U.S. Property Performance Monitor

Third Quarter 2023

IN A NUTSHELL

- The third quarter of 2023 saw a quarterly total return of -1.4%. This was driven by a capital return of -2.4% that was cushioned by a 1.0% income return. Trailing four-quarter returns trended downwards to -8.4% from -6.6% in the prior quarter.
- Retail remained the best performing sector in the NCREIF Property Index (NPI), followed by industrial and apartment. Office lagged significantly behind the index.
- Regional trends remained unchanged. Sun Belt and Mountain West markets generally outperformed while New York, Chicago, Washington, DC, and San Francisco struggled.

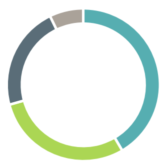
Private Real Estate Property Returns

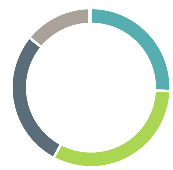
- On a trailing four-quarter basis, private core real estate realized a total return of -8.4%. This is a 180 bps decline relative to the last quarter. The driver of negative performance was deteriorating capital returns. The NPI continued to reflect adjustments in valuations as 10-year Treasuries pushed higher.
- All property types continued to post negative returns on a trailing four quarter basis, albeit at a slower pace. Retail remained the most resilient with a total return of -1.4%. This was followed by the industrial sector, which printed a total return of -5.3%. While apartment total return edged lower to -7.6%, it continued to outperform the NPI. Office, challenged by weak fundamentals, was the biggest drag on the benchmark performance, generating a total annual return of -17.1%.
- Bond and broad equities underperformed private real estate on a quarterly basis but outperformed over the trailing four quarters.[1]
- While valuations adjust, fundamentals generally remained strong. Vacancy for the benchmark was near its historic low (5.7%), largely due to the industrial sector (2.0%). Net Operating Income (NOI) increased by 5.6% (trailing four quarters), a healthy increase relative to historical norms.
- Geographic trends were largely unchanged. Regional markets generally benefitting from lower costs and in-migration (e.g., Sun Belt and Mountain West) held up better. Gateway markets with comparatively higher costs (e.g., New York, Chicago, Seattle, and San Francisco) generally underperformed. Apartments were an exception to this trend, where east coast gateway markets such as New York and Boston outperformed the sub-index, although west coast peers lagged significantly behind.

[1] Bond returns are calculated using the Barclay U.S. Aggregate Index. Broad equity returns are calculated using the S&P 500.

NPI Market Capitalization

Index market value U.S. $ 881.0 billion – Property count 10,922





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

Recent Performance Trends

	Quarter	12 months trailing	
	3Q 2023	**3Q 2023**	**2Q 2023**
Private Real Estate (NPI)	-1.4%	-8.4%	-6.6%
Broad Equities (large cap)	-3.3%	21.6%	19.6%
Bonds	-3.2%	0.6%	-0.9%
Listed Real Estate	-8.3%	-1.7%	-4.4%
10-Year Treasury[2]	4.6%	4.6%	3.8%
CPI (SA)	1.2%	3.7%	3.1%

[1] 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 September 2023.

NCREIF Property Index (NPI) Performance by Sector and Region

— Industrial performed well on a relative basis. Total returns of -5.3% (trailing four quarters), down from 4.0% in the first quarter, were 310 bps above the overall index. Despite declining valuations, industrial fundamentals remained impressive. Vacancies ticked up 20 bps to 2.0% but were well bellow the historical average (7.6%). This continued to fuel high, although moderating, NOI growth (9.8% year-over-year).

— Retail led the pack for the second quarter in a row. Total returns were -1.4% (trailing four quarters), outperforming the benchmark by 700 bps. Neighborhood (-0.4%) and community (0.1%) centers outperformed while regional (-4.1%) and super regional malls (-2.0%), collectively making up more than half of all retail, underperformed the subindex. Vacancy for neighborhood and community centers (6.2%) was the lowest it has been since the GFC. Malls also continued to see declining vacancy (11.3%), however they remained above their long term average (9.1%).

— Apartment total returns declined from -5.1% to -7.6% on a trailing four quarter basis. However, the property type still beat the benchmark by 80 bps. Negative returns were primarily driven by high-rise (-8.4%), which makes up more than half of the subindex, while garden (-6.5%) and low rise (-6.2%) properties fared better. Vacancy jumped 20 bps to 6.3% while NOI growth moderated to 3.5%; both metrics are around their long term average.

