



ODCE Performance Attribution Webinar Third Quarter 2023 Review

Day: Tuesday

Date: December 19th, 2023

Time: 1:30pm Central

Panelist Overview



Joe D'Alessandro

NCREIF Director of Real Estate Performance Measurement

Guest Host

Bridget Lechtenberg

Portfolio Manager for Principal Real Estate's core NFI-ODCE strategy.

Agenda



- Overview of private and public performance
- Build-up of NFI-ODCE fund level returns
- The impacts of leverage
- Property type sector weights and returns
- Appreciation analysis
- Attribution by valuation components by sector
- Analysis of current and past downturn cycles
- Investor cash flows

Disclaimer

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

Total Returns Across NCREIF Indices and Public Markets

Are we nearing the end of value depreciation?



QUARTERLY RETURNS	<i>Property Unlevered</i>	<i>Fund Levered</i> -----				
Period	NPI Frozen	NPI Plus	NFI-ODCE	NAREIT	SP 500	T-Bill
09/30/2023	-1.37%	-1.3%	-1.9%	-8.3%	-3.3%	1.3%
06/30/2023	-2.0%	-1.9%	-2.7%	1.2%	8.7%	1.2%
03/31/2023	-1.8%	-1.7%	-3.2%	1.7%	7.5%	1.1%
12/31/2022	-3.5%	-3.3%	-5.0%	4.1%	7.6%	0.8%
ANNUALIZED RETURNS						
Period	NPI Frozen	NPI Plus	NFI-ODCE	NAREIT	SP 500	T-Bill
YTD	-5.1%	-4.8%	-7.6%	-5.6%	13.1%	3.7%
1 year	-8.4%	-7.9%	-12.1%	-1.7%	21.6%	4.5%
2	3.1%	3.4%	3.6%	-9.3%	1.4%	2.5%
3	6.0%	6.3%	7.1%	2.7%	10.2%	1.7%
4	5.3%	5.2%	5.7%	2.8%	9.9%	1.7%
5	5.8%	5.4%	6.4%	3.0%	12.2%	1.5%
10	7.4%	7.6%	8.2%	6.1%	11.9%	1.1%
15	6.0%	6.2%	5.6%	6.1%	11.3%	0.8%
20	8.0%	8.2%	7.6%	7.9%	9.7%	1.3%
25	8.3%	NA	8.0%	8.6%	7.9%	1.8%

	NFI-DP, net (Daily Priced) (90/10 alloc)	Implied Private RE, Gross	NAREIT
10/31/2023	-0.48%	-0.05%	-4.36%
11/30/2023	0.01%	-1.19%	10.56%
Two Months	-0.47%	-1.24%	5.74%
12/31/2023	?	?	

ODCE Performance Attribution

Negative unlevered property performance & negative impact of leverage continue



	6/30/23	9/30/23	1 Yr	3 Yr	5 Yr	7 Yr
NFI-ODCE Unleveraged Property-level Total Return at Ownership Share	-1.98%	-1.42%	-9.22%	6.50%	5.55%	6.01%
Leverage	-0.82%	-0.56%	-3.38%	1.22%	0.57%	0.84%
Acquisitions (partial period)	0.01%	0.00%	0.02%	-0.06%	-0.04%	-0.02%
Other Non-Property Equity Investments	0.03%	0.01%	0.07%	0.08%	0.04%	0.05%
Cash Balances	0.07%	0.05%	0.28%	-0.22%	-0.15%	-0.21%
Other Assets and Liabilities	-0.03%	-0.02%	-0.12%	0.08%	0.07%	0.09%
Fund Costs	-0.03%	-0.03%	-0.08%	-0.10%	-0.10%	-0.10%
Other (includes Joint Venture Deal Structuring)	0.08%	0.06%	0.28%	-0.37%	-0.28%	-0.29%
Total Return Gross of Fees	-2.68%	-1.90%	-12.14%	7.13%	5.65%	6.37%

Quarterly Leverage Impact trends

Negative leverage impact continues, though decelerating; positive mark to market slightly offsets as rates increased



ODCE Funds Total Leverage==>

	22.7%	23.8%	24.5%	25.0%	
	12/31/22	3/31/23	6/30/23	9/30/23	1 YR
Property-level leverage at principal balance	-0.70%	-0.49%	-0.47%	-0.39%	-1.88%
Property-level leverage marked to market	0.01%	0.00%	0.03%	0.08%	0.11%
Fund-level leverage at principal balance	-0.65%	-0.51%	-0.48%	-0.39%	-1.86%
Fund-level leverage marked to market	0.11%	-0.07%	0.10%	0.14%	0.25%
Total effects of leverage	-1.23%	-1.07%	-0.82%	-0.56%	-3.38%
Total leverage at principal balance	-1.35%	-1.00%	-0.95%	-0.78%	-3.74%
Total leverage marked to market	0.12%	-0.07%	0.13%	0.22%	0.36%
Total Return Gross of Fees	-3.91%	-2.22%	-1.98%	-1.42%	-9.22%

10 yr. Treasury Rates Annualized

3.8%	3.5%	3.8%	4.6%
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12/14/23 rate was 3.9%

