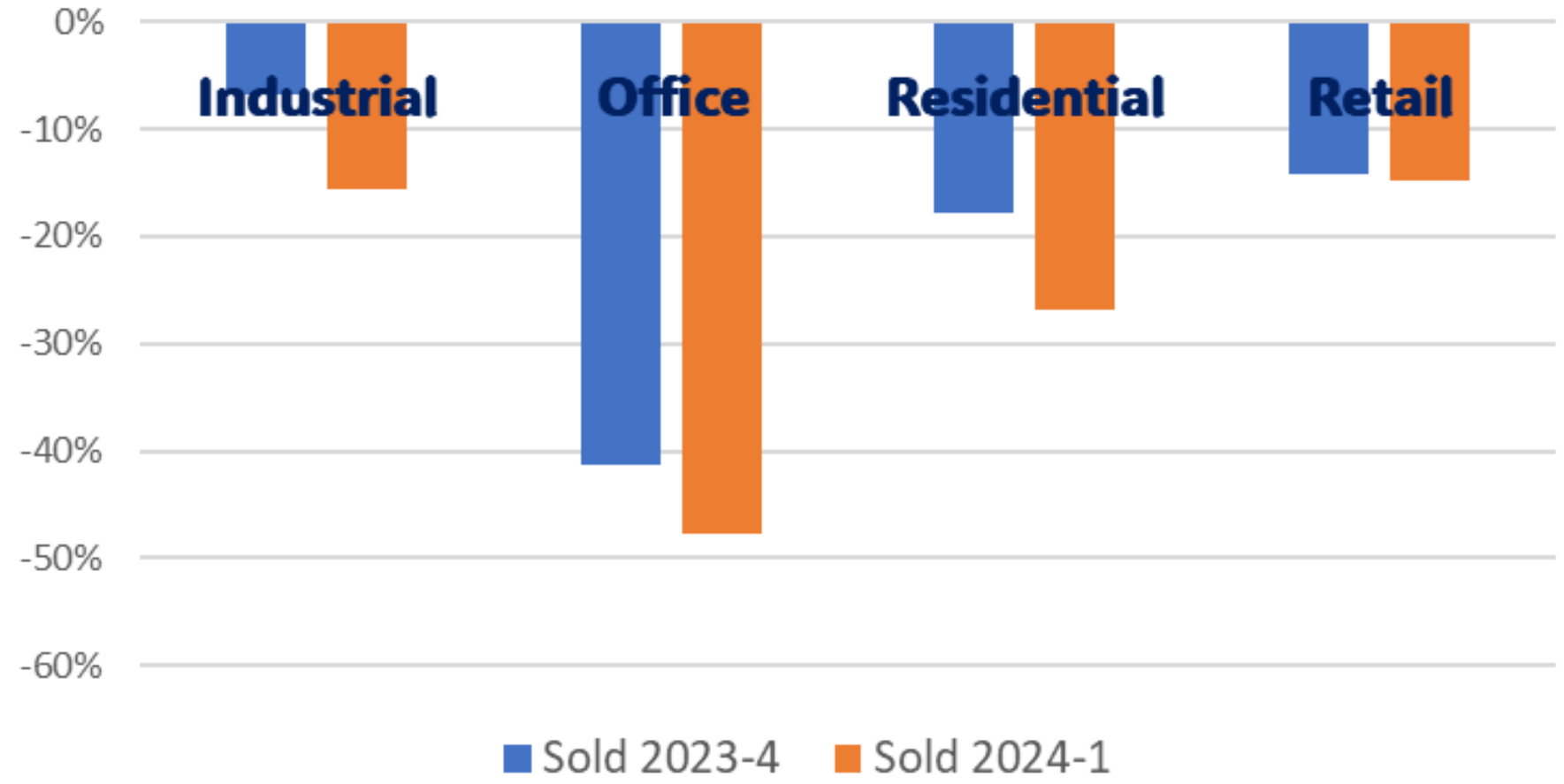
Market Value Index



Market Values Down 16% from peak.

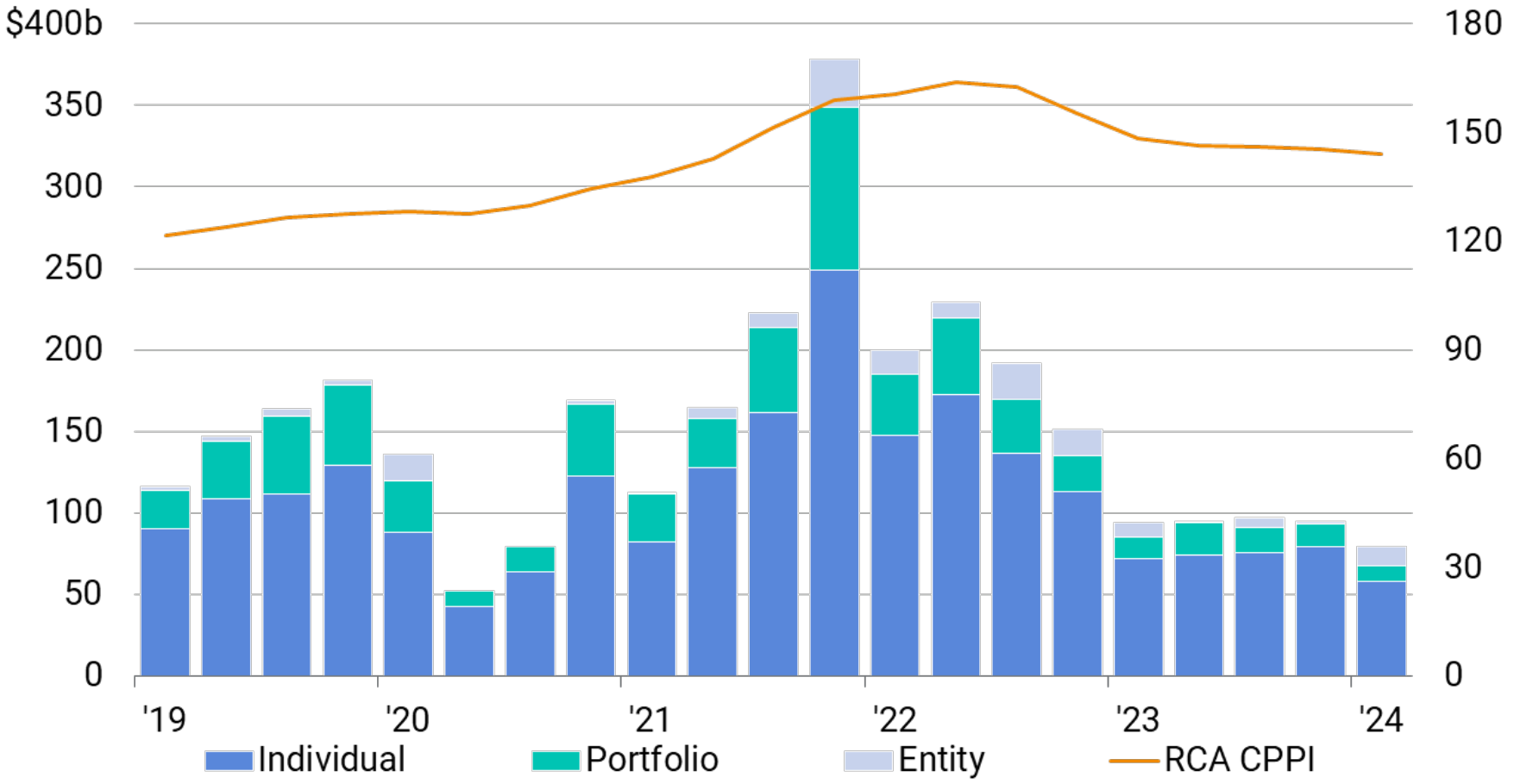
Drop from peak during the Financial Crisis was 30%.

Sold Props Decline Since Peak 2022-2



U.S. Sale Activity by Deal Structure

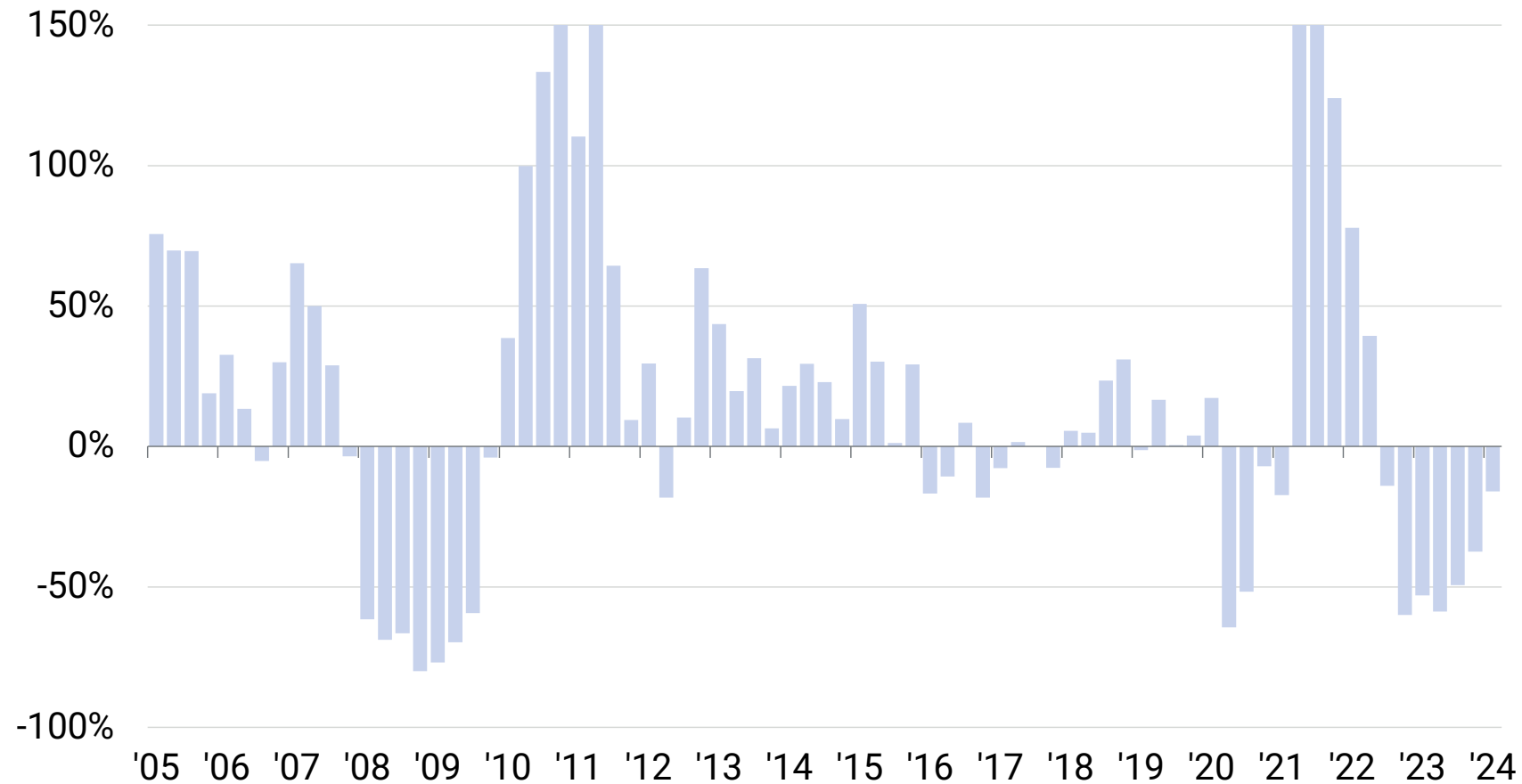
The excesses of 2021 and 2022 are in the past.



