



First Quarter 2020 NCREIF Indices Review

May 7, 2020

Panelist Overview



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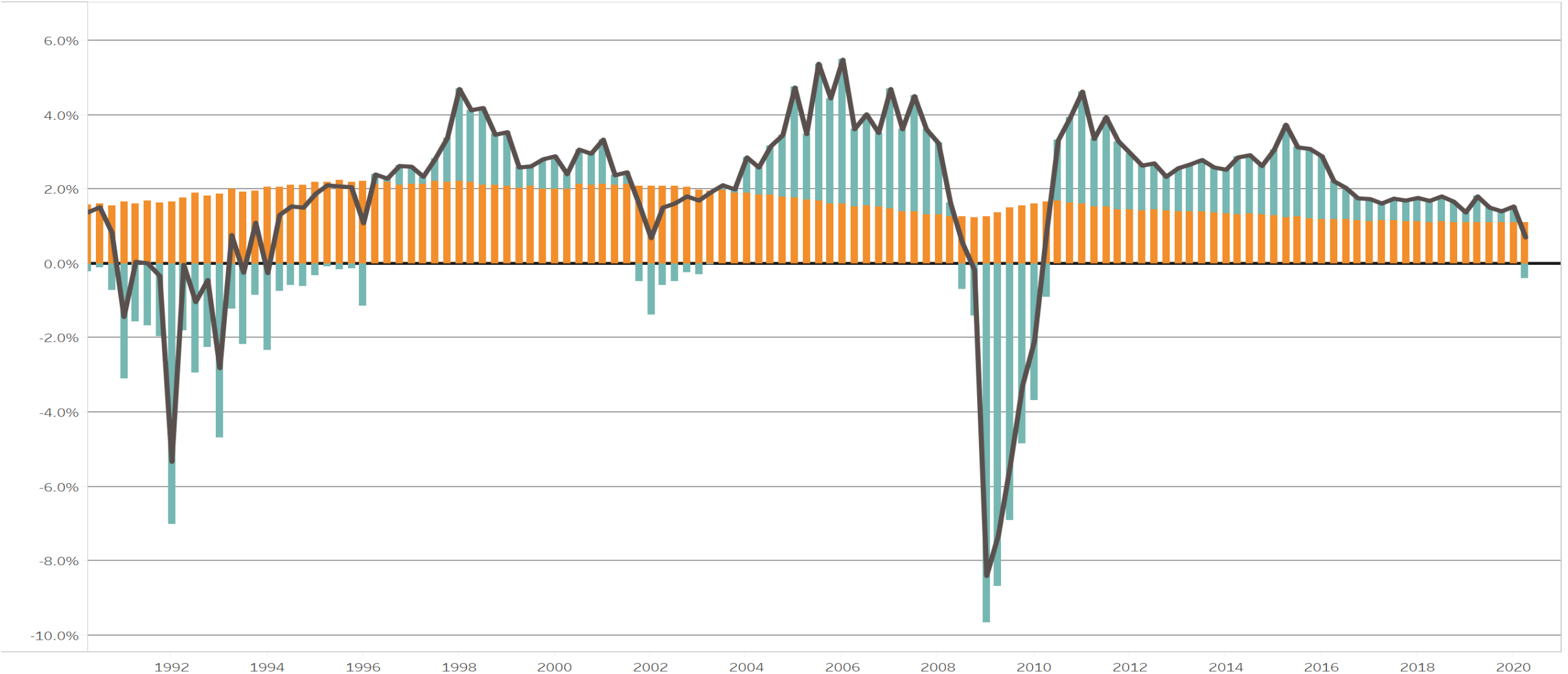
Disclaimer

Today we will be presenting what we see in the NCREIF data, trends and changes; all comments about future expectations are the personal views of the speakers and not a reflection of a NCREIF opinion or forecast.