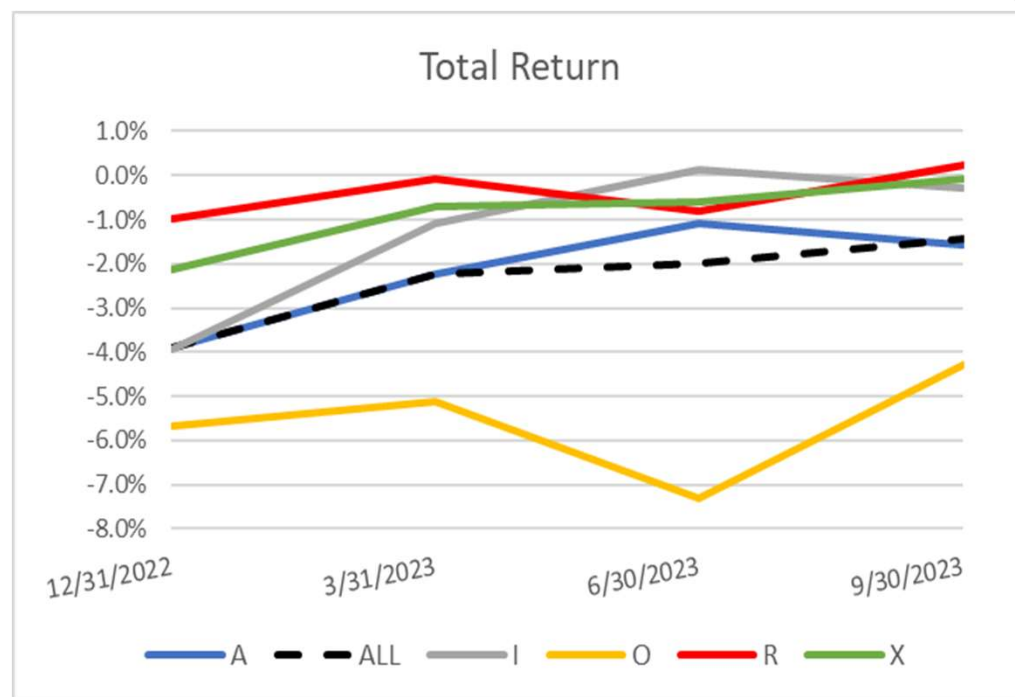
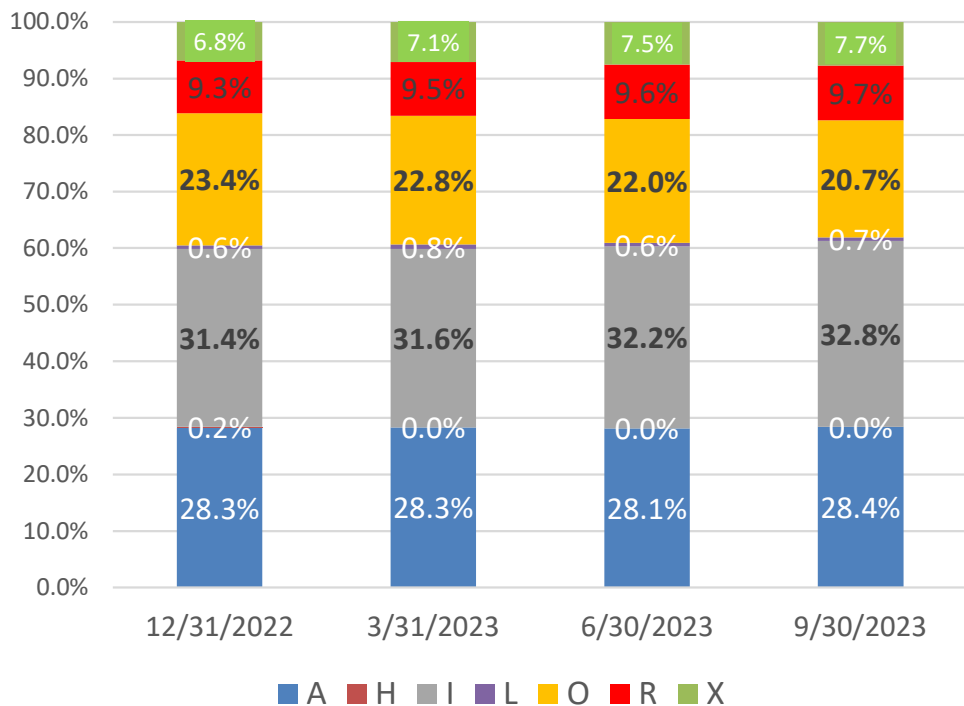
ODCE Property Performance Attribution



Office continues to be the largest contributor to negative return, though decreased considerably quarter over quarter

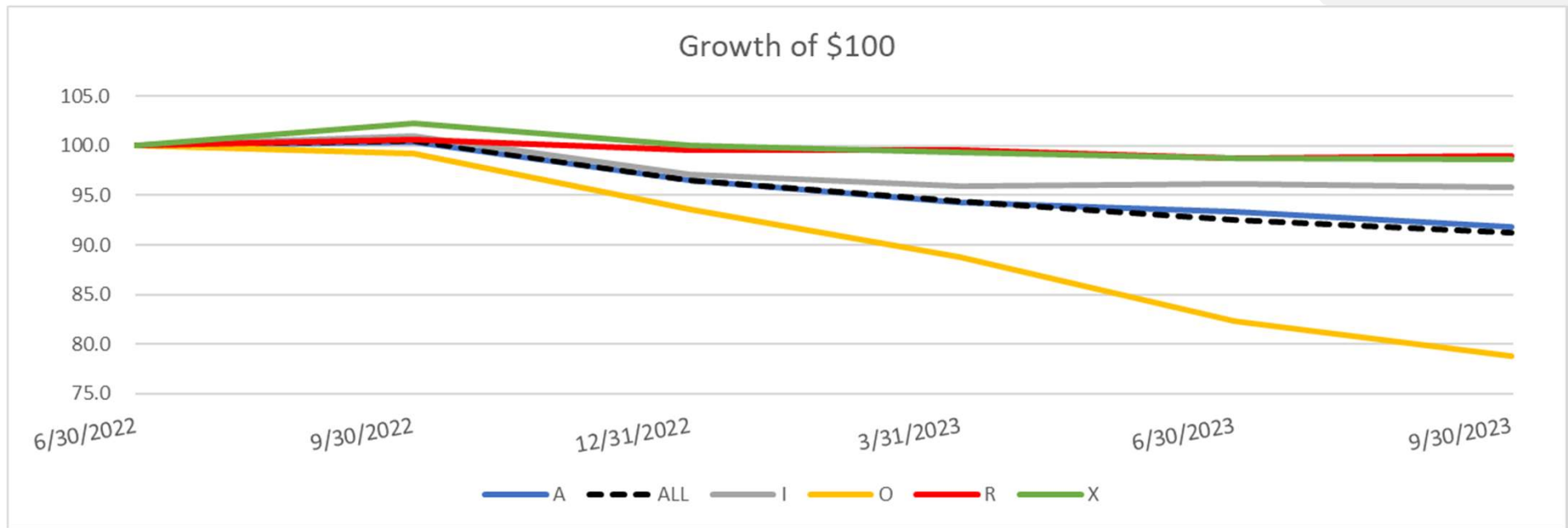
	Avg. Weights	Return	Contribution to Return				1 YR
	1 Yr	1 Yr	12/31/22	3/31/23	6/30/23	9/30/23	
Apartment	28.2%	-8.56%	-1.11%	-0.63%	-0.30%	-0.45%	-2.41%
Industrial	32.0%	-5.14%	-1.24%	-0.35%	0.04%	-0.09%	-1.62%
Office	22.2%	-20.60%	-1.33%	-1.17%	-1.61%	-0.88%	-4.77%
Retail	9.5%	-1.59%	-0.09%	0.00%	-0.08%	0.02%	-0.15%
Hotel	0.2%	0.63%	0.00%	0.00%	0.00%	0.00%	0.00%
Land	0.7%	-4.84%	0.00%	-0.03%	0.00%	-0.01%	-0.03%
Other	7.3%	-3.46%	-0.14%	-0.05%	-0.04%	-0.01%	-0.24%
Unlev Prop Tot Ret	100.0%		-3.91%	-2.22%	-1.98%	-1.42%	-9.22%

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ODCE Property Performance Quarterly Total Returns

