



# NCREIF

National Council of Real Estate Investment Fiduciaries

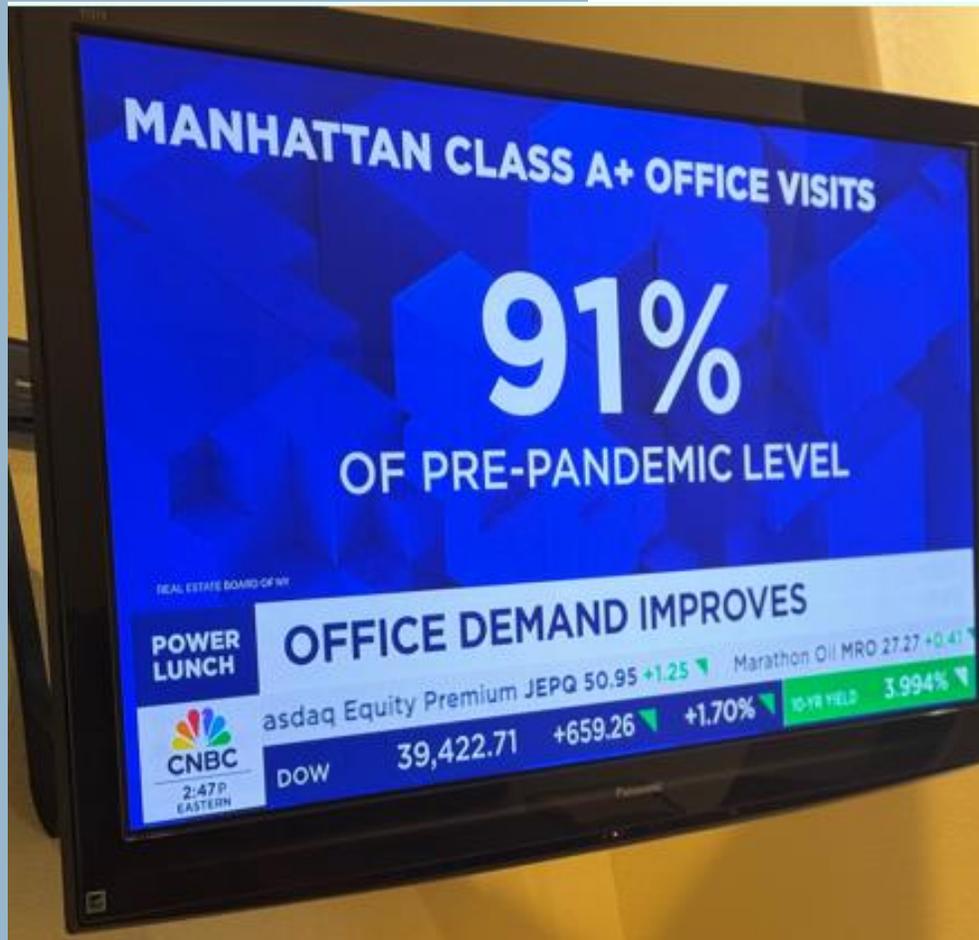


## Second Quarter 2024

## Data and Indices Results Webinar



# Today's Panelists



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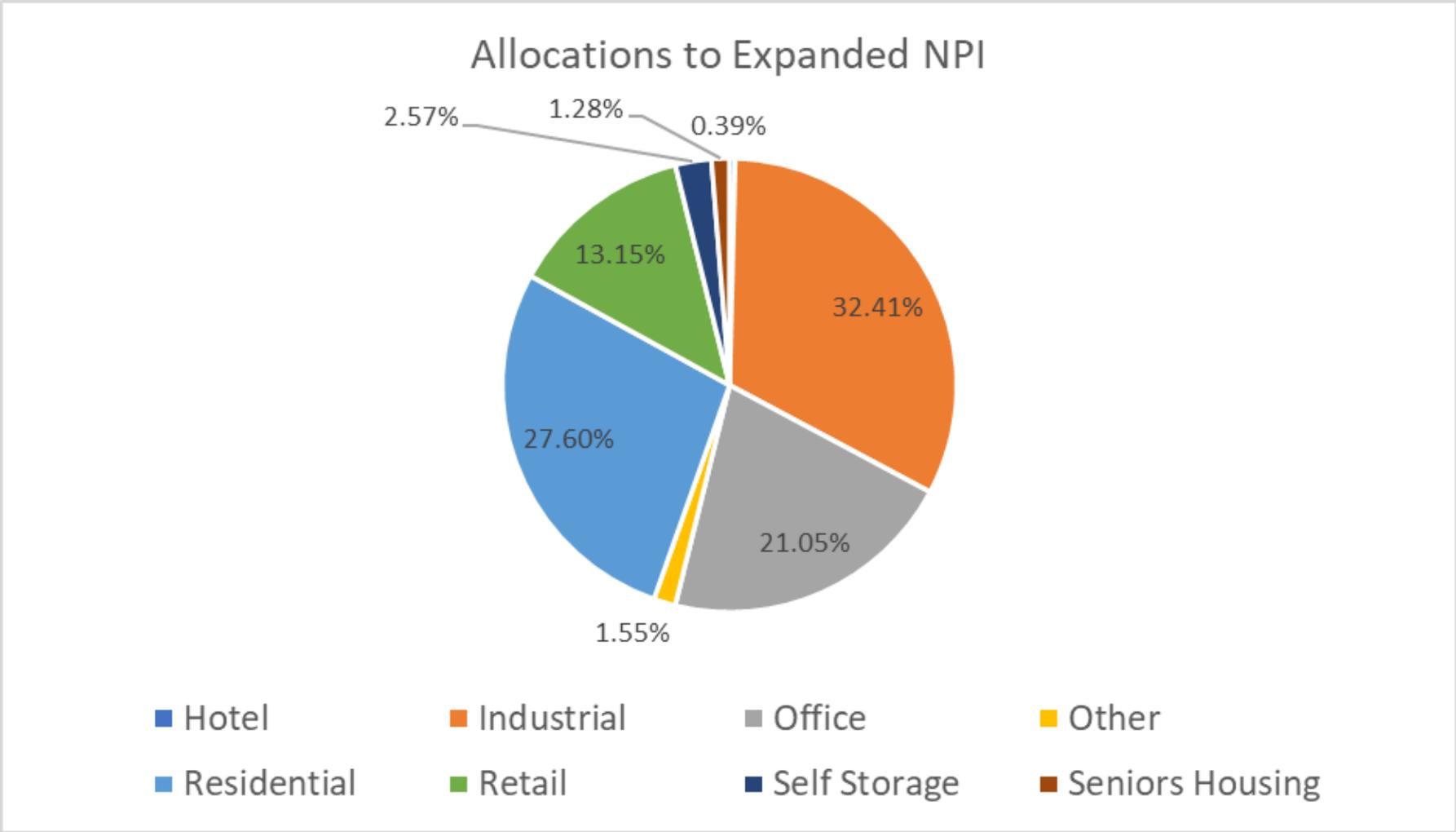
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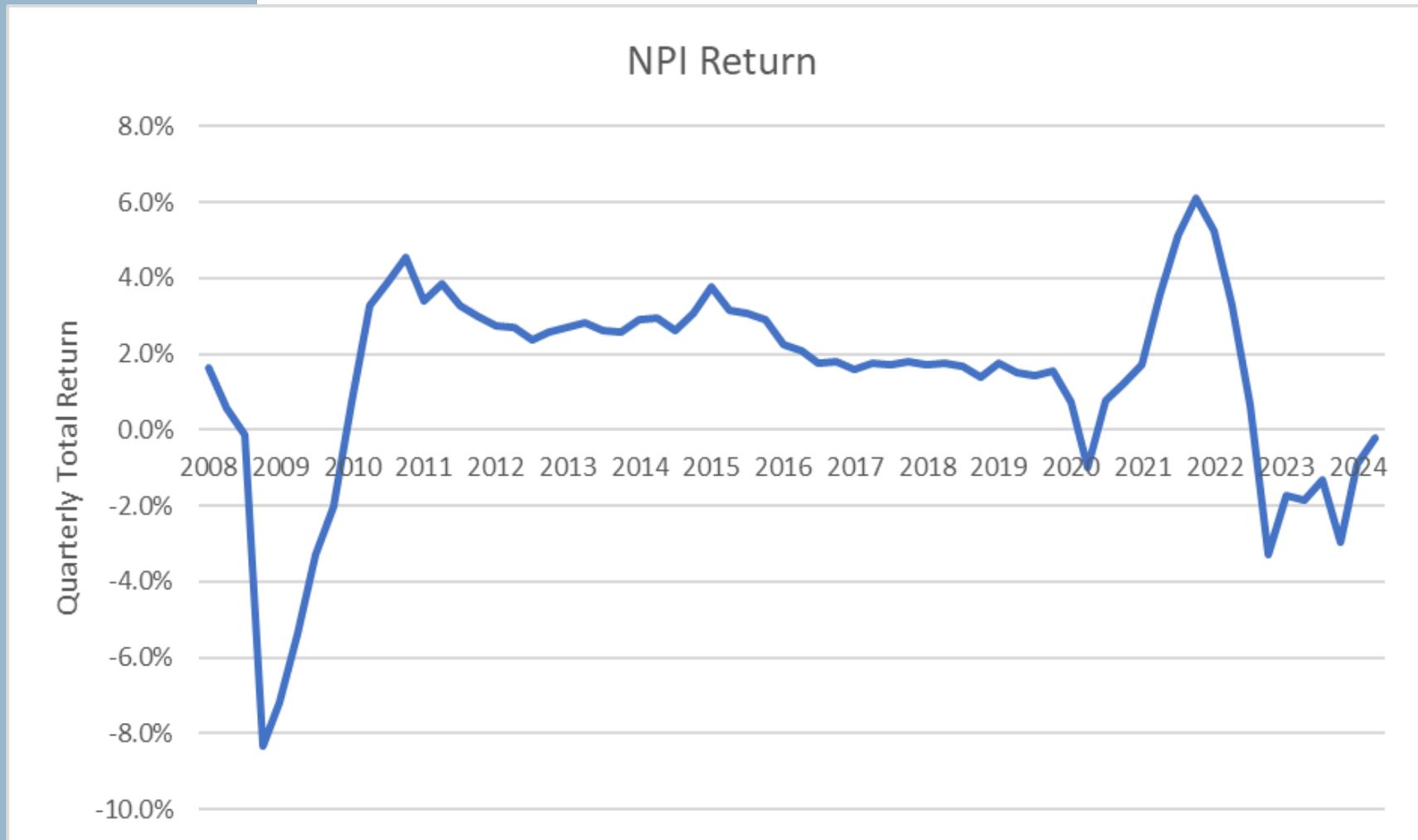
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# Returns and other Measures based on New Expanded NPI



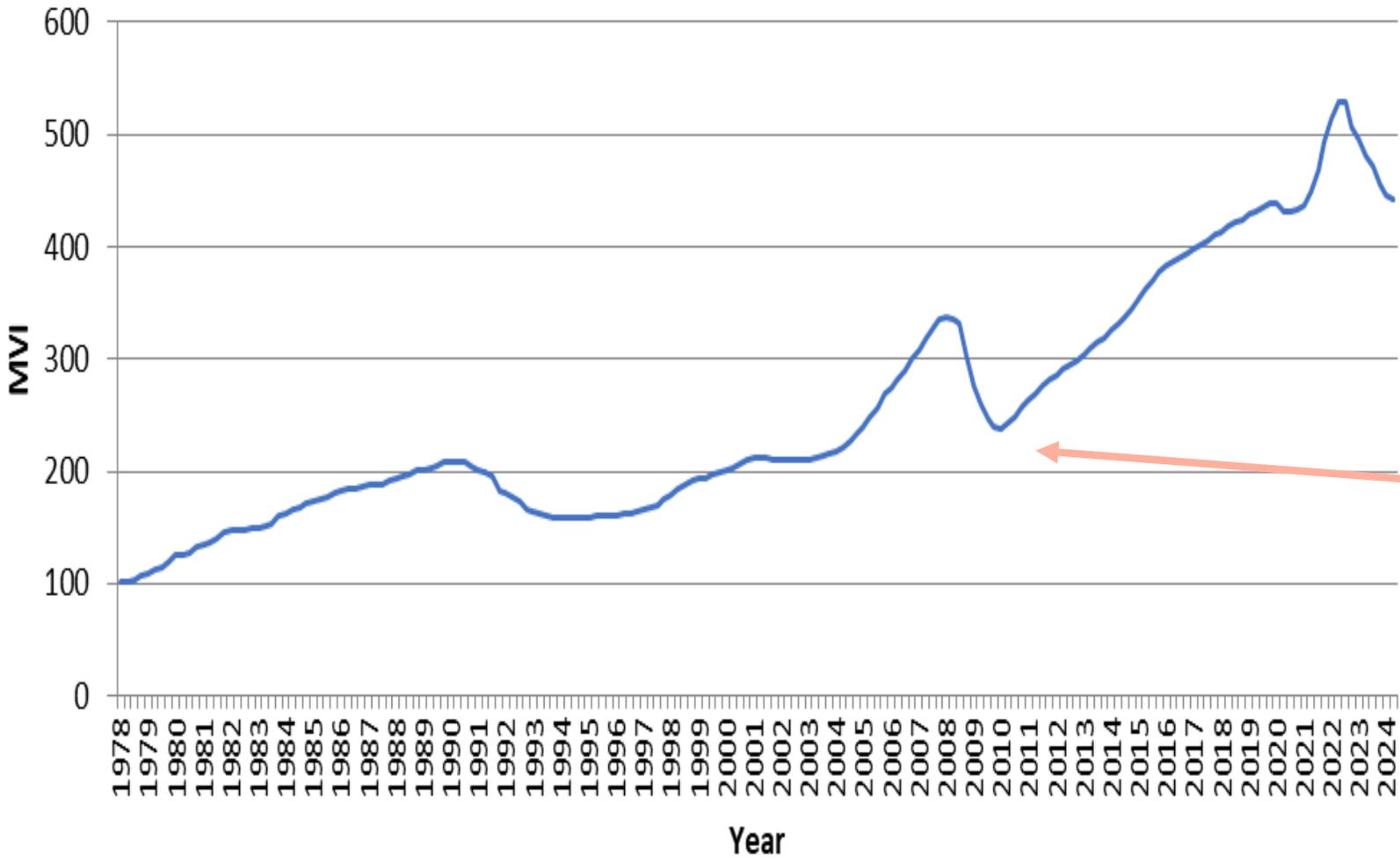
# Returns (NPI Expanded) Continue in Negative Territory – but some improvement from last quarter



A W recovery?



# Market Value Index

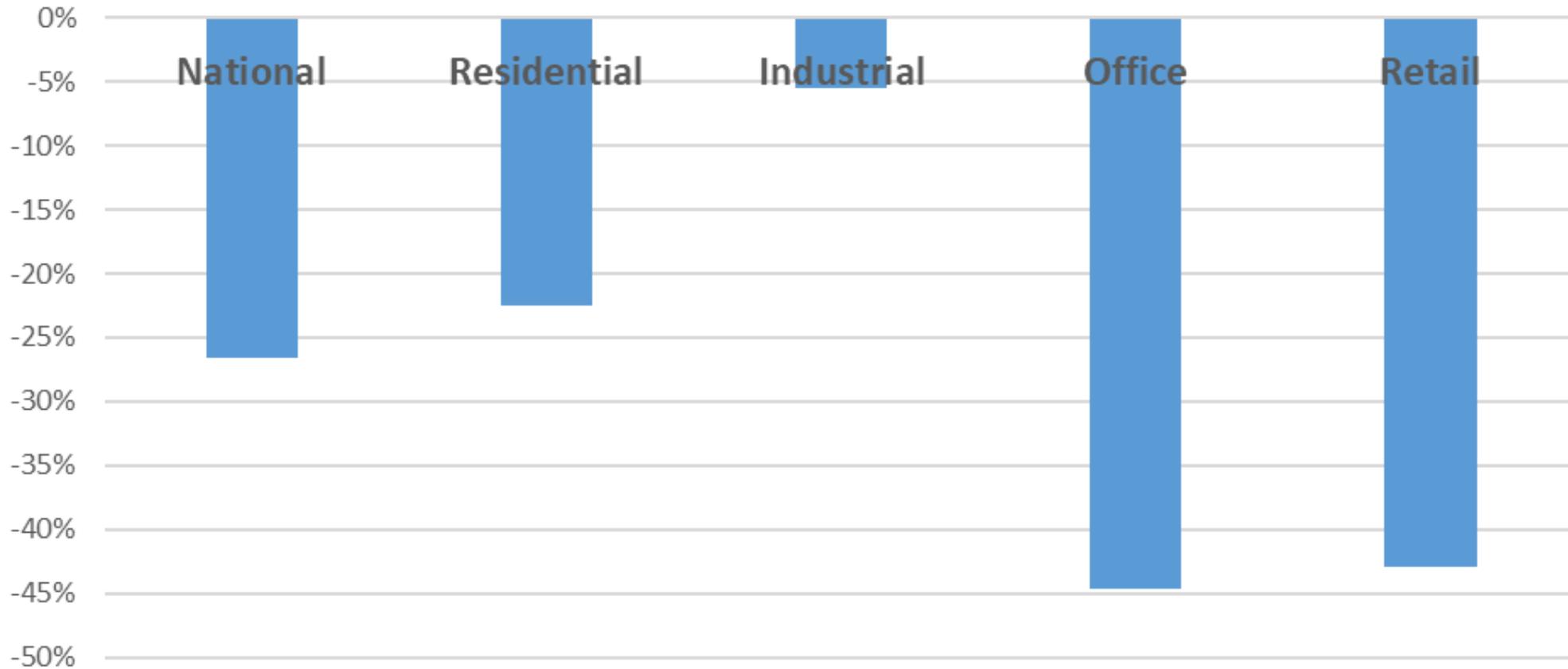


Market Values Down 16% from peak.

