Alternatives Research
Real Estate

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Marketing Material*

U.S. PROPERTY PERFORMANCE MONITOR

Fourth Quarter

IN A NUTSHELL

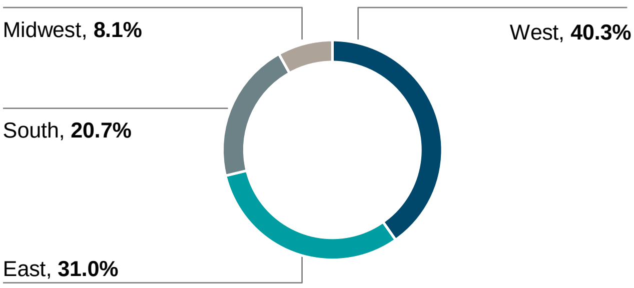
_ Core real estate, as measured by the NCREIF Property Index (NPI), registered unlevered total returns of 1.6% in 2020. These results begin to reflect the dislocation caused by COVID-19.
_ Performance remained uneven across property sectors. Industrial continued to prevail, delivering double-digit total returns over the past year. Apartment and Office returns somewhat diminished as COVID-19 weakened property fundamentals. Retail realized the greatest disruption as the pandemic amplified existing challenges.
_ Sun Belt markets generally led the index while Houston, New York and markets in the Midwest lagged behind.

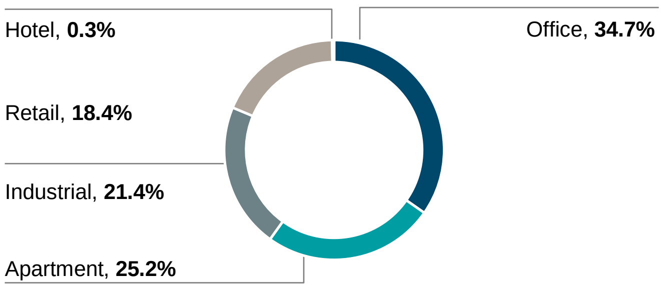
Private real estate property returns

_ Real estate returns were modest in 2020 as COVID-19 chipped away at both property values and income returns.
_ The industrial sector's total return remained robust. All other property sectors realized negative capital appreciation.
_ In 2020, real estate underperformed both bonds and equities as unprecedented stimulus buoyed financial markets.
_ Overall vacancies increased in 2020. Apartment and Retail vacancies rose above 30-year averages while Industrial's vacancy rate remained near all-time lows.
_ Trailing four quarter NOI declined 8%, the largest on record. Industrial (+6%) continued to build on strong momentum while Retail (–21%) and Apartment (–17%) realized significant NOI deterioration.
_ Geographic trends were largely unchanged. Markets generally benefitting from lower costs and in-migration (i.e., Sun Belt) performed well. Expensive gateway markets (e.g., New York) generally underperformed.

NPI MARKET CAPITALIZATION

Index market value U.S. $ 700.4 billion – Property count 9,289





RECENT PERFORMANCE TRENDS

	Quarter	12 months trailing	
	4Q 2020	4Q 2020	4Q 2019
Private Real Estate (NPI)	1.2%	1.6%	6.4%
Broad Equities (large cap)	12.1%	18.4%	31.5%
Bonds	0.7%	7.5%	8.7%
Listed Real Estate	8.1%	–5.1%	28.7%
10-Year Treasury[1]	0.9%	0.9%	1.9%
12-Month LIBOR[1]	0.3%	0.3%	2.0%
CPI (SA)	0.6%	1.3%	2.3%

Sources: NCREIF, Standard and Poor's, Barclay's, NAREIT, and Federal Reserve. As of December 31, 2020.

NCREIF Property Index (NPI) performance by sector and region

_ Industrial led the index over the past year, followed by Apartment and Office. Retail continued to trail far behind, posting negative total returns.

_ Secular trends (i.e., e-commerce) continued to propel Industrial. All three subsectors continued to deliver robust returns, bolstered by both strong income yields and capital appreciation.

