U.S. Property Performance Monitor

Second Quarter 2023

IN A NUTSHELL

- The second quarter of 2023 saw a quarterly total return of -2.0%. This was driven by a capital return of -3.0% that was cushioned by a 1.0% income return. Trailing four-quarter returns trended downwards to -6.6% from -1.6% in the prior quarter.
- Retail surfaced as the best performing sector in the index, followed by industrial and apartment. Office lagged significantly behind the NCREIF Property Index (NPI).
- Regional trends remained unchanged. Sun Belt and Mountain West markets generally outperformed while New York, Chicago, Washington, DC, and San Francisco struggled.

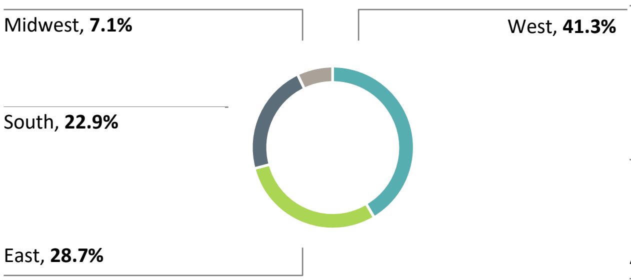
Private Real Estate Property Returns[1]

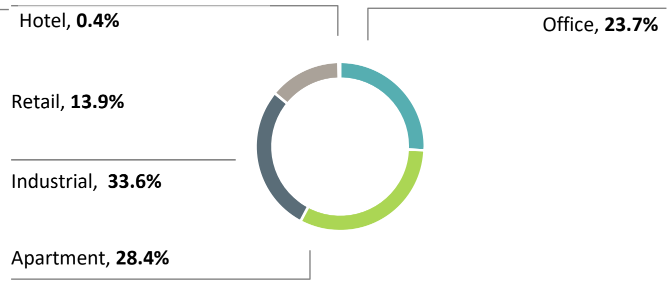
- On a trailing four-quarter basis, private core real estate realized a total return of -6.6%. This is a 500 bps decline relative to the last quarter. The primary driver of negative performance was deteriorating capital returns. The index continues to reflect adjustments in valuations as a result of a higher cost of capital.
- The systematic nature of rate hikes has led to negative returns across property types over the trailing four quarters. Retail took the lead for the first time since 2015 with a total return of -0.9%. This was followed by the industrial sector, which printed a total return of -4.0%, negative for the first time since the Global Financial Crisis (GFC). Apartment total return (-5.1%), though negative, continued to beat the NPI. Office, challenged by weak fundamentals, was the biggest drag on benchmark performance, generating a total annual return of -14.5%.
- A recovery in bonds (-0.9%) and broad equities (19.6%) over the last year led them to outperform private real estate.
- While valuations adjusted, fundamentals generally remained strong. Vacancy for the benchmark (5.5%) was near its historic low, largely thanks to the industrial sector (1.8%). Net Operating Income (NOI) increased 4.3% (trailing four quarters), a moderation from the previous quarter (7.5%) but healthy relative to historical norms, led by industrial (11.6%) and apartment (5.1%).
- Geographic trends were largely unchanged. Regional markets generally benefitting from lower costs and in-migration (e.g., Sun Belt and Mountain West) remained resilient. Gateway markets with comparatively higher costs (e.g., New York, Chicago, Washington, DC, and San Francisco) generally underperformed.

[1] Past performance is not indicative of future returns.

NPI Market Capitalization

Index market value U.S. $ 895.0 billion – Property count 10,892





Source: NCREIF (NPI). As of June 2023.

Recent Performance Trends

	Quarter	12 months trailing	
	2Q 2023	**2Q 2023**	**1Q 2023**
Private Real Estate (NPI)	-2.0%	-6.6%	-1.63%
Broad Equities (large cap)	8.7%	19.6%	-7.73%
Bonds	-0.8%	-0.9%	-4.78%
Listed Real Estate	1.2%	-4.4%	-19.40%
10-Year Treasury[2]	3.8%	3.8%	3.47%
12-Month LIBOR[3]	6.0%	6.0%	5.31%
CPI (SA)	0.7%	3.1%	4.99%

[1] These figures represent annual yields.
[2] These figures represent annual yields.
Sources: NCREIF (NPI), S&P 500 (Broad Equities), Barclay's U.S. Aggregate Bond Index (Bonds), NAREIT (Listed Real Estate), BLS (CPI) and Federal Reserve (10 yr Treasury, LIBOR). As of June 30, 2023.