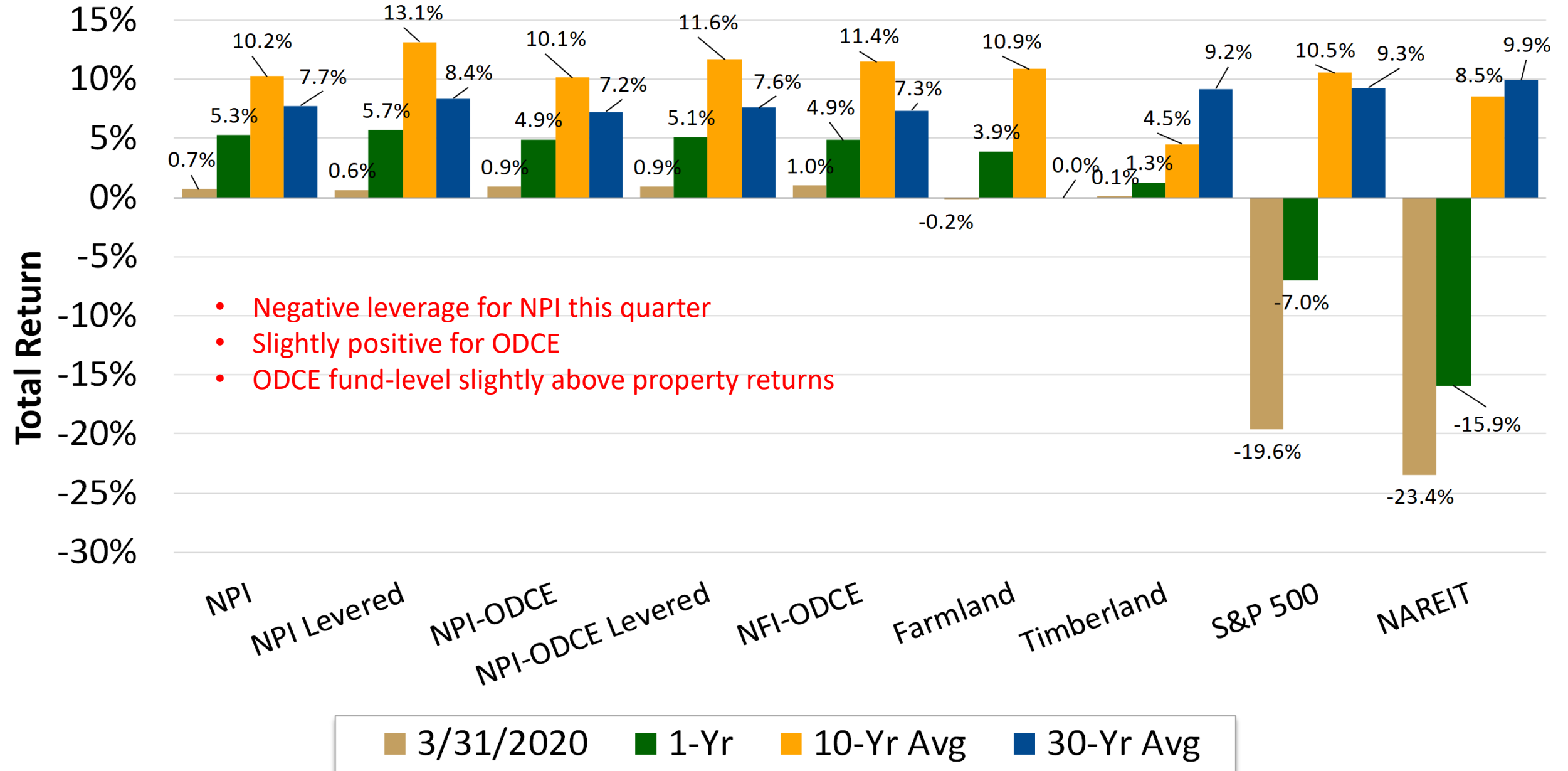
First Write-downs in 10 Years

Capital Return Income Return Total Return

Quarterly Private Equity Commercial Real Estate Returns in the United States



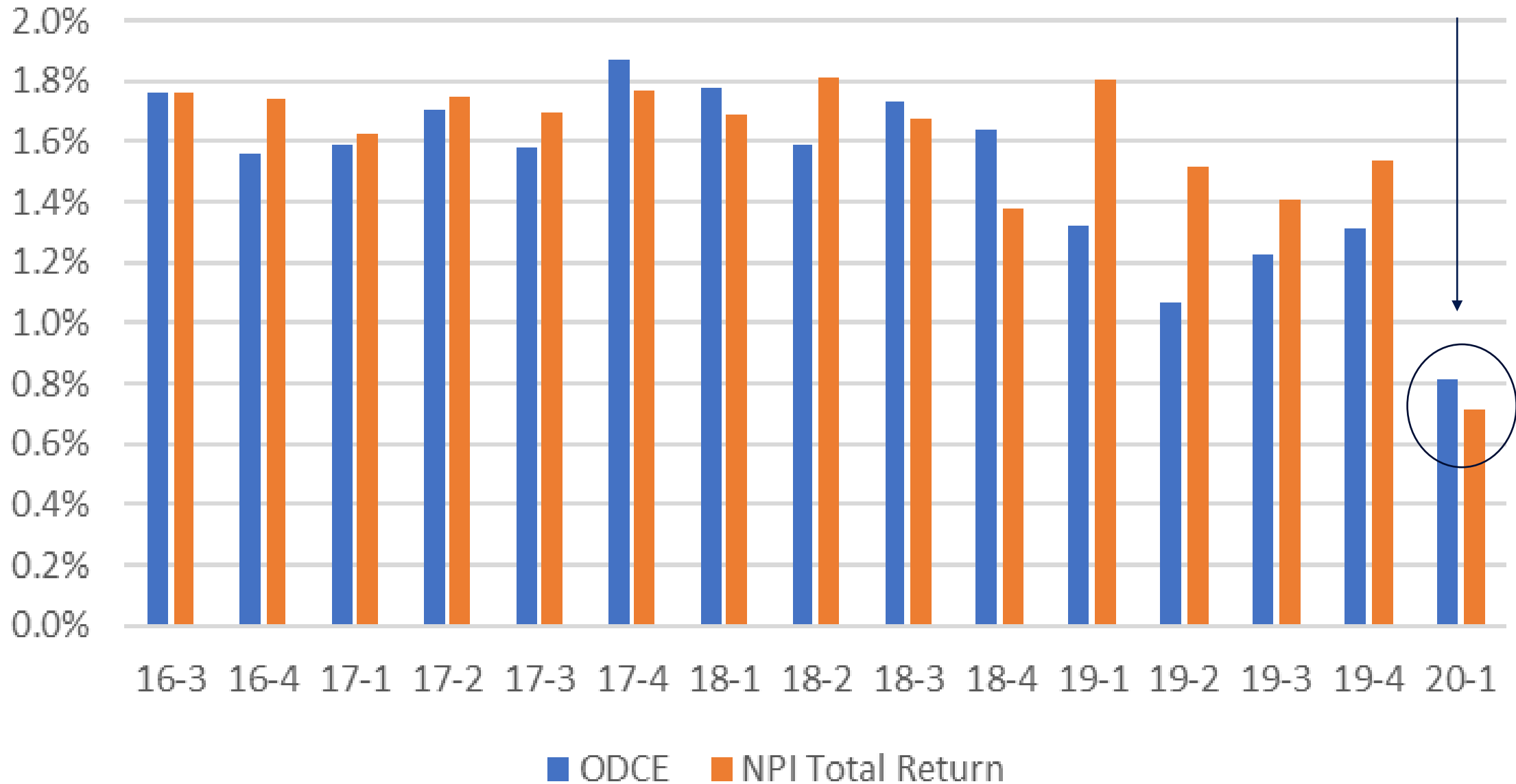
Total Returns by Asset Class





NPI vs ODCE

Greater decline in NPI
than ODCE only Props

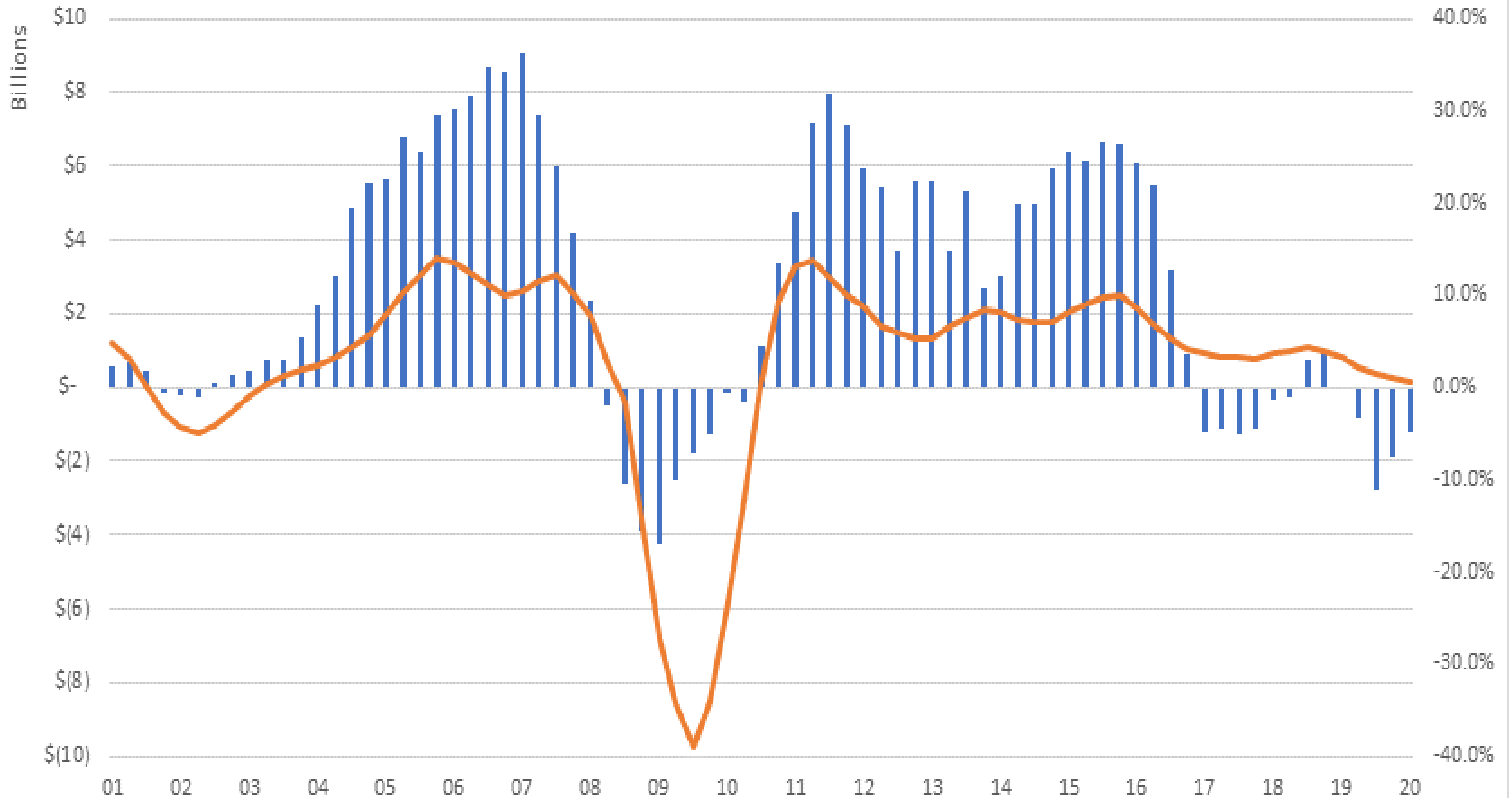




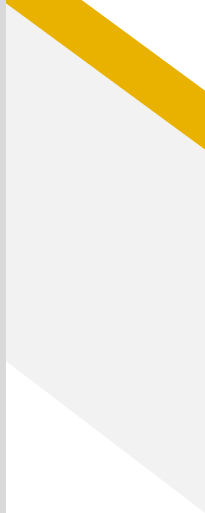
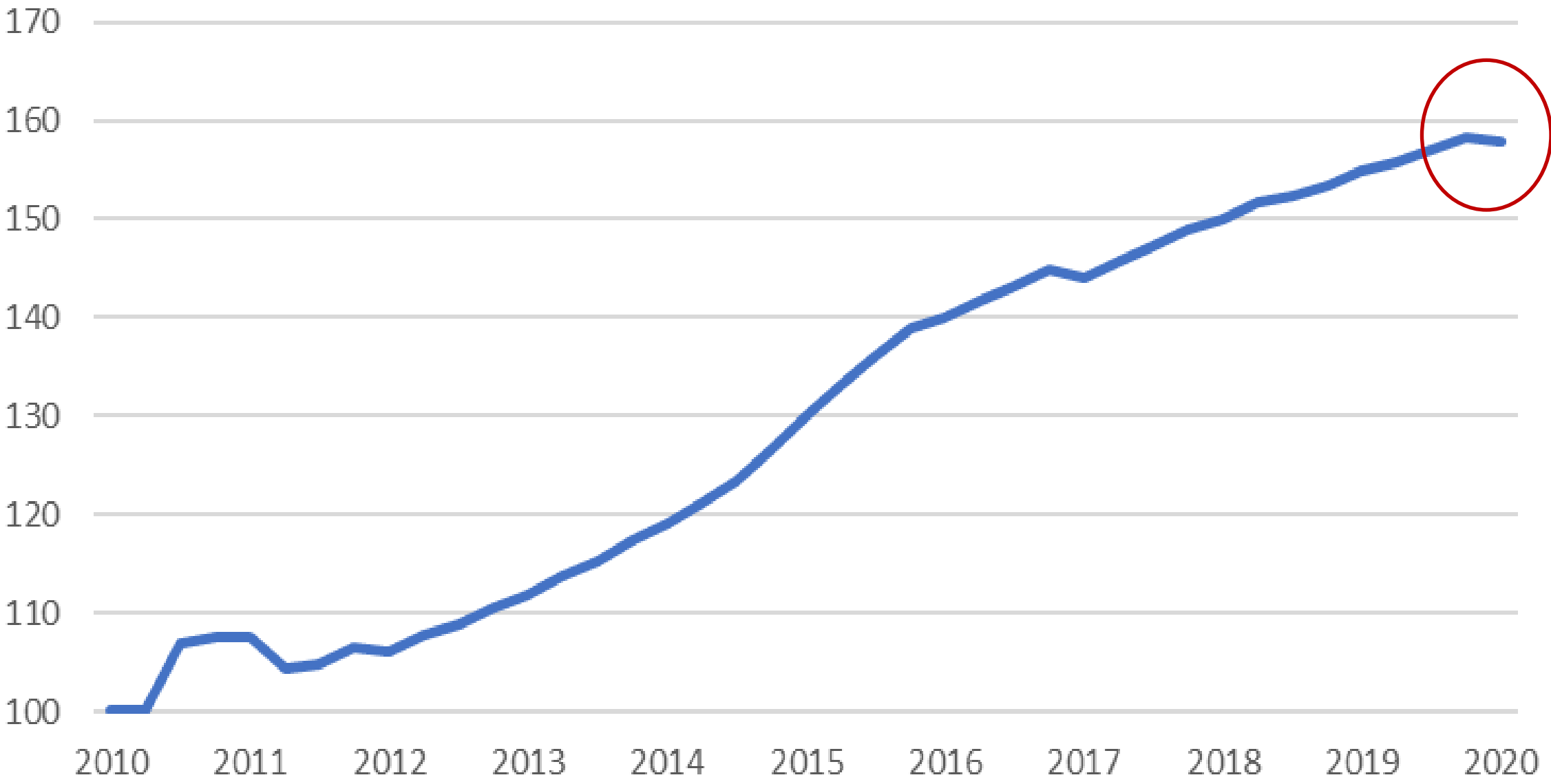
Question