— Office performance continued to struggle, delivering total returns of -17.1% (trailing four quarters). CBD office properties (-20.5%) fared worse than those in the suburbs (-13.0%), although both suffered. The sector as a whole produced a -21.1% capital return for the trailing four quarters.

— The South (-4.6%), benefitting from in-migration and demographic tailwinds, performed comparatively well. The Midwest (-6.8%) followed with returns outperforming the benchmark by 160 bps. West (-9.6%) and East (-10.0%) underperformed the index.

Detailed Property Type NPI Performance

	No. of props.	Market value U.S.$ (Mil)	Trailing four quarters (3Q 2023) Total return	Income	Apprec.
Apartment					
Garden	925	83,730	-6.5%	4.0%	-10.2%
High Rise	1,217	145,914	-8.4%	3.8%	-11.9%
Low Rise	245	22,565	-6.2%	3.9%	-9.8%
Industrial					
R&D	36	2,215	-2.2%	3.7%	-5.7%
Flex	165	6,184	-4.0%	4.1%	-7.8%
Warehouse	4,923	280,482	-5.5%	3.4%	-8.6%
Office					
CBD	472	107,017	-20.5%	4.6%	-24.3%
Suburban	1,308	96,406	-13.0%	5.0%	-17.4%
Retail					
Community	178	12,306	0.1%	5.3%	-5.0%
Neighborhood	564	23,257	-0.4%	5.2%	-5.4%
Power	179	13,770	0.7%	5.8%	-4.8%
Regional	46	12,114	-4.1%	4.9%	-8.7%
Super Regional	64	44,221	-2.0%	5.1%	-6.9%

Returns by Property Type and Region

	Annual returns								Standard deviation	
	Total	Income	Apprec.	3 years	5 years	10 years	20 years	Since inception[3]	20 years	Since inception[4]
Property type										
Apartment	-7.6%	3.9%	-11.1%	7.4%	6.0%	7.3%	7.8%	9.9%	9.2%	7.7%
Industrial	-5.3%	3.4%	-8.5%	19.1%	16.1%	14.8%	11.4%	10.5%	11.7%	9.1%
Office	-17.1%	4.8%	-21.1%	-3.6%	-0.3%	4.1%	6.1%	7.4%	9.6%	9.4%
Retail	-1.4%	5.2%	-6.3%	1.9%	0.1%	4.8%	7.6%	8.5%	8.9%	7.0%
Total Index	**-8.4%**	**4.1%**	**-12.1%**	**6.0%**	**5.3%**	**7.4%**	**8.0%**	**8.8%**	**8.9%**	**7.5%**
Region										
East	-10.0%	4.2%	-13.7%	3.2%	3.1%	5.4%	7.1%	9.2%	9.4%	9.0%
Midwest	-6.8%	4.8%	-11.2%	3.5%	2.5%	5.4%	6.3%	7.4%	7.3%	6.1%
South	-4.6%	4.4%	-8.7%	8.8%	6.8%	8.4%	8.4%	8.2%	8.3%	6.9%
West	-9.6%	3.8%	-13.0%	7.2%	6.6%	9.0%	9.1%	9.5%	10.0%	8.5%
Total Index	**-8.4%**	**4.1%**	**-12.1%**	**6.0%**	**5.3%**	**7.4%**	**8.0%**	**8.8%**	**9.1%**	**7.6%**

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

[3] Index returns start in 1978, equivalent to a 45 year calculation.
[4] 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 a lean tech sector in these high-cost markets. San Diego (-5.9%) was an exception as it joined some of the leading sunbelt markets in having a positive impact on total return. Large gateway markets outside the West Coast (New York, Chicago, Washington, DC, Boston) either outperformed or tracked the subindex; New York (-4.2%) stood out with its large positive impact on sector returns.

Industrial

Overall performance continued to decline with variance across market. Miami (3.5%), once again, was the only market to post positive returns. Atlanta (-2.1%), a regional distribution hub, and Baltimore (-1.7%), supported by port activity, positively contributed to performance. On the other hand, gateway markets (e.g., New York, Los Angeles, Chicago) generally underperformed. Markets that are seeing increased availability (e.g., Seattle, Charlotte), as a result of completions and sublease space hitting the market lagged the subindex. Of particular note is Riverside (-5.7%), a historically top performing market that ended the trailing four quarters as a drag on overall performance.

