

Welcome to the **RealNex**

2018 Webinar Series Q1 CRE Market Update

February 15, 2018



Hosted by
Jeffrey M. Finn
CEO, RealNex



Presented by
Jeffrey D. Fisher, Ph.D.
President, Homer Hoyt Institute
Director, RealNex

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Dr. Jeffrey D. Fisher

- Partner in the Pavonis Group, Director of RealNex and president of the Homer Hoyt Institute.
- Former director of the real estate program at Indiana University and is now a Professor Emeritus.
- Coauthor of **Real Estate Finance and Investments**, 16th edition published by McGraw-Hill and **Income Property Valuation**, 2nd edition published by Dearborn.
- Participated in the development courses for the Appraisal Institute, the CCIM Institute, the National Council of Real Estate Investment Fiduciaries (NCREIF) and other organizations.
- Consulted with companies like ARGUS, Real Capital Analytics and Yardi as well as many institutional investment management firms.
- An expert witness on real estate valuation issues and has appeared on CNBC to discuss real estate.
- Recipient of the PREA/Graaskamp Award for Research Excellence from the Pension Real Estate Association, the Richard Ratcliff award and the Pioneer Award from the American Real Estate Society, the George Bloom Award from the American Real Estate and Urban Economics Association and the Martin S. Katz Memorial Award from the American Property Tax Council (APTC).

NCREIF is the leading provider of investment performance indices and transparent data for US commercial properties.

- Quarterly data since 1978
- Over 17,000 properties in database including sold properties
- Over 1/2 Trillion Market Value
- Office, Retail, Industrial, Apartment, Student Housing, Parking, Seniors Housing etc.
- Data contributing members are the nations largest investment managers
- Properties must be valued every quarter to report performance to investors
- NCREIF Property Index (NPI) is a benchmark for performance measurement.

February 12, 2018

Chicago industrial sector booming as retail, apartments cool

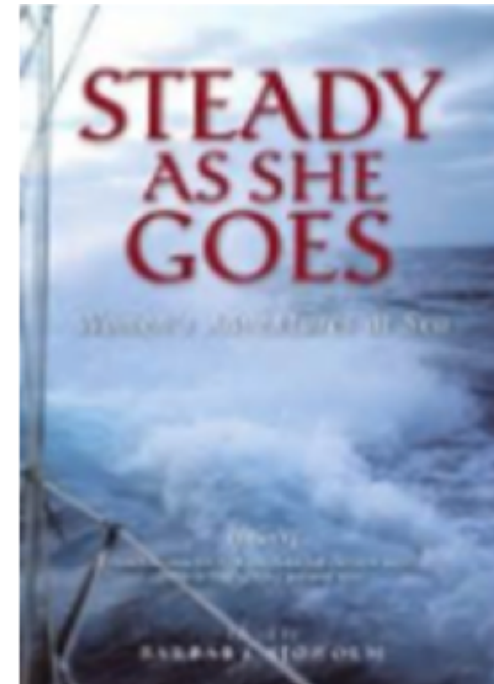
By DANNY ECKER |  

A report from the National Council of Real Estate Investment Fiduciaries, which calculates returns based on properties' income and price appreciation, showed that Chicago-area industrial returns have hovered around 12 percent annually for the past five years.