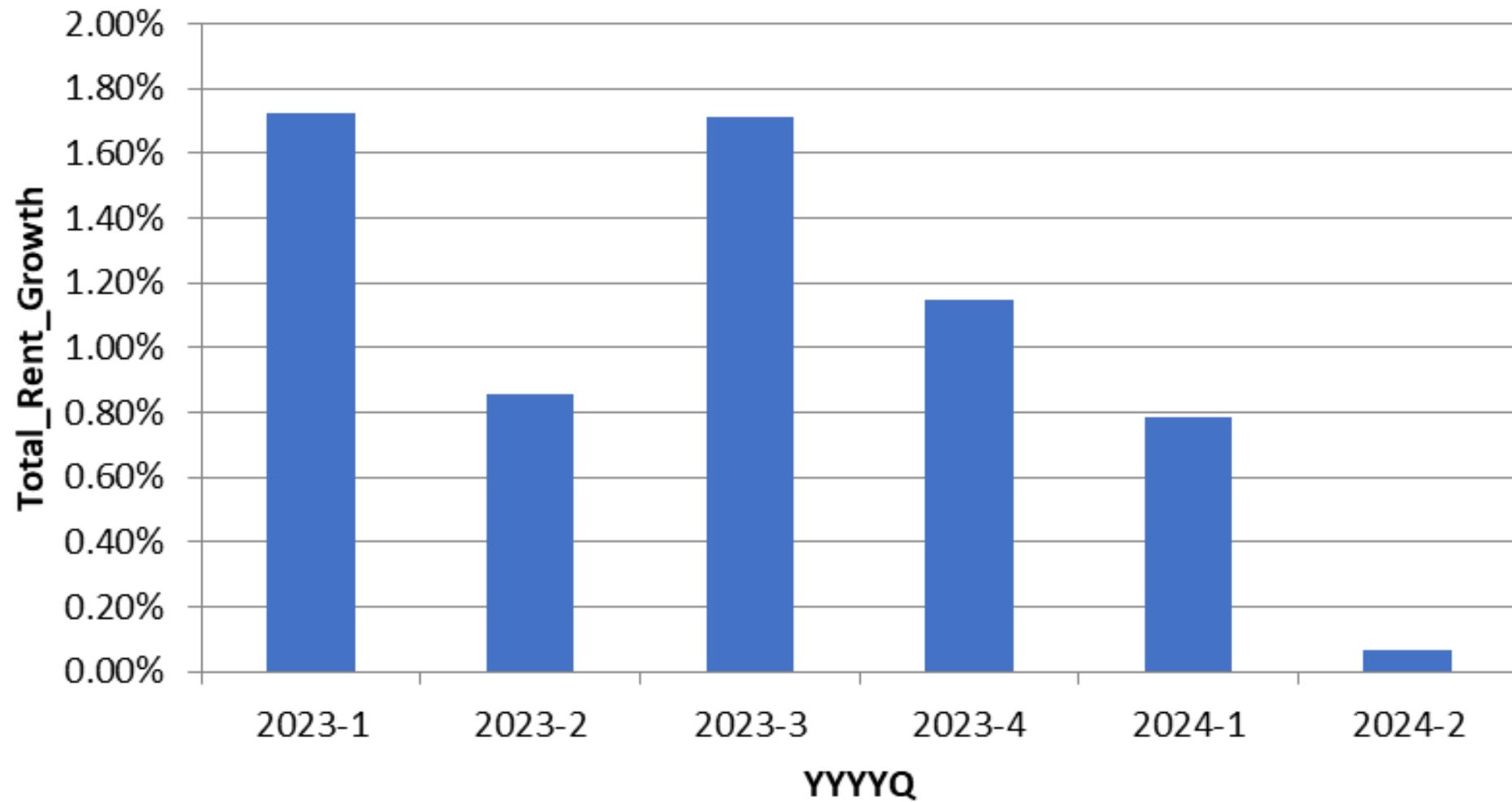
Drop from peak during the Financial Crisis was 30%.



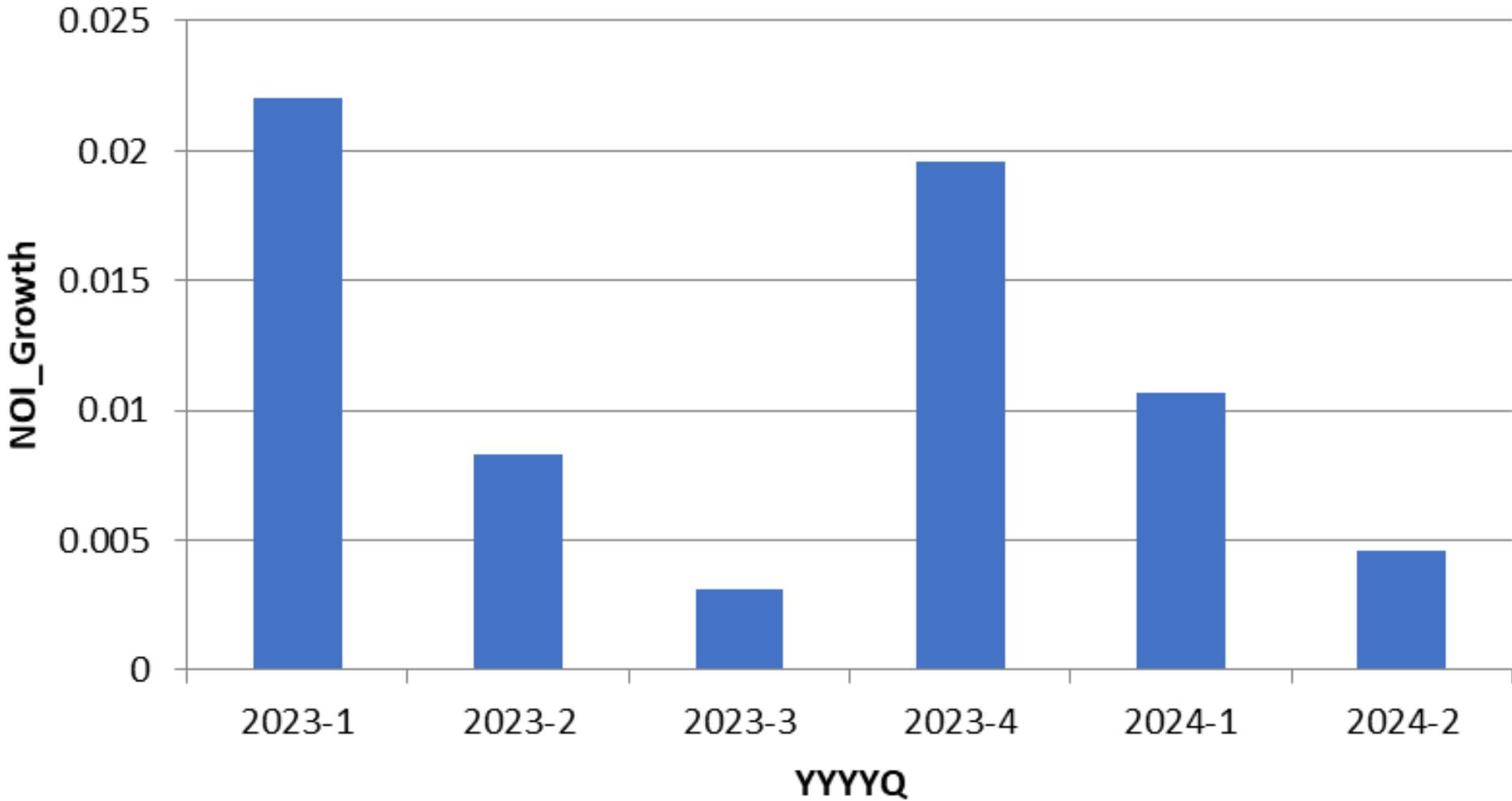
NPI Sold Props Percent Decline from Peak 2022-2



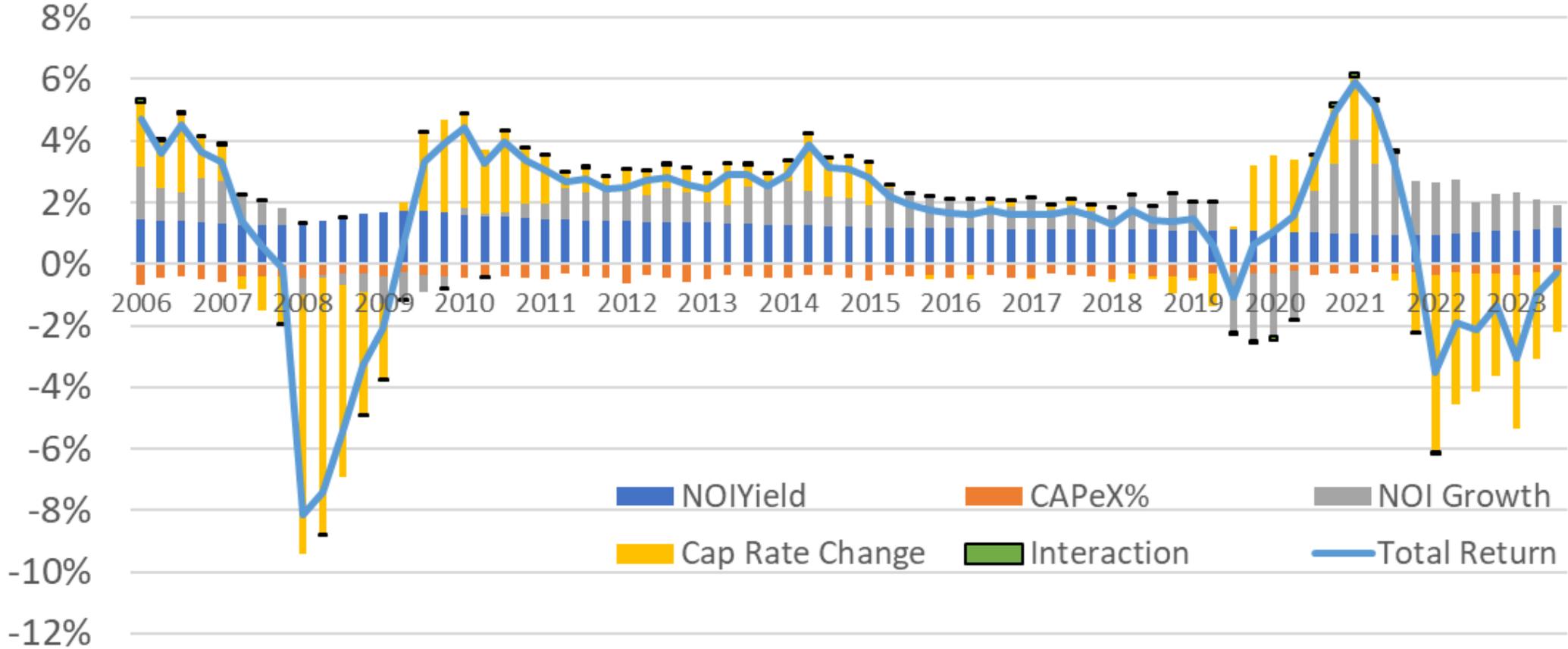
# Rent growth



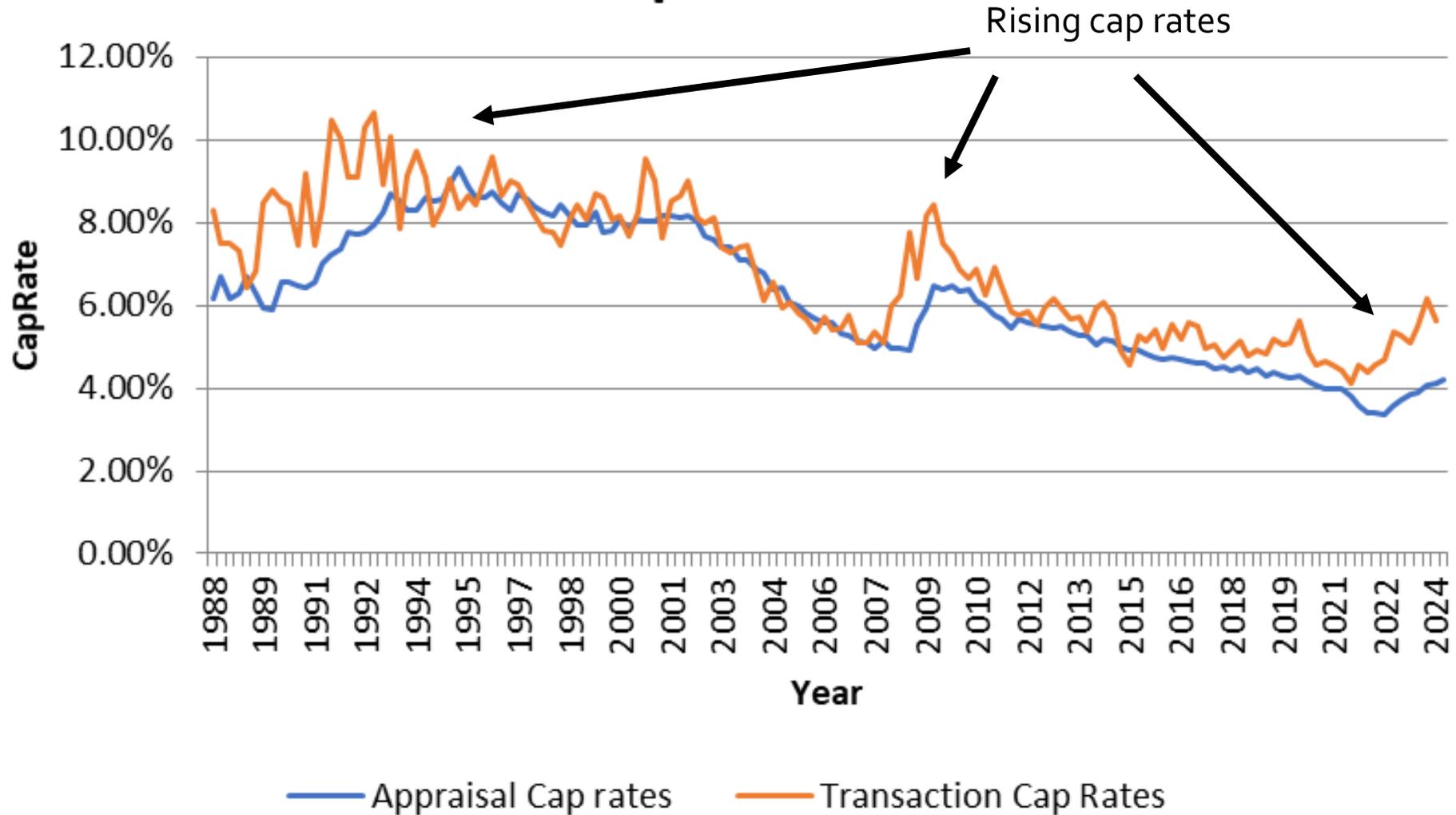
# NOI Growth



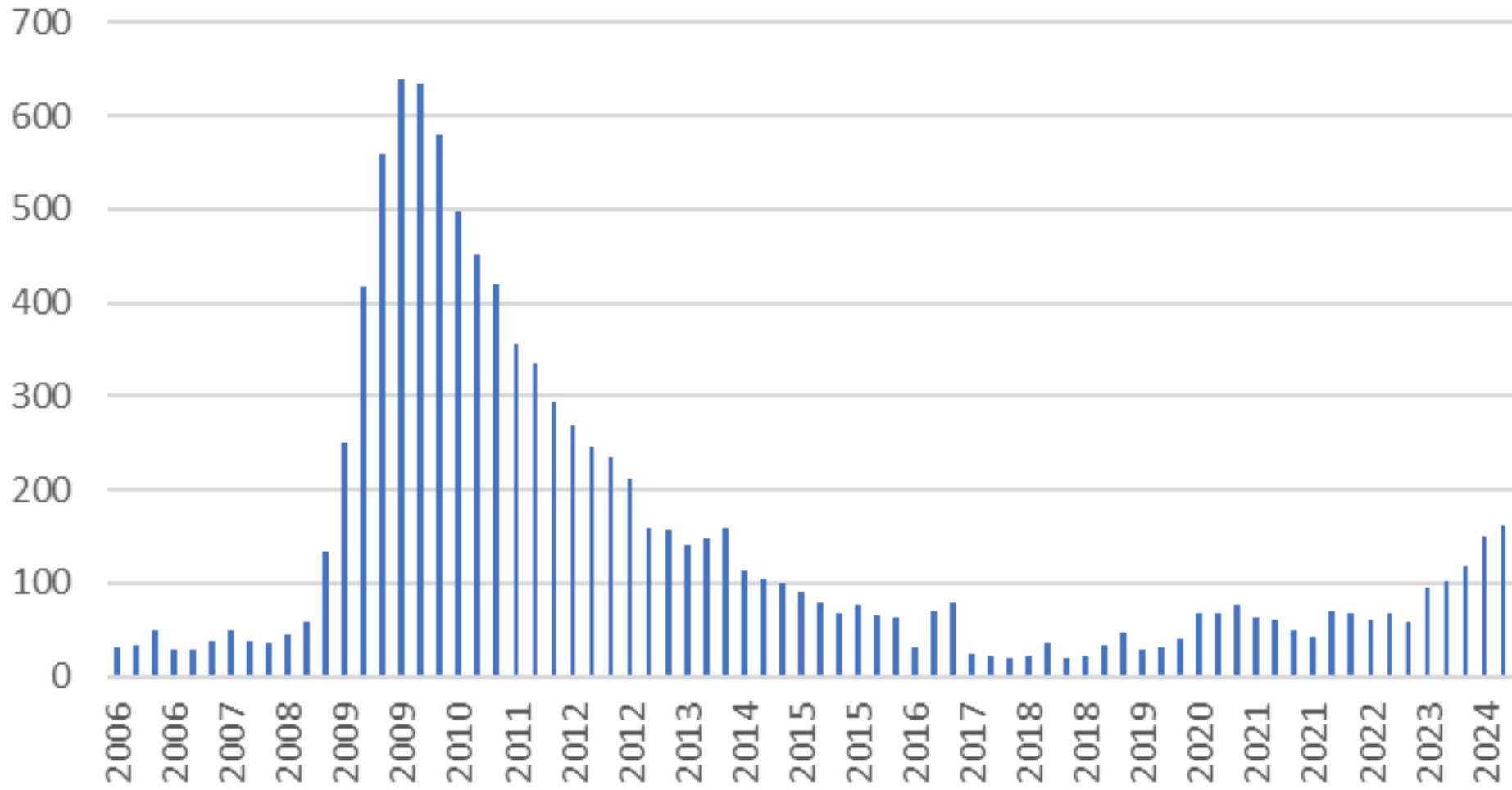
# Return Components (Quarterly)