NCREIF Property Index (NPI) Performance by Sector and Region

— Industrial performed well on a relative basis. Total returns of -4.0% (trailing four quarters), down from 2.0% in the first quarter, were 260 bps above the overall index. Despite declining valuations, industrial fundamentals remain impressive. Vacancies hovered near historic lows at 1.8% well bellow the historical average since 1988 (7.6%). This continued to fuel double-digit NOI growth (11.5% year-over-year), the highest seen in the NPI for the quarter.

— Retail surfaced as a strong performer, ending Industrial's seven-year streak as the leading property type. Total returns were -0.9% in the second quarter of 2023 (trailing four quarters), outperforming the benchmark by 570 bps. Neighborhood (0.0%) and community (1.0%) centers outperformed while regional (-3.6%) and super regional malls (-1.7%), collectively making up more than half of all retail, underperformed the subindex. Vacancy for neighborhood and community centers (6.3%) was below their long term average (7.2%), while vacancy for malls (12.4%), though moderating, remained above (9.1%).

— Apartment total returns declined from -0.4% to -5.1% on a trailing four quarter basis. However, they still beat the benchmark by 150 bps. Negative returns were primarily driven by high-rise (-6.2%), which makes up more than half of the subindex, while garden (-3.6%) and low rise (-3.9%) properties fared better. Vacancy stood at 6.1%, below its long-term average (6.5%). NOI growth moderated to 3.7% but remained strong by historical standards.

— Office performance continued to struggle, delivering total returns of -14.5% (trailing four quarters). CBD office properties (-17.6%) fared worse than those in the suburbs (-10.8%), although both suffered. The sector as a whole produced a -18.4% capital return for the trailing four quarters. NOI growth for the quarter (0.9% year-over-year) was 195 bps below the long term average (2.9%), as vacancy nudged higher (13.1%).

— The South (-3.1%), benefitting from in-migration and demographic tailwinds, was relatively resilient. The Midwest (-6.0%) followed with returns outperforming the benchmark by 60 bps. West (-7.4%) and East (-8.3%) underperformed the index.

Detailed Property Type NPI Performance

	No. of props.	Market value U.S.$ (Mil)	Trailing four quarters (2Q 2023) Total return	Income	Apprec.
Apartment					
Garden	925	86,271	-3.6%	3.9%	-7.3%
High Rise	1,171	141,578	-6.2%	3.7%	-9.6%
Low Rise	276	26,204	-3.9%	3.9%	-7.5%
Industrial					
R&D	28	1,680	-0.1%	3.8%	-3.8%
Flex	167	5,710	-2.5%	4.1%	-6.4%
Warehouse	4,914	284,361	-4.2%	3.2%	-7.2%
Office					
CBD	473	112,189	-17.6%	4.3%	-21.2%
Suburban	1,316	100,301	-10.8%	4.8%	-15.0%
Retail					
Community	188	13,043	1.0%	5.3%	-4.1%
Neighborhood	564	23,130	0.0%	5.1%	-4.9%
Power	177	13,618	1.2%	5.7%	-4.3%
Regional	45	12,339	-3.6%	4.8%	-8.1%
Super Regional	70	45,710	-1.7%	5.0%	-6.5%

