# U.S. PROPERTY PERFORMANCE MONITOR

## First Quarter 2021

**IN A NUTSHELL**

_ U.S. core real estate, as measured by the NCREIF Property Index (NPI), registered unlevered total returns of 2.6% (trailing four quarters) in the first quarter of 2021.
_ Across sectors, the dispersion of performance was at its widest in over 40 years. Considerable disparities also exist within sectors and across markets.
_ Industrial continued to boom while the COVID crisis leveled a heavy blow to Retail properties. Over the trailing four quarters, Apartment performance improved while Office returns weakened.
_ Sun Belt and Mountain West markets generally led the index while Houston, New York and markets in the Midwest lagged behind.

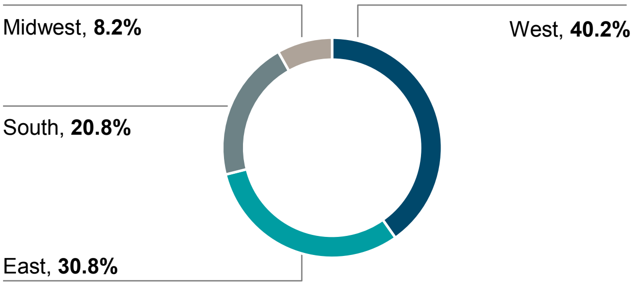
## Private Real Estate Property Returns

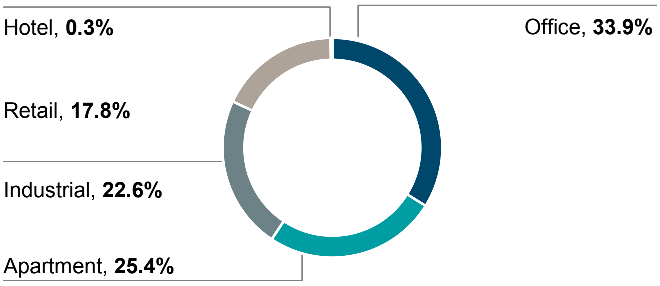
_ In the first quarter, core real estate registered unlevered total returns of 2.6% (trailing four quarters) as rent collections normalized and overall property values remained shy of pre-pandemic levels.[1]
_ The industrial sector's total return (14.1%) remained stalwart. Apartment returns (2.6%) matched the index, while Office returns slipped (1.3%) and Retail returns (–6.0%) remained battered.
_ Unprecedented stimulus and an expansive vaccination program have accelerated the U.S. economic recovery and buoyed financial markets. In the first quarter, private real estate underperformed listed equities but outperformed bonds.
_ Overall vacancies continued to climb in the first quarter. Industrial's vacancy rate remained near all-time lows while Apartment, Office and Retail vacancy rates hovered above 30-year averages.
_ In the first quarter, net operating incomes (NOI) stabilized after significant disruption in 2020. Trailing four quarter NOI declined 5.5%, with significant disparities among property sectors. Industrial (+7%) continued to build on strong momentum while Retail (–17%) and Apartment (–14%) realized significant NOI deterioration. Office cash flows were stable and NOI grew 3% (trailing four quarters).[1]
_ Geographic trends were largely unchanged. Markets generally benefitting from lower costs and in-migration (e.g., Sun Belt and Mountain West) performed well. Coastal markets with comparatively higher costs (e.g., New York) generally underperformed.

[1] NCREIF Property Index as of March 31, 2021. Past performance is no guarantee of future results.

## NPI MARKET CAPITALIZATION

Index market value U.S. $ 716.7 billion – Property count 9,442




## RECENT PERFORMANCE TRENDS

| | Quarter | 12 months trailing | |
|---|---|---|---|
| | **1Q 2021** | **1Q 2021** | **4Q 2020** |
| Private Real Estate (NPI) | 1.7% | 2.6% | 1.6% |
| Broad Equities (large cap) | 6.2% | 56.4% | 18.4% |
| Bonds | -3.4% | 0.7% | 7.5% |
| Listed Real Estate | 8.3% | 34.2% | –5.1% |
| 10-Year Treasury[2] | 1.7% | 1.7% | 0.9% |
| 12-Month LIBOR[3] | 0.3% | 0.3% | 0.3% |
| CPI (SA) | 1.2% | 2.6% | 1.3% |

Sources: NCREIF, Standard and Poor's, Barclay's, NAREIT, and Federal Reserve. As of March 31, 2021.