Growth in U.S. CRE Deal Activity

Seven quarters of double-digit declines as from the Global Financial Crisis. Is it ending?

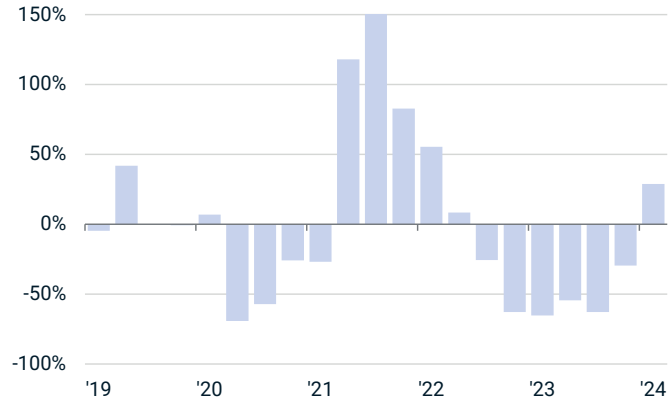
Volume YOY Change



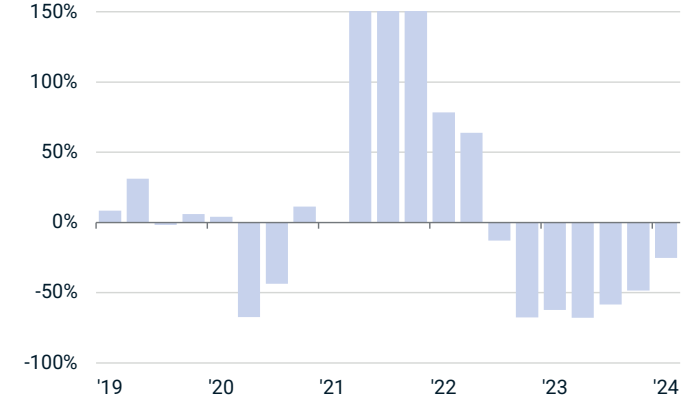
Growth in U.S. CRE Deal Activity by Sector

Growth in offices for Q1'24? It is a headfake. One big entity-level deal focused on medical office drove it.

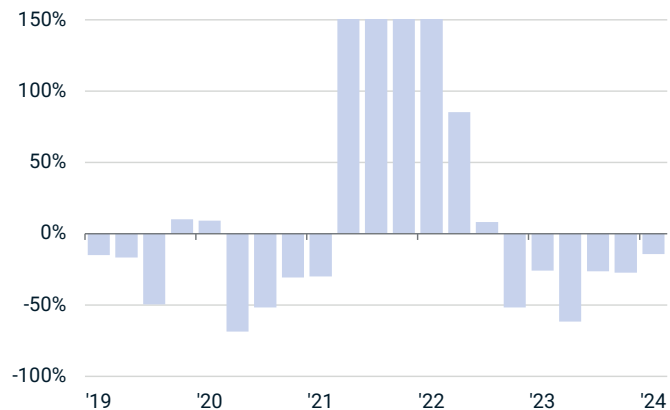
Office



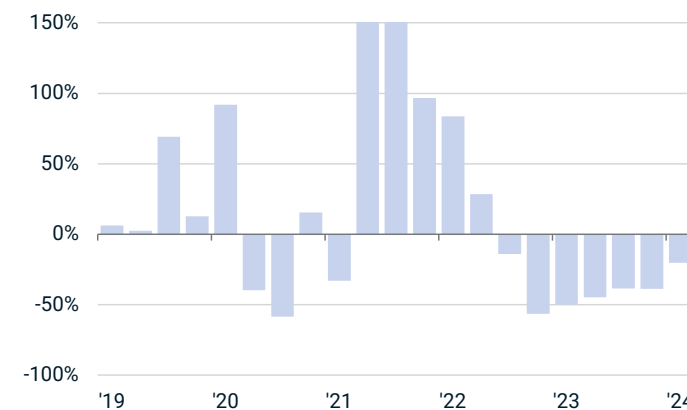
Apartment



Retail



Industrial



Q1 Individual Asset Sales vs. Pre-Pandemic

Only the industrial sector is in a better state today. Elements of retail better though.

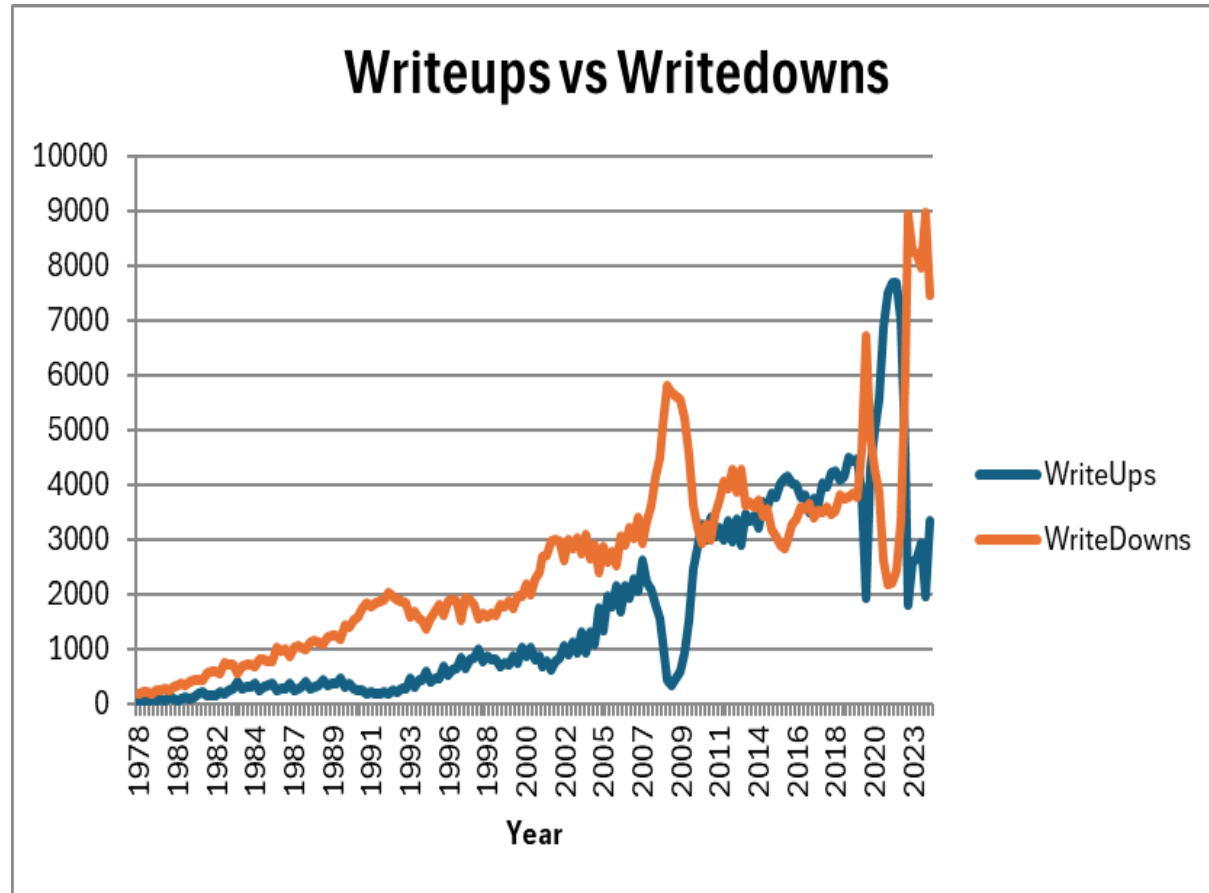


What Could Change to Drive More Sales Activity ?

How likely do you think any one of these scenarios might be?

1. A reversal of inflation with an interest rate and mortgage rate decline?
2. Owners giving up with interest rate and mortgage rate increases leading to more distressed growth?
3. Buyers underwriting stronger income growth to make deals pencil?