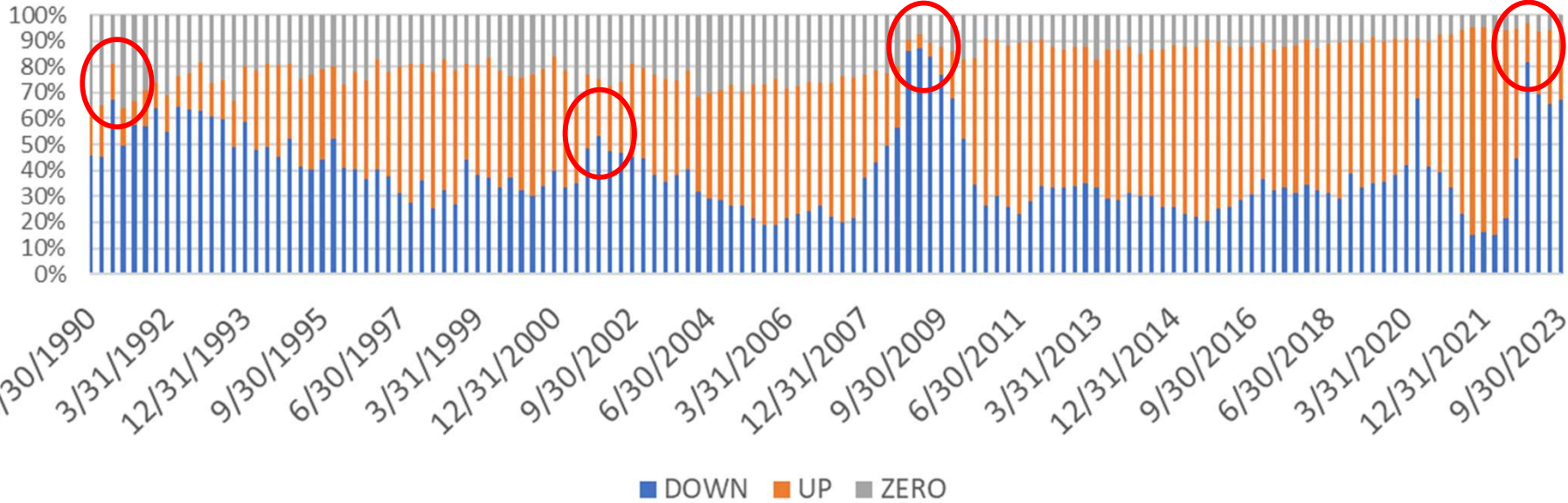
Growth of \$100 since the current cycle peak at June 30, 2022



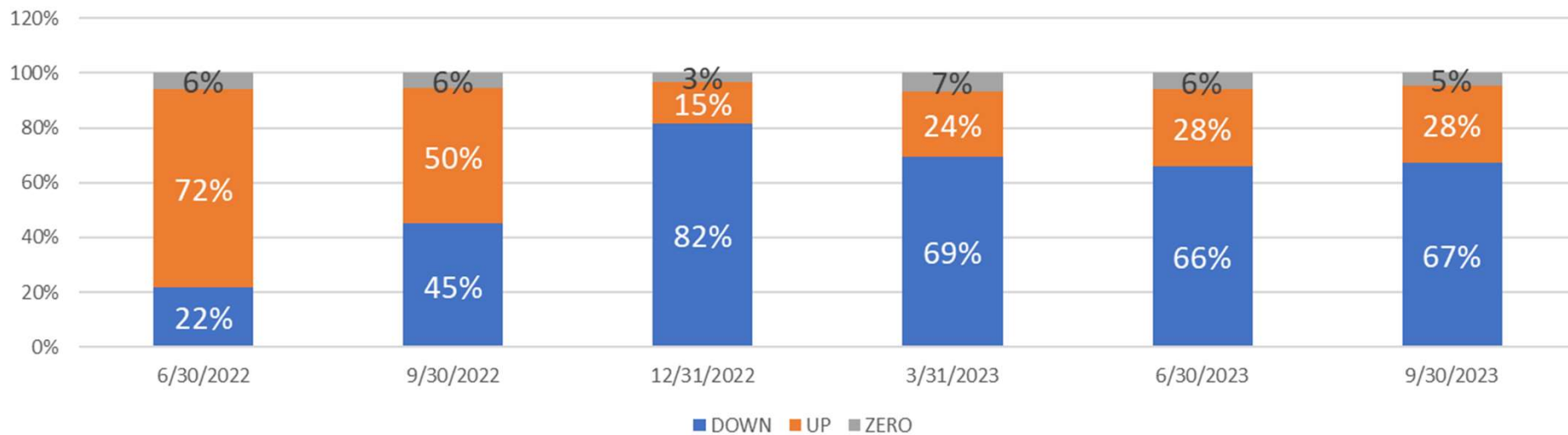
ODCE Appreciation Write-ups, Write-up downs and No Change