# Cap Rates



## Loans with LTV $\geq 1$



# Question

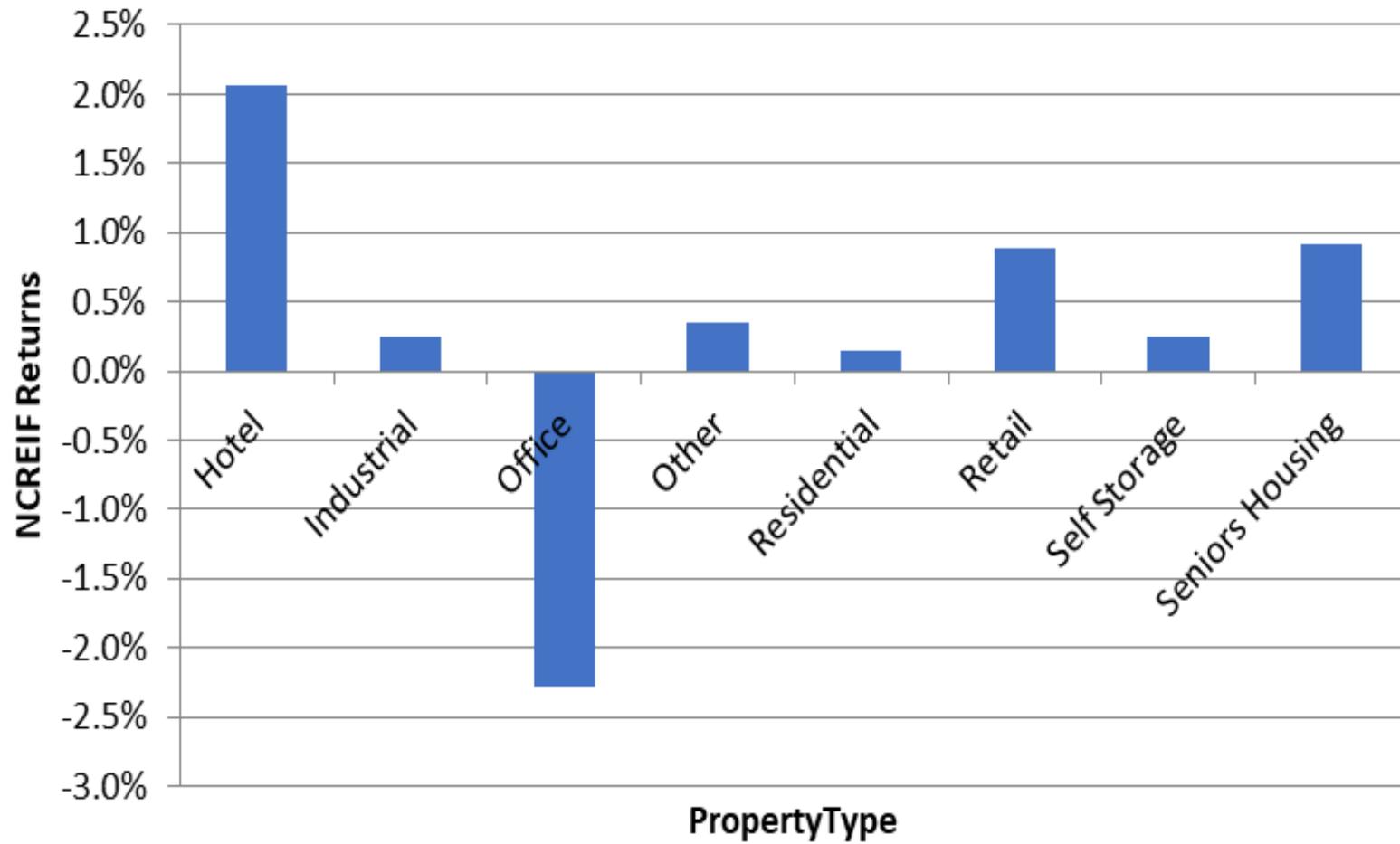


Where will NPI be by the end of 2024?

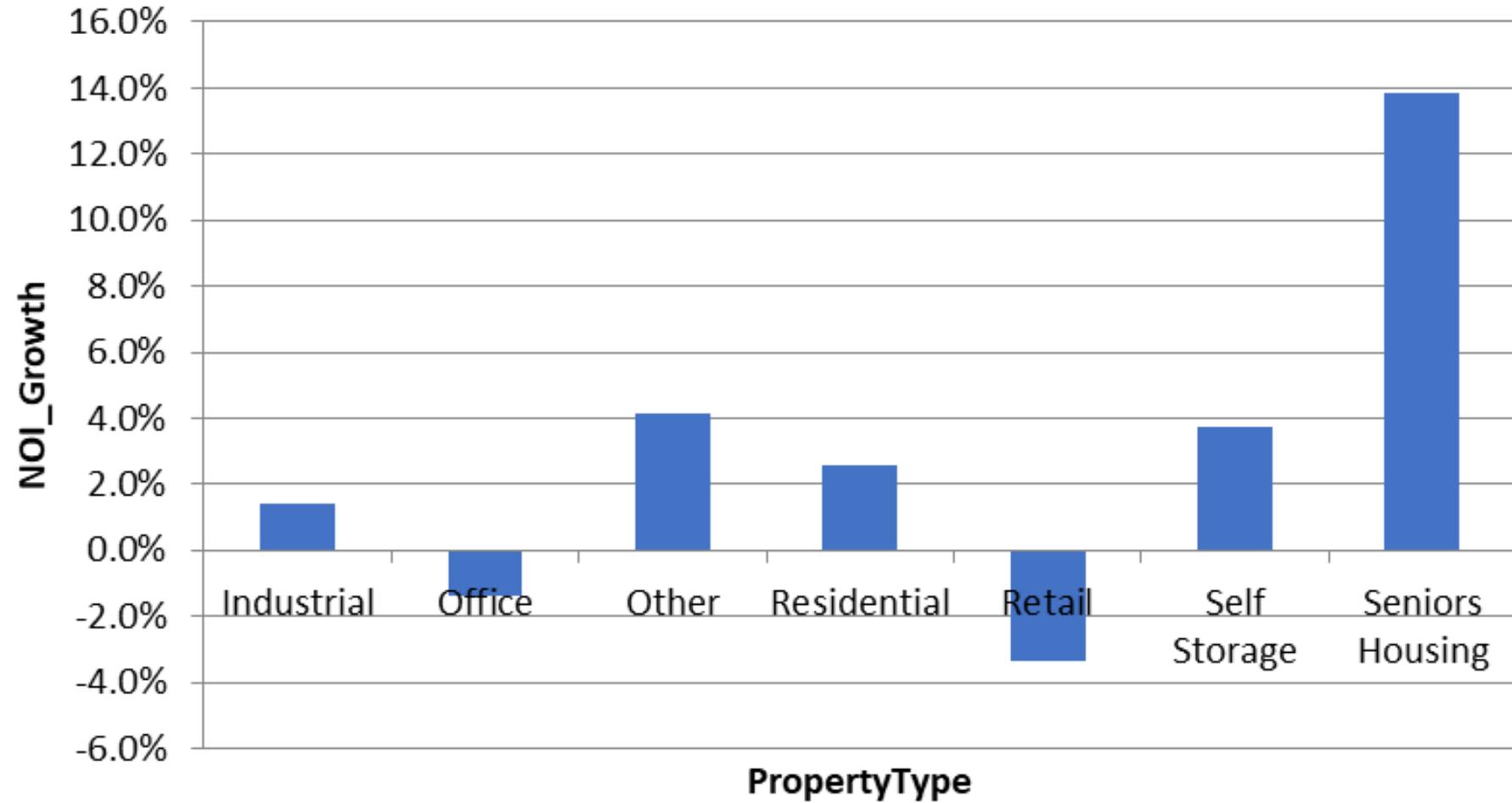
- A. Values will be somewhat lower by the end of 2024.
- B. Values will stabilize at the current level
- C. Values will be somewhat higher by the end of 2024.
- D. I have no idea!