_ Bankruptcies, store closures and a barrage of rent relief requests plagued Retail in 2020. Within Retail, Regional and Super Regional malls, which typically have substantial exposure to vulnerable tenants (e.g., apparel and department stores), realized the lowest total return (–10.6%). Retail centers which typically have necessity-based tenants (e.g., grocery) held up on a relative basis. Neighborhood and Community centers returned –2.0% over the trailing four quarters.

_ Stable cash flows supported Office returns. Office NOI grew 1% (trailing four quarters) while occupancy rates and rents declined from cycle highs. Overall, Suburban Office (3.1%) outperformed CBD Office (0.5%) in the past year.

_ Apartment returns were bifurcated. High-Rise apartments, already buffeted by supply, were challenged by pandemic related urban-woes. Garden apartments, generally located in the suburbs, remained a standout subtype, returning 5.2%.

_ Regional dynamics were generally unchanged. The West led the pack, followed by the East and the South. Returns in the Midwest were negative over the past year.

[1] 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	685	$49,911	5.2%	4.6%	0.6%
High Rise	1,031	$108,096	0.1%	3.6%	–3.4%
Low Rise	227	$18,355	3.1%	4.0%	–0.9%
Industrial					
R&D	32	$1,163	18.3%	5.5%	12.3%
Flex	239	$4,760	8.6%	5.2%	3.3%
Warehouse	3,945	$141,449	11.9%	4.5%	7.2%
Office					
CBD	503	$143,377	0.5%	4.0%	–3.4%
Suburban	1,107	$99,550	3.1%	5.0%	–1.8%
Retail					
Community	236	$13,853	–3.6%	4.8%	–8.1%
Neighborhood	533	$20,543	–0.8%	4.7%	–5.3%
Power	196	$14,100	–3.8%	5.3%	–8.7%
Regional	63	$14,713	–10.2%	3.2%	–13.1%
Super Regional	72	$49,494	–10.7%	3.7%	–14.0%

Source: NCREIF Property Index as of December 31, 2020. 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[2]	20 years	Since inception[2]
Property type										
Apartment	1.8%	3.9%	–2.0%	4.5%	5.4%	8.6%	8.0%	10.0%	8.5%	7.5%
Industrial	11.8%	4.5%	7.0%	13.1%	13.0%	13.1%	9.9%	10.0%	8.3%	7.4%
Office	1.6%	4.4%	–2.7%	5.0%	5.4%	8.4%	7.4%	8.2%	9.0%	9.3%
Retail	–7.5%	4.0%	–11.2%	–1.2%	2.1%	7.6%	8.8%	8.9%	8.5%	6.9%
Total Index	**1.6%**	**4.2%**	**–2.5%**	**4.9%**	**5.9%**	**9.0%**	**8.2%**	**8.9%**	**8.2%**	**7.4%**
Region										
East	1.4%	4.1%	–2.6%	3.7%	4.5%	7.5%	7.9%	9.6%	8.8%	9.0%
Midwest	–1.3%	4.2%	–5.3%	2.0%	3.7%	7.4%	6.6%	7.7%	6.7%	5.9%
South	1.3%	4.5%	–3.1%	4.9%	5.8%	9.2%	8.0%	8.1%	7.4%	6.6%
West	2.5%	4.1%	–1.5%	6.5%	7.7%	10.6%	9.1%	9.6%	9.0%	8.2%
Total Index	**1.6%**	**4.2%**	**–2.5%**	**4.9%**	**5.9%**	**9.0%**	**8.2%**	**8.9%**	**8.2%**	**7.4%**

Source: NCREIF Property Index. As of December 31, 2020. Past performance is not indicative of future returns.

[2] Index returns start in 1978, equivalent to a 43.0 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 following tables lists 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. Generally, low-cost regional markets (i.e., Sun Belt) continued to fare well while high-cost coastal markets (e.g., New York, San Francisco and Los Angeles) struggled. In 2020, Denver and Phoenix were the largest positive contributors. Smaller markets that fell outside of the top 20 — Charlotte, Orlando, Raleigh, Riverside and Salt Lake City — boasted some of the highest total returns.