Property Counts (% of total)



Property Counts (% of total)



ODCE Return Components

Return components pre and post COVID

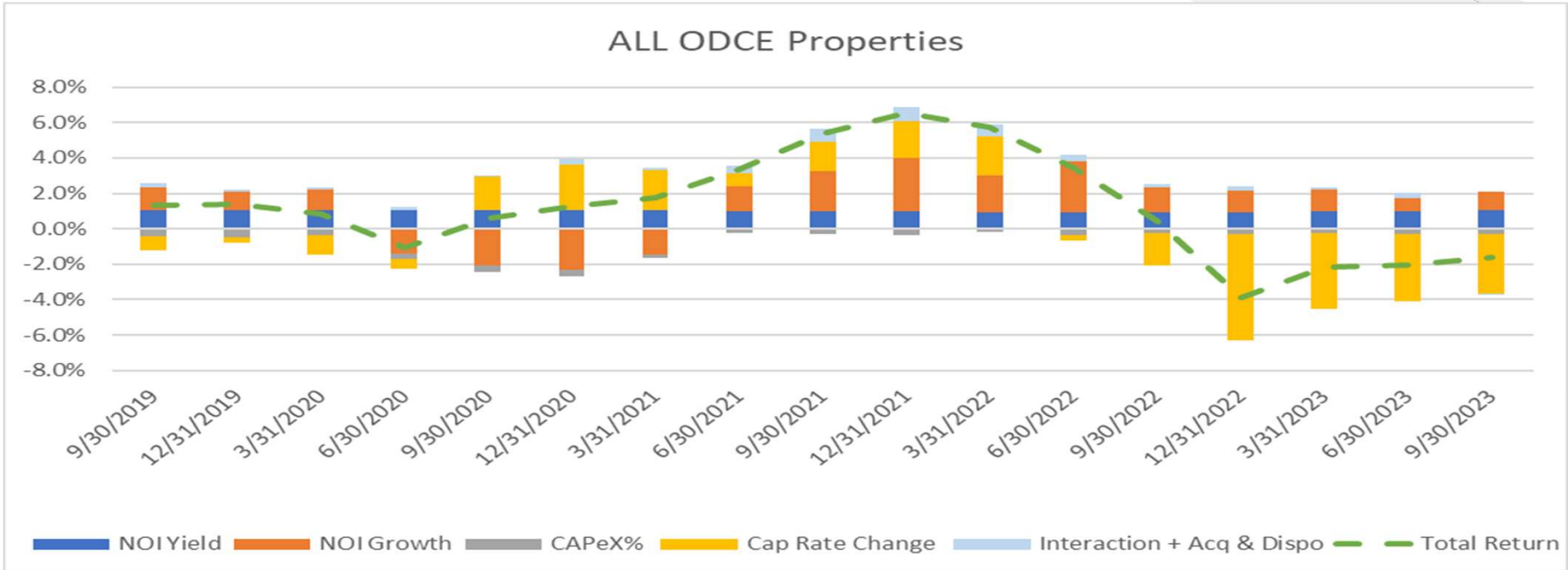
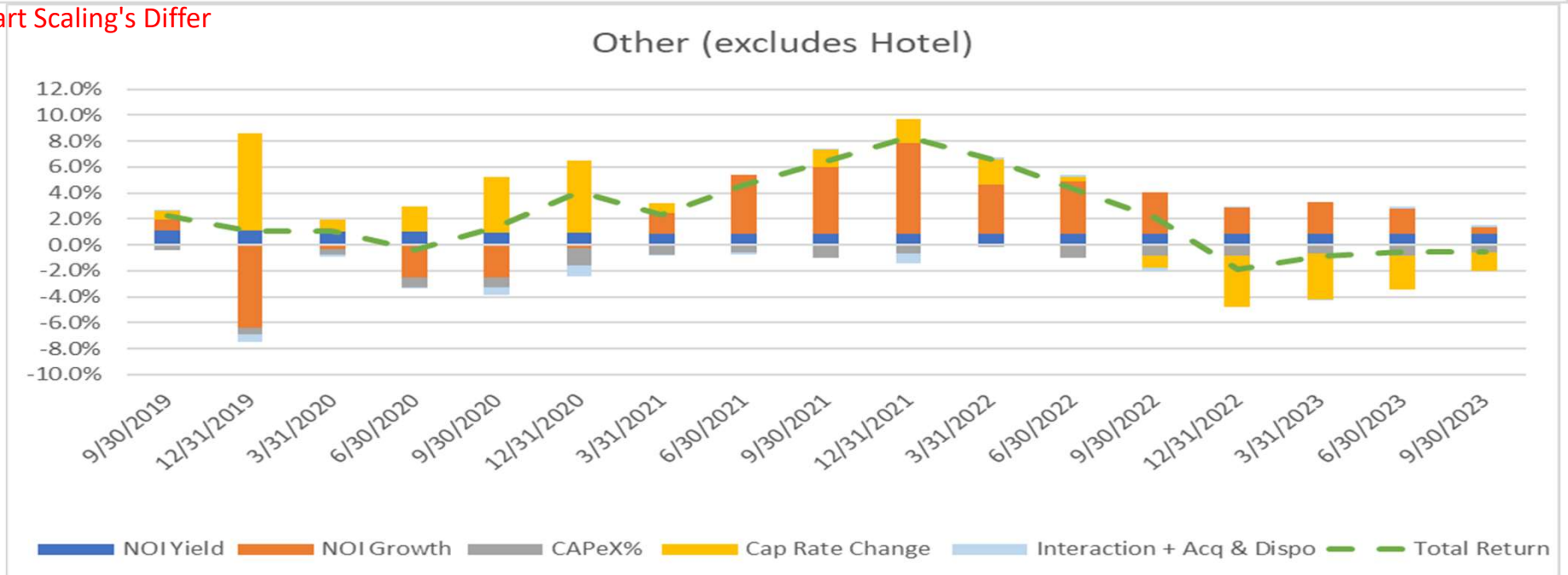