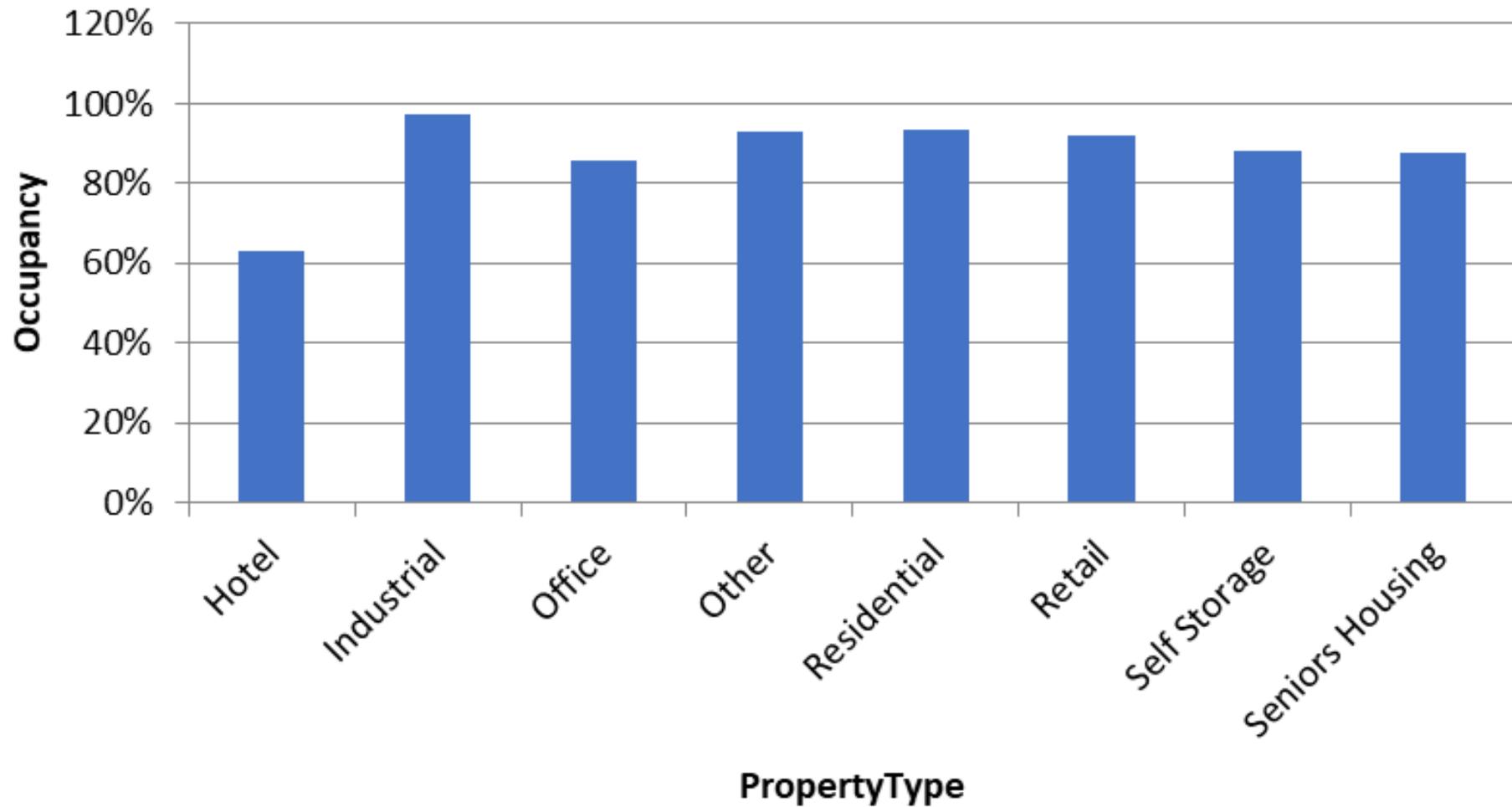
## Returns by Property Type



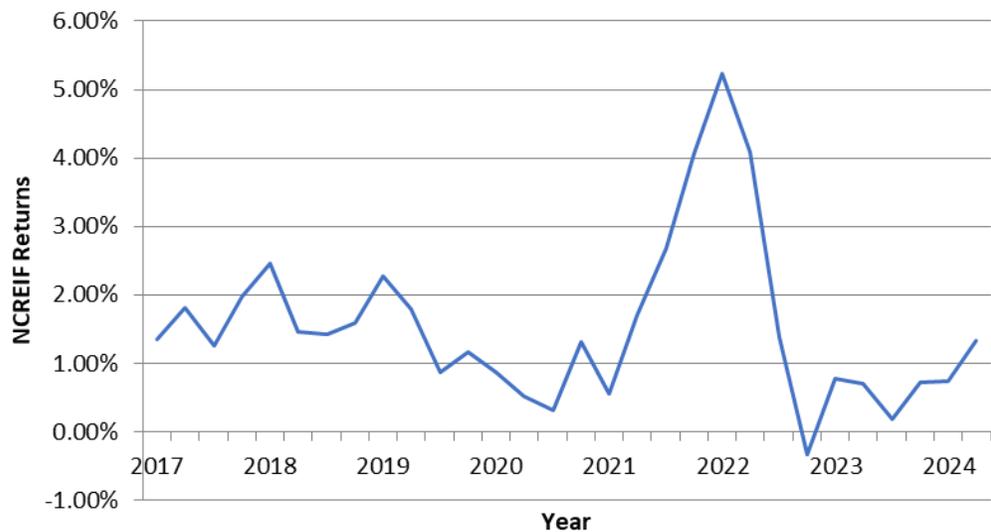
## NOI Growth by Property Type



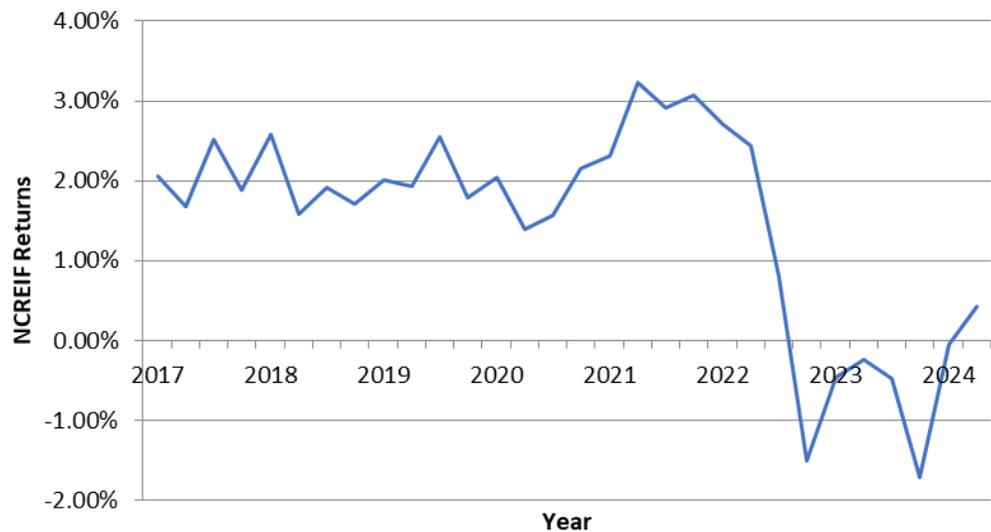
## Percent Leased by Property Type



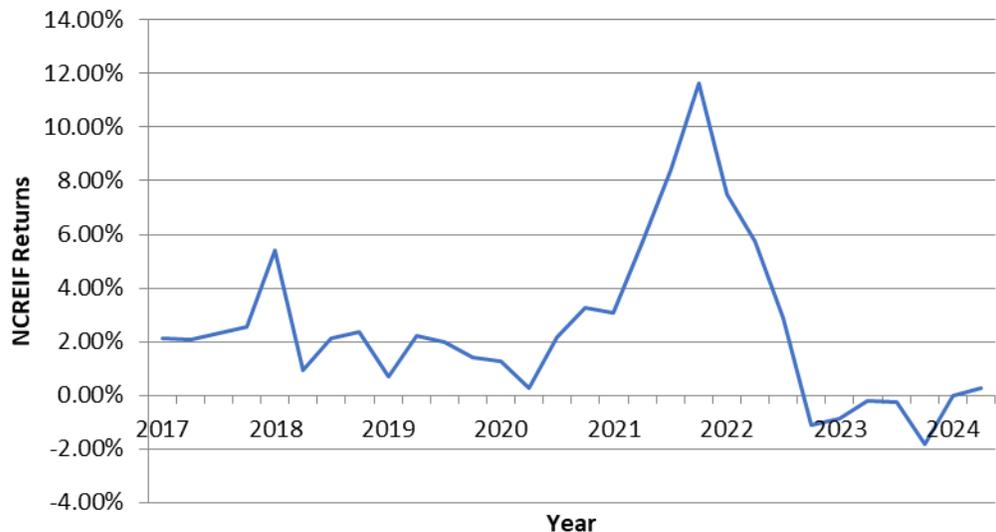
### Student Housing



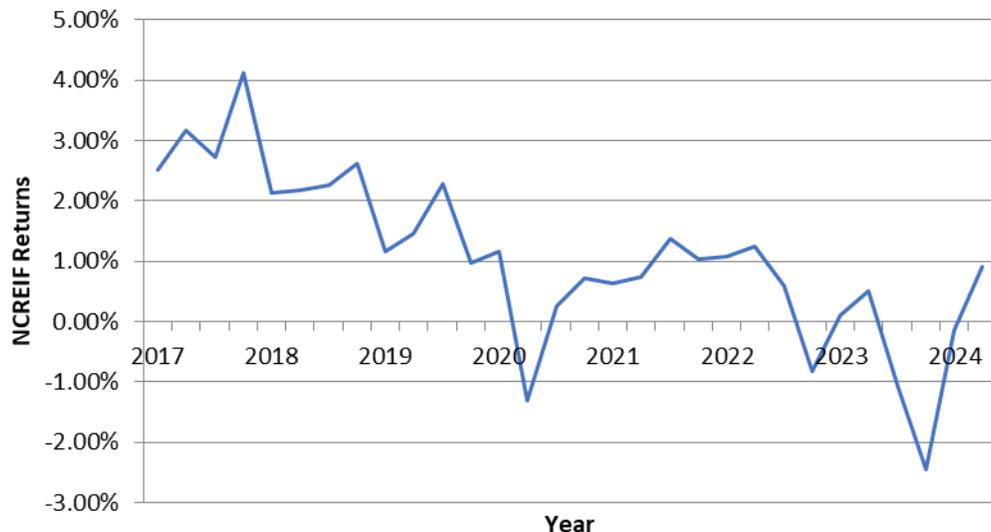
### Medical Office



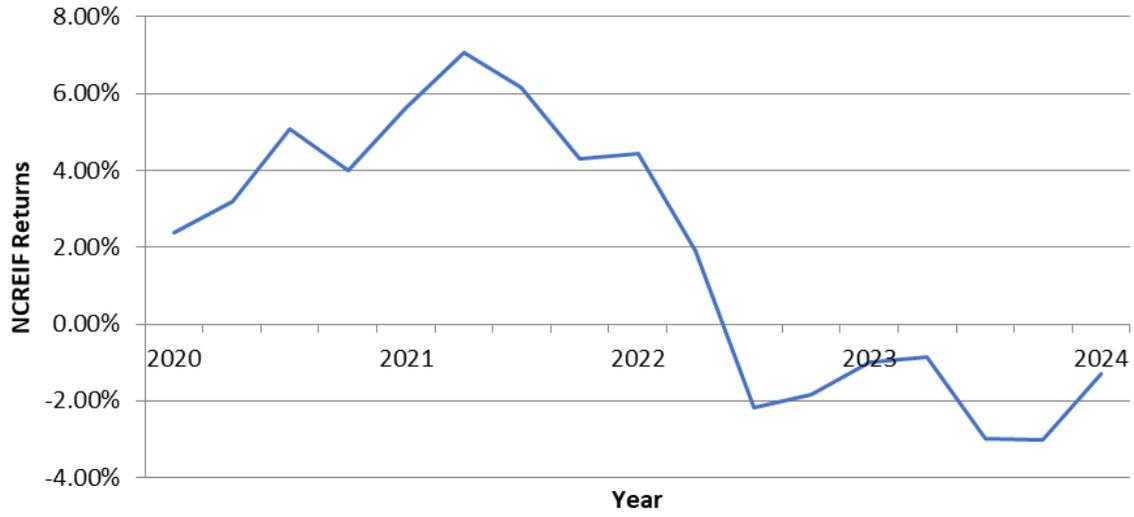
### Self Storage



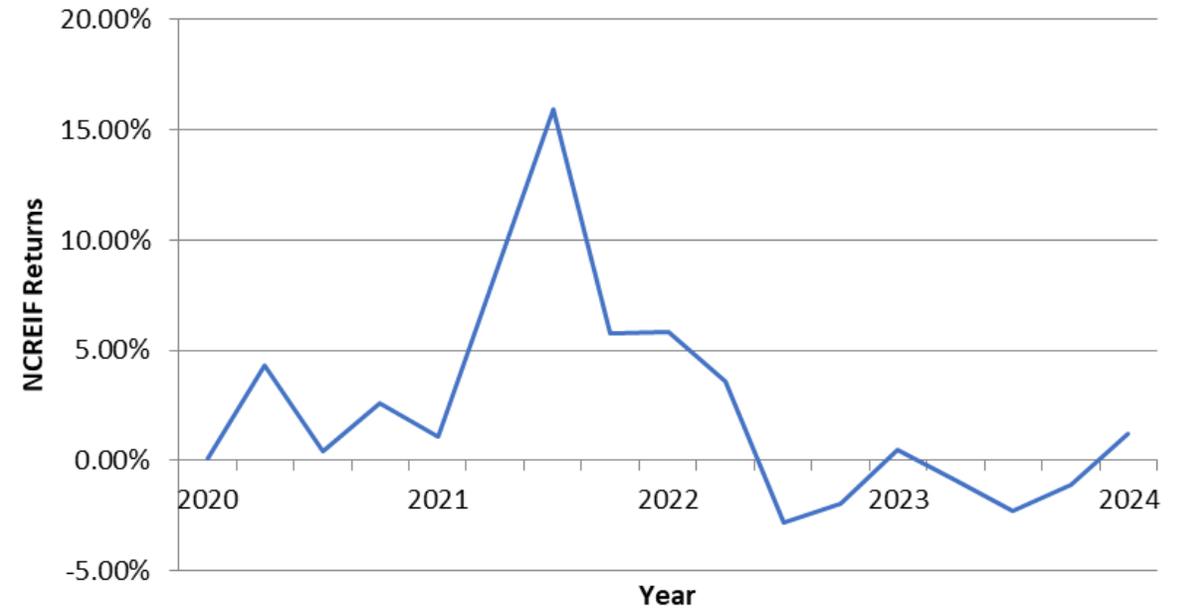
### Seniors Housing



## Data Centers



## Single Family Residential





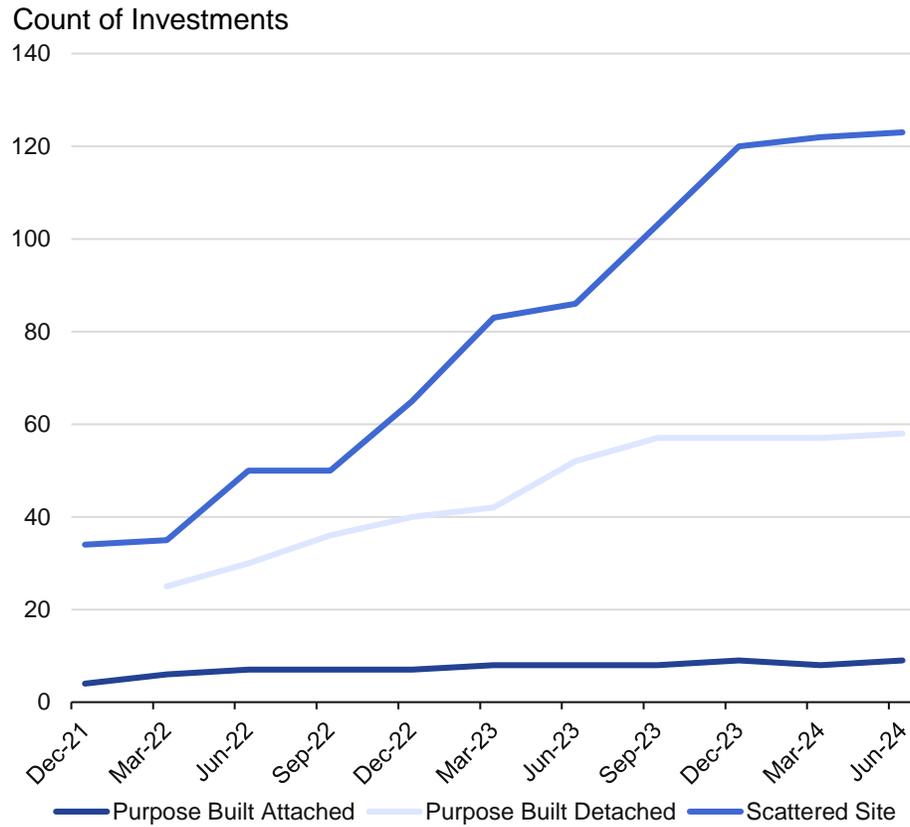
# Single-Family Rental in the Expanded NPI

August 2024

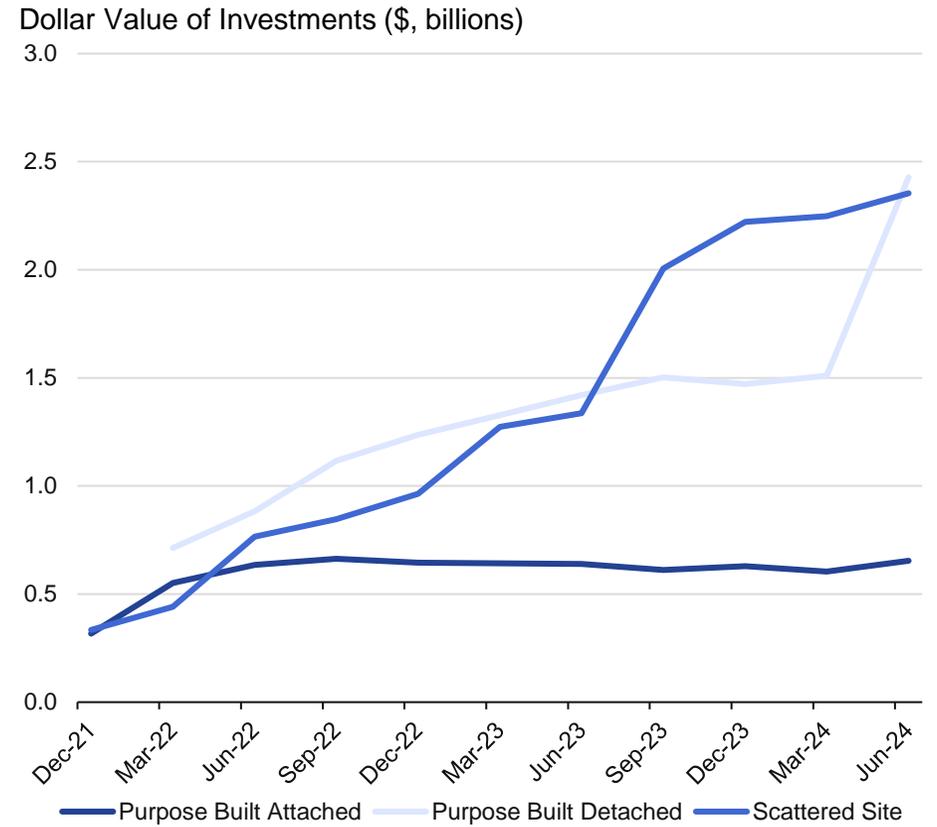
# The New Single-Family Rental Subtype Within Residential Is Still Relatively Small

Holdings are spread across three clusters: scattered site, purpose built detached, and purpose built attached

**Composition of reported investments heavily weighted to scattered site**

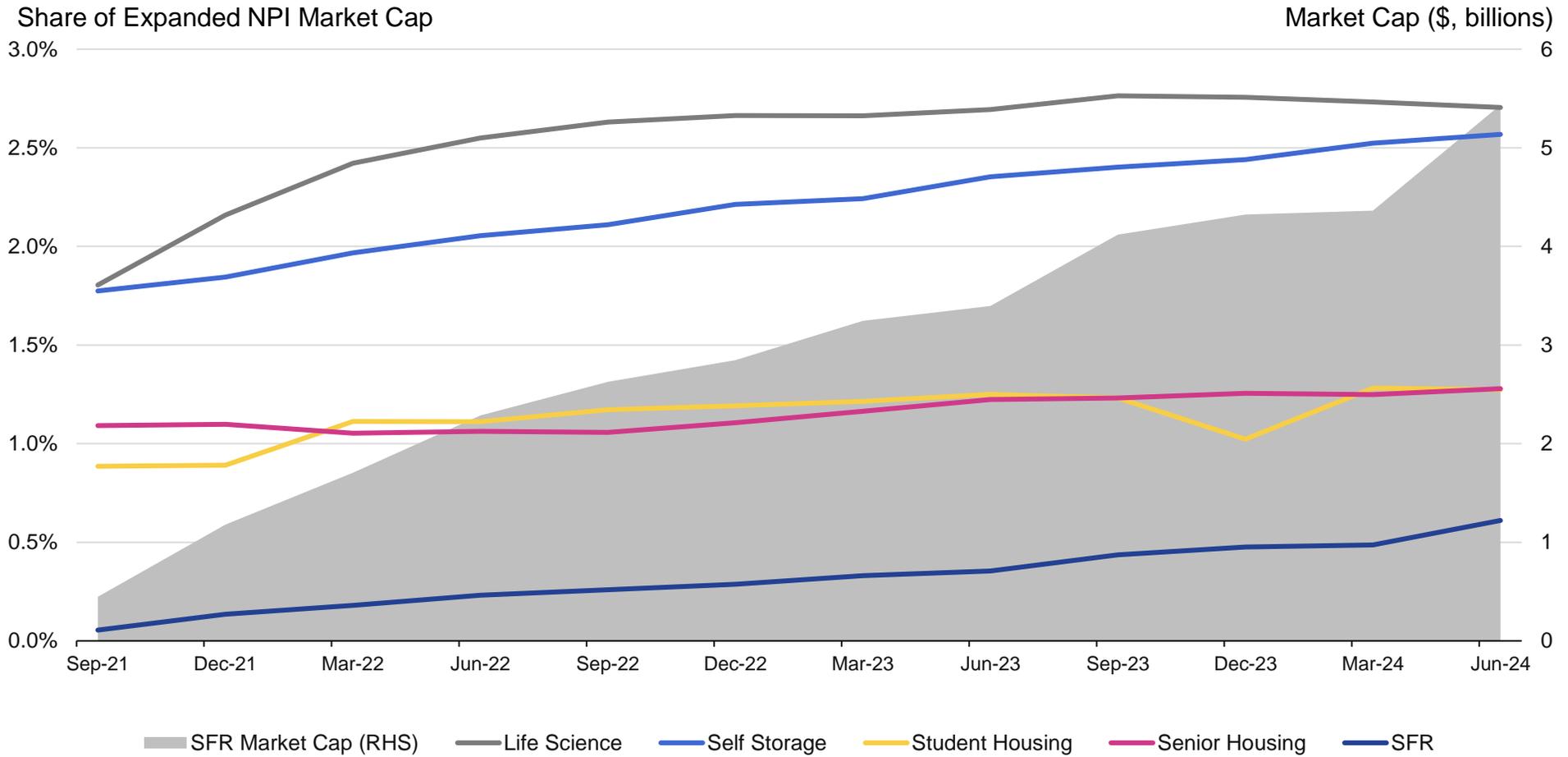


**By market capitalization, scattered site and purpose built detached overshadow purpose built attached**



# Nascent SFR Subtype Considerably Smaller Than Other “Alternatives”

**\$5.4 billion of single-family rental assets reported to NCREIF, just 0.6% of Expanded NPI market cap**



# Single-Family Rental Dramatically Underrepresented Versus Its Actual Size

U.S. renters occupy more single-family homes than they do units in large apartment buildings

Units in Structure	Owner-Occupied Housing			Renter Occupied Housing		
	Units (000s)	Share of Owned	Share of Total	Units (000s)	Share of Rented	Share of Total
1, detached	69,613	82.2%	53.6%	11,265	24.9%	8.7%
1, attached	5,334	6.3%	4.1%	2,940	6.5%	2.3%
2 apartments	996	1.2%	0.8%	3,174	7.0%	2.4%
3 or 4 apartments	756	0.9%	0.6%	4,718	10.4%	3.6%
5 to 9 apartments	680	0.8%	0.5%	5,042	11.1%	3.9%
10 to 19 apartments	533	0.6%	0.4%	4,862	10.8%	3.7%
20 to 49 apartments	602	0.7%	0.5%	4,162	9.2%	3.2%
50+ apartments	1,113	1.3%	0.9%	7,212	15.9%	5.6%
Mobile Home	4,887	5.8%	3.8%	1,778	3.9%	1.4%
Boat, RV, etc.	135	0.2%	0.1%	68	0.2%	0.1%

14.2 million homes, 31.4%

11.4 million units, 25.2%

# Geographic Exposure Dominated By Sunbelt Markets

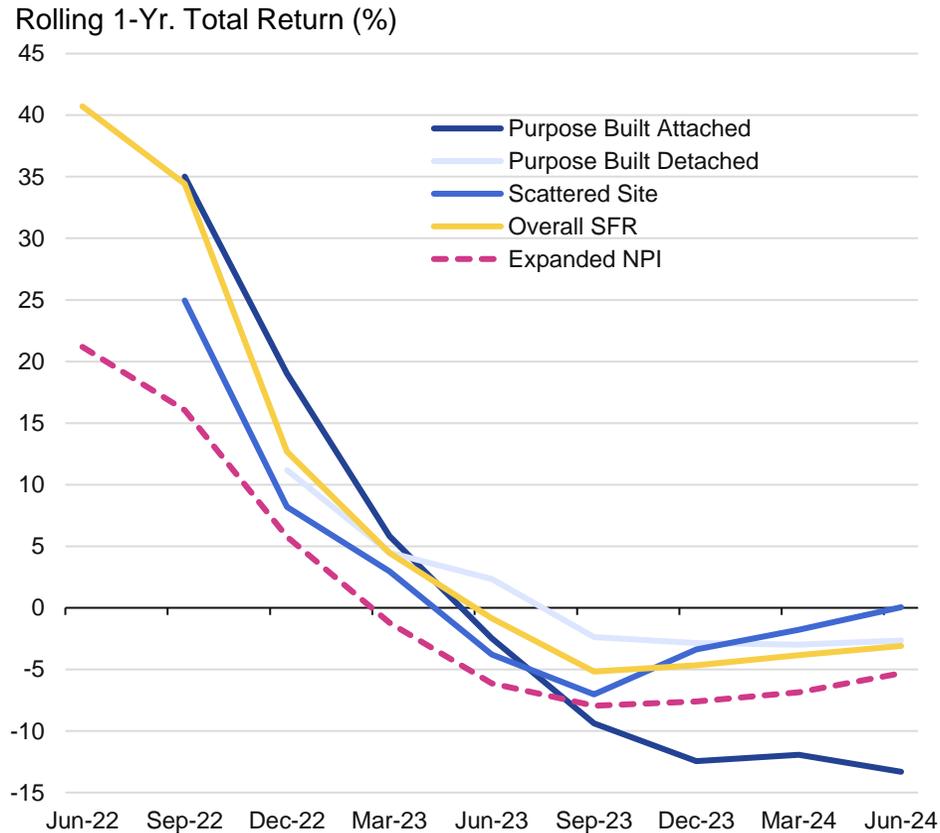
Masking criteria significantly limits the amount of exposure we can see at the market level