- What will the annual NPI total return be for the year 2020?
 - A. Below negative 1%
 - B. 0%-to- negative 1%
 - C. 0%-to-1%
 - D. Above 1%

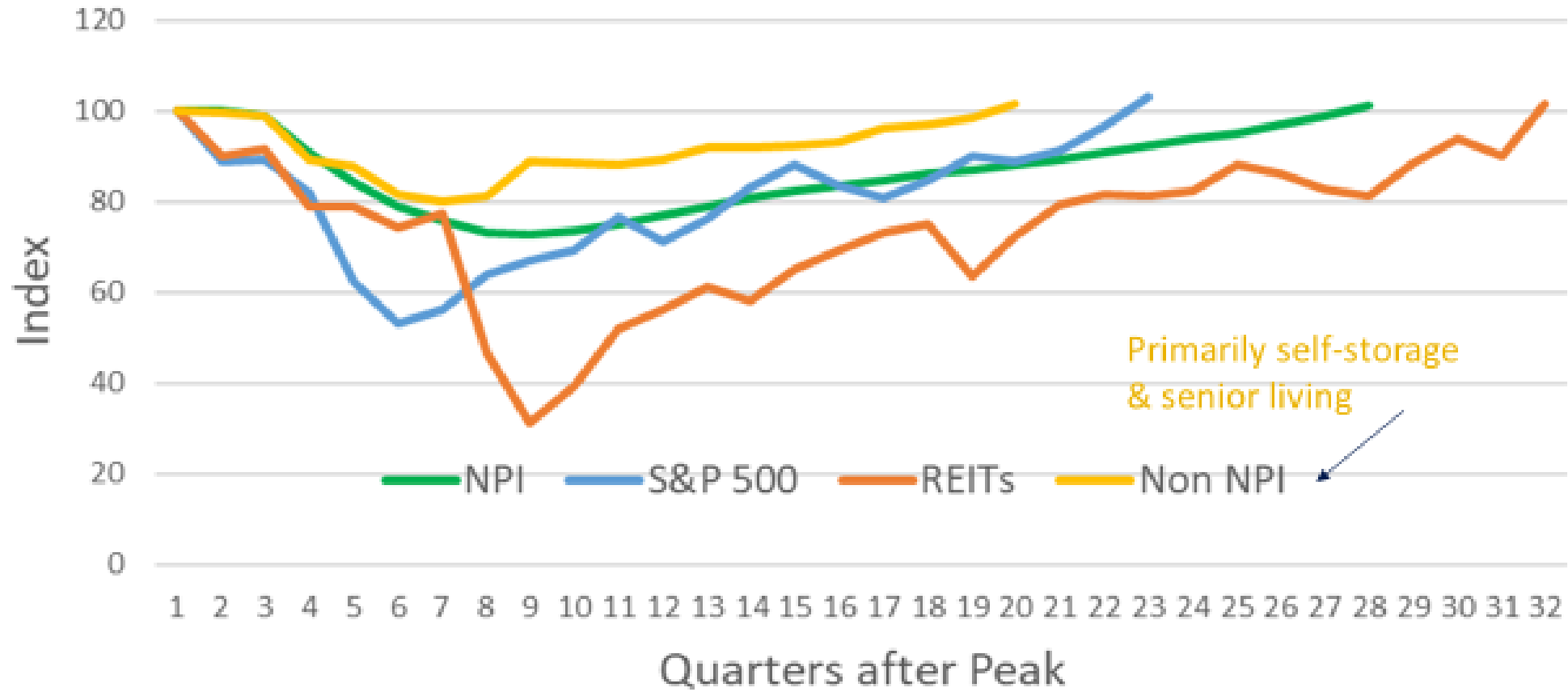
■ Annual Net Investor Cash Flow to ODCE Funds — Annual ODCE Appreciation Return