Chart Scaling's Differ



ODCE Return Components: Office & Industrial

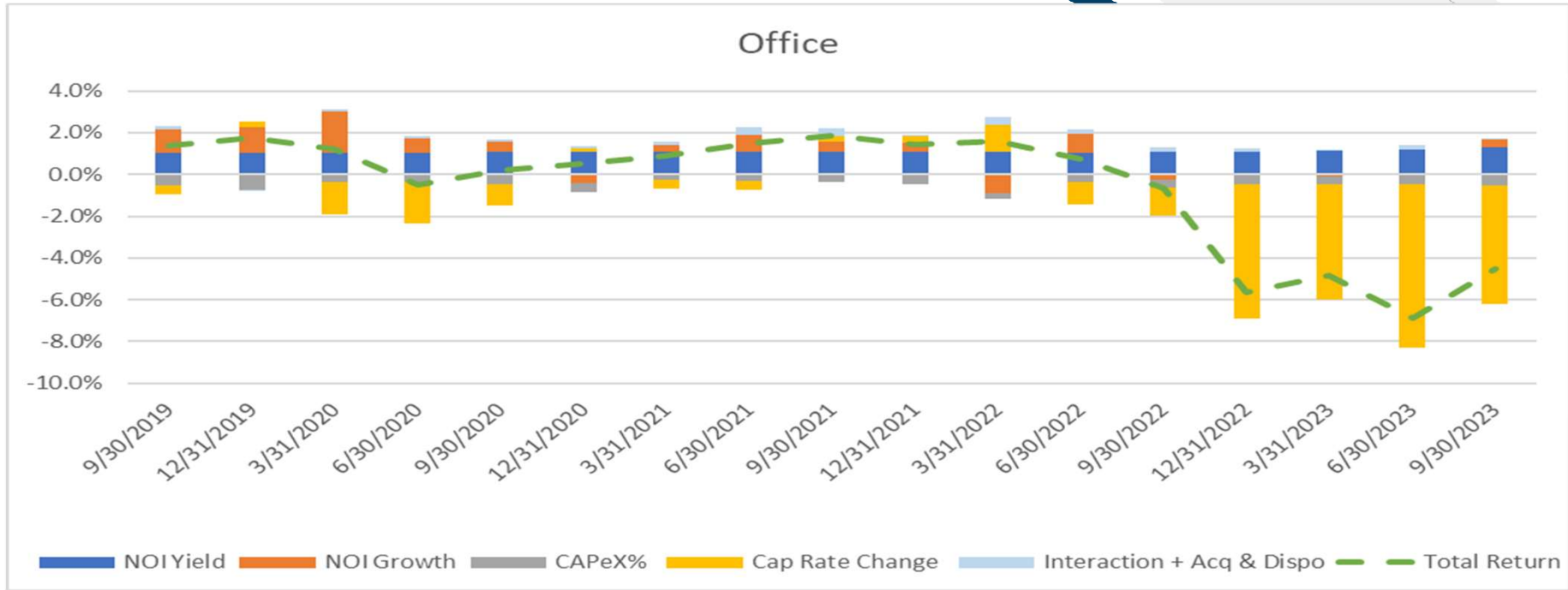
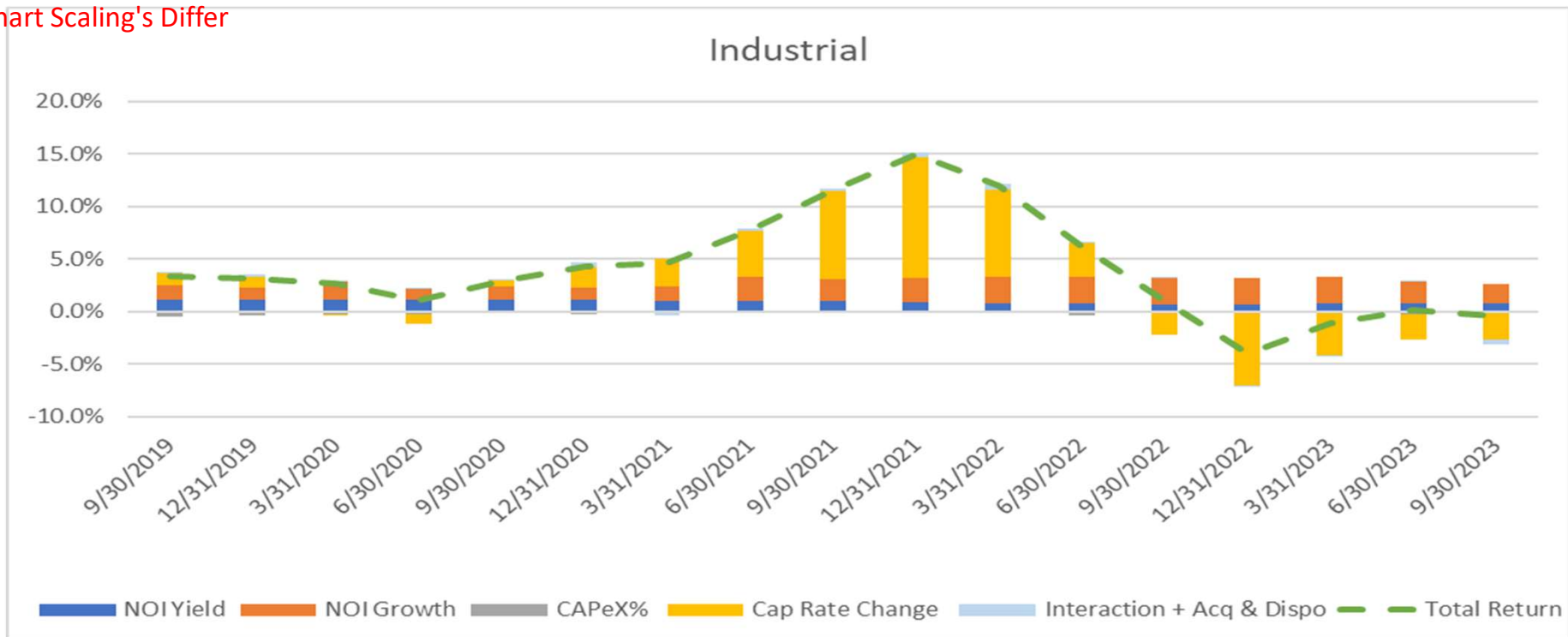