CBSA	Market Value	Property Count
AZ-Phoenix-Mesa-Scottsdale	\$429,566,074	14
FL-Jacksonville	\$153,329,275	10
FL-Orlando-Kissimmee-Sanford	\$135,371,978	8
FL-Tampa-St. Petersburg-Clearwater	\$424,240,406	13
GA-Atlanta-Sandy Springs-Roswell	\$604,485,106	18
IN-Indianapolis-Carmel-Anderson	\$48,885,205	5
NC-Raleigh	\$21,077,944	6
NC-SC-Charlotte-Concord-Gastonia	\$298,894,558	14
NV-Las Vegas-Henderson-Paradise	\$35,564,405	4
OH-Columbus	\$45,995,199	5
TN-Nashville-Davidson--Murfreeseboro--Franklin	\$191,972,228	11
TX-Austin-Round Rock	\$224,537,803	3
TX-Dallas-Plano-Irving	\$201,448,571	5
TX-Fort Worth-Arlington	\$112,907,343	4
TX-Houston-The Woodlands-Sugar Land	\$58,327,383	4
TX-San Antonio-New Braunfels	\$257,422,127	14
<b>SFR in Reported Markets</b>	<b>\$3,244,025,605</b>	<b>138</b>
<b>Share of Total SFR in Reported Markets</b>	<b>59.7%</b>	<b>72.6%</b>

# Single-Family Performance Has Been Outpacing Apartments & The Overall Index

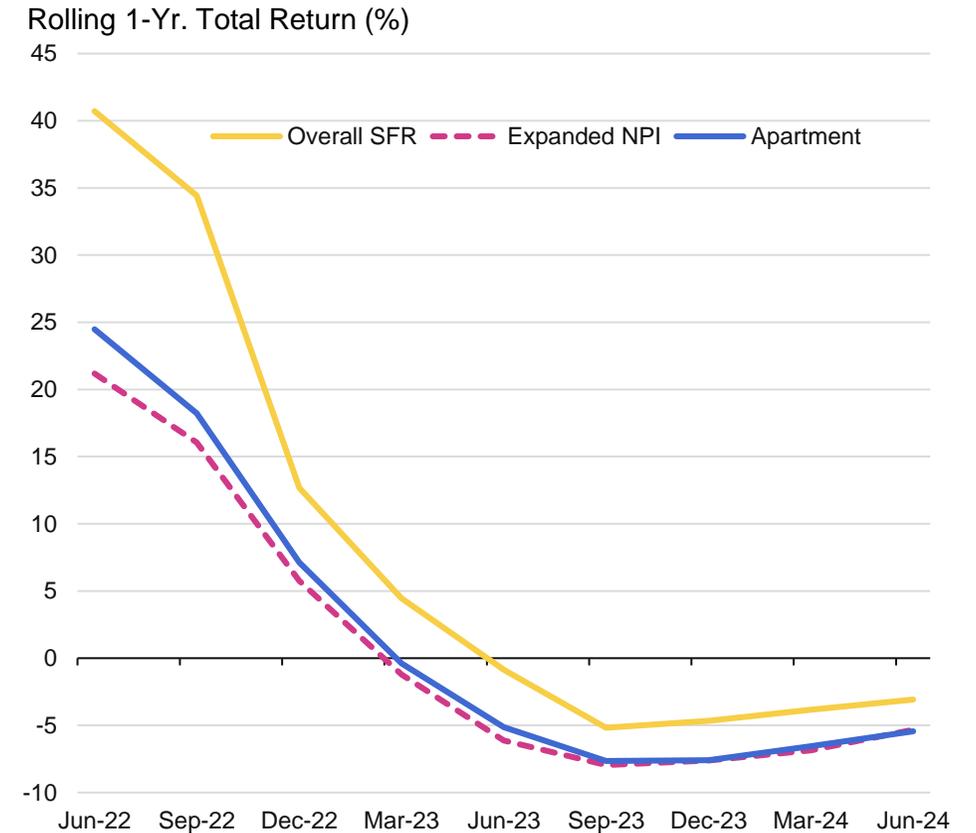
Returns have varied across clusters within the subtype, but have mostly outperformed the Expanded NPI

**Scattered site one-year return has narrowly recovered to positive territory while purpose built attached struggles**



Sources: NCREIF, Roofstock Research

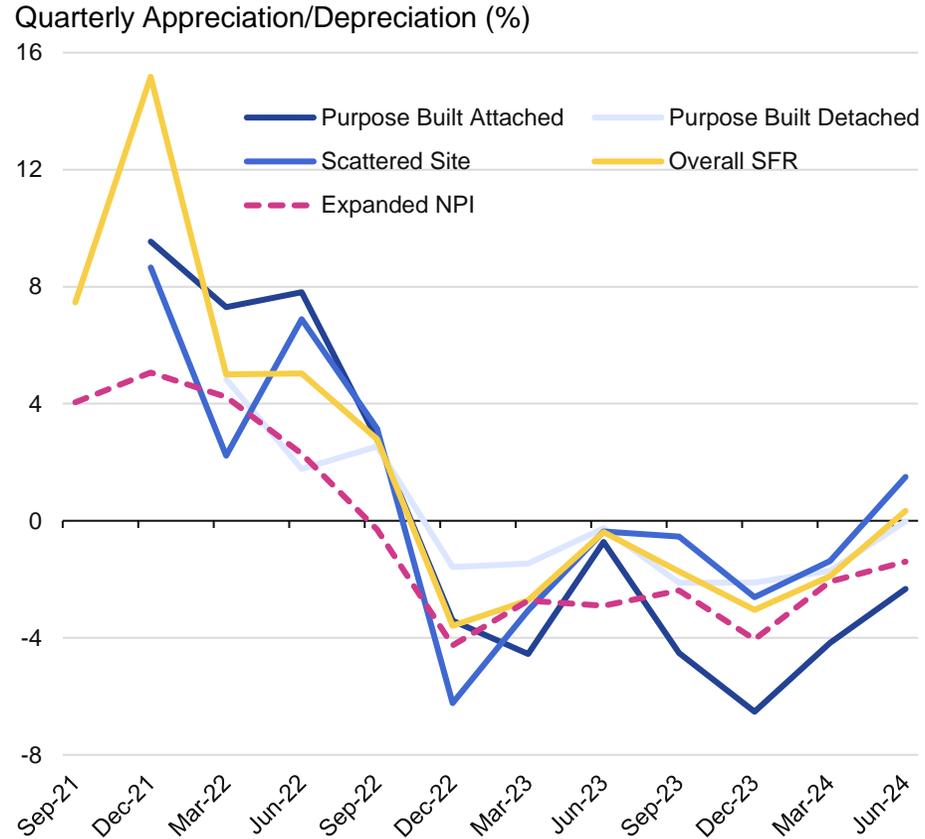
**Single-family rental exposure is showing itself to be a return enhancer**



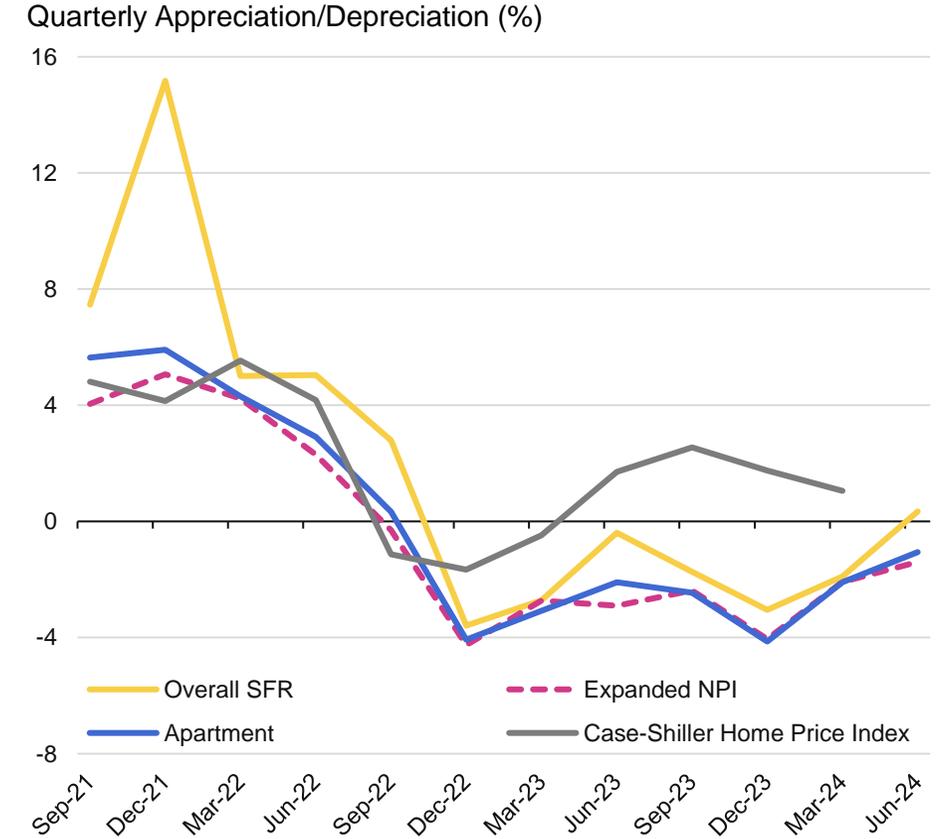
# Quarterly Value Changes Turn Positive In SFR

## Overall SFR and scattered site experienced appreciation in the most recent quarter

**Purpose built detached values essentially flat for the quarter, while attached had modest losses**



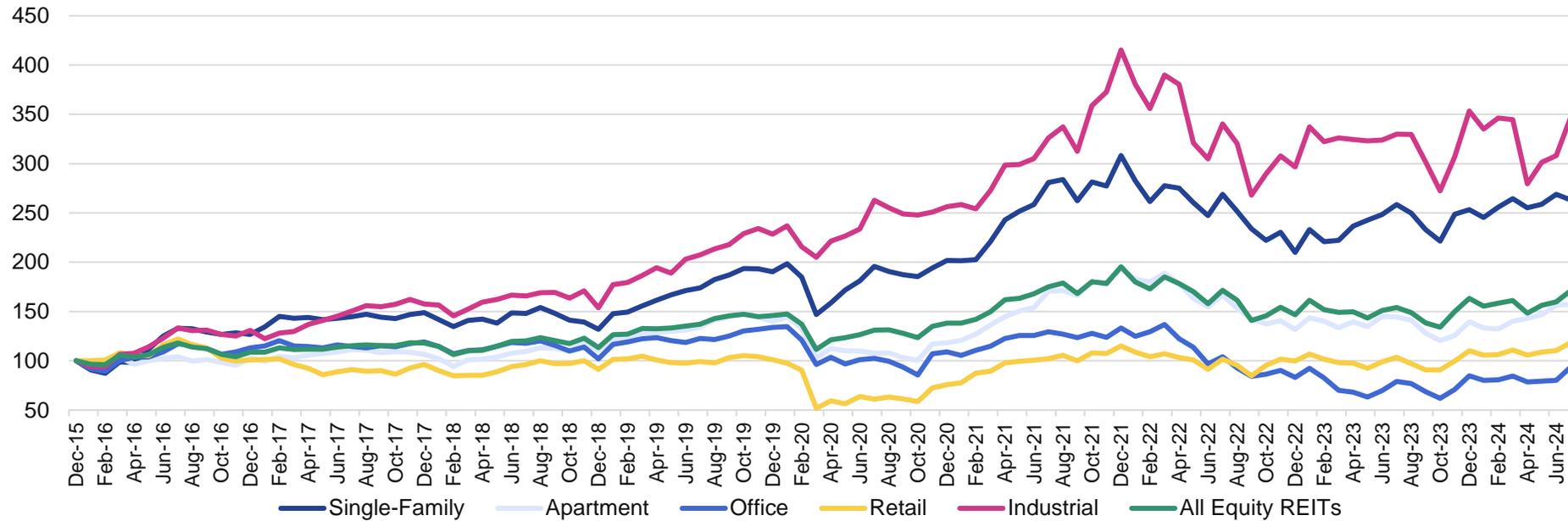
**Owner-occupier market is by far the dominant force in setting value for SFR, home price indices holding strong**



# REIT Market Provides A Longer Track Record For SFR

Over longer durations, SFR has outperformed apartment, office, and retail

NAREIT Total Return Index (December 2015 = 100)

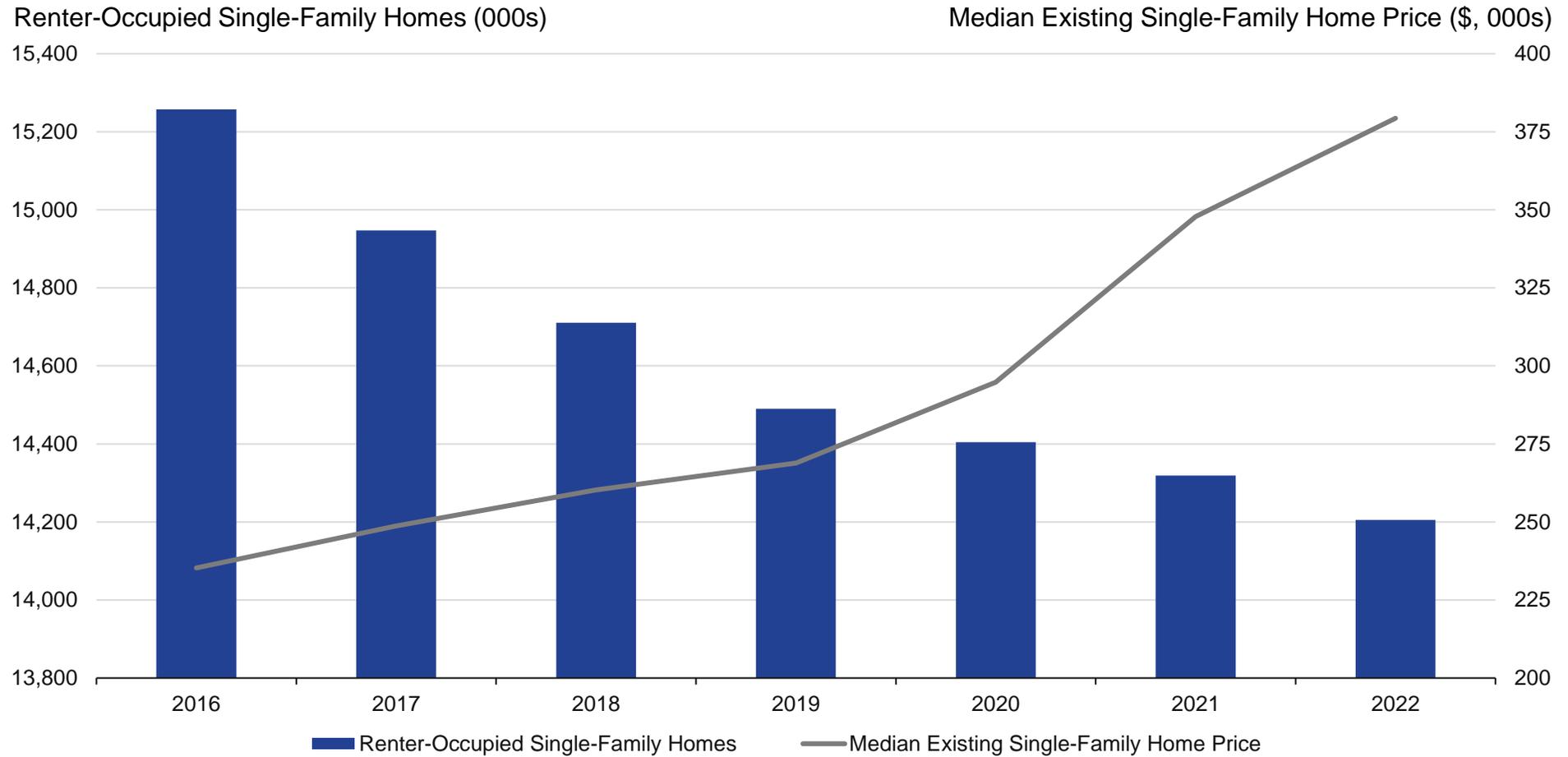


## Average Annual Total Return

	Single-Family	Apartment	Office	Retail	Industrial	All Equity REITs
1-Year	1.7%	9.0%	18.7%	14.6%	5.3%	11.1%
3-Year	-2.2%	-2.7%	-10.2%	5.1%	2.1%	-0.8%
5-Year	8.6%	3.2%	-5.3%	3.6%	10.9%	4.5%
Since Dec. 2015	11.9%	5.4%	-0.8%	2.0%	15.6%	6.5%