NCREIF Value Weighted Market Value Index



Impact of Financial Crisis on S&P 500, REITs & Private Real Estate



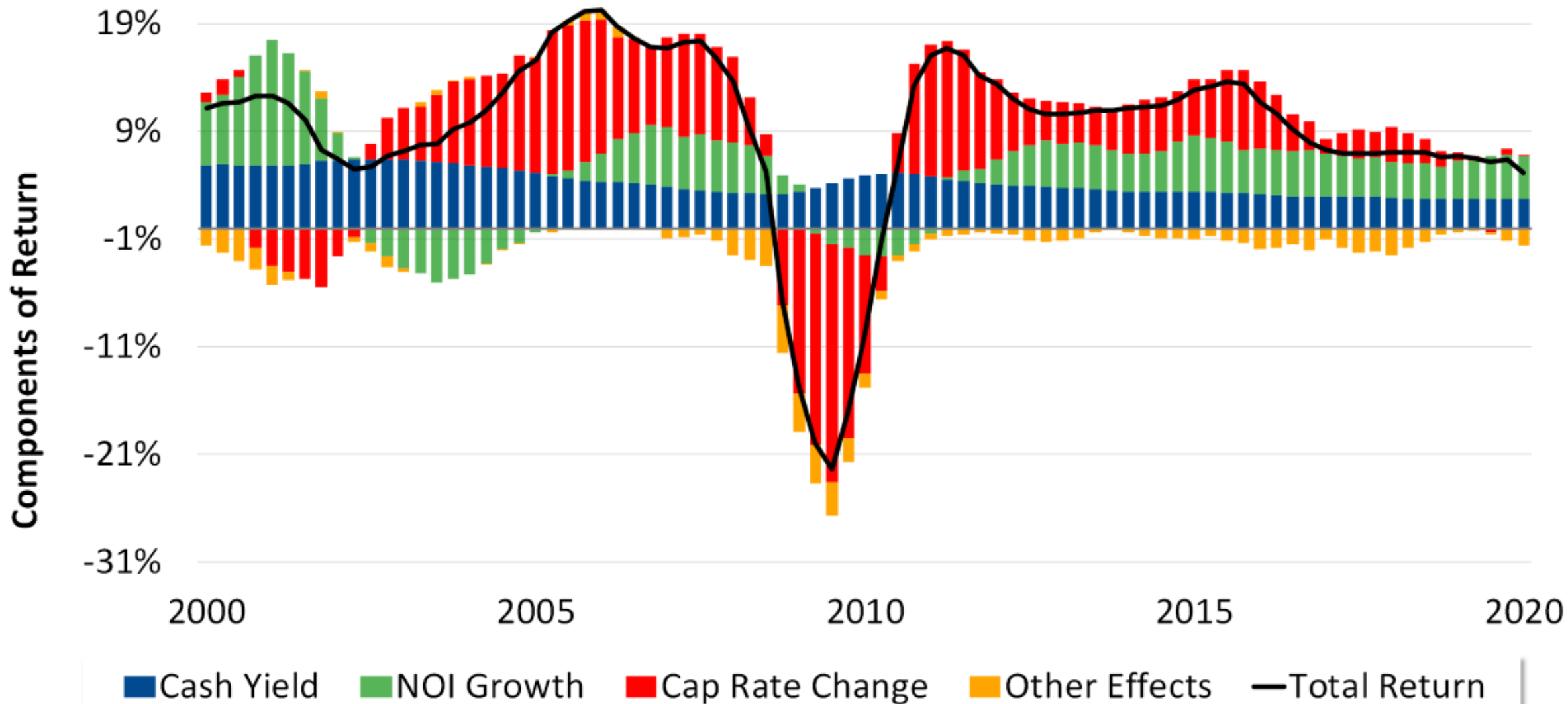


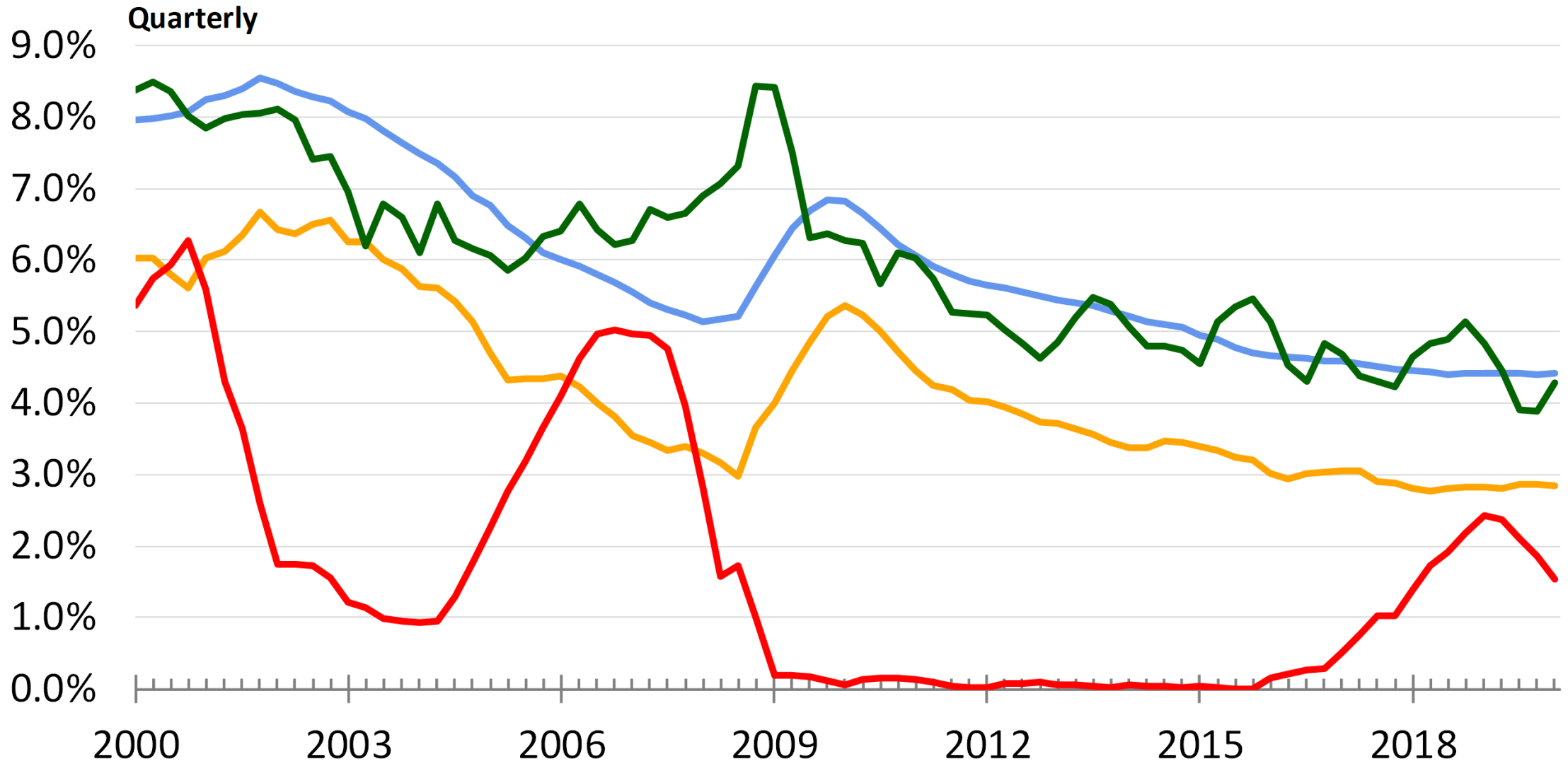
Question

- How far will market values drop before we return to the pre Covid-19 Level?
 - A. 0 to 10%
 - B. 10% to 20%
 - C. 20% to 30%
 - D. More than 30%

NPI Property Components of Return

Annual





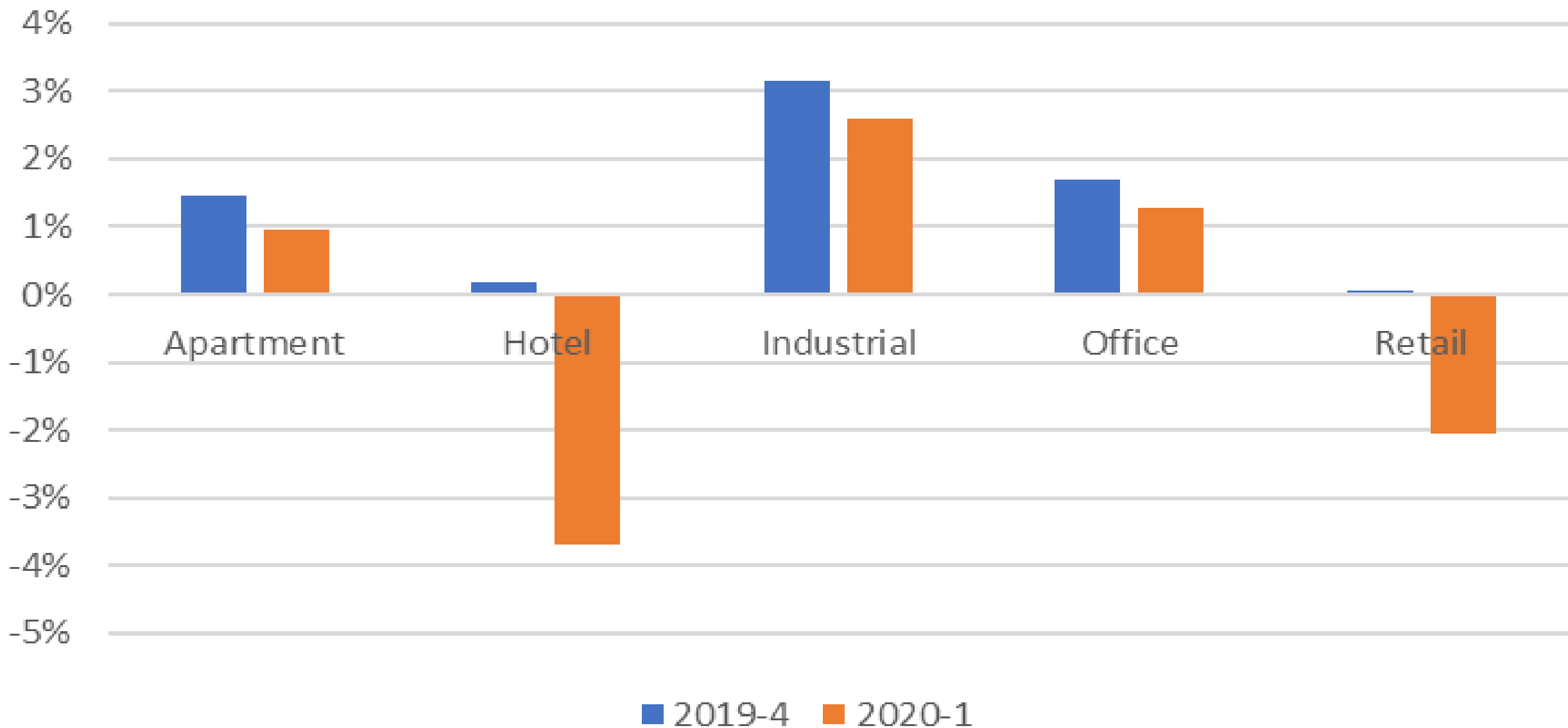
— Cap Rates — Cash Rate — 90-Day Treasury (Rfr) — BAA Yield



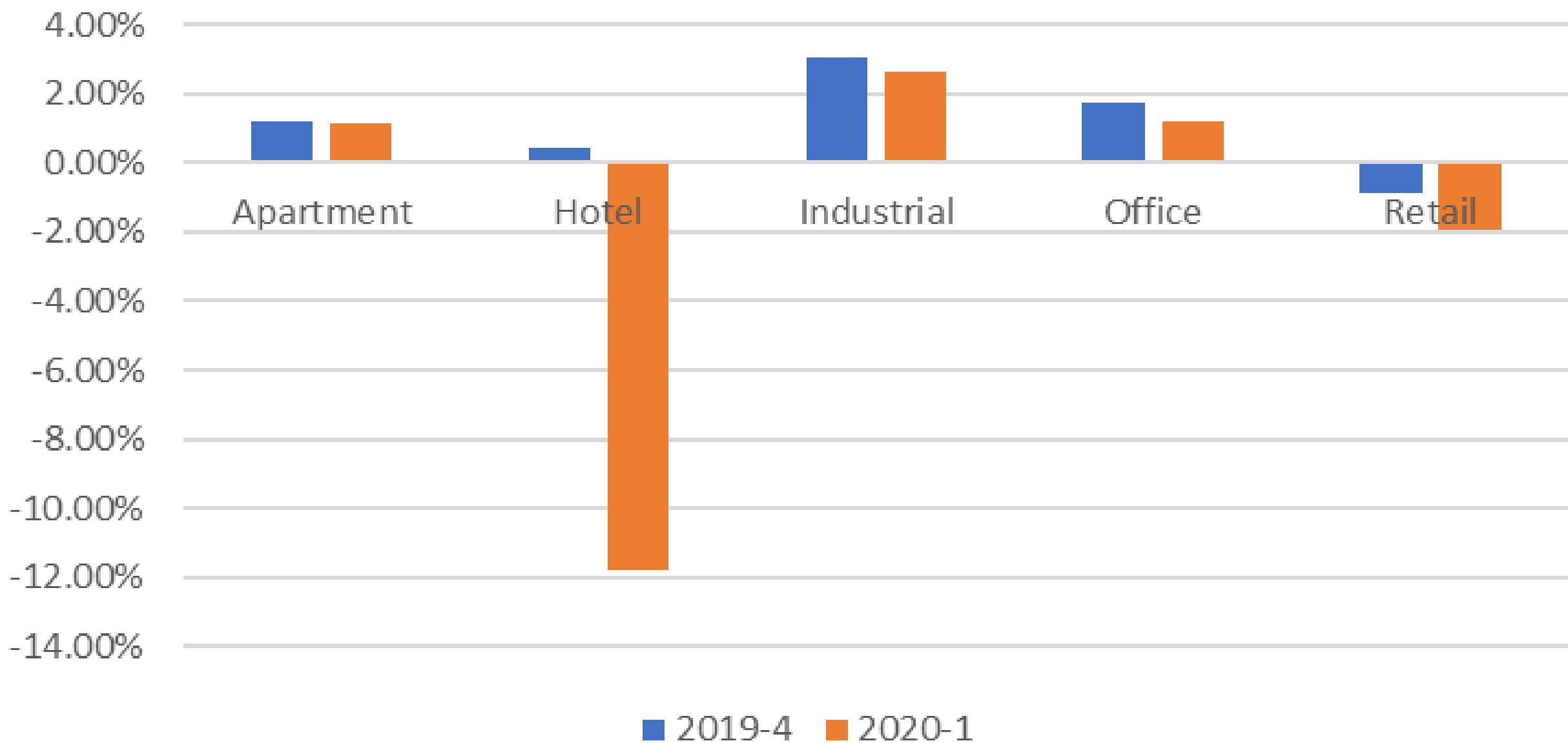
Question

- What will cap rates be for the nation by the end of 2020?
 - A. Below 4%
 - B. 4% to 4.5%
 - C. 4.5% to 5%
 - D. Above 5%