Overview

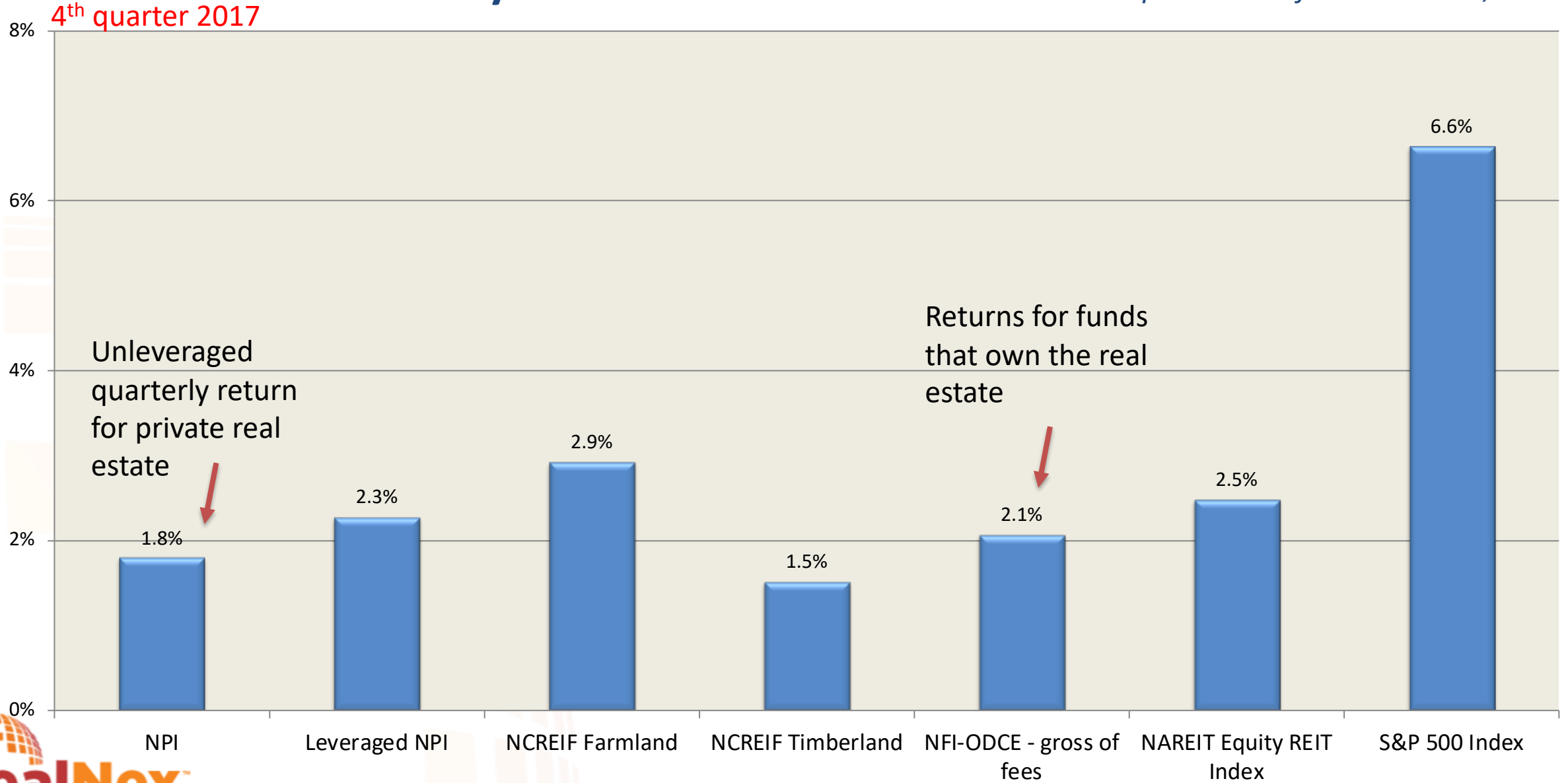
Steady as She Goes

- Returns for institutional investors ends year on an uptick.
- Volatility of total returns at a historic low.
- Industrial remains by far the top performer.
- Net fund flows negative for the year.
- Occupancy holding at its 15-year high.
- Rental income growth mixed by property type as retail and apartment struggle while industrial and office remains strong.