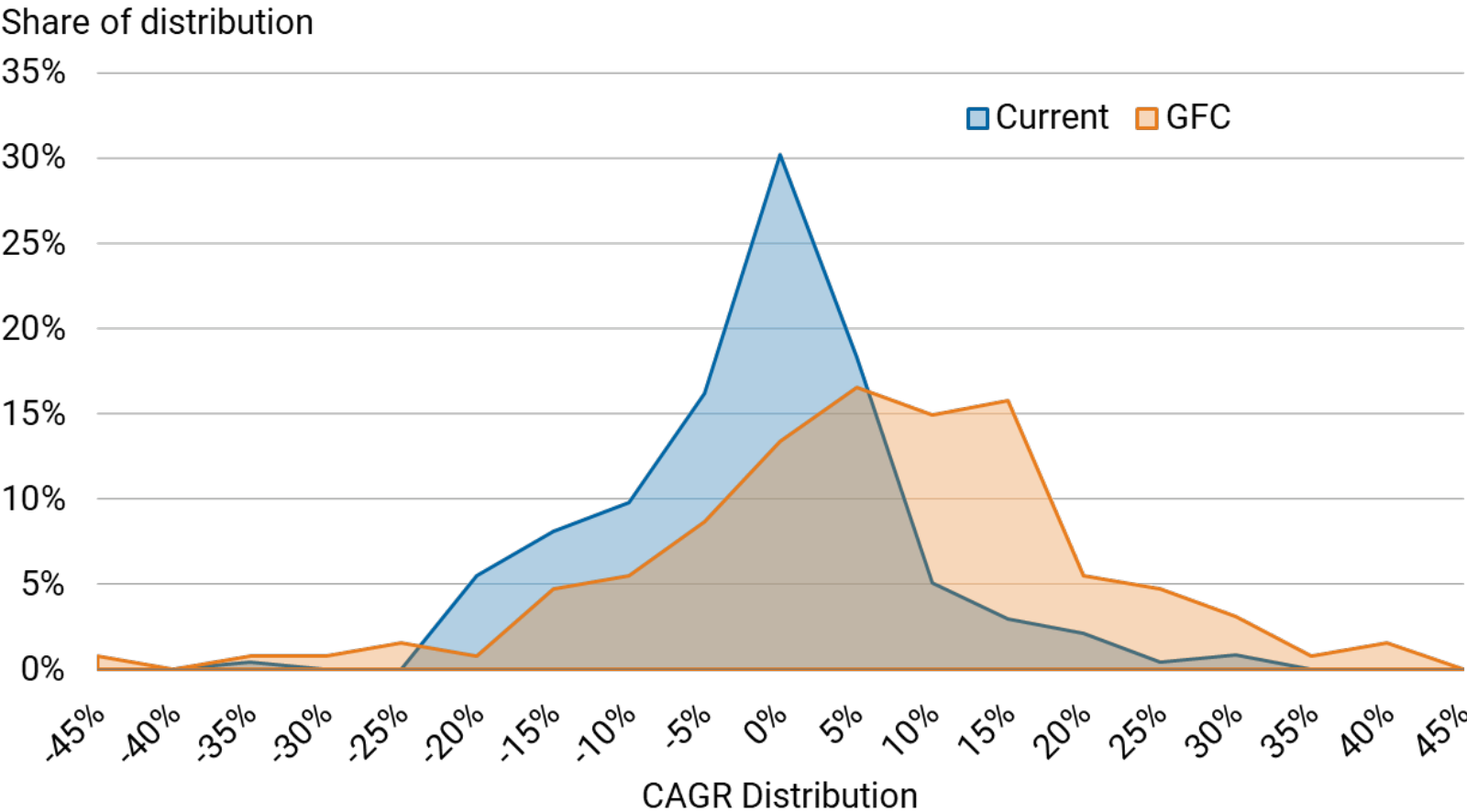
Write-Downs Remain Elevated



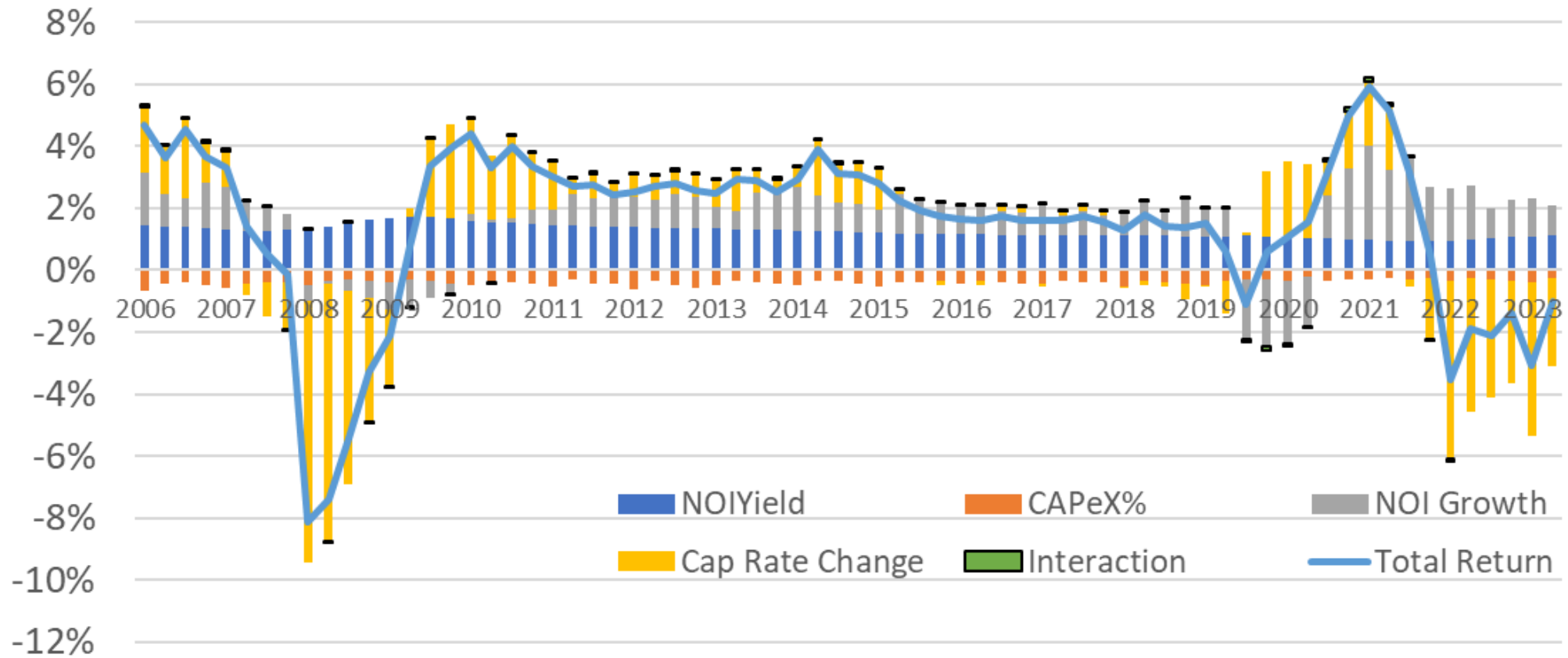
Number of write-downs still at record levels although slightly improved from last quarter.

The Distribution of CBD Office Price Declines Today vs. GFC

Comparing period from 2008-2009 vs. 2022-today

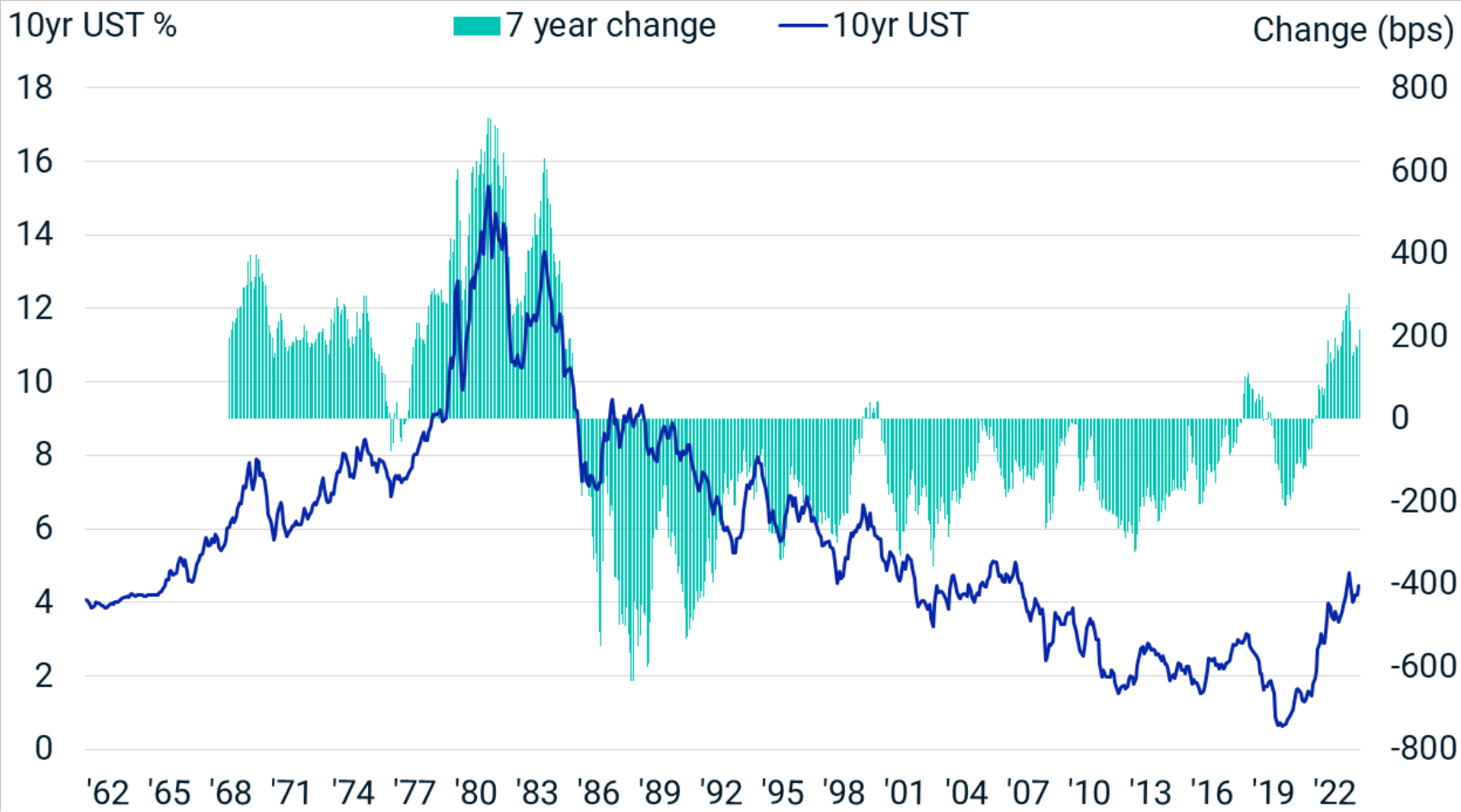


Return Components (Quarterly)



10yr UST Over the Long Term vs. 7 Year Itch

Average CRE investment held for 7 years. The wind is no longer at your back on capital values.

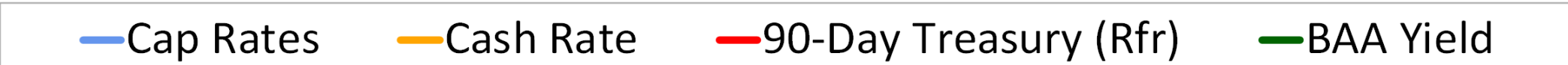
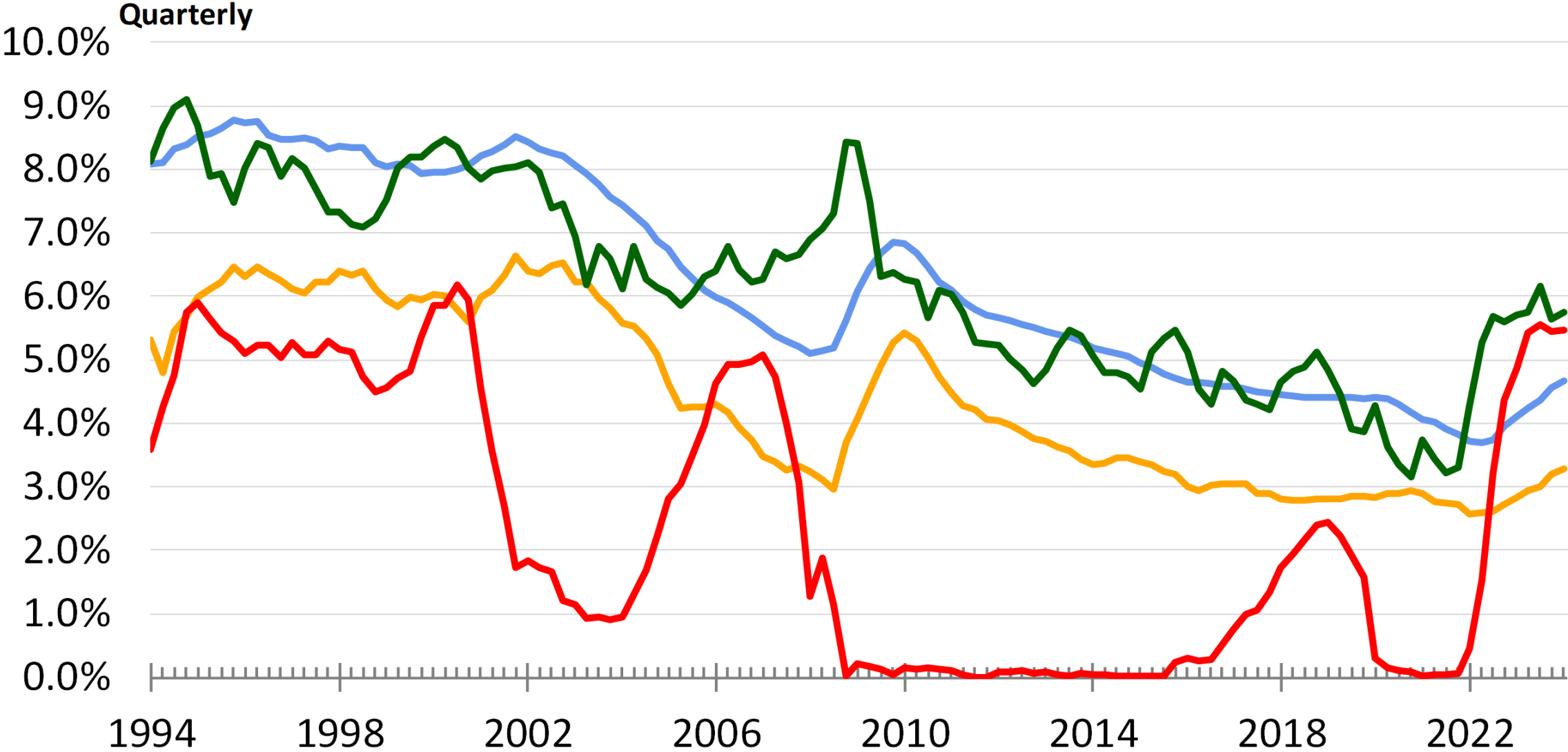


Commercial Mortgage Rates vs. CRE GICS Bond Rates

Other asset classes have more frequent observations than our comparatively illiquid CRE asset class.