Industrial – Performance was strong, with every market outperforming the NPI aggregate. High-barrier coastal metros in Southern California and New York dominated. Smaller, regional and local distribution metros such as Austin, Philadelphia and Reno were standouts. The major inland distribution hubs of Atlanta, Chicago and Dallas, all of which have above-average construction activity, underperformed. Houston produced the lowest total return over the past year.

Office – Innovation markets such as Boston, Seattle and San Jose continued to make the largest contributions to sector returns. Smaller office markets benefitting from demographic tailwinds (e.g., Raleigh, Charlotte, Nashville) generally performed well. Conversely, Midwest markets (e.g., Chicago) and energy dependent markets (e.g., Houston) underperformed. New York, the largest office market, continued to weigh on sector returns.

Retail – COVID-19 intensified Retail’s woes, with every metro delivering negative total returns over the past twelve months. Mall properties, in particular, leveled a heavy blow to Retail returns. Metros with the largest negative contribution to sector returns (e.g., Boston, Chicago, Miami and New York) have notable mall exposure. Generally, tenant mix governed retail property performance as e-commerce continued to disrupt brick-and-mortar retailers.

IMPACT OF TOP 20 MARKETS ON SECTOR PERFORMANCE

Apartment			Industrial			Office			Retail		
Metro	**Metro returns[3]**	**Impact on sector returns**	**Metro**	**Metro returns[3]**	**Impact on sector returns**	**Metro**	**Metro returns[3]**	**Impact on sector returns**	**Metro**	**Metro returns[3]**	**Impact on sector returns**
Denver	6.3%	23	New York	16.3%	35	Boston	4.9%	37	Washington, DC	–4.3%	23
Phoenix	10.4%	16	Riverside	13.0%	16	Seattle	5.1%	19	Houston	–4.0%	22
Washington, DC	3.1%	11	Los Angeles	13.4%	16	San Jose	4.1%	10	Phoenix	–1.3%	20
Dallas	3.8%	11	Baltimore	15.7%	8	Los Angeles	2.4%	6	Riverside	–1.3%	11
Atlanta	3.4%	7	San Diego	14.9%	5	Dallas	3.7%	6	Seattle	–2.4%	11
Fort Lauderdale	3.7%	4	Phoenix	14.1%	3	Oakland	4.2%	5	Las Vegas	–5.7%	8
Austin	3.0%	4	Oakland	11.9%	1	San Diego	3.7%	4	San Diego	–5.9%	6
West Palm Beach	3.6%	3	Portland	11.5%	0	Charlotte	6.9%	4	Atlanta	–4.5%	6
Orange County	2.8%	2	Atlanta	11.5%	–1	Austin	3.1%	3	Baltimore	–5.2%	4
San Diego	2.3%	1	Harrisburg	11.0%	–1	Atlanta	3.1%	2	San Francisco	–7.4%	0
Boston	1.8%	0	Washington, DC	10.7%	–2	Denver	2.4%	2	Orange County	–7.6%	0
Miami	1.0%	–2	Seattle	11.3%	–3	San Francisco	1.5%	–1	Los Angeles	–7.6%	–1
Oakland	0.8%	–2	Dallas	11.2%	–4	Miami	–0.3%	–2	Orlando	–8.2%	–2
San Jose	0.8%	–2	San Francisco	8.6%	–4	Phoenix	–3.0%	–3	Oakland	–9.5%	–6
Seattle	1.2%	–3	Orange County	10.2%	–6	Washington, DC	1.3%	–3	San Jose	–10.1%	–7
Houston	–1.2%	–11	Miami	9.7%	–7	Portland	–1.3%	–3	Dallas	–10.7%	–14
Los Angeles	–0.4%	–15	Fort Lauderdale	6.5%	–8	Orange County	–1.0%	–4	Boston	–13.0%	–15
San Francisco	–3.1%	–17	Denver	6.4%	–10	Chicago	0.1%	–7	Chicago	–10.5%	–21
Chicago	–2.2%	–26	Houston	3.0%	–22	Houston	–5.3%	–24	Miami	–15.1%	–22
New York	–1.9%	–39	Chicago	7.1%	–35	New York	–1.8%	–62	New York	–12.4%	–23

Source: NCREIF Property Index as of December 31, 2020.

[3]Four-quarter cumulative returns ending fourth quarter 2020.

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