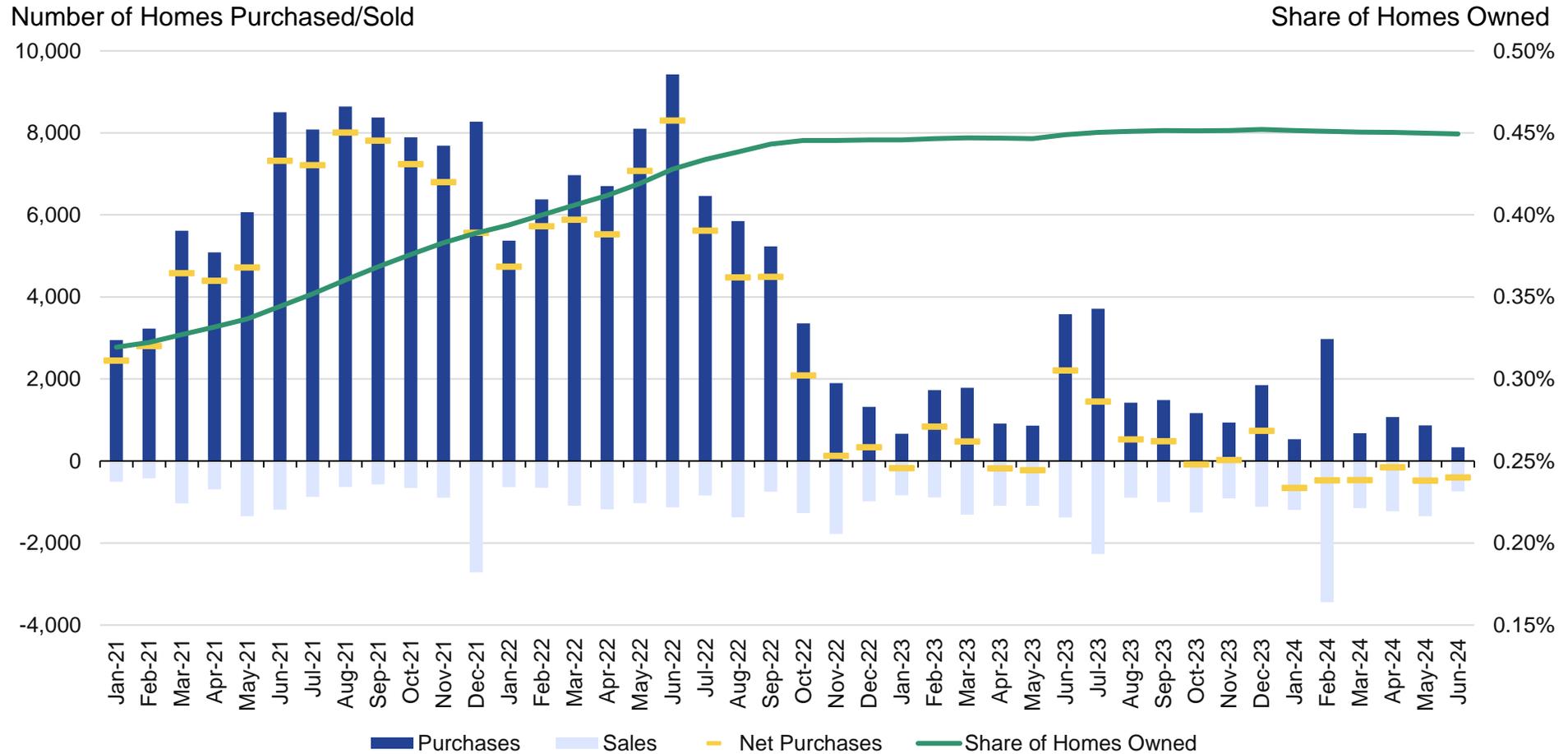
# Single-Family Rental Homes Have Decreased By +1 million Since 2016

Owner-occupier households have been the primary force driving prices higher



# Large Buy & Hold Investors\* Own Less Than 0.5% of U.S. Single-Family Market

## Large Buy & Hold investors have slightly decreased their holdings in 2024



Sources: Roofstock Rental Genome, Roofstock Research \*long-term investors with at least 1,000 homes as of June 2024

# Key Takeaways

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- **Launch of Expanded NPI gives us better insight into alternative subtype investment activity and performance**
- **Single-Family Rental is a small component of the Expanded NPI; considerably smaller than alternative sectors like Life Science and Self Storage, despite its critical role in U.S. housing**
- **The subtype includes three clusters: scattered site, purpose built attached, and purpose built detached; scattered site and purpose built detached represent most of the dollar value**
- **Performance of Single-Family Rental within NCREIF has exceeded the Expanded NPI and the Apartment sector**
- **Returns in the purpose built attached cluster have lagged the other two clusters, scattered site has strongest returns and experienced slight appreciation in Q2**
- **REIT market provides a longer-term look at SFR performance, SFR has underperformed over the past year, but outperformed over longer durations**
- **Ownership by large investors has been relatively stable with modest net selling over the past year; common narrative about large investors buying up homes not reflected in the data**

# 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





# Potential Causes Of The Next Recession and Why It May Not Matter So Much Over The Long Run

7/29/2024

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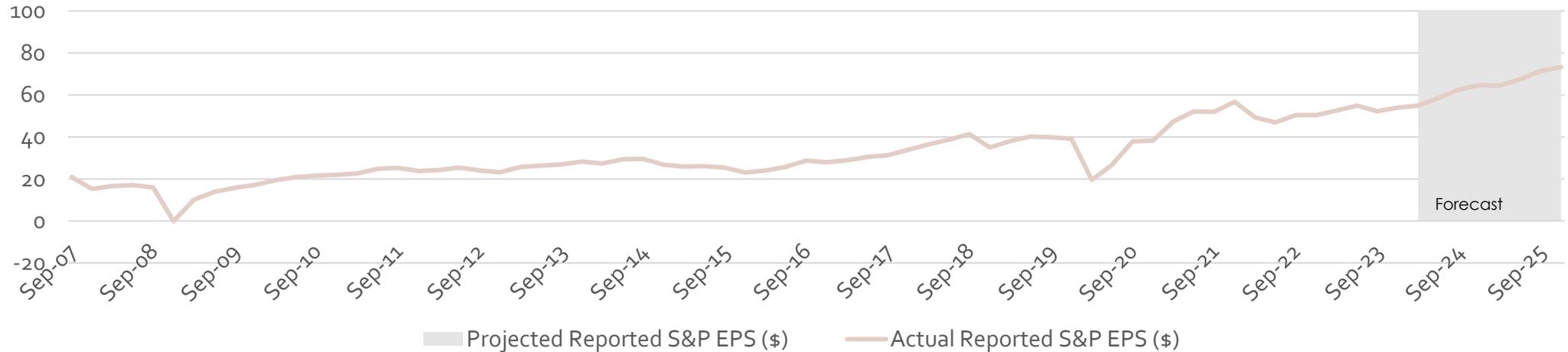
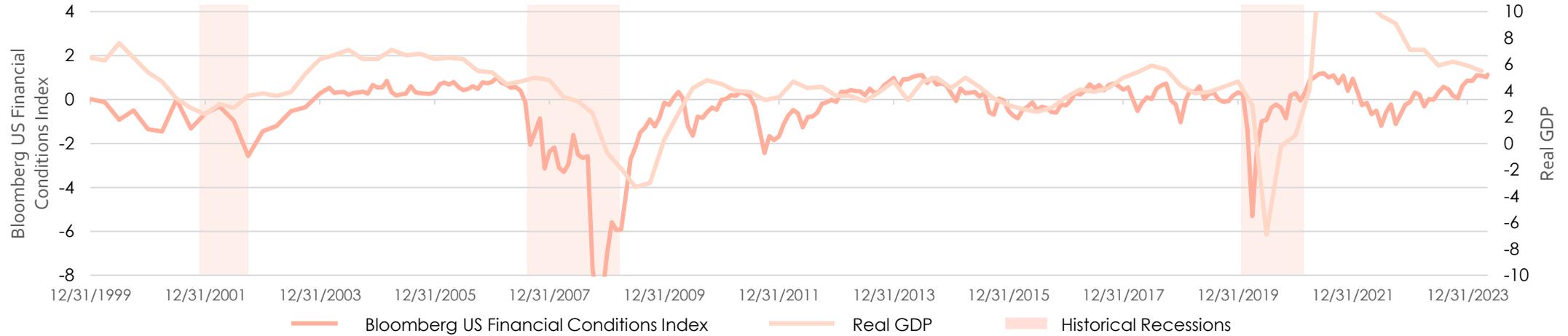


# Market Outlook: State of the State



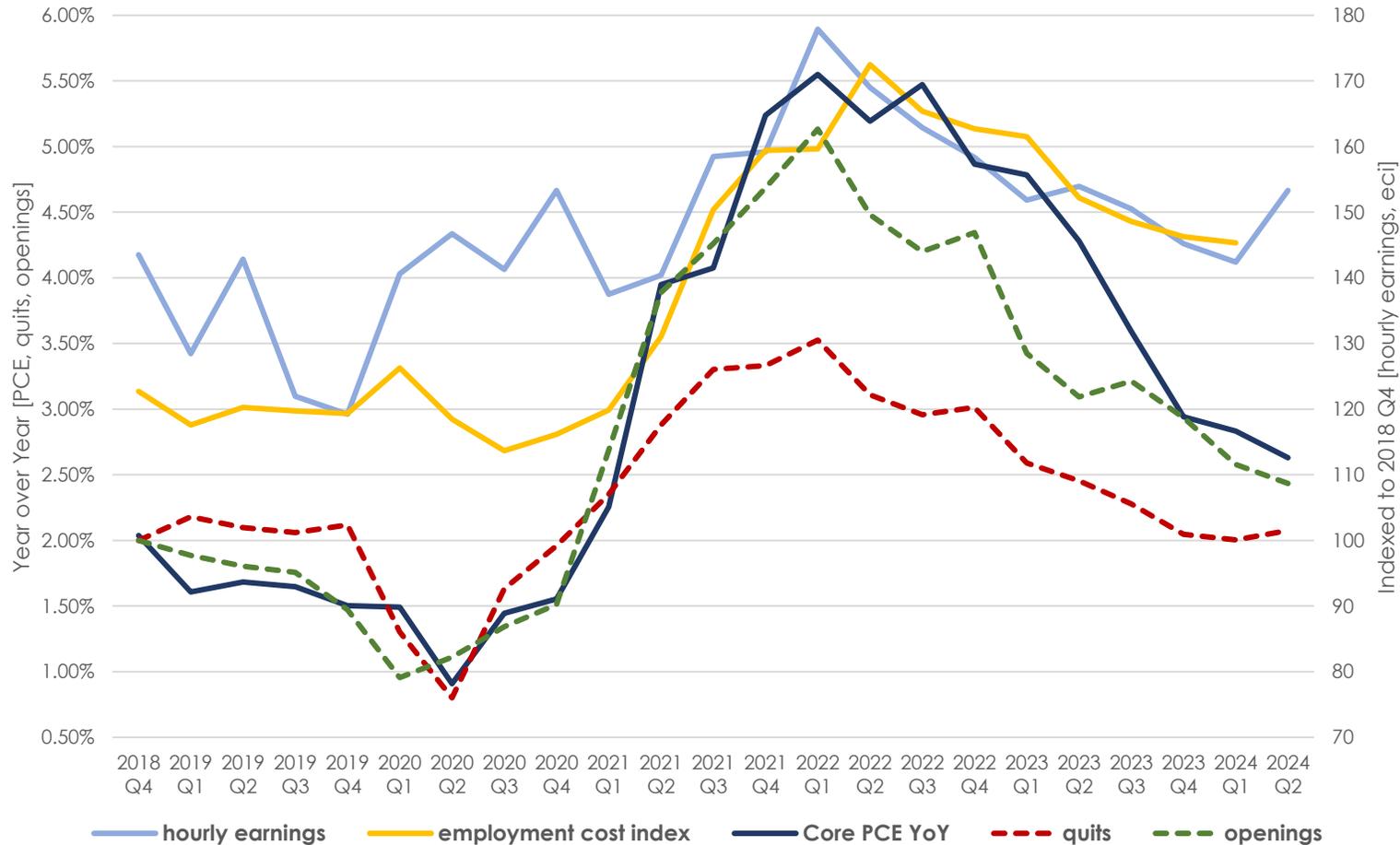
# Debt and Equity Both Behind GDP Stability

Capital Markets Very Supportive...As Is The Equity Market



Source: 1Q 2024 Moody's and S&P Global  
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# Do The Trends Indicate an Economic Normalization or Nosedive?



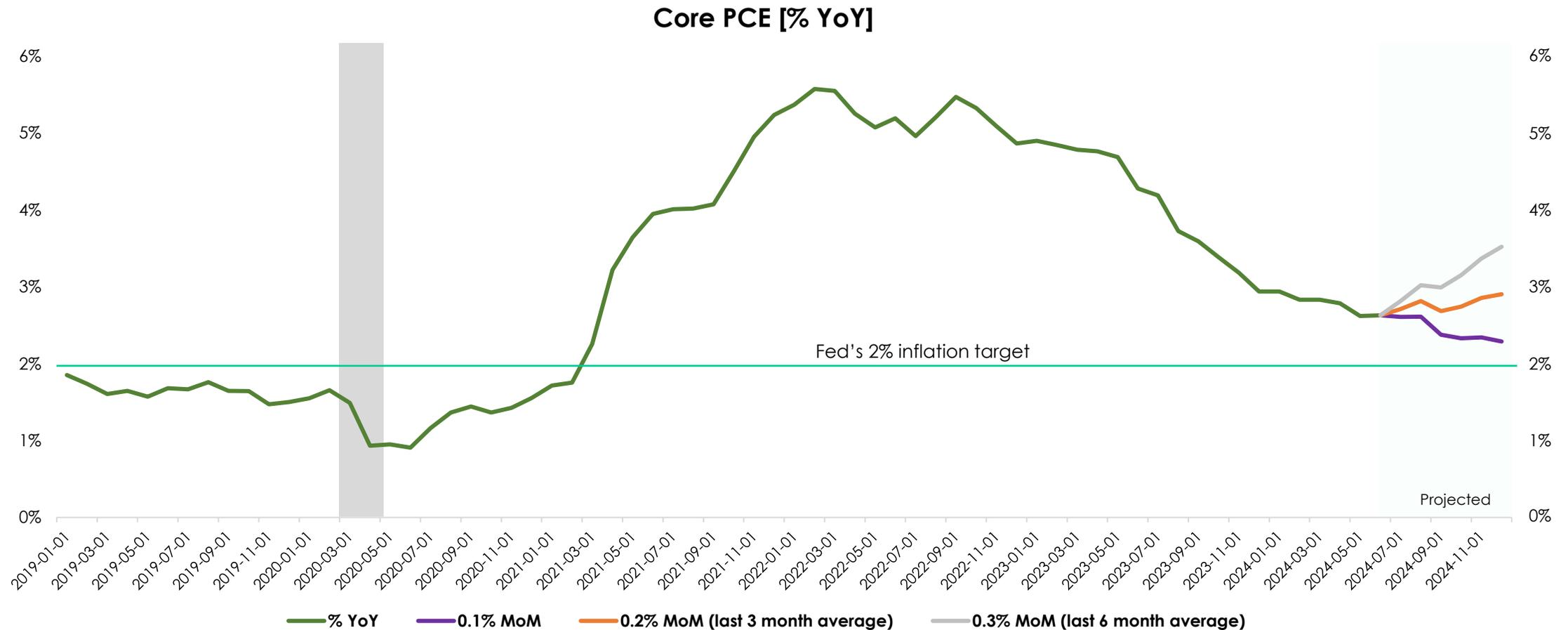
- Indicators used**
- 
- Job quits
  - Job openings
  - Hourly earnings
  - Employment cost index
  - PCE Year Over Year

Source: 2Q 2024 FRED, Lionstone [quits and openings are thru end of May 2024]

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# “Lower” Inflation Is Not Necessarily The Same As “Low” Inflation



Source: FRED, Lionstone 2Q 2024

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## What Causes The Next Recession and Where Does That Hurt?



# Current Recession Causes Seem Obvious

## What Appears to have Caused the Recession

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Tech Wreck (2000)

Tech Markets

- Bay Area
- Boston
- Austin

Housing (2009)

- Florida
- Georgia
- California
- Arizona

Post Pandemic Locational Choice (2020)

- Chicago
- Los Angeles
- Bay Area

## What is Unsustainable Now?

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Government Deficit Spending

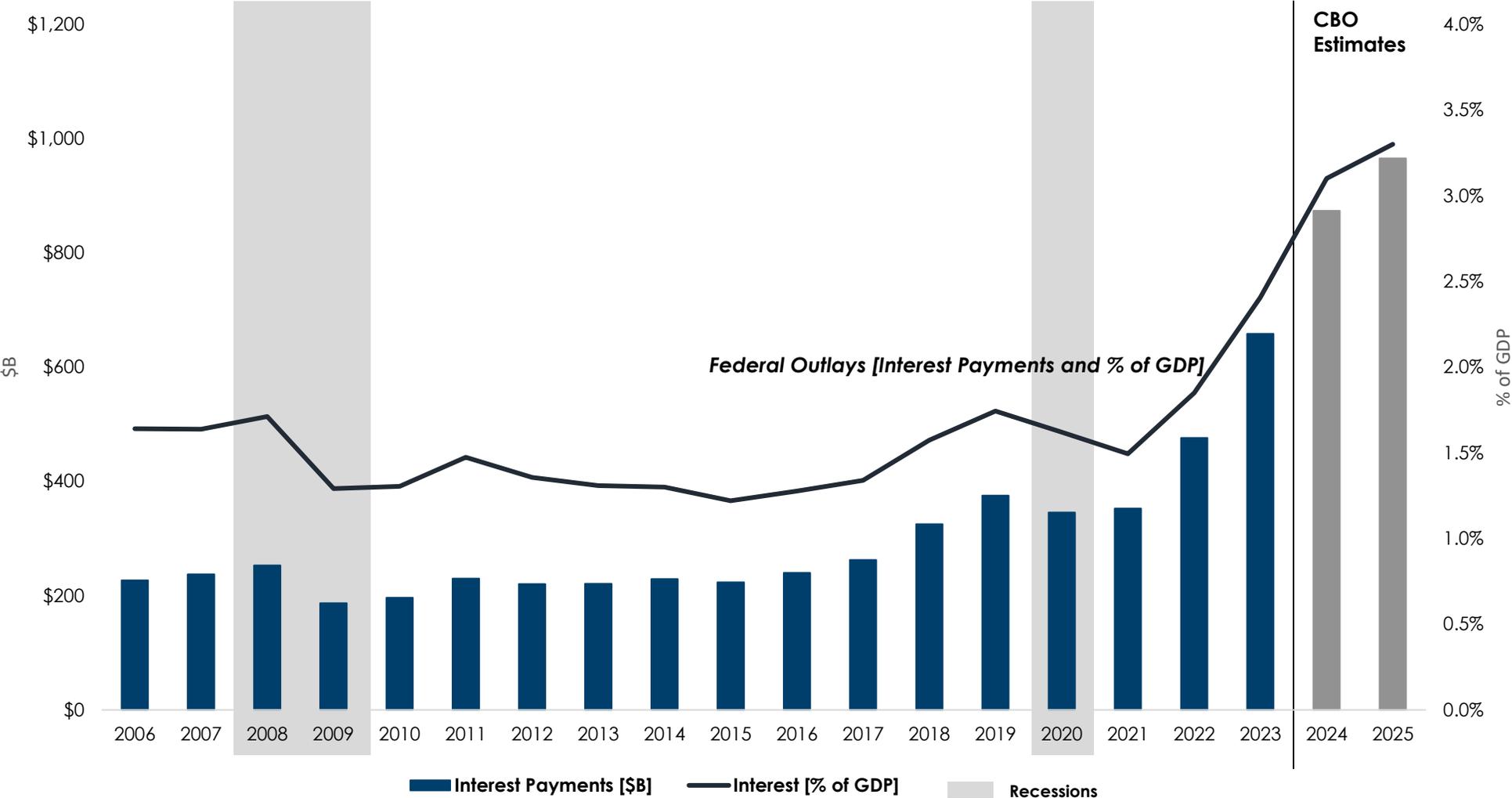
Corporate Adjustment to Higher Debt Costs