Total Return Trends by Asset Class

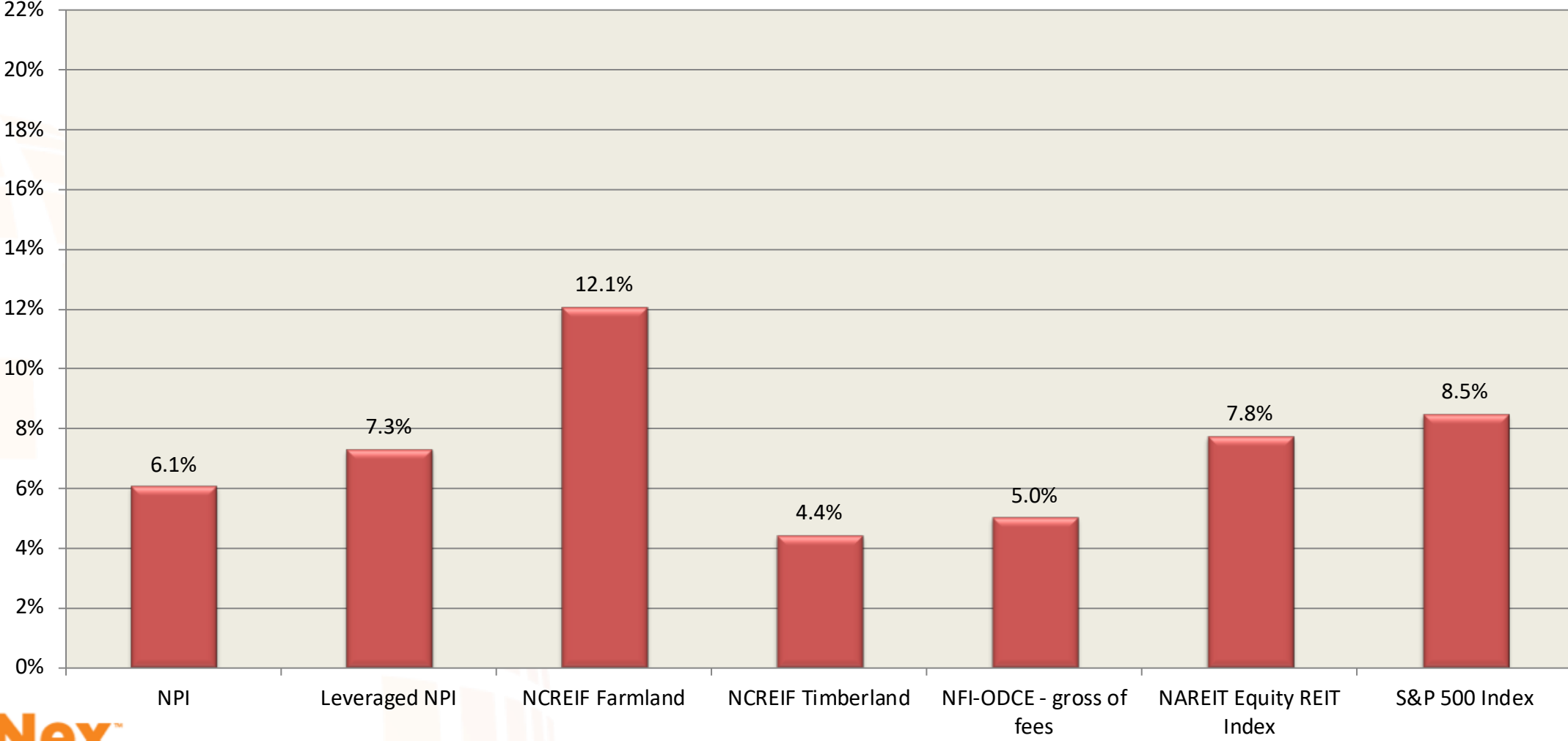
Comparison as of December 31, 2017



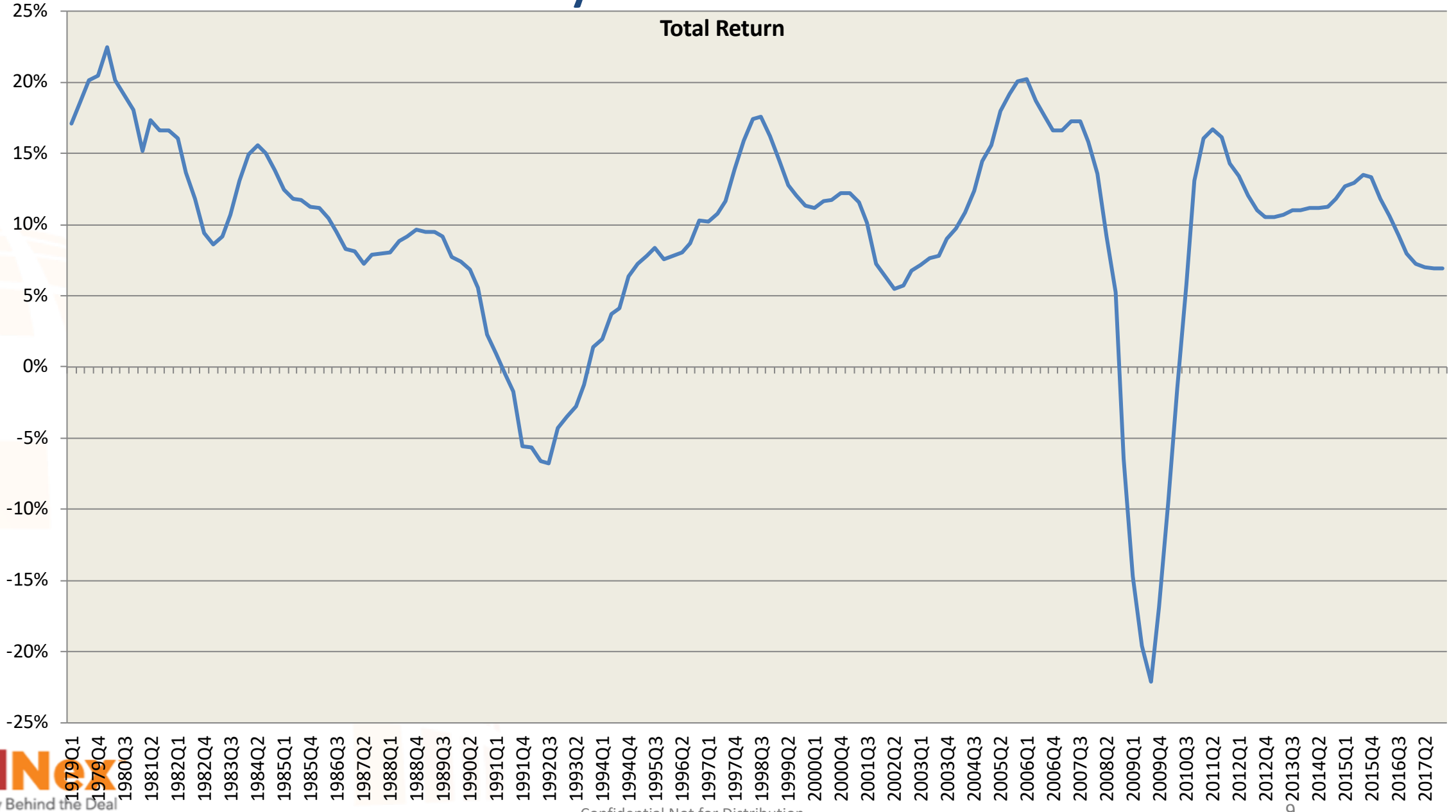
Total Return Trends by Asset Class

10-Year