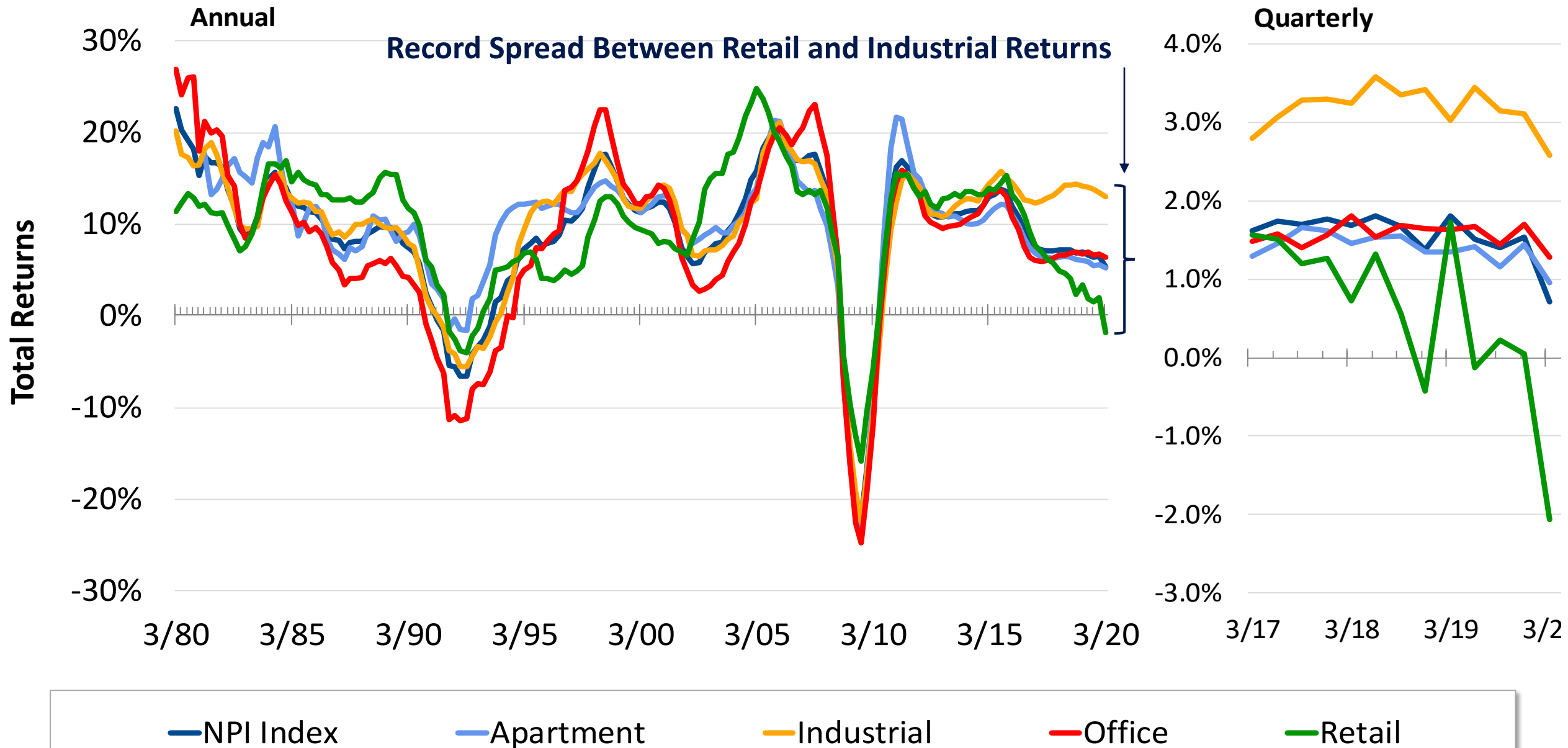
NPI Returns by Property Type



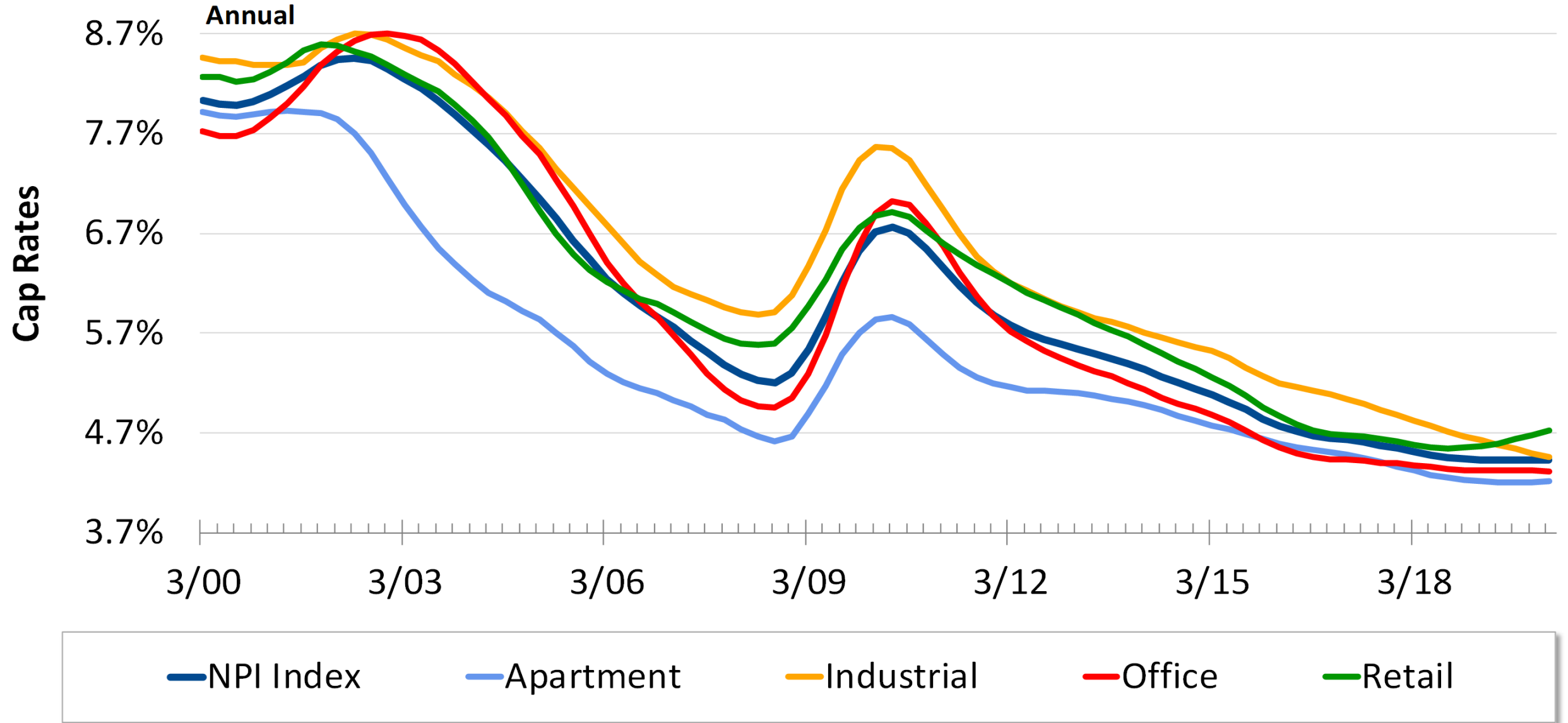
ODCD Returns by Property Type



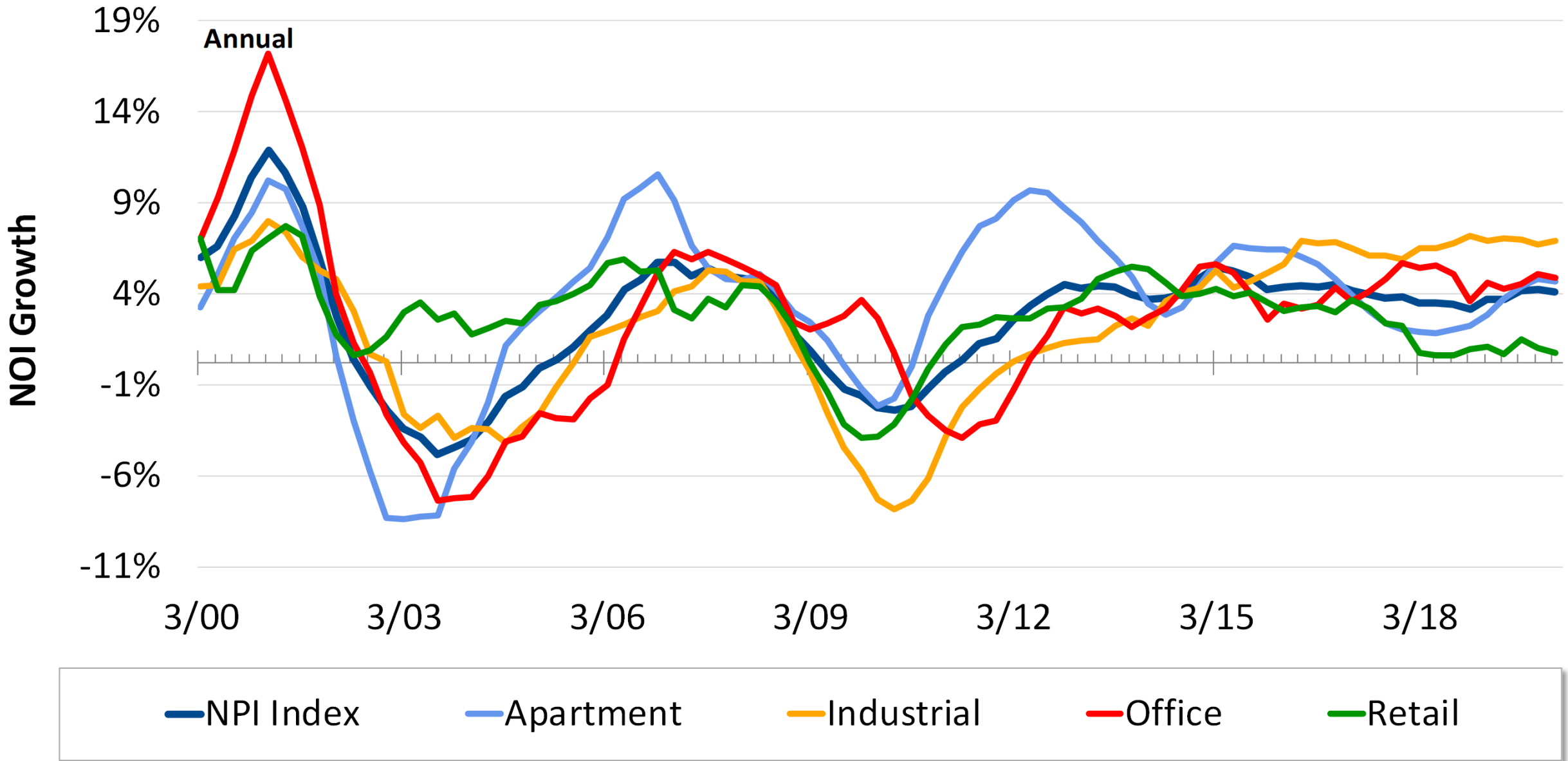
NPI Property Total Returns by Property Type



NPI Property Cap Rates by Property Type