Nonbank Lender Risk

Tech Stock Pricing

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# Government Deficit Spending: Cost Of Deficit Spending Appears Unsustainable



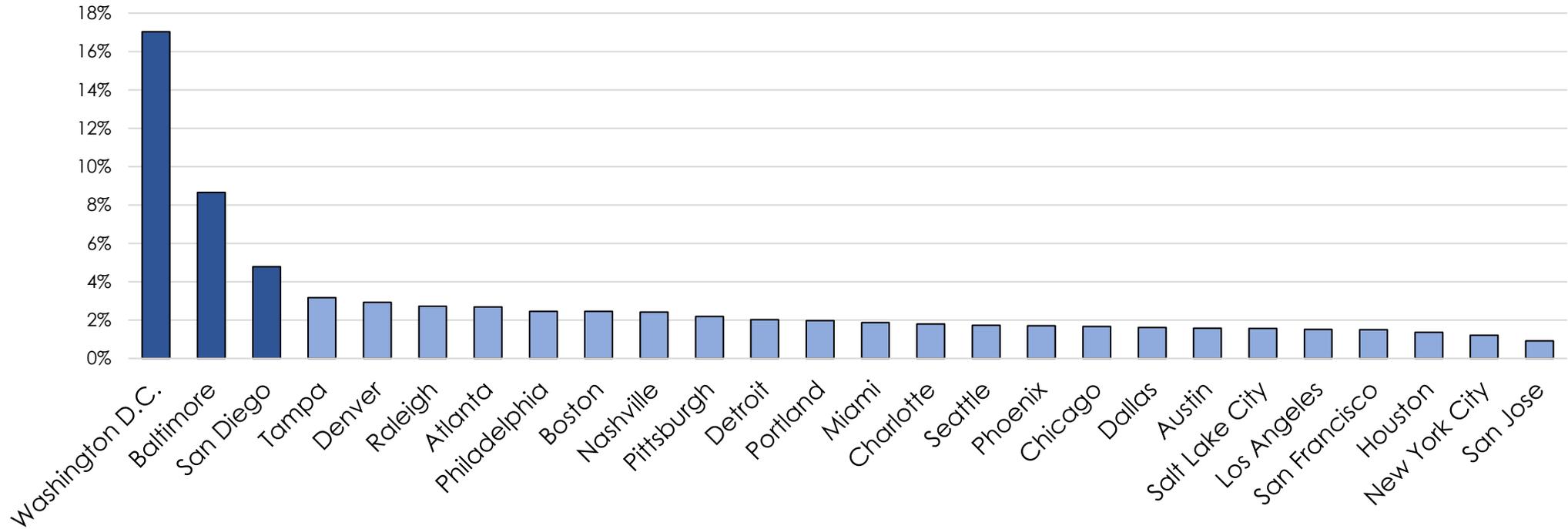
Source: FRED, CBO 1Q 2024

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# Government Deficit Spending: What Suffers If Federal Spending Declines?

**Federal Government % Share of GDP**



## Where Lower Federal Deficits Might Hurt

Washington, D.C.

Health Care / Pharma / NH

- Baltimore
- Boston
- Nashville

Space

- Houston
- Space Coast
- L.A. (Space Force)

Defense

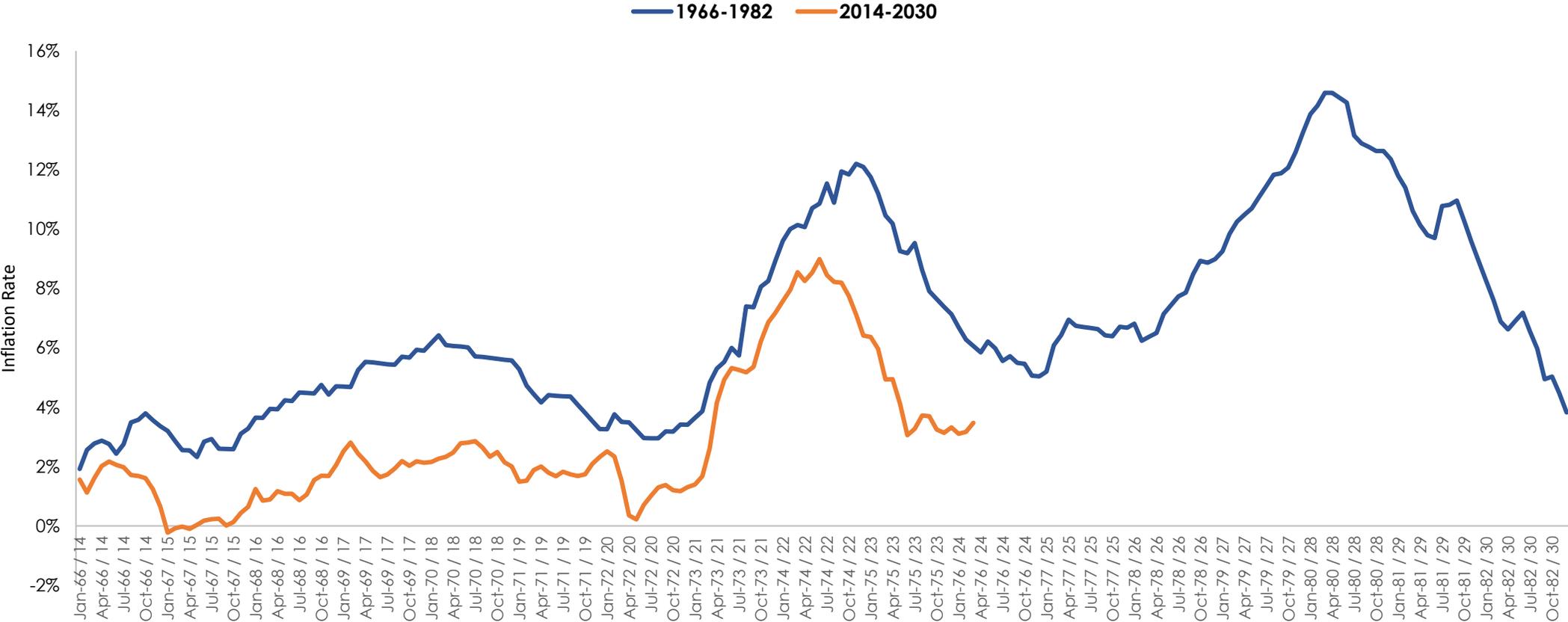
- D.C.
- San Diego
- Norfolk

Source: Moody's, 1Q 2024

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# Higher Debt Costs: Inflation May Be Less Bad For Real Estate Than Other Asset Classes

### Historical vs. Current Inflation Rates



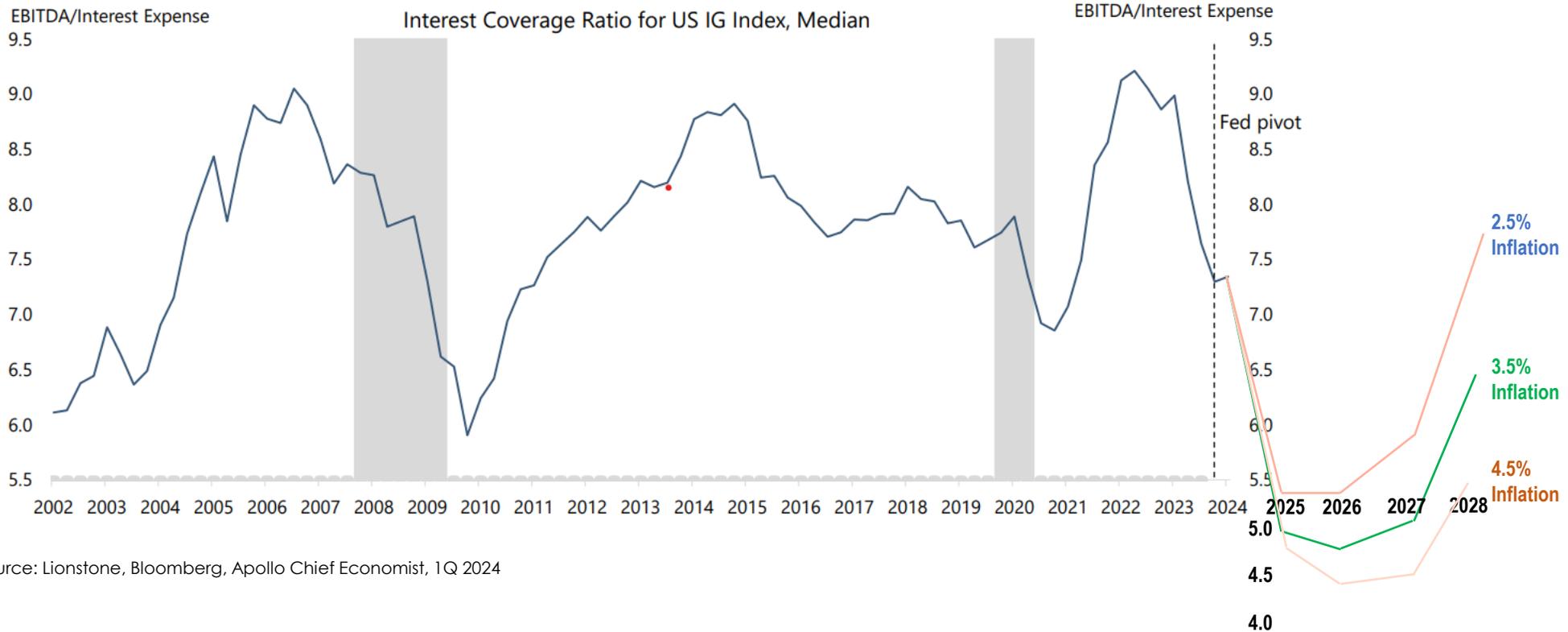
Source: FRED, 1Q 2024

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# Higher Debt Costs: Higher Inflation Rates May Result in Stressed Corporate Cash Flows

## IG ICR rebounding in Q1 2024



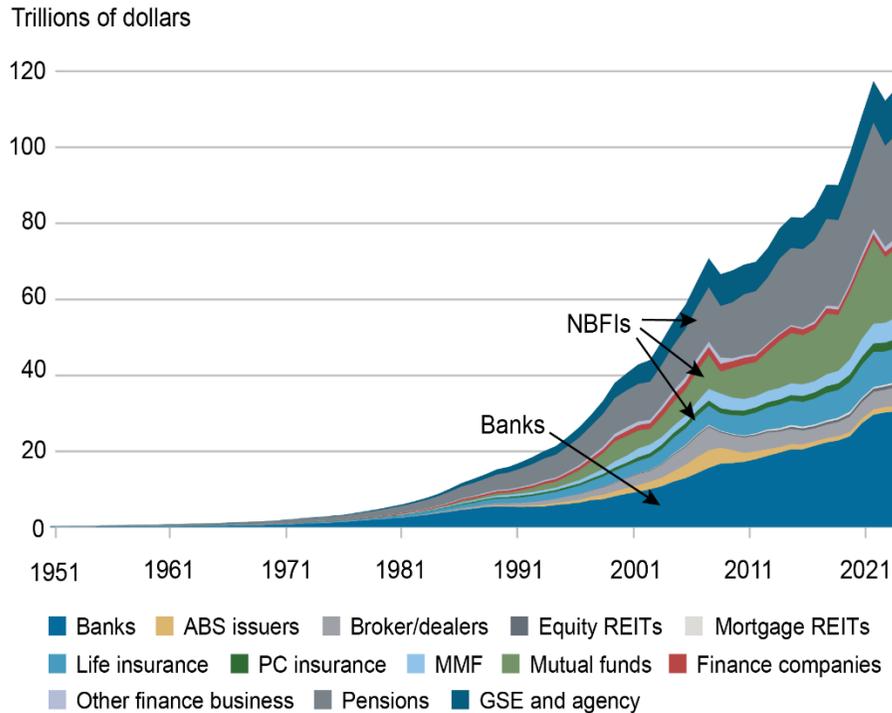
Source: Lionstone, Bloomberg, Apollo Chief Economist, 1Q 2024

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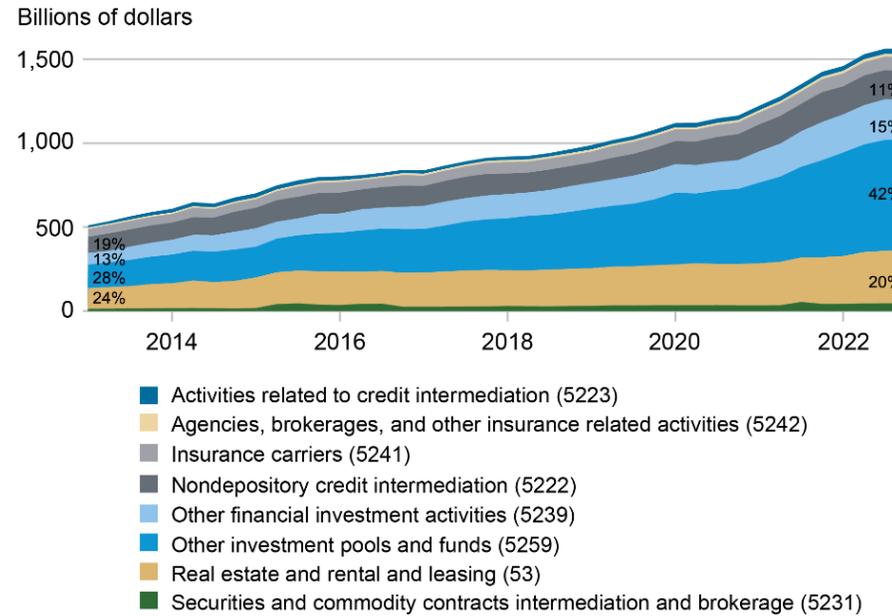
# Private Credit: Appears Large, Could Be Even Larger



Total Assets of Banks and NBFIs 1951-2023



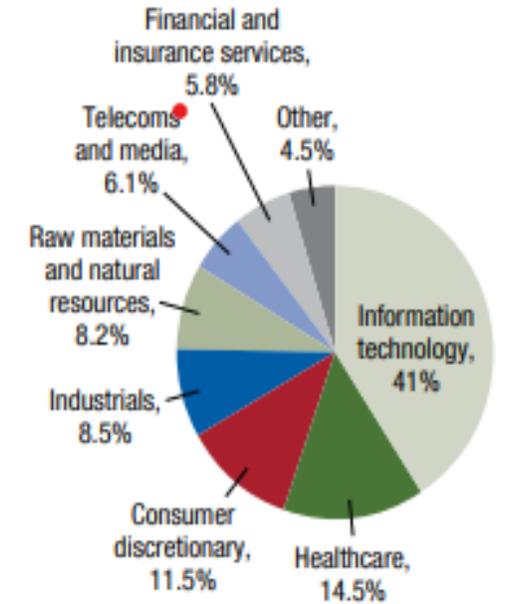
Credit Line Committed Exposure by NAICS



Source: Form FR Y14-Q, Schedule H.1. Authors elaboration.

Liberty Street Economic, NY Fed, Financial Accounts of the United States (Flow of Funds)

Private Credit Sector Allocation, by Last Three-Year Deal Volume (Percent share by global deal volume)



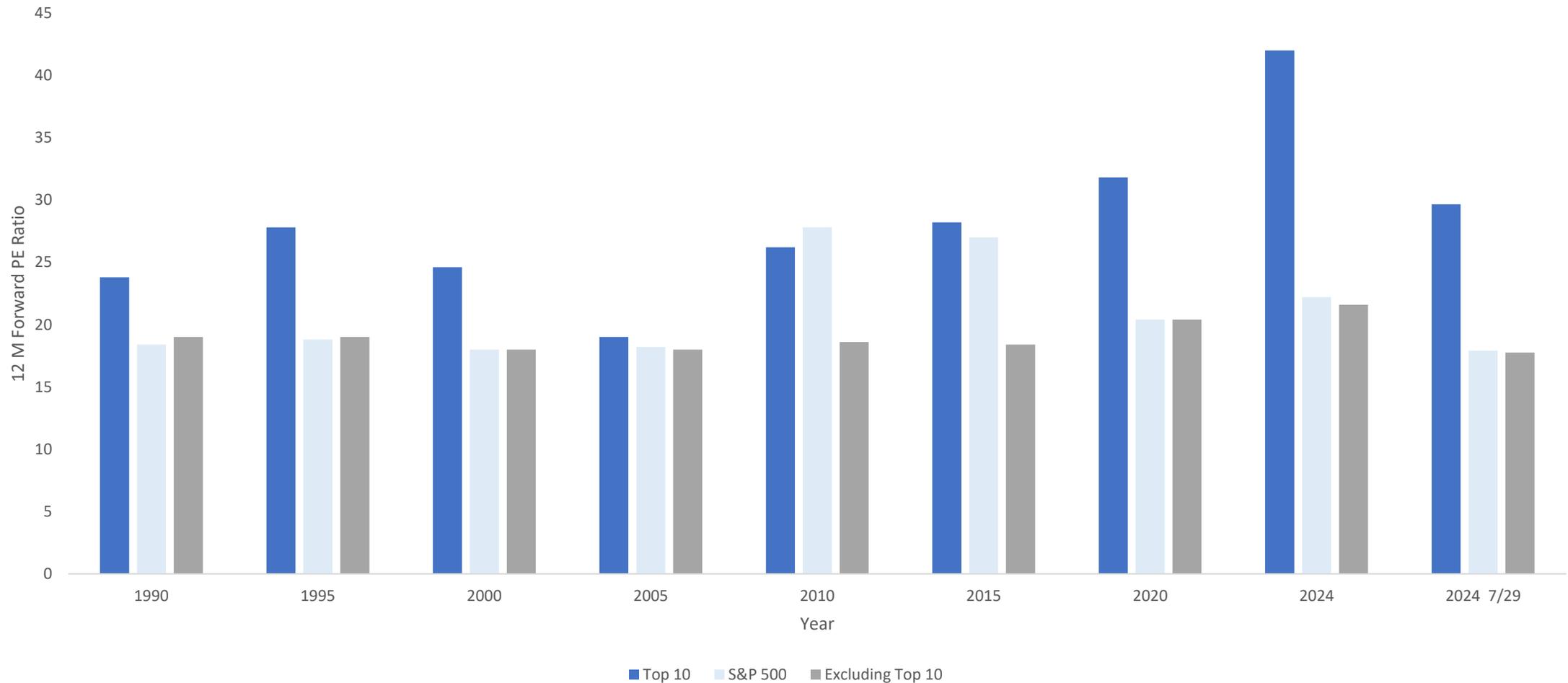
Sources: Bloomberg Finance L.P.; Preqin; S&P Capital IQ; and IMF staff calculations.