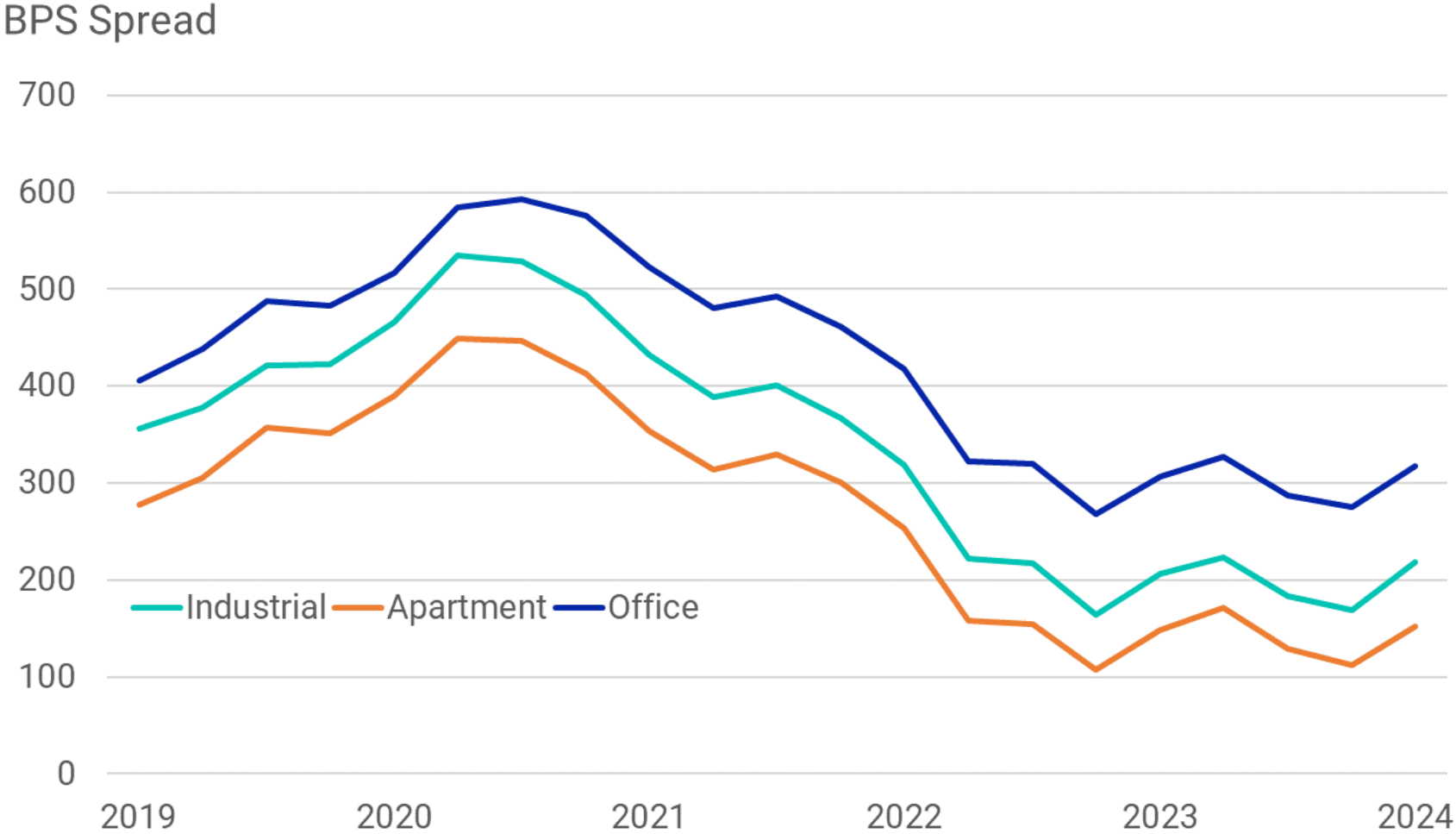


Mortgage rate has a low sample for Q1'24 so far and shaded light blue.



Spread Between 10yr UST and Cap Rates

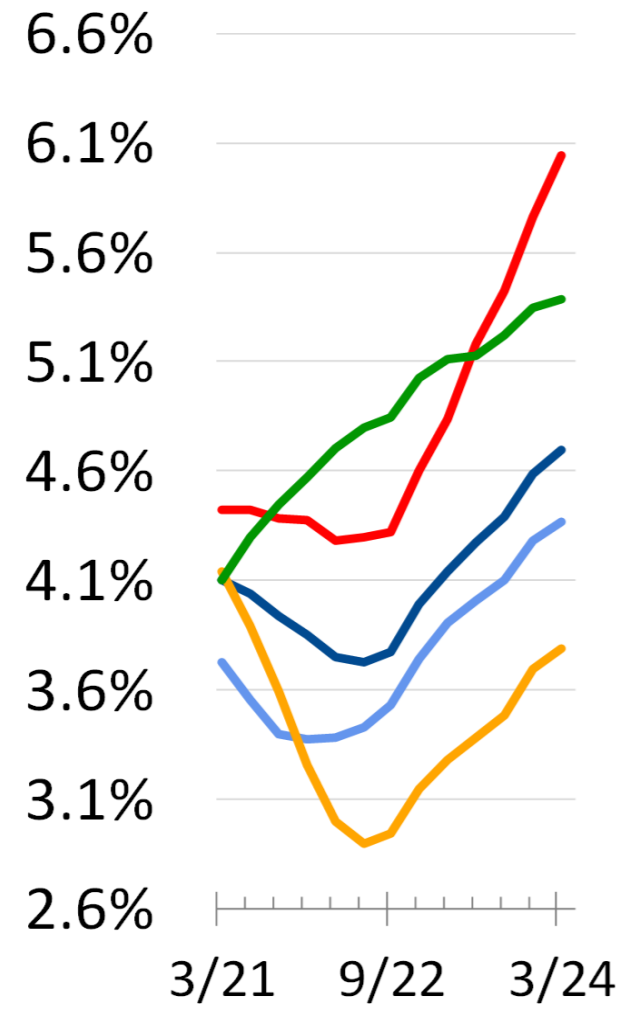
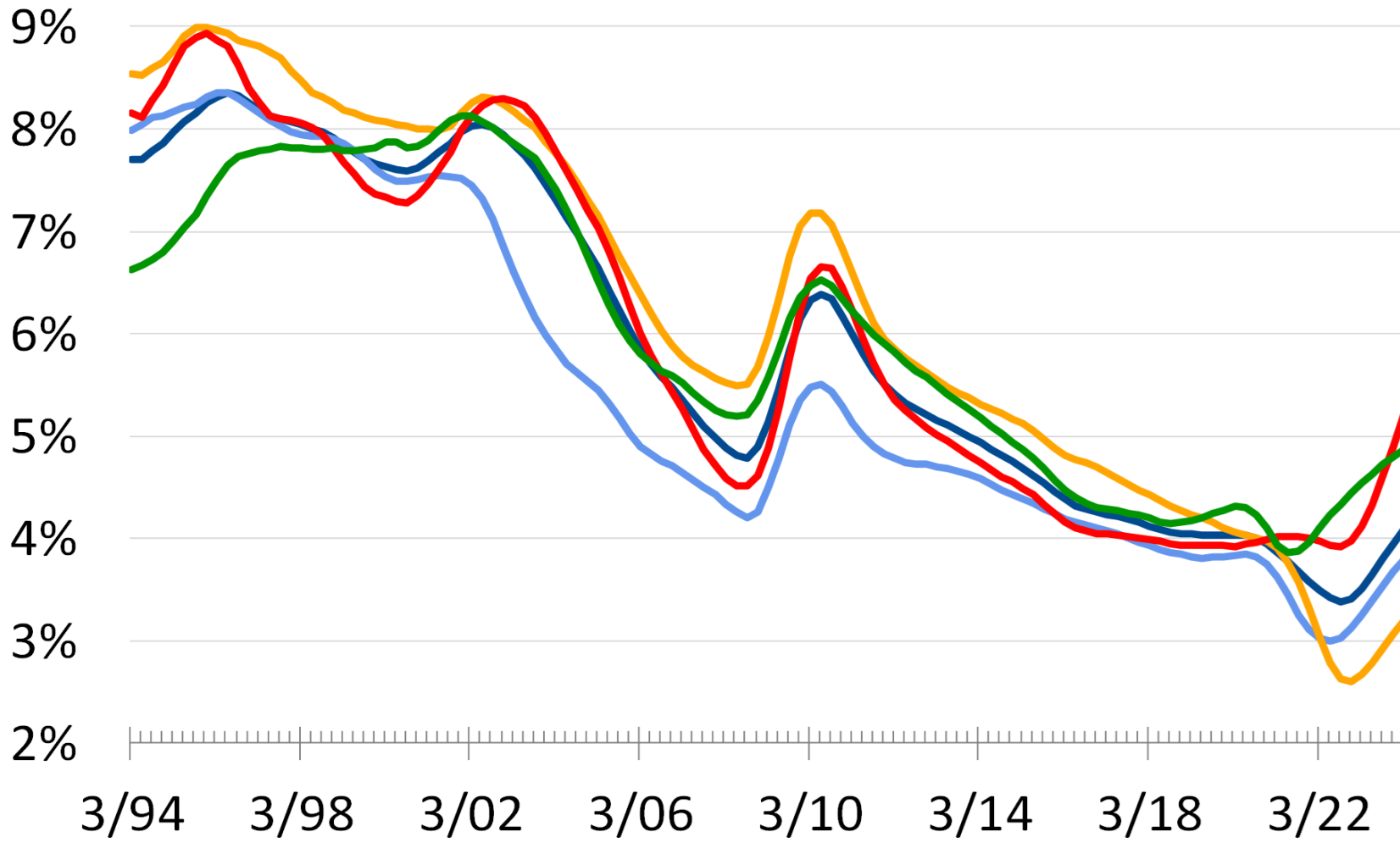
Before the interest rate spike, the margin for new acquisitions was stabilizing or looking better. Now?