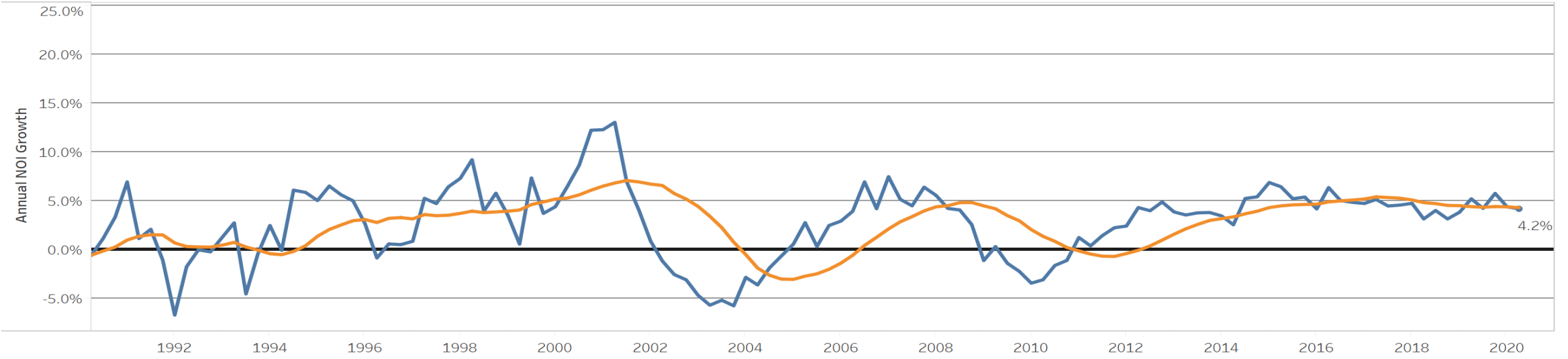


NPI Property NOI Growth by Property Type

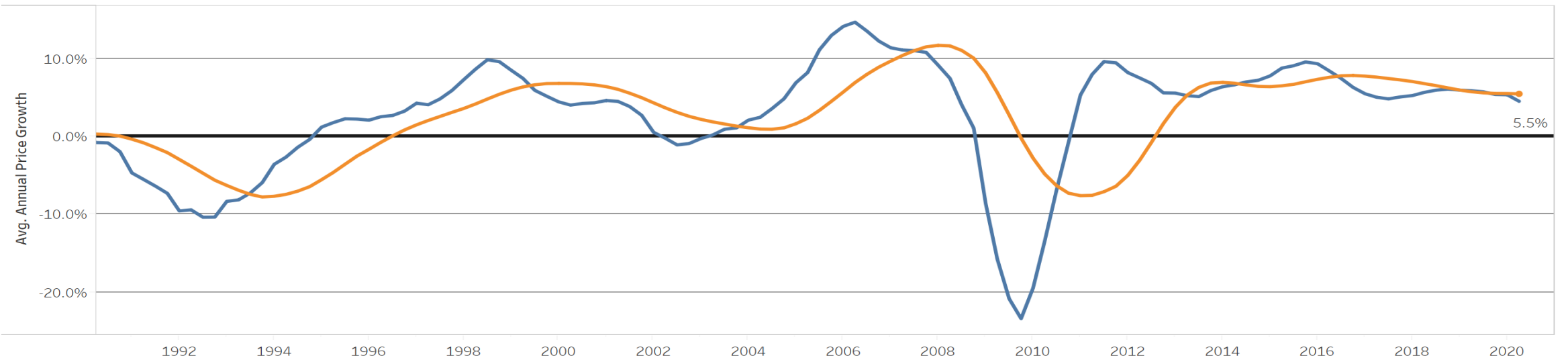


Income and Price Were Decelerating but Still Solid

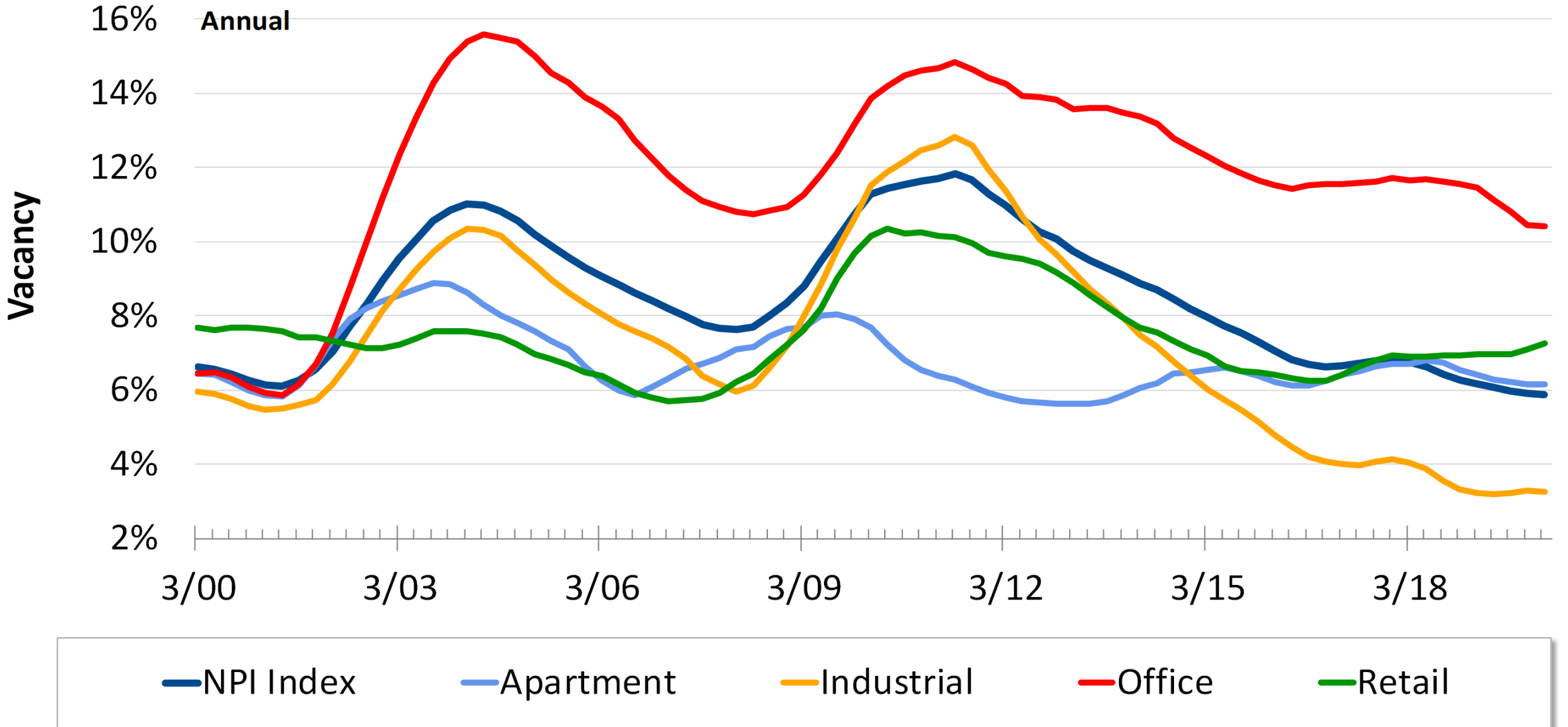
United States - All Trailing Annual NOI Growth