Chart Scaling's Differ



ODCE Return Components: Apartment & Retail

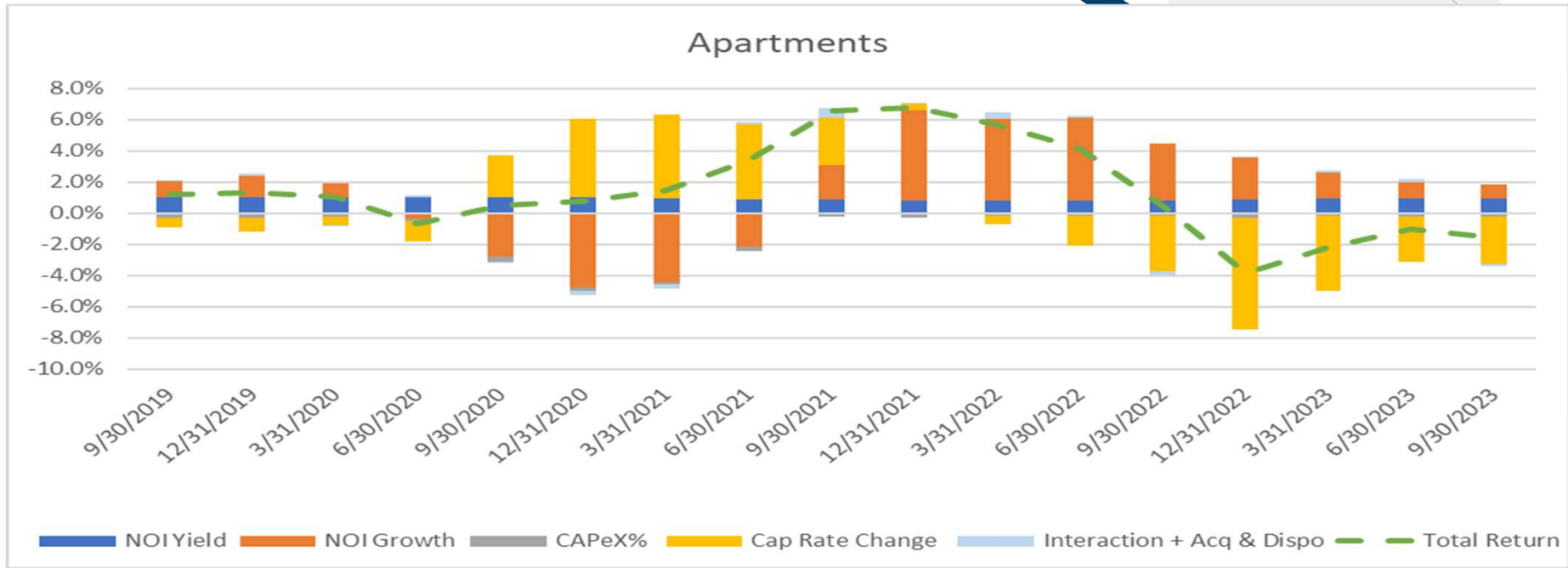
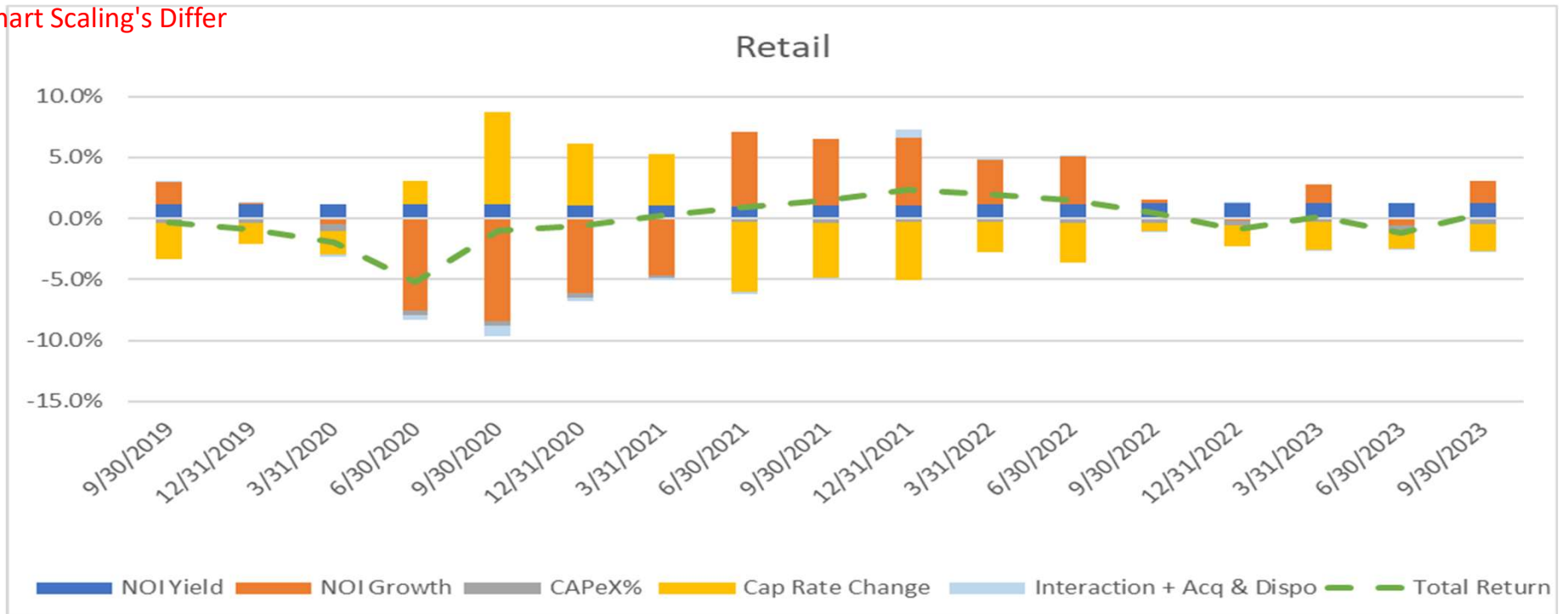
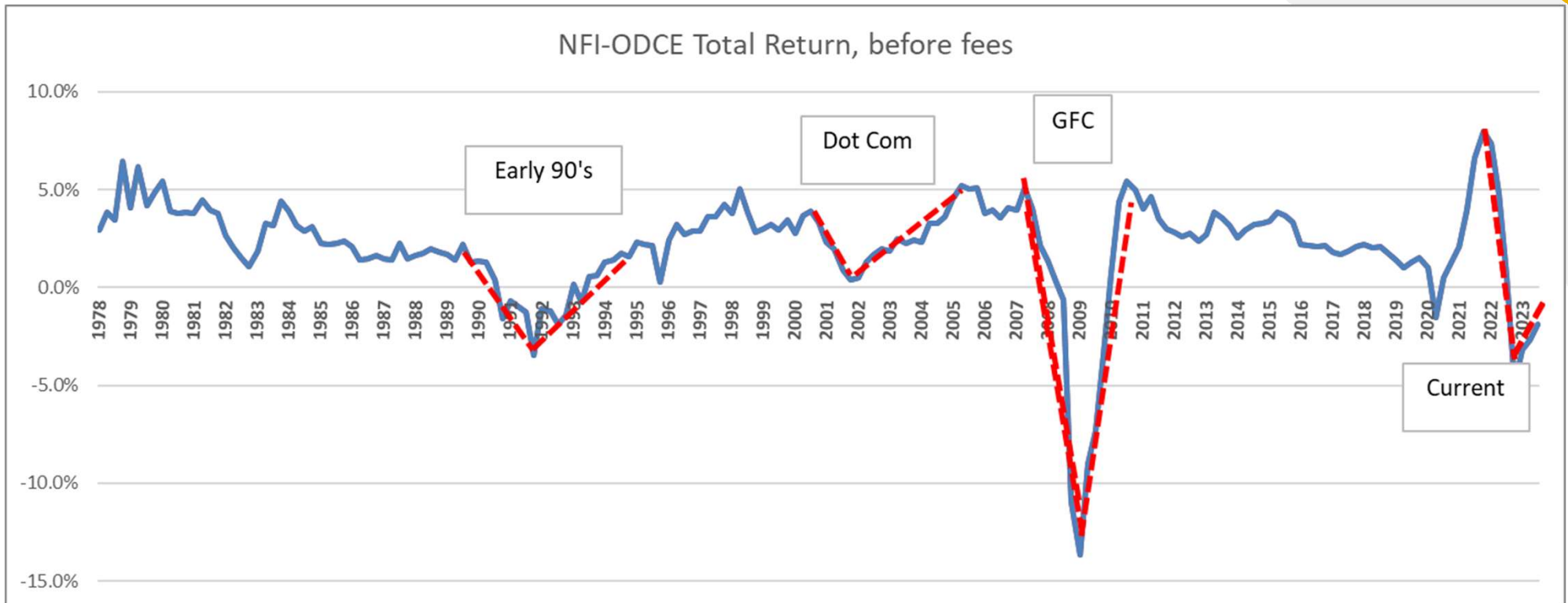