NPI Property Cap Rates by Property Type

Annual

Quarterly



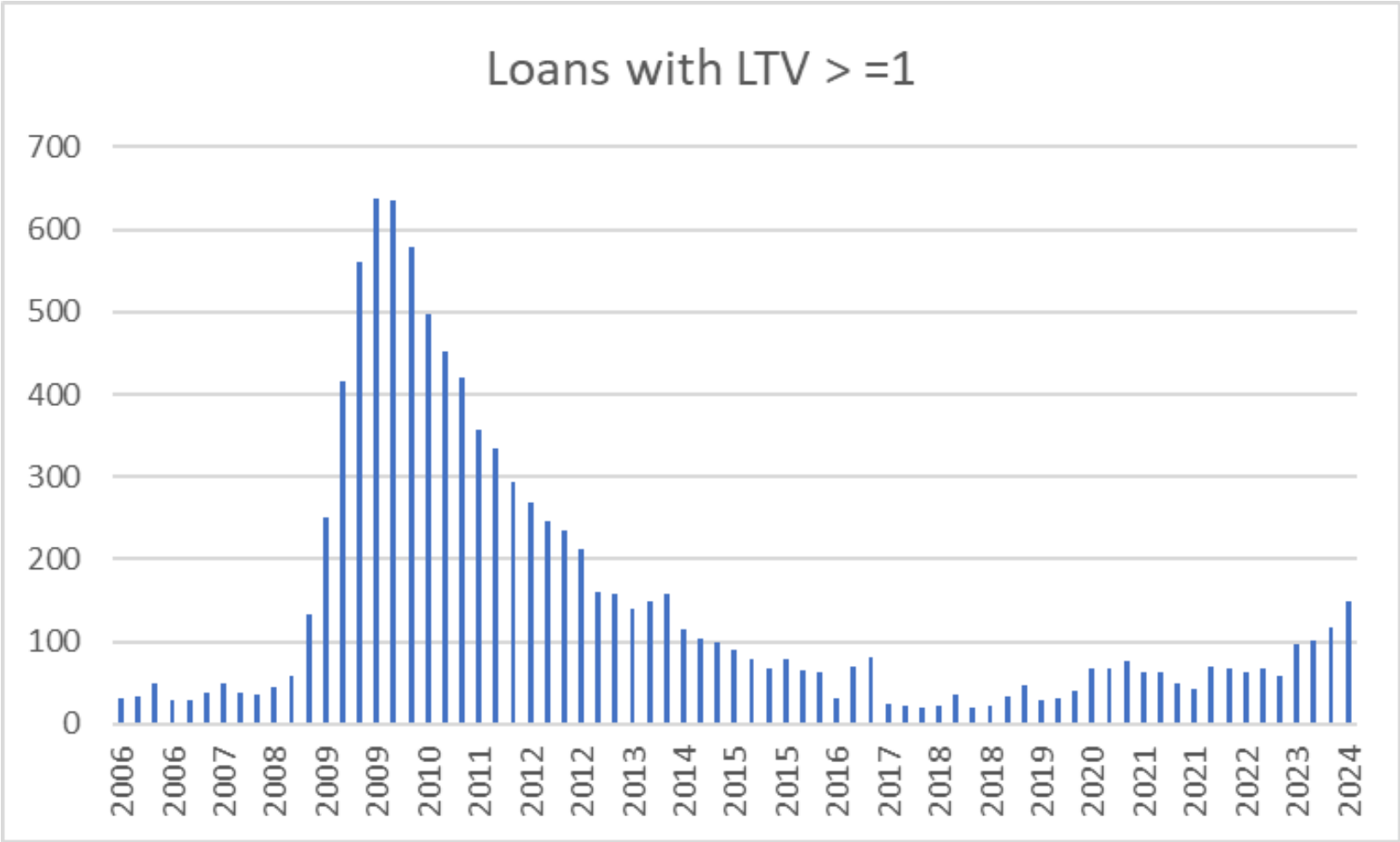
— NPI Index

— Apartment

— Industrial

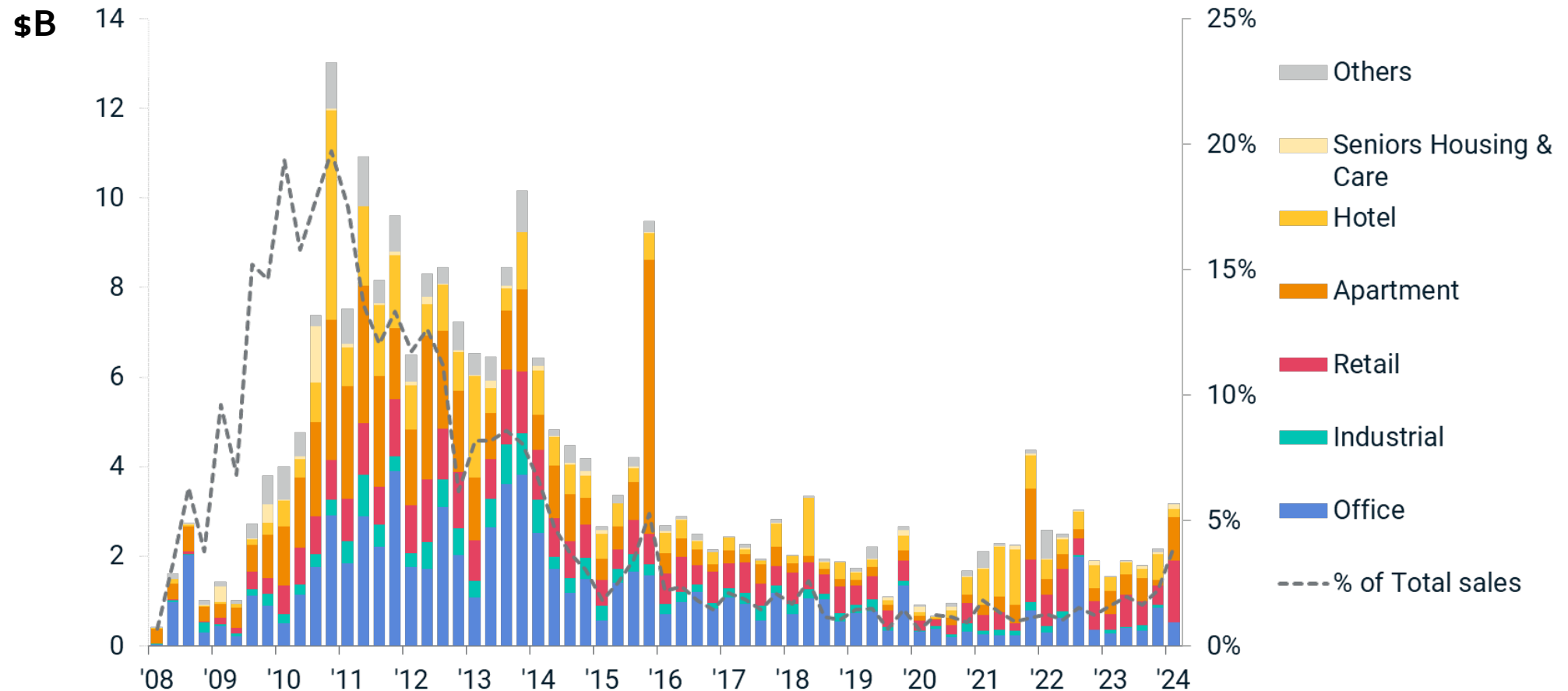
— Office

— Retail



Distressed Asset Sales by Property Sector

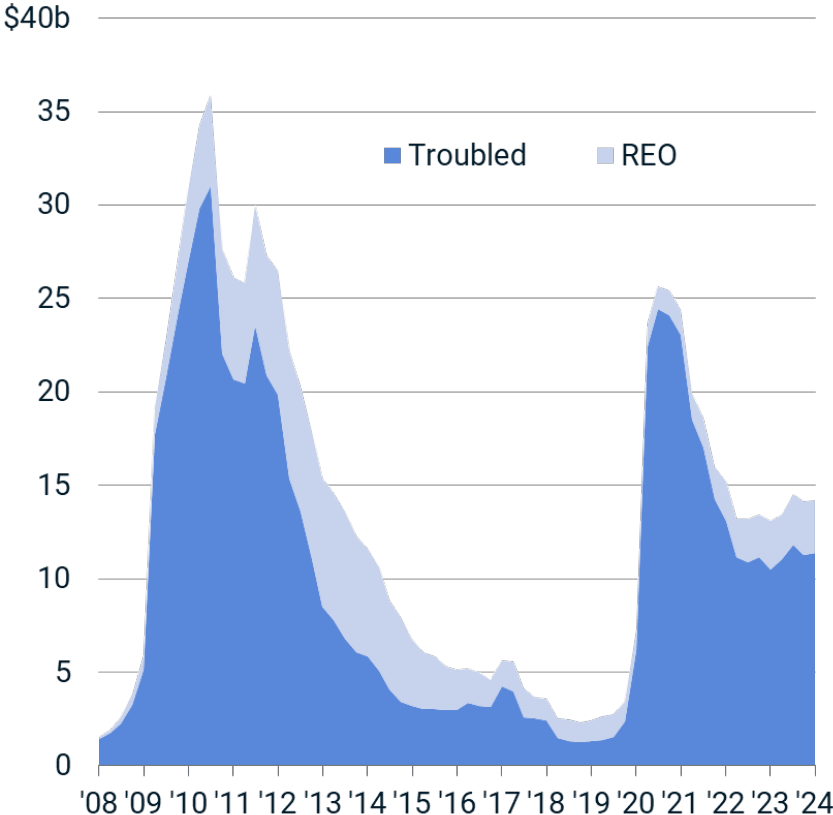
Distressed sales are rising, but still not at the scale of the GFC



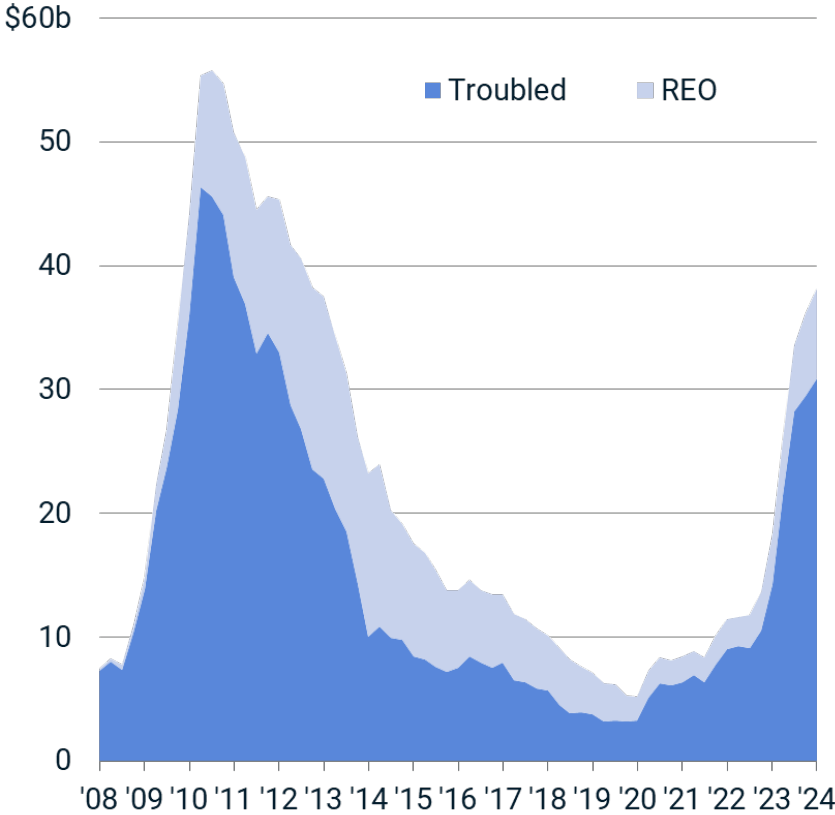
The Stock of Distressed Assets in the Market

Two distinct shock periods this time through. Not one big move impacting all sectors.