# NCREIF Property Index (NPI) Performance by Sector and Region

_ Industrial continued to lead the index over the past year, followed by Apartment and Office. Retail continued to struggle, posting negative total returns.
_ Secular trends (i.e., e-commerce) continued to propel Industrial. In the first quarter, Industrial extended its streak of outperformance to 32 quarters. All three industrial subsectors continued to deliver robust returns.
_ Apartment total returns matched the index in the first quarter of 2021 at 2.6% (trailing four quarters). Within the sector, property subtype returns were bifurcated: High-Rise apartments, buffeted by supply and challenged by pandemic related urban woes, underperformed while Garden apartments, generally located in the suburbs, delivered a healthy 7.0% (trailing four quarters) total return.
_ Office total returns remained positive at 1.3% (trailing four quarters) in the first quarter of 2021. Net operating incomes grew while vacancy rates jumped and workplace occupancy remained depressed. Overall, Suburban Office (3.4%) outperformed CBD Office (–0.2%) in the past year.
_ Within Retail, Regional and Super Regional malls, which typically house a large contingent of department and apparel stores selling merchandise that can be readily acquired online, realized the lowest total return (–9.1%). Necessity-oriented shopping centers (e.g., grocery-anchored) held up on a relative basis. Neighborhood and Community centers returned –1.1% over the trailing four quarters.
_ Regional dynamics were generally unchanged. The West led the pack, followed by the South and the East. Returns in the Midwest were negligible over the past year.

[2] These figures represent annual yields.

## DETAILED PROPERTY TYPE NPI PERFORMANCE

| | No. of props. | Market value U.S.$ (Mil) | Trailing four quarters: Total return | Income | Apprec. |
|---|---|---|---|---|---|
| **Apartment** | | | | | |
| Garden | 714 | 53,639 | 7.0% | 4.5% | 2.4% |
| High Rise | 1,022 | 109,884 | 0.3% | 3.4% | -3.0% |
| Low Rise | 231 | 18,812 | 3.9% | 3.9% | 0.1% |
| **Industrial** | | | | | |
| R&D | 33 | 1,440 | 14.9% | 5.4% | 9.1% |
| Flex | 234 | 4,731 | 11.1% | 5.2% | 5.7% |
| Warehouse | 4,090 | 152,719 | 14.3% | 4.4% | 9.6% |
| **Office** | | | | | |
| CBD | 501 | 141,077 | -0.2% | 4.1% | -4.1% |
| Suburban | 1,128 | 101,696 | 3.4% | 5.0% | -1.5% |
| **Retail** | | | | | |
| Community | 233 | 13,636 | -2.7% | 4.7% | -7.1% |
| Neighborhood | 537 | 20,309 | 0.0% | 4.7% | -4.5% |
| Power | 197 | 14,177 | -1.8% | 5.3% | -6.9% |
| Regional | 64 | 14,268 | -10.0% | 3.0% | -12.8% |
| Super Regional | 74 | 49,044 | -8.7% | 3.6% | -12.0% |

Source: NCREIF Property Index as of March 31, 2021. Past performance is no guarantee of future results.