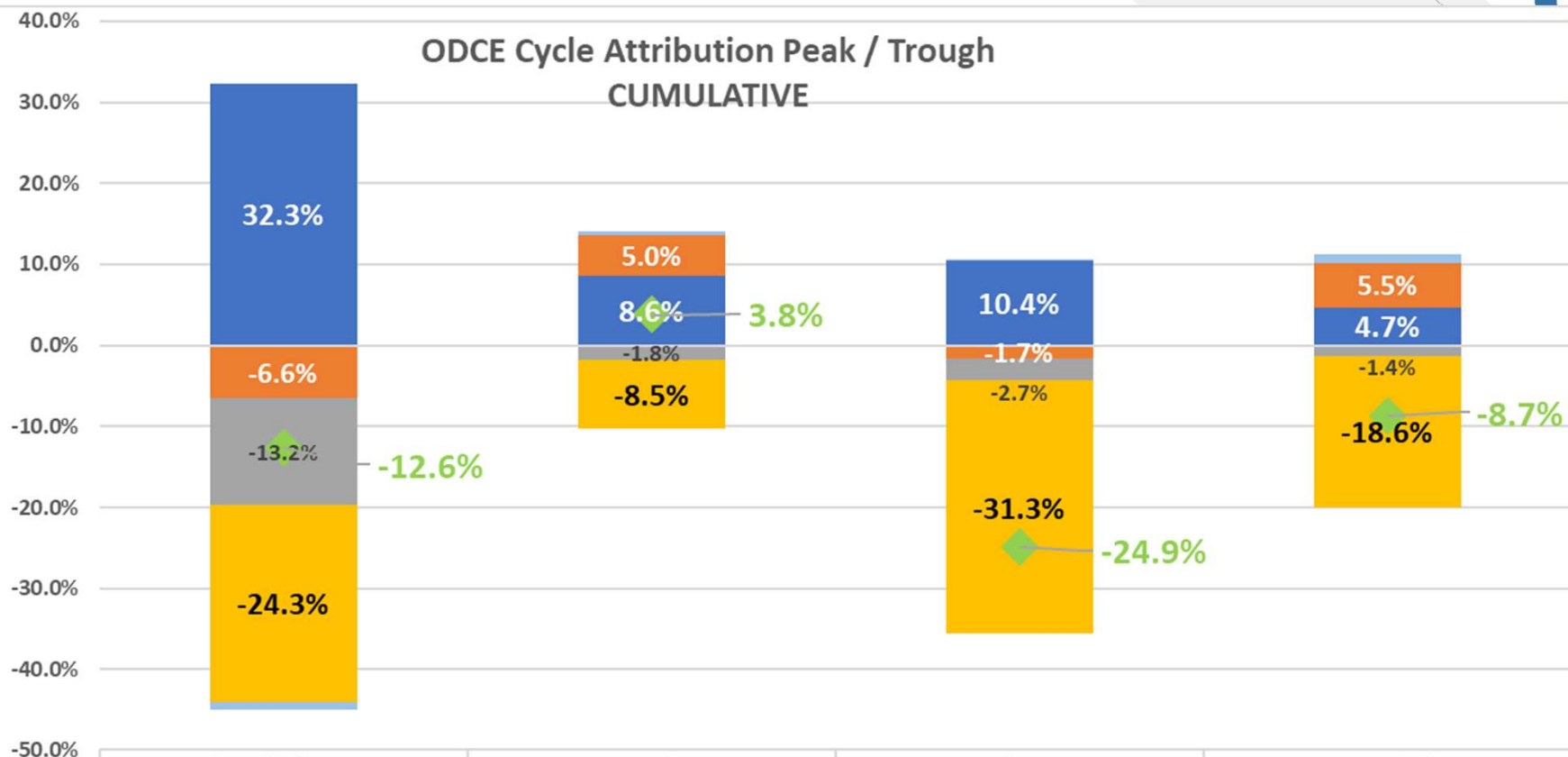
Chart Scaling's Differ



Overview of NFI-ODCE Index Performance



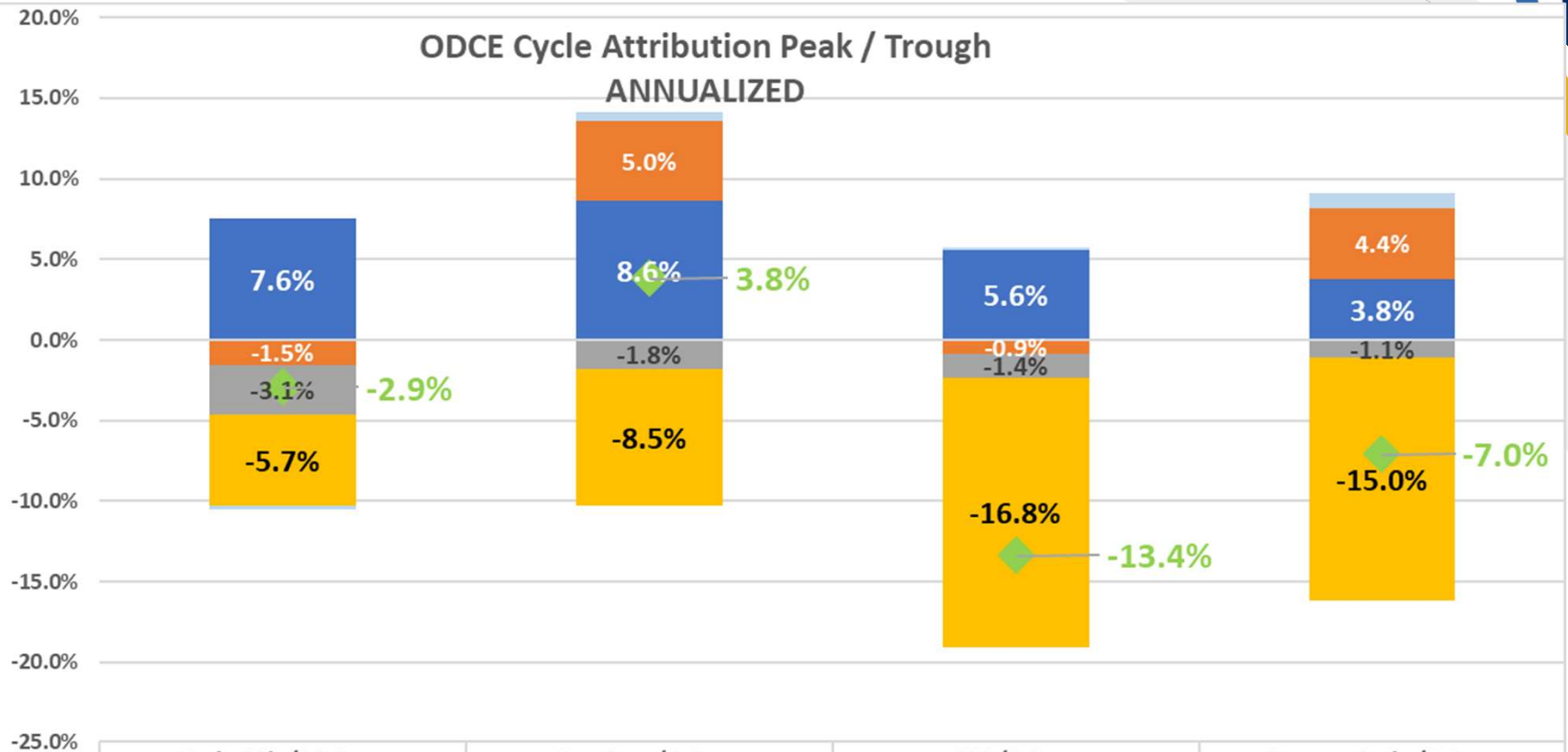
Past and Current Cycles Analysis: Cumulative



	Early 90's (18 Qtrs; 6/90 P, 12/94 T)	Dot Com (4 Qtrs; 6/01 P, 6/02 T)	GFC (8 Qtrs; 3/08 P, 3/10 T)	Current Cycle (5 Qtrs; 6/22 P, 9/23 ?)
Interaction	-0.9%	0.5%	0.2%	1.1%
Cap Rate Change	-24.3%	-8.5%	-31.3%	-18.6%
CapEx	-13.2%	-1.8%	-2.7%	-1.4%
NOI Growth	-6.6%	5.0%	-1.7%	5.5%
NOI Yield	32.3%	8.6%	10.4%	4.7%
Total Return	-12.6%	3.8%	-24.9%	-8.7%

Peaks and Troughs determined based on Market Value Indicator
(Price Change in Market Value on a same store basis)

Past and Current Cycles Analysis: Annualized



	Early 90's (18 Qtrs; 6/90 P, 12/94 T)	Dot Com (4 Qtrs; 6/01 P, 6/02 T)	GFC (8 Qtrs; 3/08 P, 3/10 T)	Current Cycle (5 Qtrs: 6/22 P, 9/23 ?)
Interaction	-0.2%	0.5%	0.1%	0.9%
Cap rate Change	-5.7%	-8.5%	-16.8%	-15.0%
CapEx	-3.1%	-1.8%	-1.4%	-1.1%
NOI Growth	-1.5%	5.0%	-0.9%	4.4%
NOI Yield	7.6%	8.6%	5.6%	3.8%
Total Return	-2.9%	3.8%	-13.4%	-7.0%