Stock of hotel distress

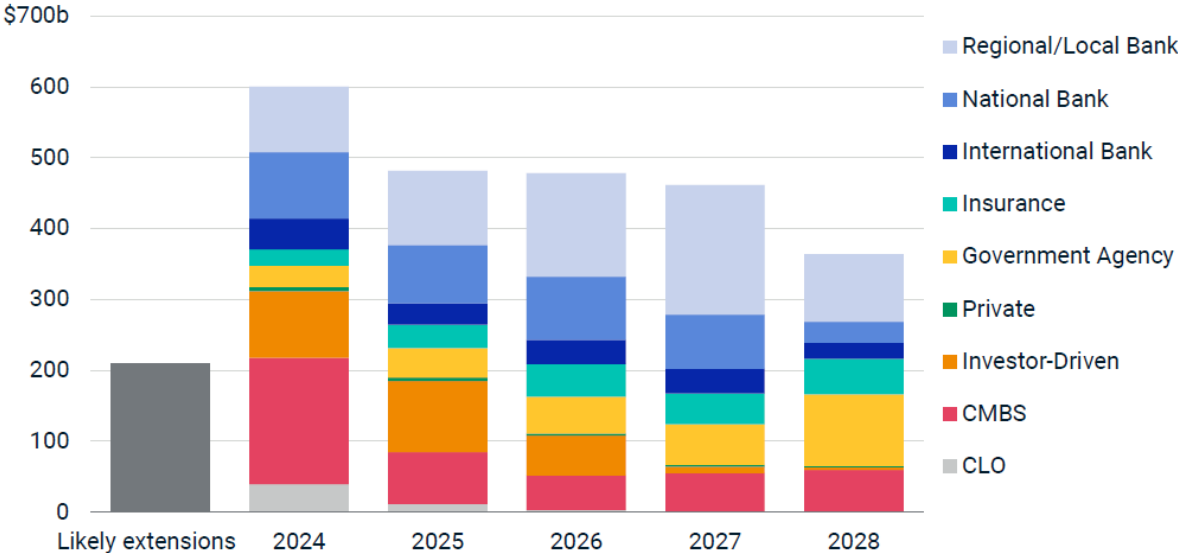


Stock of office distress

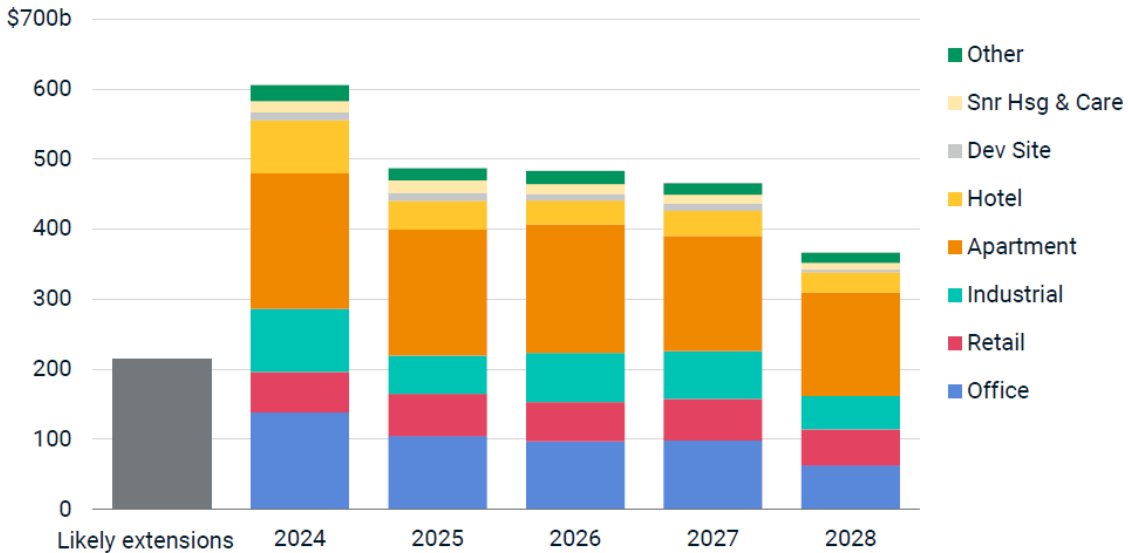


Loan Maturities Accelerating Into 2024

By lender type



By property type



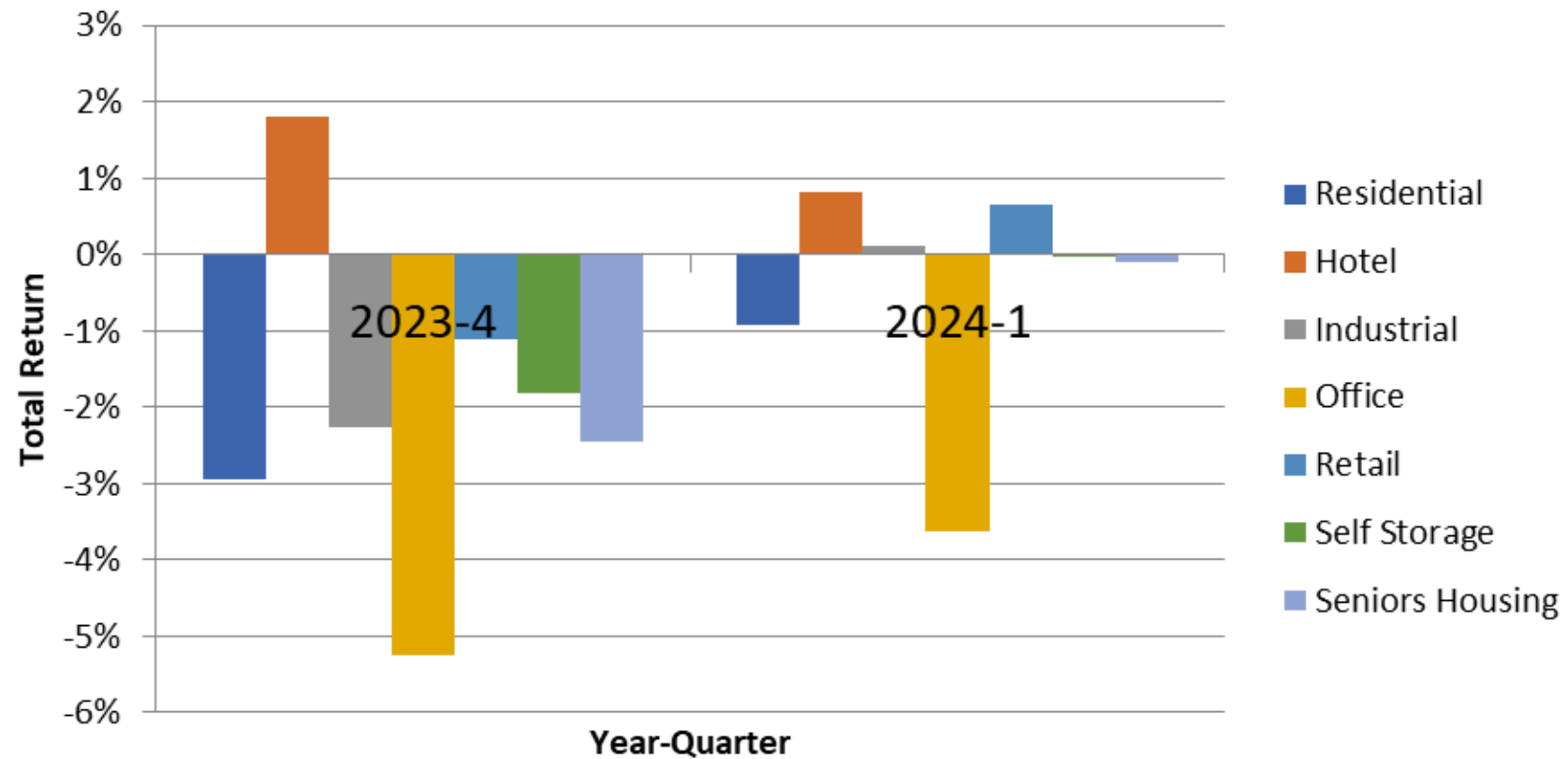
Question



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!

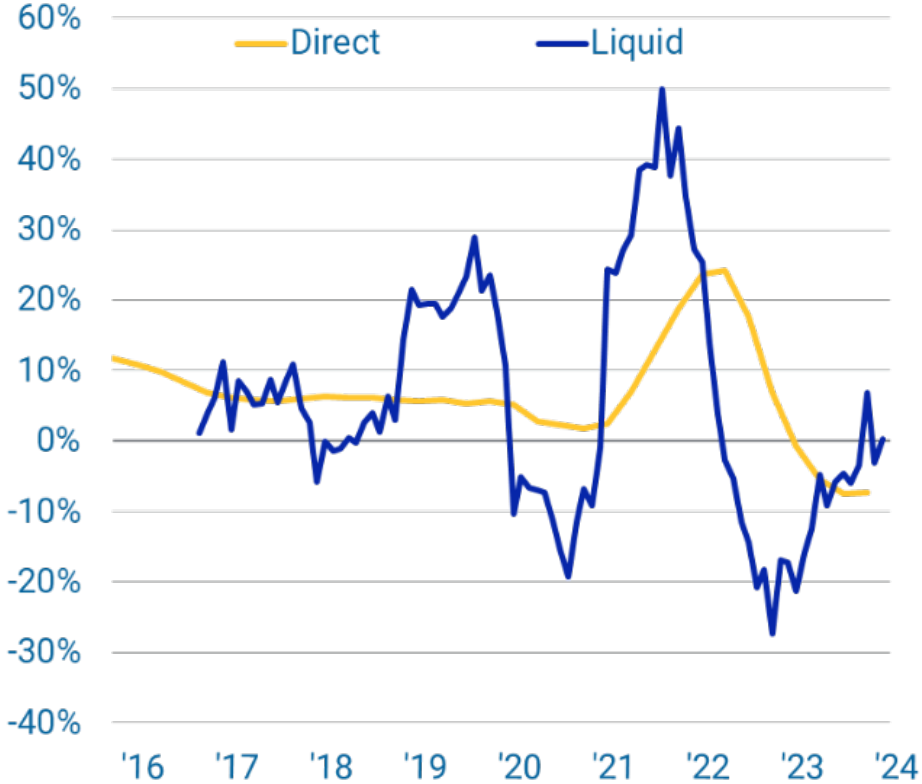
Expanded NPI Returns by Property Sector



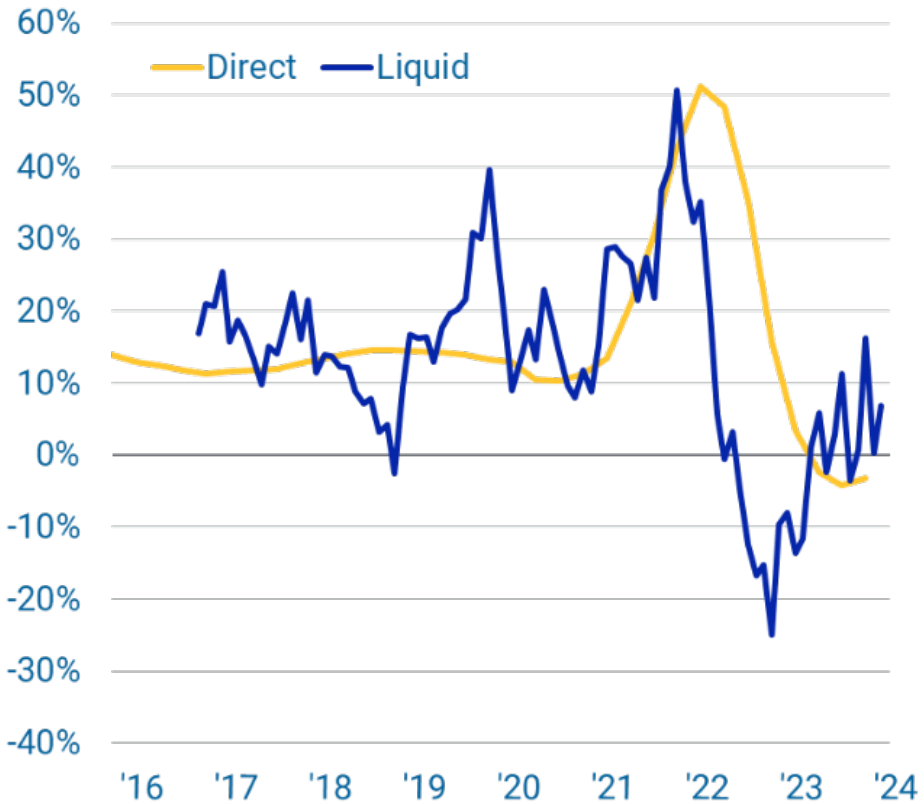
What Might Listed Imply for Direct Returns? Apartment and Industrial