Note: In panel 1, bond yields are based on the aggregate Barclays Bloomberg US corporate bond indices. Leveraged loan yields originate from the LSTA US Leveraged Loan Index. Private credit loan interest rates are based on BDC filings and reflect the median among a sample of loans. The bond and leveraged loan yields reflect the marginal cost of funding, whereas private credit loan interest rates reflect the BDC portfolio. The reference date is year-end 2023. In panel 2, private credit firm fundamentals are based on a sample of private credit transactions from Preqin that have matching data in Capital IQ Pro. This matched sample may therefore be subject to a selection bias given that most private firms do not publicly release financial statements. BDCs = business development companies; EBITDA = earnings before interest, tax, depreciation, and amortization; HY = high yield; IG = investment grade.

Source: Liberty Street Economic, NY Fed, Financial Accounts of the United States (Flow of Funds)

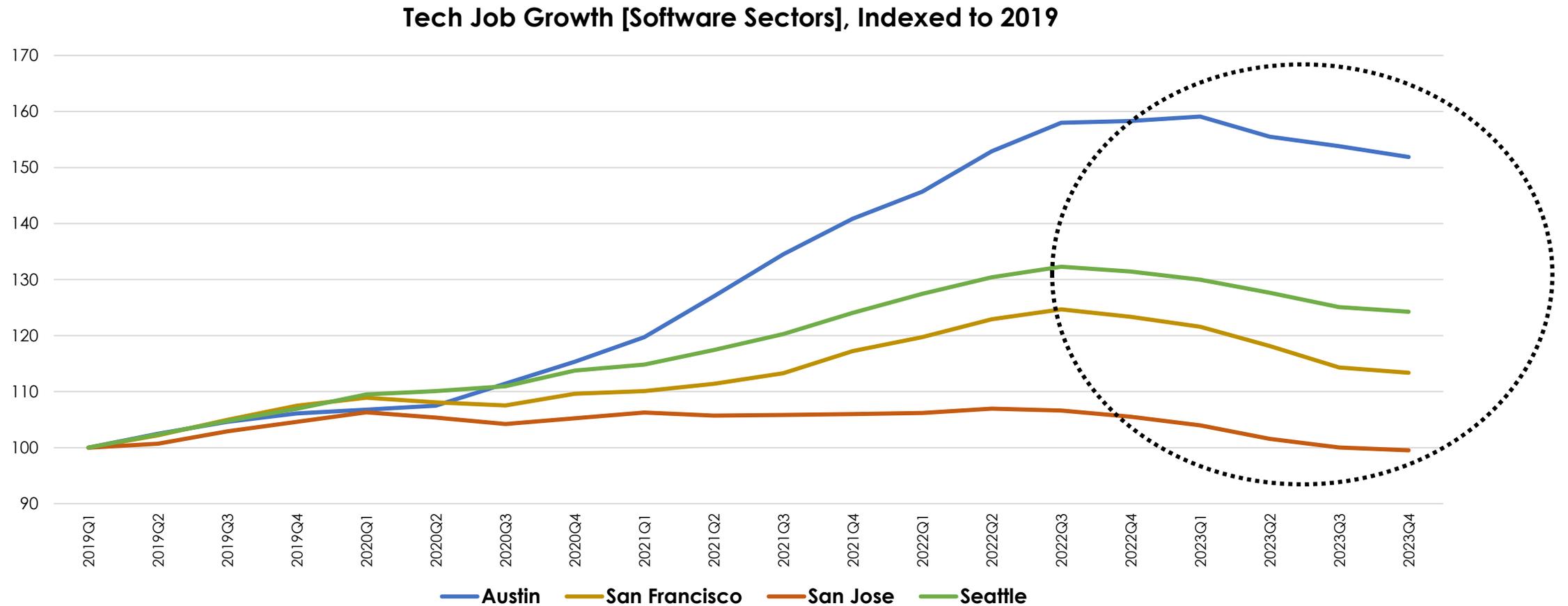
# Tech Stock Pricing: PE Ratios for Top 10 Stocks Appear High Versus History

## Median Forward 12 M PE Ratio



Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. The information is not intended to be used as the sole basis for investment decisions, nor should it be construed as advice designed to meet the particular needs of an individual investor.

# Tech Stock Pricing: Technology Jobs May Already Be Adjusting



Source: Moody's, 1Q 2024

Software jobs defined as following sectors: computer systems design, software publishers, data processing and hosting, and other information services.

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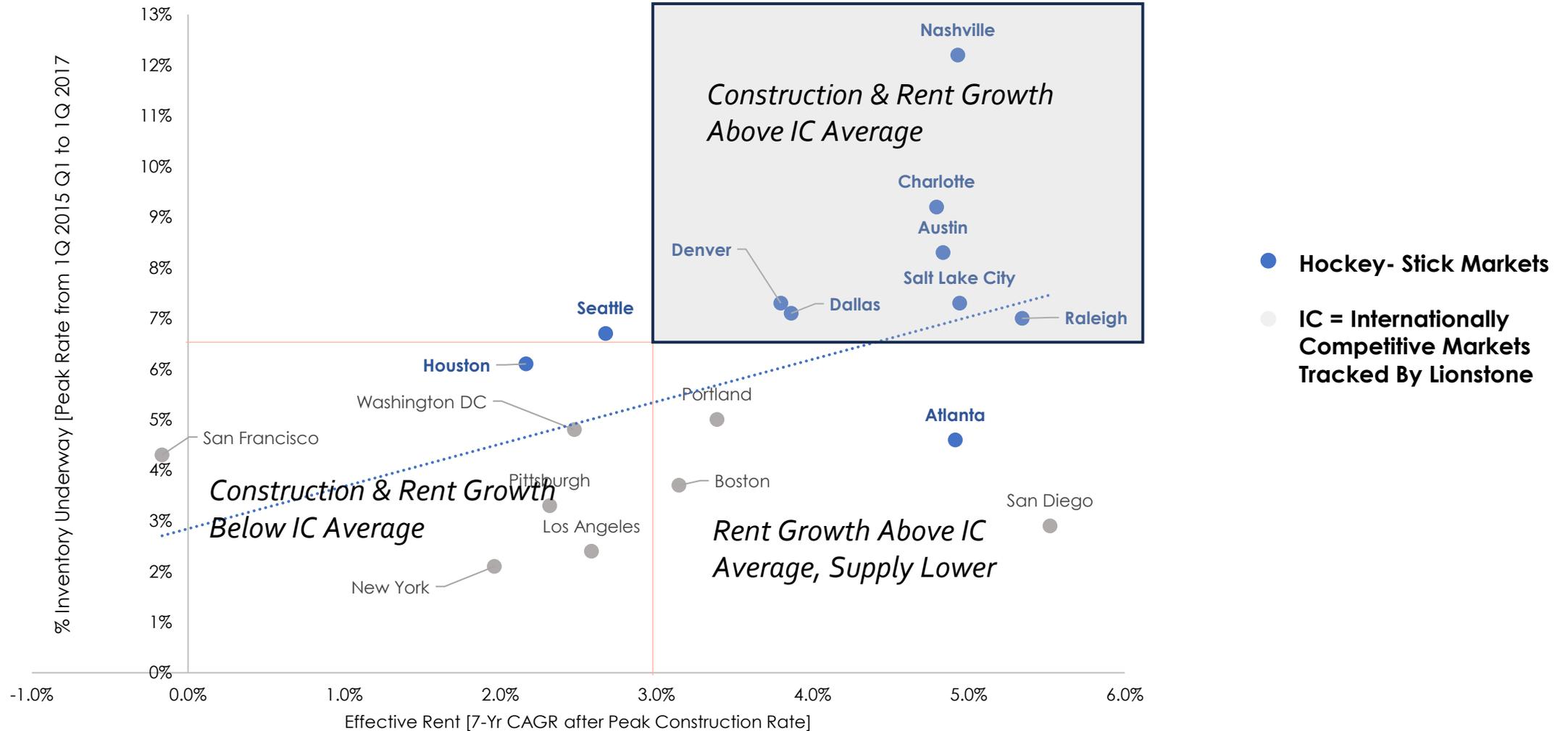


# NOI Success: It's The Middle-Class!



# Non-Intuitive: Construction Boom → Rent Boom

## Peak Construction vs. Rent Growth

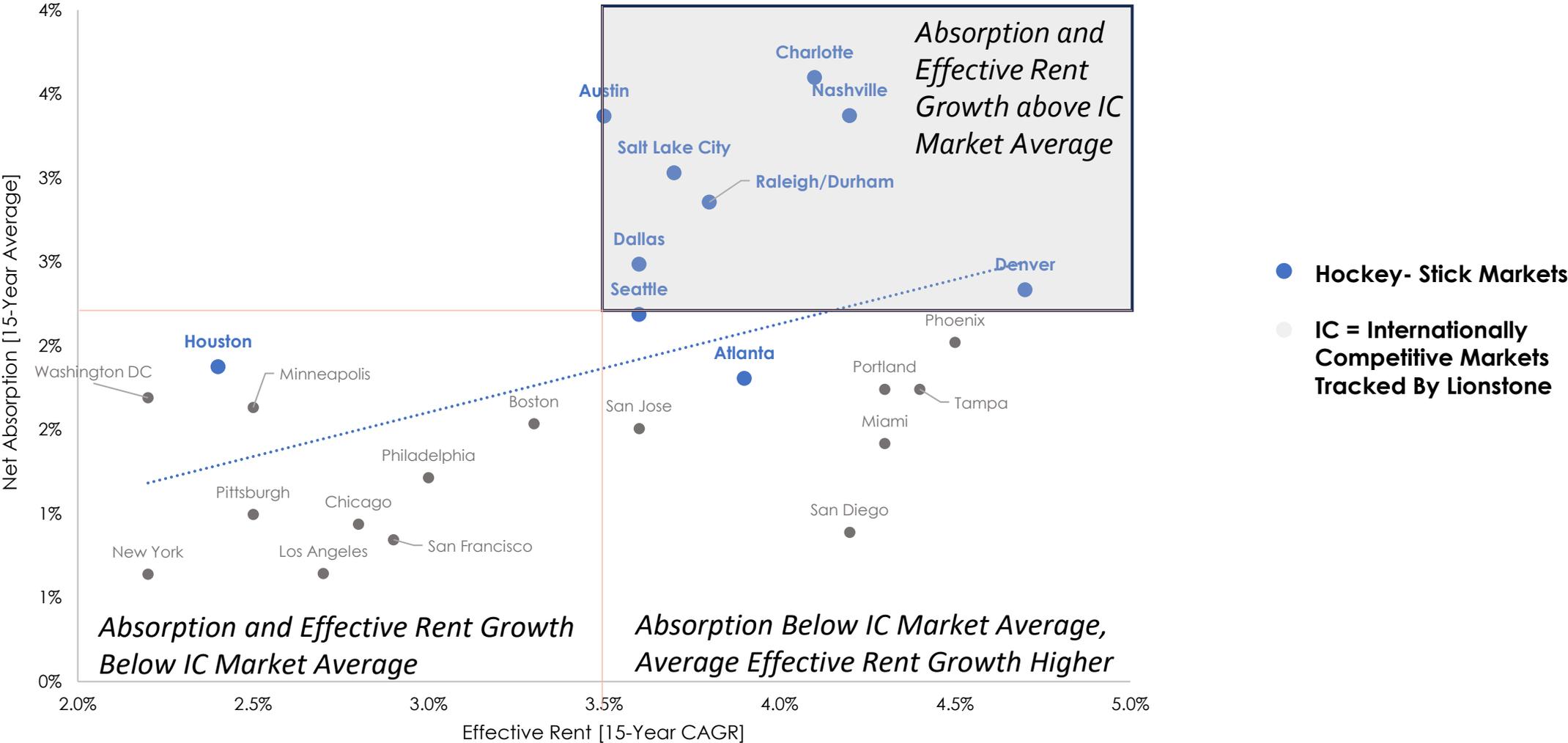


Source: RealPage, 1Q 2024

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# High Demand Markets Appear To Dominate Effective Rent Growth

**Apartments — Absorption vs. Effective Rent Growth (2008-2023)**



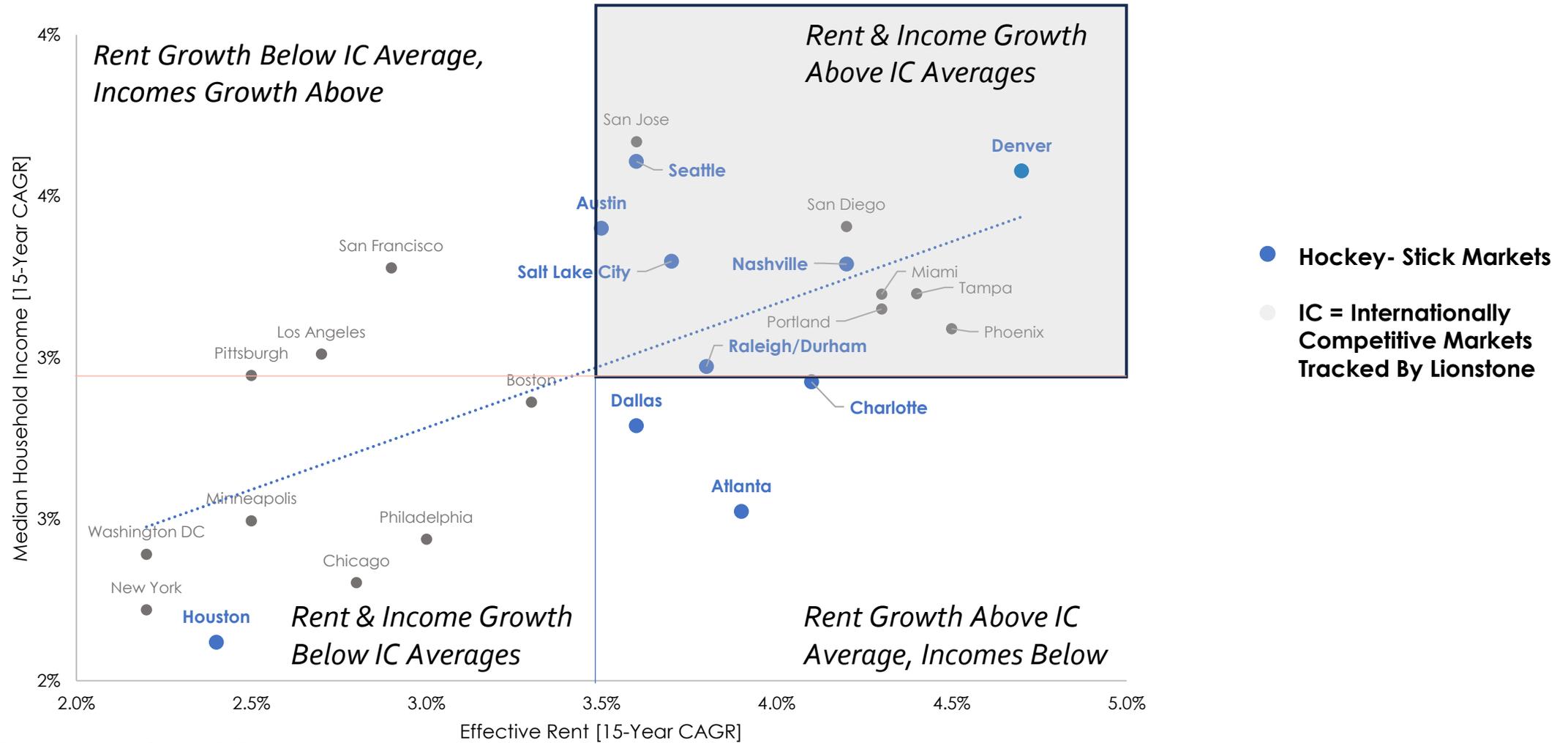
Source: RealPage, 1Q 2024

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# Effective Rent Growth Appears Driven By Income Growth, Not Barriers To Supply

## Apartments — Household Income vs. Effective Rent Growth (2008-2023)



Source: RealPage, CoStar, 1Q 2024

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# 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 2<sup>nd</sup> Quarter 2024



- Returns continue negative for sixth straight quarter although better than last quarter
- Market values fall for eighth straight quarter
- Returns positive for all sectors except office.
- Rent and NOI growth dropping but still positive
- Percent leased down a little
- Cap rates mixed (appraisal rising – transaction falling)
- A handful of properties in the NPI returned to the lender
- Number of properties with a market value less than the loan balance continues to increase but very small percentage of properties.





# Thank you

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

[www.NCREIF.org](http://www.NCREIF.org)