## RETURNS BY PROPERTY TYPE AND REGION

| | Annual returns | | | | | | | | Standard deviation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | 1 year Income | Apprec. | 3 years | 5 years | 10 years | 20 years | Since inception[3] | 20 years | Since inception[4] |
| **Property type** | | | | | | | | | | |
| Apartment | 2.6% | 3.8% | -1.2% | 4.5% | 5.3% | 8.4% | 8.0% | 10.0% | 8.5% | 7.5% |
| Industrial | 14.1% | 4.5% | 9.3% | 13.7% | 13.3% | 13.2% | 10.0% | 10.1% | 8.3% | 7.3% |
| Office | 1.3% | 4.4% | -3.0% | 4.7% | 5.3% | 8.1% | 7.3% | 8.2% | 9.0% | 9.3% |
| Retail | -6.0% | 3.9% | -9.6% | -1.6% | 1.4% | 7.1% | 8.6% | 8.9% | 8.7% | 7.0% |
| **Total Index** | **2.6%** | **4.1%** | **-1.5%** | **4.9%** | **5.8%** | **8.8%** | **8.2%** | **8.9%** | **8.3%** | **7.4%** |
| **Region** | | | | | | | | | | |
| East | 2.2% | 4.1% | -1.8% | 3.8% | 4.5% | 7.3% | 7.8% | 9.6% | 8.8% | 9.0% |
| Midwest | 0.1% | 4.2% | -4.0% | 2.0% | 3.5% | 7.2% | 6.5% | 7.6% | 6.8% | 5.9% |
| South | 2.5% | 4.5% | -1.9% | 4.8% | 5.7% | 9.0% | 8.0% | 8.1% | 7.4% | 6.6% |
| West | 3.5% | 4.0% | -0.5% | 6.5% | 7.5% | 10.5% | 9.1% | 9.6% | 9.0% | 8.2% |
| **Total Index** | **2.6%** | **4.1%** | **-1.5%** | **4.9%** | **5.8%** | **8.8%** | **8.2%** | **8.9%** | **8.3%** | **7.4%** |

Source: NCREIF Property Index. As of March 31, 2021. Past performance is not indicative of future returns.

[3] Index returns start in 1978, equivalent to a 43.25 year calculation.

## Market Analysis – Benchmark Insights and Portfolio Implications

The NCREIF Property Index is a value-weighted index of property returns and as such, a large portion of the index is located in just 20 markets. Local economic growth will affect properties located in the same market similarly, so we can estimate the effect of property geographical location on the overall index. Large metros, by value, will likely have the largest impact on the index, although small metro with particularly strong or weak performance may boost or weigh on returns from time to time. The tables on the following page list out which markets had the strongest positive and negative effect on returns during the past four quarters.

**Apartments** – The pandemic reinforced demographic trends underpinning apartment markets. Over the past year, Sun Belt (e.g., Phoenix, Dallas and Atlanta) and Mountain West (e.g., Denver) markets benefitting from in-migration and relatively lower costs, were the largest positive contributors. Notably, smaller markets that fell outside of the top 20 — Charlotte, Raleigh, Riverside and Salt Lake City — boasted some of the highest total returns. Conversely, coastal markets with comparatively higher costs (e.g., New York, San Francisco and Los Angeles) struggled and detracted from sector returns.

**Industrial** – Performance remained impressive, with every market outperforming the NPI aggregate. High-barrier coastal metros (near large population centers) in Southern California and New York dominated. Smaller, regional and local distribution metros such as Austin, Philadelphia and Reno were standouts. Over the past year, elevated construction pipelines in the major inland distribution hubs (i.e., Atlanta, Chicago, and Dallas) and Houston dampened metro returns. Notably, markets in Florida generally underperformed over the trailing four quarters.

**Office** – Markets with outsized exposure to technology and life sciences (i.e., Boston, Seattle and San Jose) continued to make the largest contribution to sector returns. Further, demographic tailwinds and corporate expansions continued to benefit smaller office markets such as Austin and Raleigh. Conversely, Midwest markets (e.g., Chicago) and energy-dependent markets (e.g., Houston) underperformed. New York and San Francisco, two of the largest office markets, struggled and detracted 80 basis points from sector returns.

**Retail** – COVID-19 intensified Retail's woes, with nearly every metro delivering negative total returns over the past 12 months. Mandated store closures and social distancing stressed tenant health and ultimately shopping center cash flows. Generally, tenant mix governed retail property performance as necessity-oriented shopping centers proved relatively resilient while lifestyle shopping centers faced significant challenges from e-commerce. Metros with the largest negative contribution to sector returns (e.g., Chicago, Dallas, Miami and New York) had notable mall exposure.