Apartments

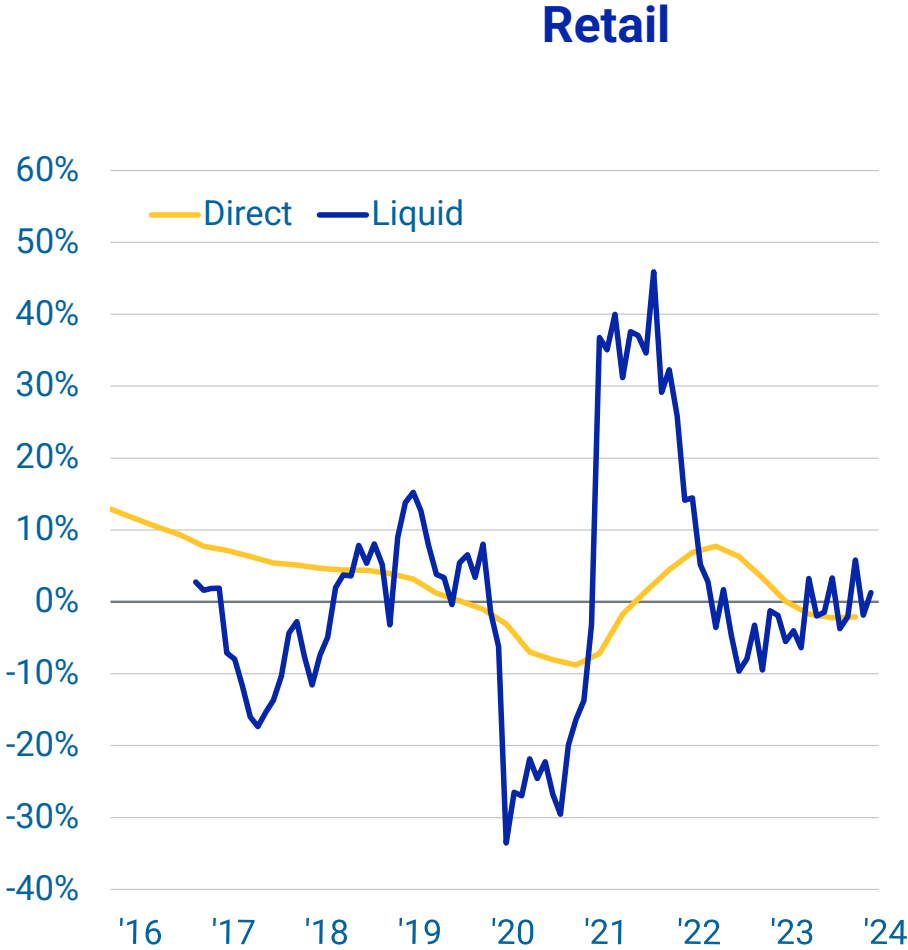
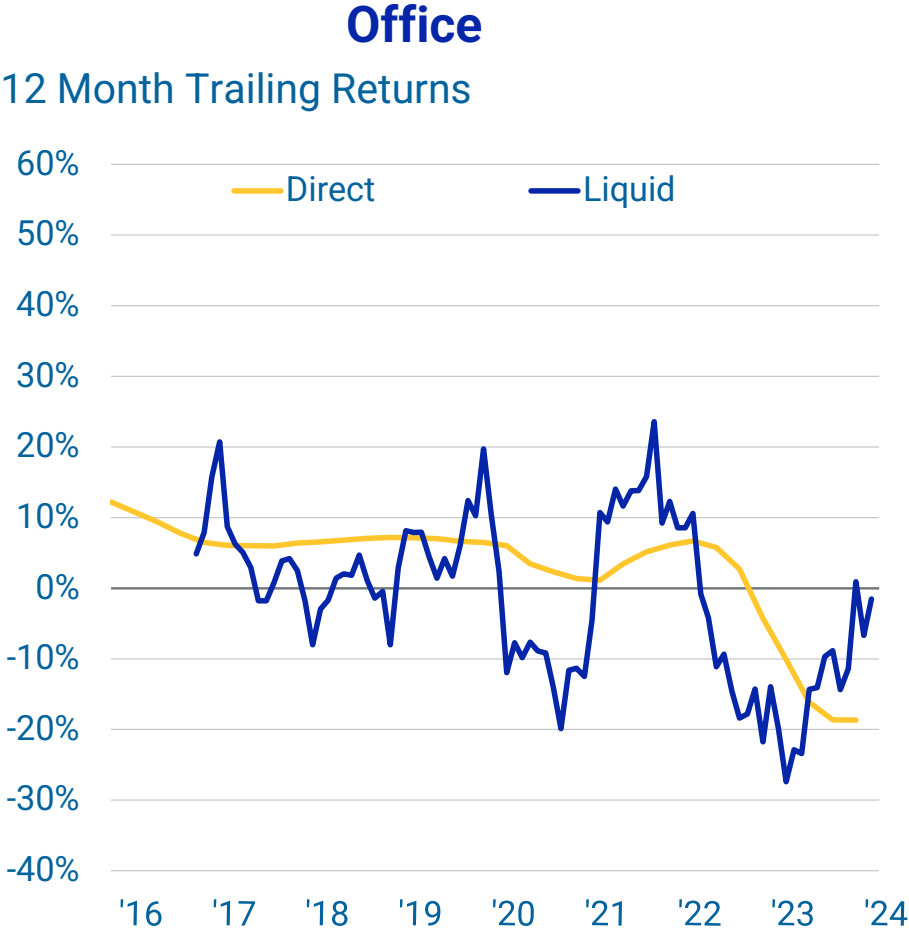
12 Month Trailing Returns



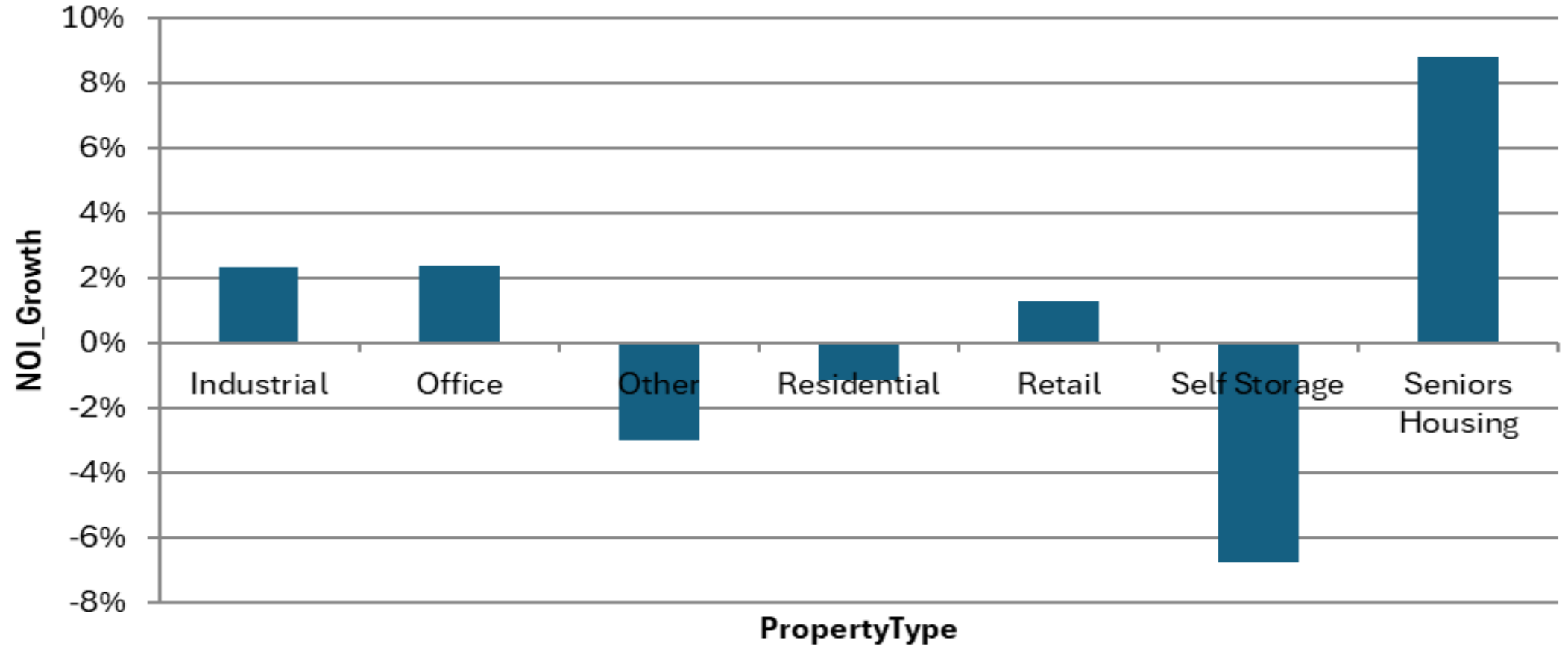
Industrial



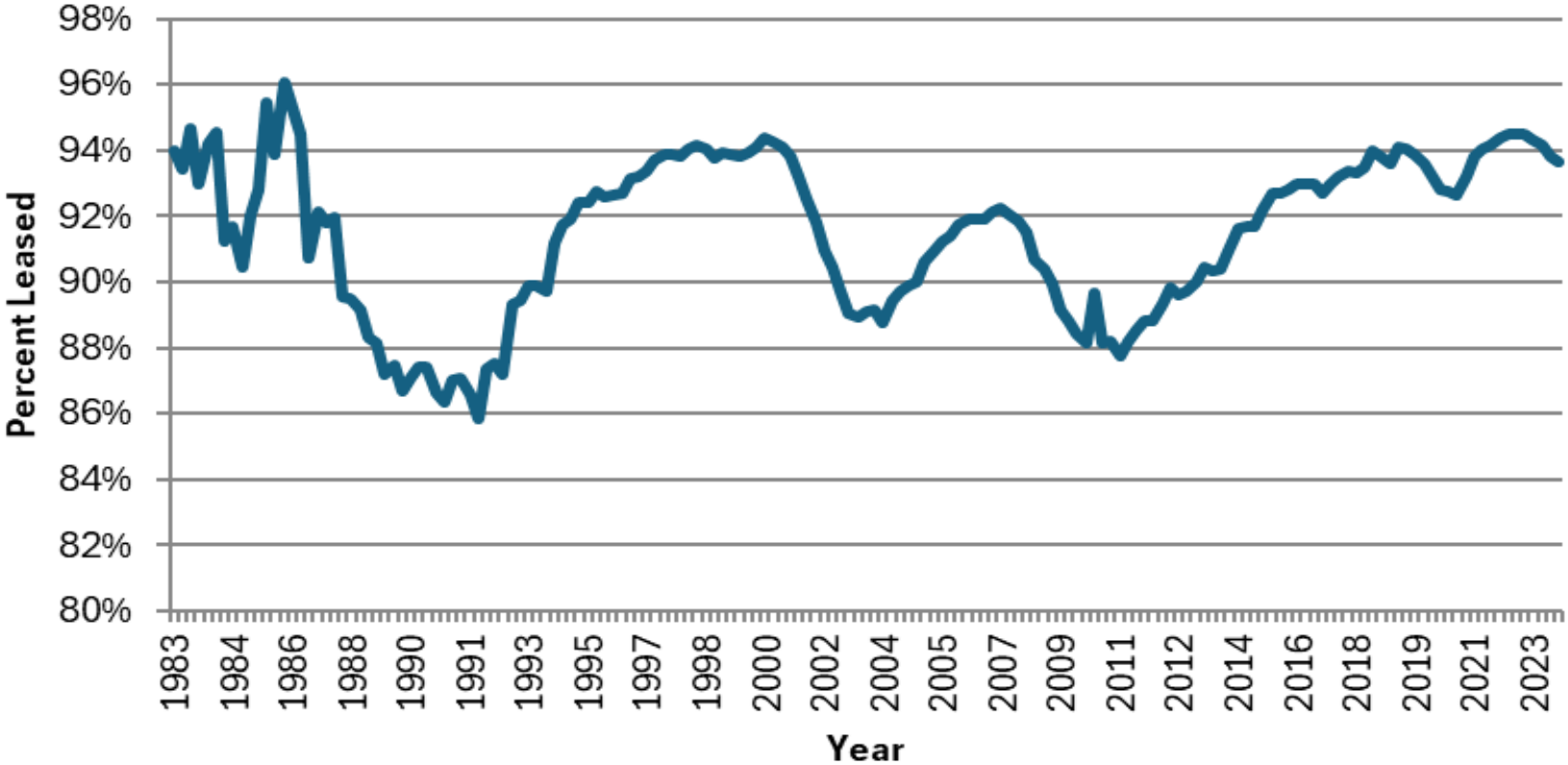
What Might Listed Imply for Direct Returns? Office and Retail