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 certain gateway markets (e.g., New York, Los Angeles) remained at the bottom of the pack. San Diego (-9.9%) had a 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, 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 (0.9%) and San Diego (-0.4%) outperformed, while San Francisco (-9.4%) lagged significantly.

Apartment			Industrial			Office			Retail		
Metro	Metro returns[5]	Impact on sector returns	Metro	Metro returns[6]	Impact on sector returns	Metro	Metro returns[7]	Impact on sector returns	Metro	Metro returns[8]	Impact on sector returns
New York	-4.2%	27	Miami	3.5%	27	Dallas	-8.4%	19	Dallas	5.4%	28
Dallas	-3.6%	25	Atlanta	-2.1%	12	San Diego	-9.9%	17	Houston	0.3%	11
Miami	-0.9%	15	Baltimore	-1.7%	7	San Jose	-14.0%	11	Los Angeles	0.0%	8
Chicago	-4.5%	15	Dallas	-4.5%	5	Miami	-7.6%	11	Riverside	2.3%	7
Fort Lauder-dale	-3.2%	10	Phoenix	-3.1%	4	Atlanta	-12.4%	8	Seattle	0.9%	6
Washington, DC	-6.7%	6	Boston	-3.8%	2	Oakland	-14.0%	6	San Diego	-0.4%	5
San Diego	-5.9%	4	Portland	-4.1%	2	Charlotte	-11.3%	5	Las Vegas	-0.7%	5
West Palm Beach	-5.9%	3	Philadelphia	-4.2%	2	Nashville	-8.6%	5	Atlanta	0.1%	3
Houston	-6.7%	2	San Diego	-4.7%	1	Washington, DC	-16.9%	3	San Jose	-0.6%	2
Atlanta	-7.2%	2	Houston	-5.2%	0	Austin	-16.5%	2	Boston	-0.7%	2
Boston	-7.5%	0	Las Vegas	-5.6%	0	Boston	-17.1%	0	Orange County	-1.1%	1
Austin	-7.7%	-1	Chicago	-5.7%	-2	Chicago	-17.1%	0	Baltimore	-2.6%	-2
Orange County	-8.6%	-3	Orange County	-6.0%	-2	Houston	-17.4%	-1	Phoenix	-3.1%	-6
Charlotte	-9.3%	-3	Charlotte	-7.9%	-4	Denver	-17.8%	-2	Orlando	-4.1%	-6
Denver	-9.5%	-10	Riverside	-5.7%	-6	Orange County	-18.3%	-2	New York	-3.5%	-9
Phoenix	-12.5%	-14	Denver	-9.5%	-6	Los Angeles	-18.1%	-8	Oakland	-4.7%	-10
San Jose	-14.3%	-14	Seattle	-7.1%	-9	Portland	-27.2%	-10	San Francisco	-9.4%	-17
Seattle	-11.9%	-22	Oakland	-7.9%	-9	Seattle	-22.2%	-31	Miami	-8.5%	-19
San Francisco	-15.8%	-25	Los Angeles	-7.0%	-17	San Francisco	-20.8%	-40	Chicago	-5.7%	-26
Los Angeles	-12.3%	-31	New York	-7.5%	-18	New York	-20.4%	-56	Washington, DC	-6.9%	-42

Source: NCREIF Property Index as of September 2023.

[5] Four-quarter cumulative returns ending third quarter 2023.
[6] Four-quarter cumulative returns ending third quarter 2023.
[7] Four-quarter cumulative returns ending third quarter 2023.
[8] Four-quarter cumulative returns ending third quarter 2023.

Appendix – Historical Performance

	12 months trailing				
	9/30/2023	9/30/2022	9/30/2021	9/30/2020	9/30/2019
Private Real Estate (NPI)	-8.4%	16.1%	12.2%	2.0%	6.2%
Broad Equities (large cap)	21.6%	-15.5%	30.0%	15.1%	4.3%
Bonds	0.6%	-14.6%	-0.9%	7.0%	10.3%
Listed Real Estate	-1.7%	-16.3%	31.5%	-12.2%	20.7%
10-Year Treasury[9]	4.6%	3.8%	1.5%	0.7%	1.7%
CPI (SA)	3.7%	8.2%	5.4%	1.4%	1.7%

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 September 2023.

[9] These figures represent annual yields.

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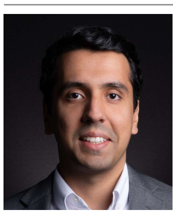
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