## IMPACT OF TOP 20 MARKETS ON SECTOR PERFORMANCE

| Apartment | | | Industrial | | | Office | | | Retail | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Metro** | **Metro returns[5]** | **Impact on sector returns** | **Metro** | **Metro returns[5]** | **Impact on sector returns** | **Metro** | **Metro returns[5]** | **Impact on sector returns** | **Metro** | **Metro returns[4]** | **Impact on sector returns** |
| Denver | 8.5% | 31 | Riverside | 18.5% | 56 | Boston | 4.5% | 36 | Phoenix | -0.6% | 17 |
| Phoenix | 13.3% | 20 | New York | 19.8% | 43 | Seattle | 4.7% | 19 | Las Vegas | -3.2% | 16 |
| Dallas | 5.1% | 14 | Baltimore | 18.9% | 9 | San Jose | 3.8% | 9 | Riverside | 0.1% | 10 |
| Atlanta | 5.4% | 13 | Los Angeles | 15.0% | 8 | Oakland | 5.7% | 8 | Seattle | -2.0% | 8 |
| Washington, DC | 3.7% | 10 | San Diego | 18.0% | 7 | San Diego | 4.1% | 6 | Atlanta | -2.2% | 8 |
| West Palm Beach | 5.7% | 5 | Phoenix | 17.2% | 4 | Los Angeles | 1.9% | 5 | Washington, DC | -5.2% | 6 |
| Fort Lauderdale | 4.4% | 4 | Washington, DC | 14.2% | 0 | Atlanta | 4.0% | 4 | Houston | -5.2% | 5 |
| Orange County | 4.0% | 3 | Atlanta | 14.0% | 0 | Austin | 3.1% | 4 | Baltimore | -3.8% | 4 |
| San Diego | 3.7% | 3 | Boston | 13.8% | 0 | Denver | 2.5% | 3 | San Diego | -5.0% | 4 |
| Austin | 3.2% | 2 | Oakland | 13.2% | -4 | Charlotte | 5.9% | 3 | Boston | -5.9% | 0 |
| Miami | 1.9% | -1 | Portland | 11.4% | -4 | Washington, DC | 1.4% | 2 | Orange County | -6.0% | 0 |
| Oakland | 0.7% | -4 | Orange County | 12.5% | -6 | Dallas | 1.8% | 2 | Los Angeles | -6.3% | -2 |
| San Jose | 0.5% | -5 | San Francisco | 9.3% | -6 | Phoenix | -2.1% | -2 | Orlando | -7.4% | -3 |
| Boston | 1.4% | -7 | Dallas | 13.1% | -7 | Portland | -1.2% | -3 | San Francisco | -7.4% | -3 |
| Houston | 0.6% | -7 | Fort Lauderdale | 8.4% | -8 | Chicago | 0.7% | -3 | Oakland | -7.4% | -4 |
| Seattle | 0.4% | -9 | Denver | 8.4% | -11 | Miami | -1.4% | -3 | San Jose | -10.0% | -10 |
| Los Angeles | -0.5% | -21 | Miami | 11.0% | -11 | Orange County | -1.3% | -4 | Miami | -11.7% | -16 |
| San Francisco | -4.4% | -24 | Seattle | 12.0% | -14 | San Francisco | -0.1% | -16 | Dallas | -9.9% | -17 |
| Chicago | -2.1% | -30 | Houston | 5.2% | -21 | Houston | -4.0% | -18 | New York | -10.2% | -20 |
| New York | -2.5% | -51 | Chicago | 9.3% | -36 | New York | -2.3% | -64 | Chicago | -9.8% | -25 |

Source: NCREIF Property Index as of March 31, 2021

[4] Four-quarter cumulative returns ending first quarter 2021.

# Appendix – Historical Performance

| | 12 months trailing | | | | |
|---|---|---|---|---|---|
| | 3/2020 – 3/2021 | 3/2019 – 3/2020 | 3/2018 – 3/2019 | 3/2017 – 3/2018 | 3/2016 – 3/2017 |
| Private Real Estate (NPI) | 2.6% | 5.3% | 6.8% | 7.1% | 7.3% |
| Broad Equities (large cap) | 56.4% | -7.0% | 9.5% | 14.0% | 17.2% |
| Bonds | 0.7% | 8.9% | 4.5% | 1.2% | 0.4% |
| Listed Real Estate | 34.2% | -15.9% | 20.5% | -1.1% | 5.3% |
| 10-Year Treasury[5] | 1.7% | 0.7% | 2.4% | 2.7% | 2.4% |
| 12-Month LIBOR[5] | 0.3% | 1.0% | 2.7% | 2.7% | 1.8% |
| CPI (SA) | 2.6% | 1.5% | 1.9% | 2.4% | 2.4% |

Sources: NCREIF, Standard and Poor's, Barclay's, NAREIT, and Federal Reserve. As of March 31, 2021.

[5] These figures represent annual yields.

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