United States - All Trailing Annual Price Growth



NPI Property Vacancy by Property Type



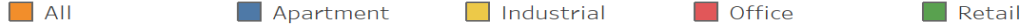


Question

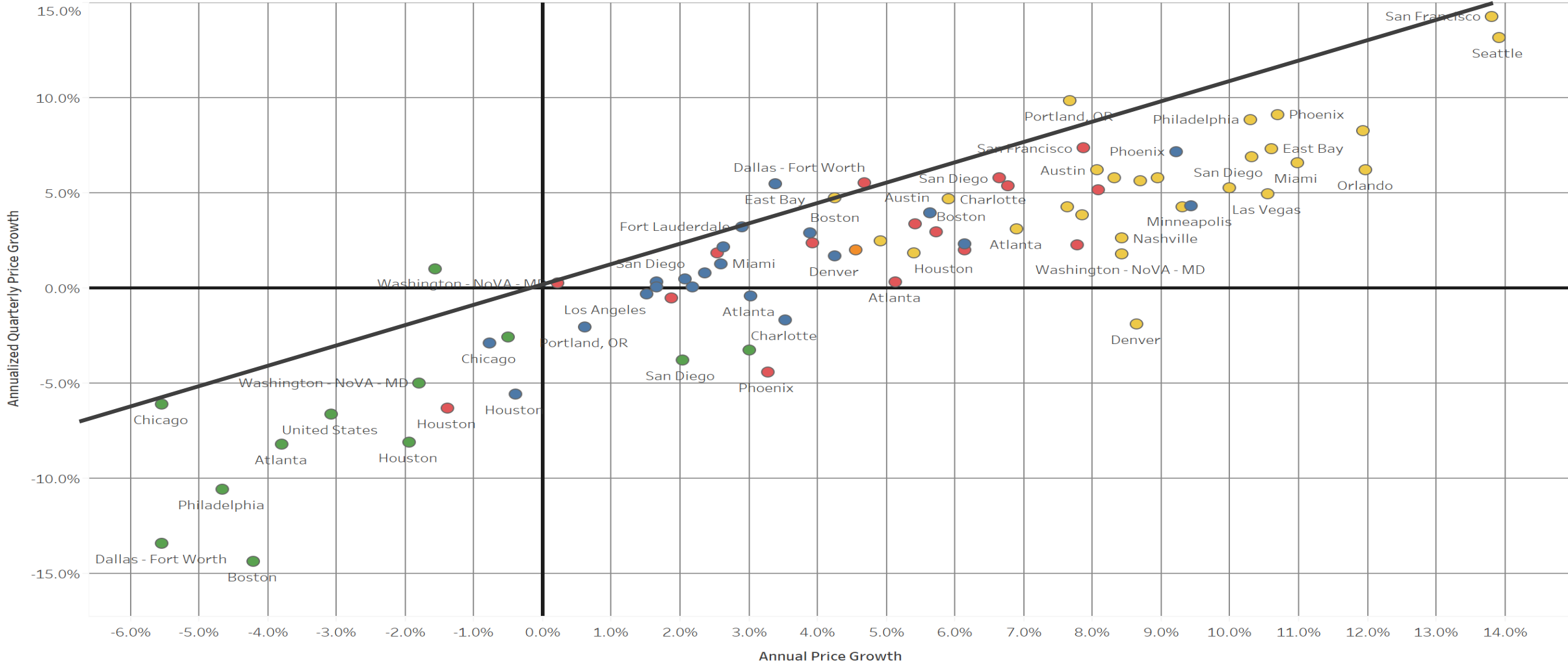
- What Property Sector do you think will perform best in 2020 ?
 - A. Apartment
 - B. Hotel
 - C. Industrial
 - D. Office
 - E. Retail

Price Growth Decelerating in Most Markets

Property Type



Price Momentum

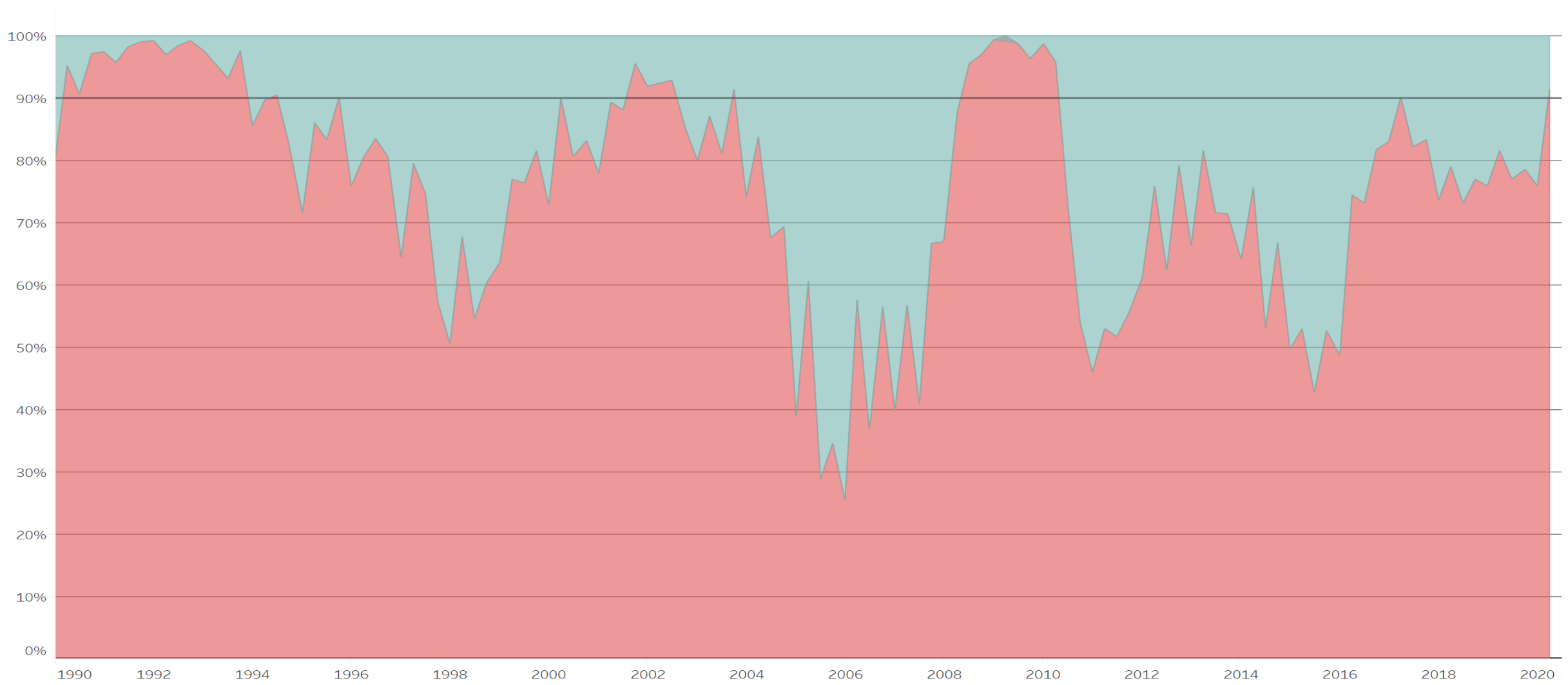


Sources: NCREIF; Hines Research; as of 2020Q1

Time to Keep an Eye on The 90/2 Rule

■ $\geq 2\%$ ■ $< 2\%$

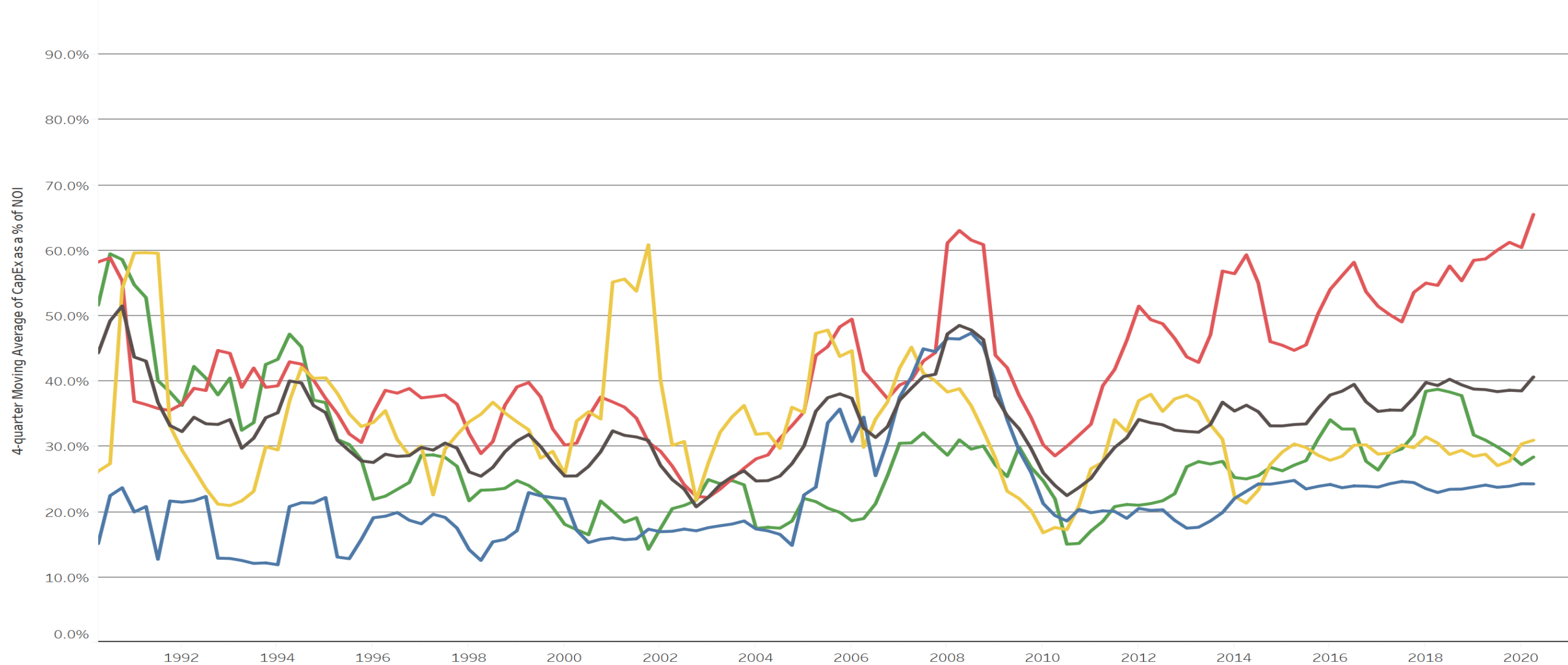
Percentage of Markets With Less than 2% Price Growth