Returns by Property Type and Region

	Annual returns								Standard deviation	
	Total	Income	Apprec.	3 years	5 years	10 years	20 years	Since inception[4]	20 years	Since inception[5]
Property type										
Apartment	-5.1%	3.8%	-8.6%	8.1%	6.6%	7.7%	8.0%	10.0%	9.2%	7.7%
Industrial	-4.0%	3.2%	-7.1%	20.4%	17.0%	15.2%	11.5%	10.6%	11.7%	9.1%
Office	-14.5%	4.5%	-18.4%	-2.2%	0.7%	4.7%	6.4%	7.6%	9.5%	9.4%
Retail	-0.9%	5.1%	-5.8%	1.8%	0.3%	5.1%	7.8%	8.6%	8.9%	7.0%
Total Index	**-6.6%**	**4.0%**	**-10.3%**	**6.8%**	**5.9%**	**7.8%**	**8.2%**	**8.8%**	**8.8%**	**7.5%**
Region										
East	-8.3%	4.0%	-11.9%	3.9%	3.7%	5.7%	7.3%	9.3%	9.2%	8.9%
Midwest	-6.0%	4.6%	-10.2%	3.9%	2.8%	5.7%	6.4%	7.5%	7.2%	6.0%
South	-3.1%	4.3%	-7.1%	9.2%	7.3%	8.7%	8.5%	8.2%	8.2%	6.9%
West	-7.4%	3.7%	-10.8%	8.2%	7.5%	9.5%	9.3%	9.5%	9.7%	8.4%
Total Index	**-6.6%**	**4.0%**	**-10.3%**	**6.8%**	**5.9%**	**7.8%**	**8.2%**	**8.8%**	**8.8%**	**7.5%**

Source: NCREIF Property Index as of June 30, 2023. Past performance is not indicative of future returns.

[4] Index returns start in 1978, equivalent to a 45 year calculation.
[5] Index returns start in 1978, equivalent to a 45 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 metros 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

Markets that benefited from post-pandemic demographic trends continued to outperform. Over the past 12 month, markets in the Sun Belt (e.g., Dallas, Austin, Fort Lauderdale, Miami) were positive contributors to total return. However, those facing large incoming supply (Phoenix, Denver) were a drag on total return. Major tech markets on the West Coast (e.g., Seattle, San Jose, San Francisco) were some of the biggest laggards, reflecting the impact of tech layoffs in these high-cost markets. San Diego (-2.9%) was an exception as it joined some of the leading sunbelt markets in having a large positive impact on total return. Performance in gateway markets was relatively dispersed; New York (-2.9%), Washington, DC (-4.5%), and Chicago (-4.2%) outperformed the subindex while Boston (-5.4%) and Los Angeles (-10.3%) underperformed.

Industrial

Overall performance declined, as all markets, with the exception of Miami, posted negative returns. Riverside (-2.3%) and Miami (3.8%) outperformed the subindex, having an outsized impact on overall performance. Markets that are seeing increased availability (Seattle, Dallas), as a result of completions and sublease space hitting the market, underperformed. Chicago (-5.4%), Denver (-9.8%), and New York (-5.5%) were some other major markets that lagged the subindex.

Office

While all markets recorded deteriorating returns amidst challenged fundamentals, some fared better than others. Sun-Belt markets benefiting from corporate relocations and demographic tailwinds (e.g., Dallas, Miami and Charlotte) outperformed the subindex. Tech concentrated West Coast markets (e.g., Seattle, San Francisco) and gateway markets remained at the bottom of the pack (e.g., New York, Washington DC, Chicago). San Diego (-7.2%) had the largest positive impact on office returns, an exception on the west-coast across property types.

Retail

Markets with significant mall constituents and gateway markets experiencing out-migration (e.g., San Francisco, Washington, DC, New York, Chicago) generally underperformed the subindex. Those with more neighborhood and community centers, benefitting from demographic tailwinds (e.g., Las Vegas, Atlanta, and Dallas), fared better. On the West Coast, Seattle (1.7%) and San Diego (0.9%) outperformed, while San Francisco (-8.1%) lagged significantly.