NOI Growth by Property Type

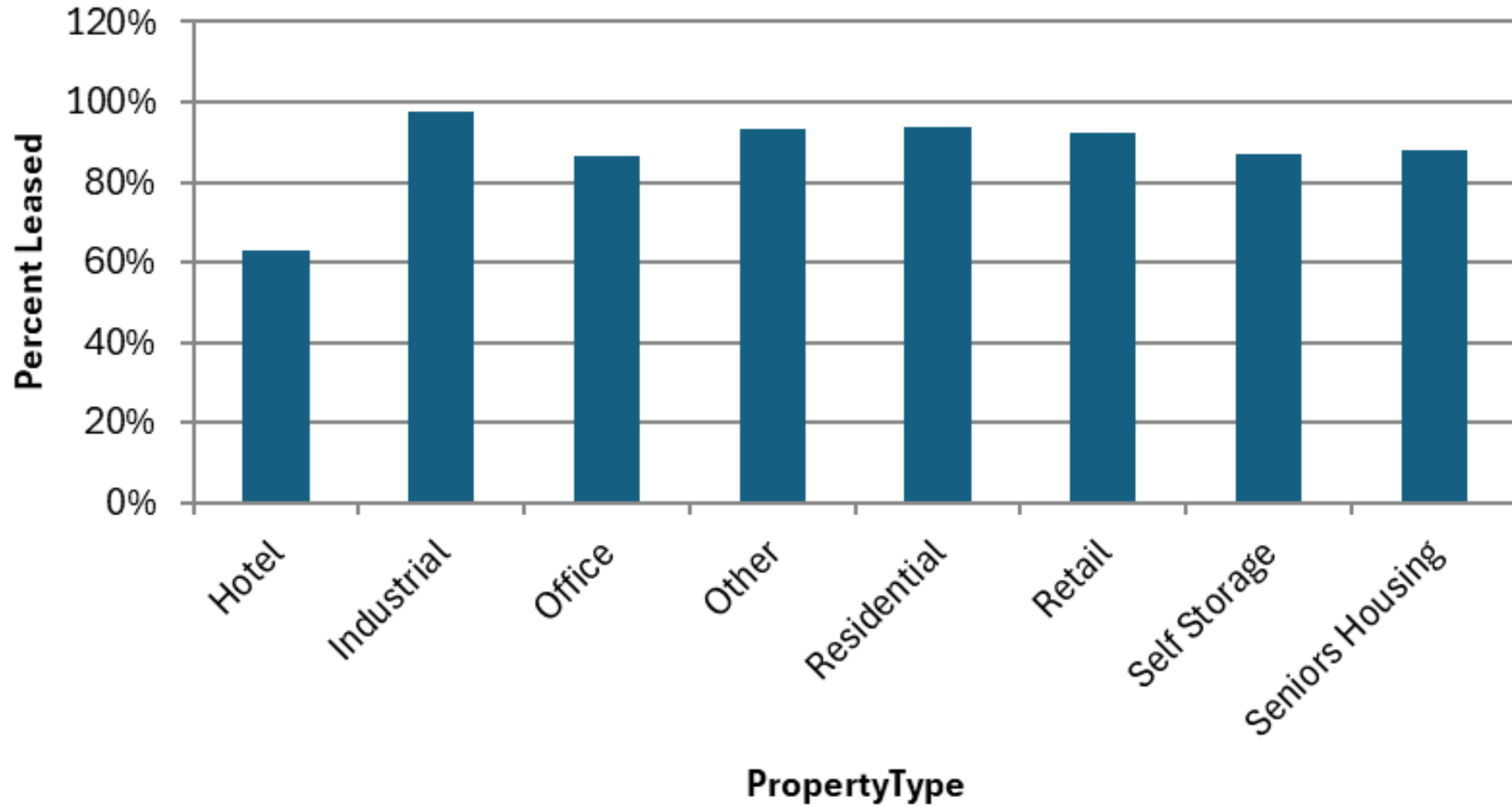


Percent Leased



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

Percent Leased by Property Type



Question

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



Question

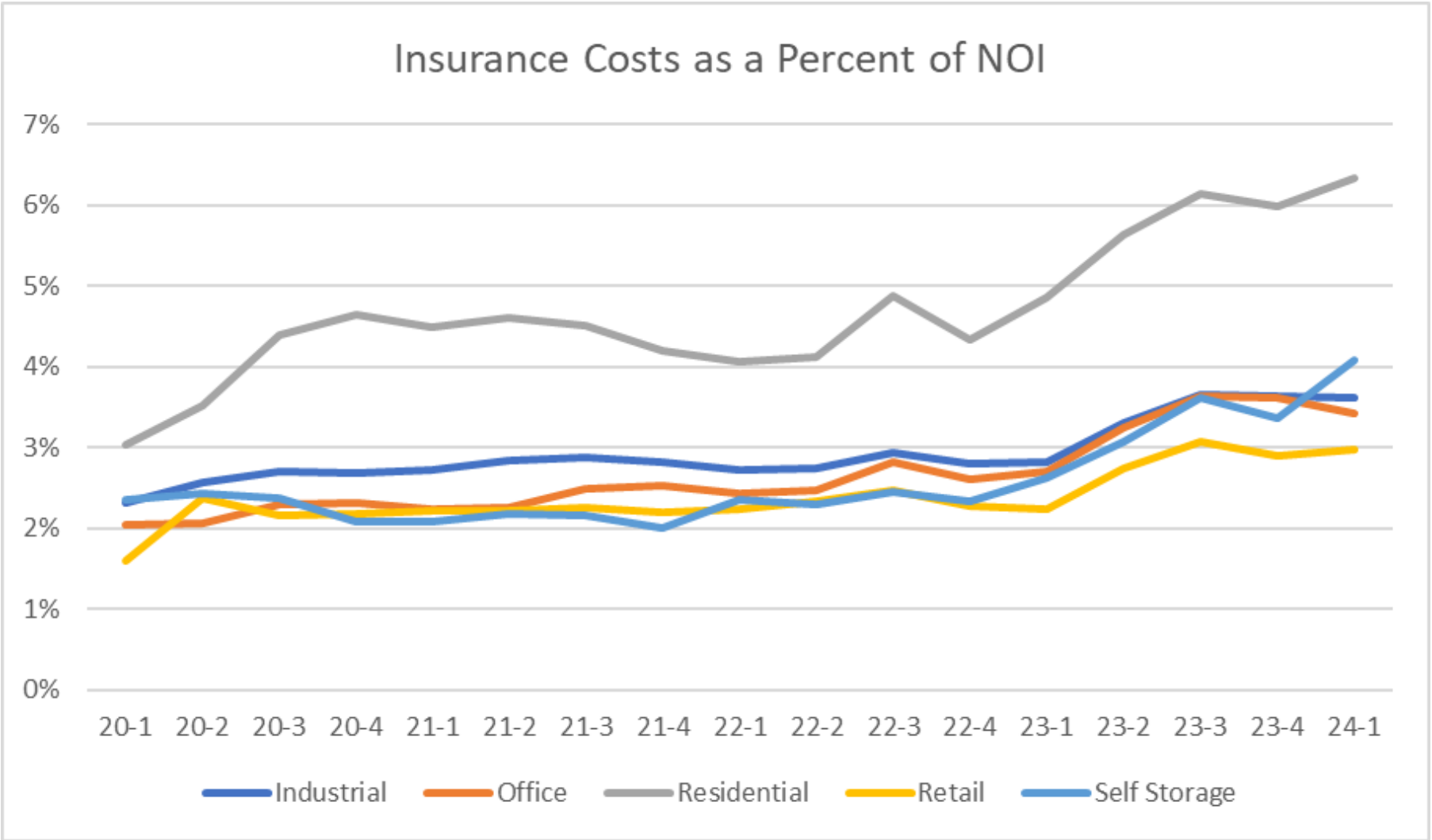
- What Property Sector do you think will perform best (highest total return) for all of 2024?
 - A. Winner from previous question
 - B. Self storage
 - C. Senior housing
 - D. Office

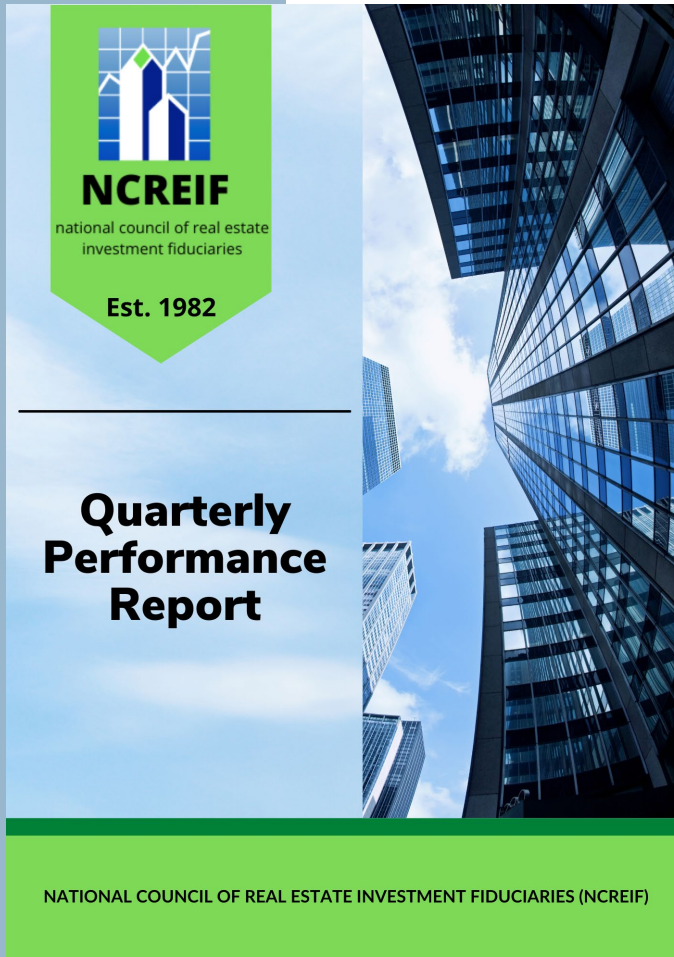


Property sector	Capex as % of NOI Average Since 2016
Life Science - Office	59.34%
Life Science - Industrial	55.10%
Hotel	53.40%
Office	49.49%
Retail	28.09%
Assisted Living	26.17%
Industrial	25.68%
Apartment	23.80%
Medical Office	22.77%
Independent Living	19.56%
Student Housing	19.24%
Self Storage	17.18%

Prepared by Erik Thomas, Hines

Insurance Costs up in all Sectors





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 1st Quarter 2024



- Returns continue negative for fifth straight quarter although better than last quarter
- Market values fall for sixth straight quarter
- Hotel, and industrial returns turn positive.
- Office continues to be the biggest drag on returns
- Rent and NOI growth holding up surprisingly well
- Percent leased down a little
- Cap rates still rising
- A handful of properties in the NPI returned to the lender
- Number of properties with a market value less than the loan balance increasing slightly



Thank you

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