Office CapEx at 30+ Year Highs

■ All ■ Apartment ■ Industrial ■ Office ■ Retail

CapEx as a Percent of NOI

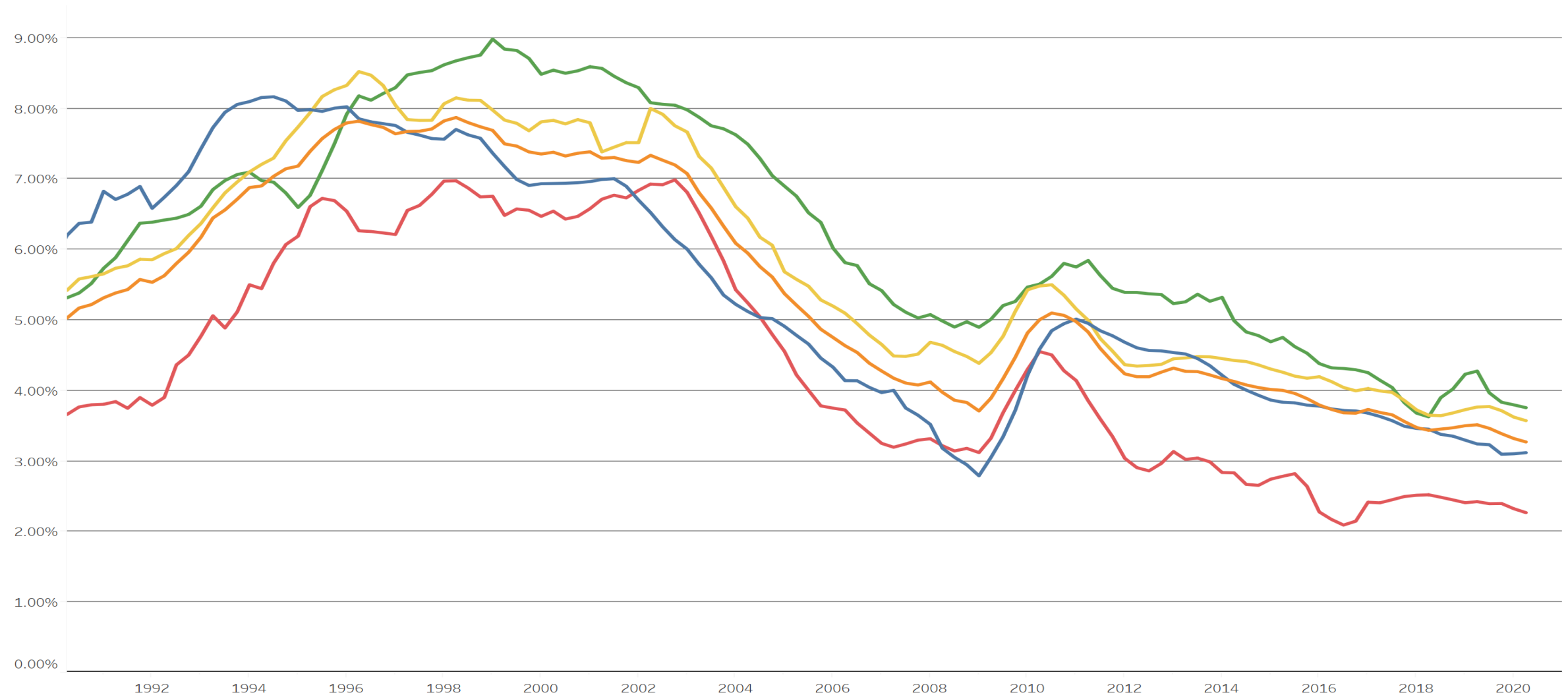


Sources: NCREIF; Hines Research; as of 2020Q1

Resulting in About 100 bps Less of Cash Flow Yield

■ All ■ Apartment ■ Industrial ■ Office ■ Retail

Trailing Annual Free Cash Flow Yield



Sources: NCREIF; Hines Research; as of 2020Q1



Summary based on what we know based on end-of-quarter data

- Returns still positive
- But lowest return since first quarter of 2020
- Returns down for all property types – Negative for hotel and retail
- Cap rates holding steady – but did quarter end values fully adjust for what was known about COVID-19 by end of March?
- And how much more do we know between the end of the quarter and today?



Price Discovery a Challenge!

“Sellers still remember the price they would have gotten in early March, and buyers think about the price they dream of getting right now, and it’s going to take a little while for that all to sort itself out.”



Sam Zell and Mark Parrell



5.07.20 – US: 1.21MM confirmed cases, 72,000+ deaths. Worldwide: 260,000+ deaths
 Stock markets and REIT Index remain ~25% off lows and ~19% off highs.
 10-year T-bill yield 0.65%, 30M+ unemployed.

12.31.19
 CDC becomes aware of virus cases in Wuhan, China.

1.20.20
 First confirmed case of virus in the US.

2.14.20
 First virus death in Europe

3.15.20 – 3.31.20
 Most US states issue "stay at home" orders.

4.23.2020 – 2nd Round of CARES Act Funding signed into law ~\$484B stimulus including \$310B additional PPP funding.

1.11.20
 China reports first death from virus

1.23.20
 Wuhan cut off by Chinese authorities

3.1.20
 First confirmed case of virus in New York.

3.23.20
 Stock markets hit lows down ~ 37% from highs. S&P REIT Index down ~45%.

3.27.20 – CARES Act signed into law ~\$2T stimulus

~ 4.15.2020
 April Rent Collections
 Industrial: ~90% – 95%
 Apartments: ~85% – 90%
 Office: ~75% – 85%
 Retail: ~25% – 30%

3.31.20 – US: 160,530 confirmed cases, 2,939 deaths. Worldwide: 40,000+ deaths
 Stock markets rebound ~23% off of lows. S&P REIT Index rebounds ~25%



Impact varies considerably by property type, geography, tenancy, and other factors

General observations:

- **Market Rent Growth** – Flat to declining in the near-term for most property types.
- **Retail Sales Growth** – Sales for 2020 will likely be down across most properties and tenants, with grocery and big box holding steadier. Minimal opportunities to capture percentage rent.
- **Rent Restructures** – Landlords are inundated and solutions vary widely. Biggest determining factors are: remaining lease term, creditworthiness/ability to pay, and legal standing.
- **Credit Loss** – Tenant aging and delinquency reports require constant updating and analysis. Credit losses expected to increase significantly at most property types for the remainder of 2020.
- **Vacancy & Absorption** – Near term vacancy is likely to increase for most asset types. Property tours largely curtailed. Due to rightsizing, downsizing, bankruptcy, etc. absorption and lease-up of vacant space will likely be extended at most properties/markets.
- **Cap & Discount Rates** – Holding steady for the most part. Market activity has stopped. Bid/ask spread needs to close. Valuations are more focused on cash flow changes for now.



Property: 384,000 SF warehouse built in 2019 leased to Amazon for a five-year term.

Pricing: \$43,000,000 (\$112/SF), price negotiated pre-COVID, 4.65% cap rate.

Seller: RWK Legacy Logistics

Buyer: Institutional (Confidential)

Status: Set to close in the next 30 days



Tracking apartment sales in Dallas, Denver, Houston, Phoenix and San Diego that went under contract pre-COVID.

Re-trades are 2% - 5% below contract price to account for near-term income losses.

In some cases sellers have elected to escrow funds to backstop performance.

Several deals have been paused and extended until there is greater clarity on pricing.



Property: 397,000 SF office building with ground floor retail, 356,000 SF of office space fully leased to Square for a 12-year term, built in 1922, gut renovated in 2018.

Pricing: \$405,000,000 (\$1,020/SF), under contract late-February, 5.25% cap rate.

Seller: CIM Group

Buyer: Blackstone BREIT

Status: Deal terminated due to fallout of debt financing, \$20MM earnest money forfeit.



Question

- How long will it be until NPI returns are increasing again?
 - A. Third quarter of 2020
 - B. Fourth quarter of 2020
 - C. First half of 2021
 - D. Second half of 2021
 - E. 2022 or later

Upcoming NCREIF Events

NCREIF Summer Conference 2020

Phoenix, AZ

July 13 – 16, 2020

Visit www.ncreif.org for more information