Apartment

Metro	Metro returns[6]	Impact on sector returns
Dallas	-0.5%	28
New York	-2.9%	18
Miami	0.3%	13
Fort Lauder-dale	0.7%	12
San Diego	-2.9%	6
West Palm Beach	-2.3%	5
Washington, DC	-4.5%	5
Chicago	-4.2%	5
Austin	-4.3%	3
Houston	-4.1%	3
Atlanta	-5.1%	0
Charlotte	-6.1%	-2
Boston	-5.4%	-2
Orange County	-6.1%	-3
Phoenix	-8.7%	-10
Denver	-7.2%	-12
San Jose	-11.3%	-13
Seattle	-9.0%	-19
San Francisco	-13.4%	-26
Los Angeles	-10.3%	-33

Industrial

Metro	Metro returns[7]	Impact on sector returns
Riverside	-2.3%	26
Miami	3.8%	25
Baltimore	-0.1%	8
Atlanta	-2.5%	5
Portland	-1.4%	4
San Diego	-2.1%	3
Phoenix	-2.7%	2
Orange County	-3.5%	2
Boston	-2.9%	1
Philadelphia	-3.4%	1
Los Angeles	-3.9%	1
Las Vegas	-6.4%	-3
Houston	-5.7%	-3
Charlotte	-6.5%	-4
Chicago	-5.4%	-8
Denver	-9.8%	-9
Oakland	-6.6%	-9
Dallas	-5.7%	-11
New York	-5.5%	-13
Seattle	-7.4%	-17

Office

Metro	Metro re-turns[8]	Impact on sector re-turns
San Diego	-7.2%	16
Dallas	-8.1%	14
San Jose	-11.5%	11
Atlanta	-8.7%	10
Miami	-5.2%	10
Oakland	-9.6%	9
Austin	-12.0%	6
Nashville	-6.2%	5
Charlotte	-9.2%	4
Orange County	-13.3%	2
Boston	-14.4%	2
Denver	-13.8%	2
Chicago	-14.8%	-1
Houston	-16.3%	-5
Washington, DC	-15.1%	-7
Portland	-22.6%	-8
Los Angeles	-16.4%	-14
San Francisco	-17.4%	-32
Seattle	-20.3%	-36
New York	-16.8%	-39

Retail

Metro	Metro re-turns[9]	Impact on sector re-turns
Dallas	5.7%	28
Las Vegas	1.0%	12
Los Angeles	1.1%	11
Houston	0.7%	10
San Diego	0.9%	8
Atlanta	2.0%	7
Seattle	1.7%	7
Riverside	2.3%	6
Baltimore	-0.5%	1
Orange County	-0.6%	1
Boston	-0.6%	1
Orlando	-0.7%	0
San Jose	-1.1%	-1
Phoenix	-2.7%	-6
Oakland	-4.7%	-12
Miami	-5.8%	-13
San Francisco	-8.1%	-16
New York	-4.8%	-18
Chicago	-5.5%	-28
Washington, DC	-6.5%	-43

Source: NCREIF Property Index as of June 30, 2023.

[6] Four-quarter cumulative returns ending fourth quarter 2022.
[7] Four-quarter cumulative returns ending fourth quarter 2022.
[8] Four-quarter cumulative returns ending fourth quarter 2022.
[9] Four-quarter cumulative returns ending fourth quarter 2022.

Appendix – Historical Performance

	12 months trailing				
	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019
Private Real Estate (NPI)	-6.6%	21.5%	7.4%	2.7%	6.5%
Broad Equities (large cap)	19.6%	-10.6%	40.8%	7.5%	10.4%
Bonds	-0.9%	-10.3%	-0.3%	8.7%	7.9%
Listed Real Estate	-4.4%	-5.9%	32.8%	-6.5%	13.0%
10-Year Treasury[10]	3.8%	3.0%	1.5%	0.7%	2.0%
12-Month LIBOR[11]	6.0%	3.6%	0.2%	0.5%	2.2%
CPI (SA)	3.1%	8.9%	5.3%	0.7%	1.6%

Sources: NCREIF (NPI), S&P 500 (Broad Equities), Barclay's U.S. Aggregate Bond Index (Bonds), NAREIT (Listed Real Estate), BLS (CPI) and Federal Reserve (10 yr Treasury, LIBOR). As of June 30, 2023.

[10] These figures represent annual yields.
[11] These figures represent annual yields.

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