Comparison as of December 31, 2017



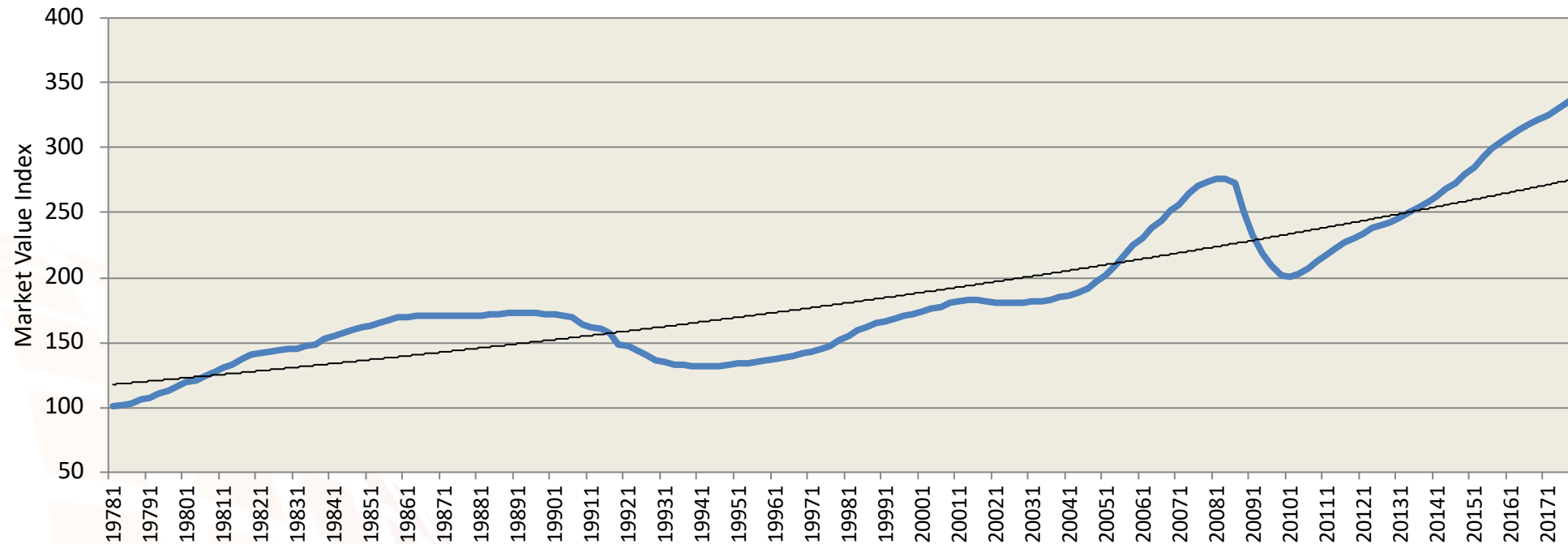
Annual NPI Return History



Confidential Not for Distribution

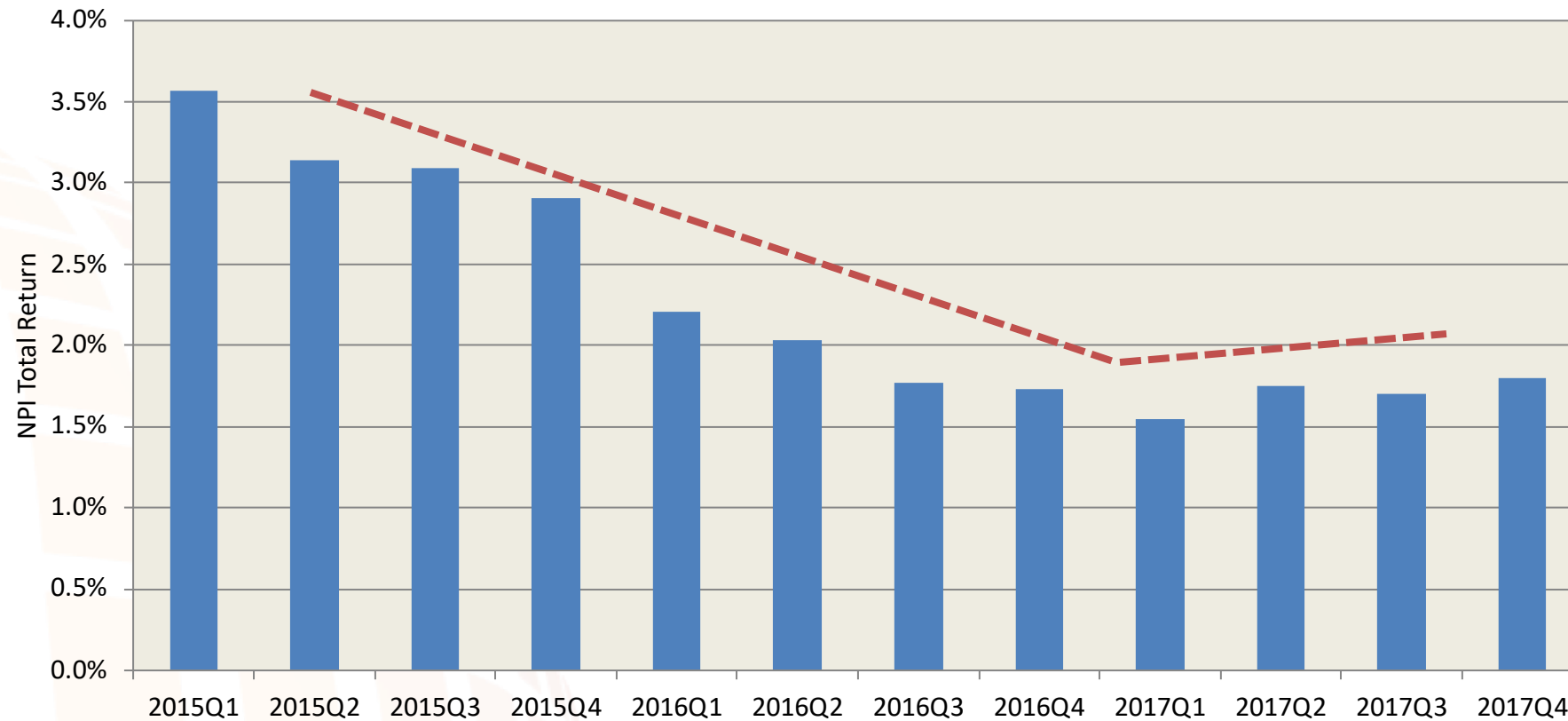
9