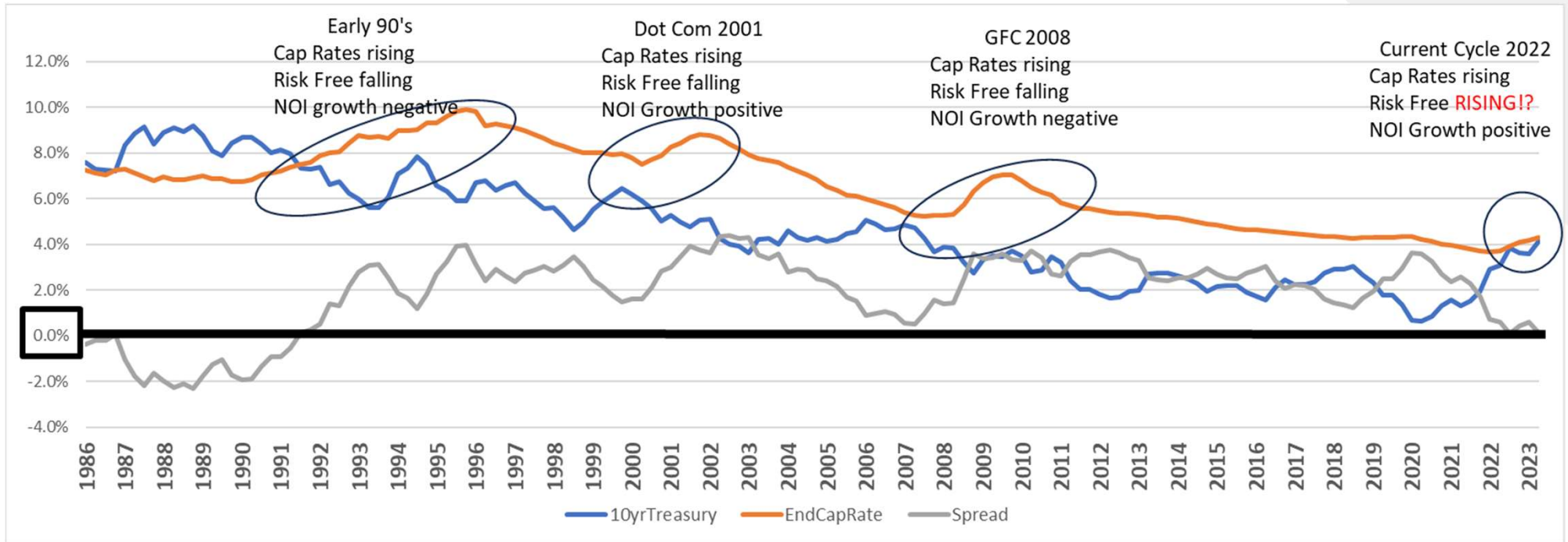
Peaks and Troughs determined based on Market Value Indicator
(Price Change in Market Value on a same store basis)

Past and Current Cycle Rates

Will rates continue to rise?



Theory is Expected Cap Rates = Risk Free Rate + Risk Premium – NOI & Value Growth*



*Assumes NOI and Value Growth compound at the same rate, therefore Cap Rate stays the same.

Past and Current Cycles by Sector

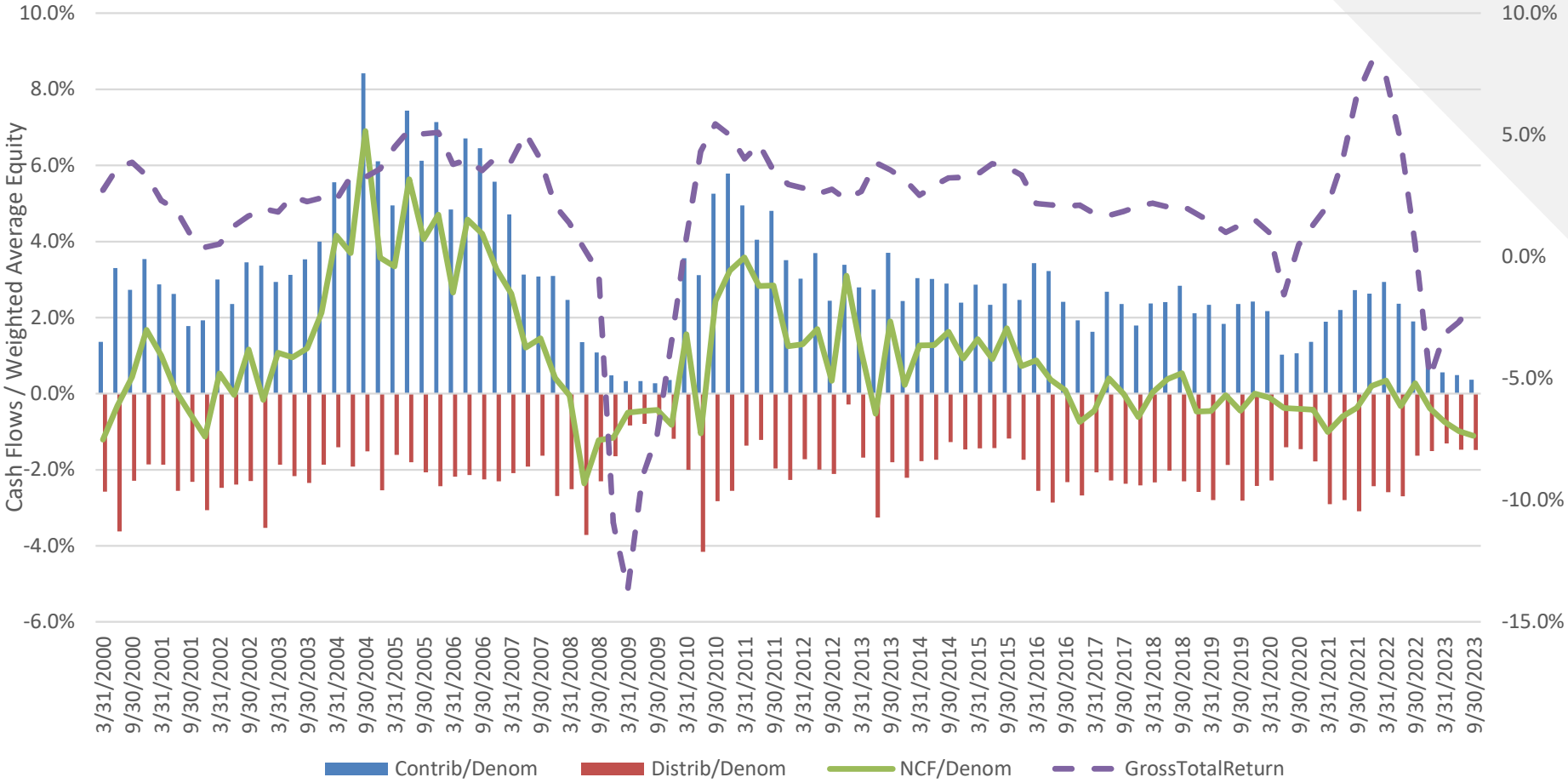
Which sector will perform best during this current cycle?



Annualized Total Return	All Properties	Apartments	Industrial	Office	Retail	Other
Early 90s	-3.0%	1.7%	0.2%	-7.3%	-4.0%	NA
Dot Com	3.8%	7.7%	6.1%	-0.5%	8.1%	NA
GFC	-13.4%	-13.4%	-14.4%	-17.2%	-13.1%	NA
Current Cycle	-7.0%	-6.4%	-3.4%	-16.9%	-0.9%	-1.5%
<i>Averages</i>	-4.9%	-2.6%	-2.9%	-10.5%	-2.5%	

ODCE Investor Cash Flows as % of Equity

Do Cash Flows lead or lag returns?



Conclusion

- NFI-ODCE returns continued to improve slightly quarter over quarter, though are still negative
- Negative impacts of leverage are abating
- Office returns continue to strain index performance
- Cap rate expansion is primary driver of negative property performance, though offset by NOI growth and yield
- Current cycle is not as severe as GFC, though cap rate changes are close
- Office is the consistent underperformer while retail is the top performer across cycles



NCREIF Upcoming Events & News



NCREIF SPRING CONFERENCE 2024

PHOENIX, AZ, MARCH 25-28

NCREIF ACADEMY COURSE Performance Measurement & Benchmarking

PHOENIX, AZ MARCH 25

NCREIF ACADEMY COURSE Performance Reporting & Manager Evaluation

PHOENIX, AZ MARCH 28



THANK YOU FOR YOUR ATTENDANCE!



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