Prices Still Rising and Well Above Long-Term Trend and Prior Peak



Commercial real estate prices are now “quite high relative to rents,” Yellen said. “Now, is that a bubble or is it too high? And there it’s very hard to tell. But it is a source of some concern that asset valuations are so high.”

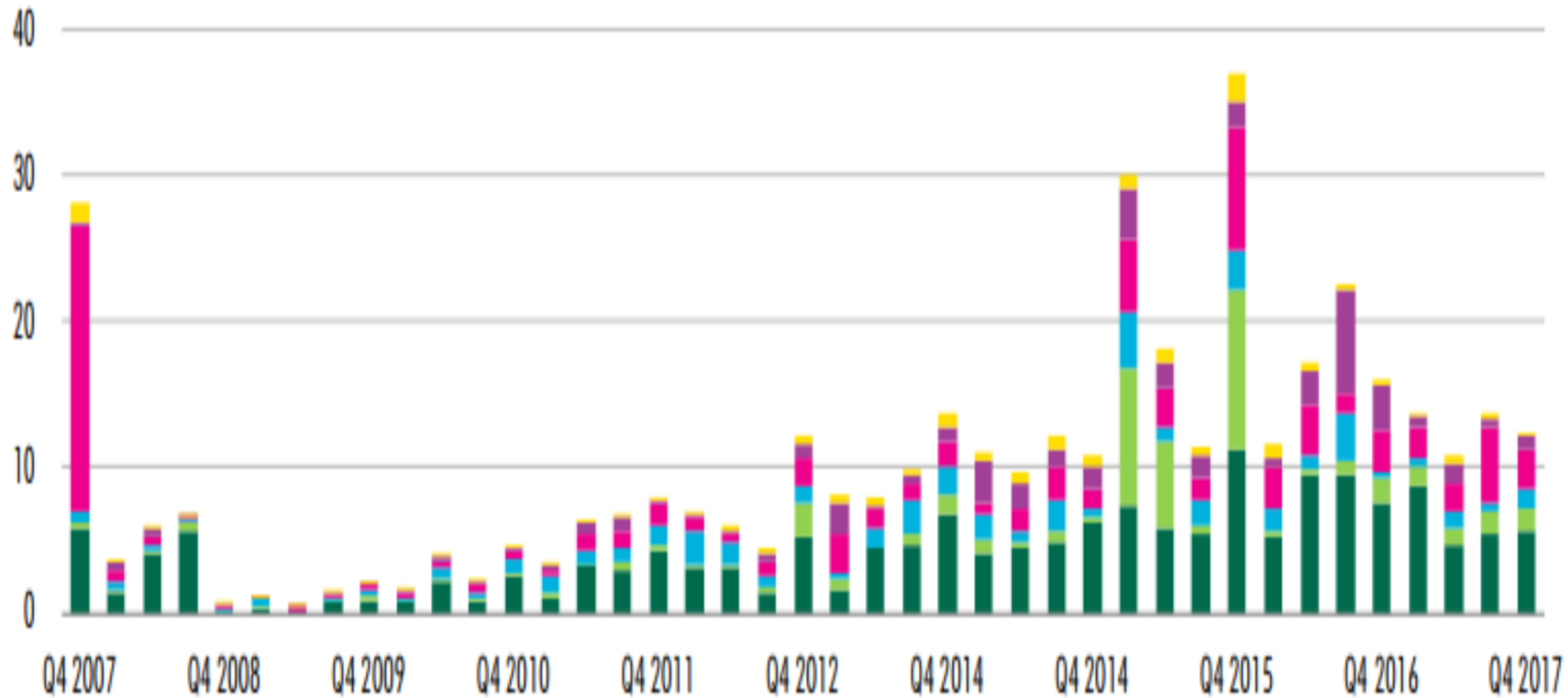
NPI Total Return End Year with an uptick



CROSS-BORDER INVESTMENT BY PROPERTY TYPE

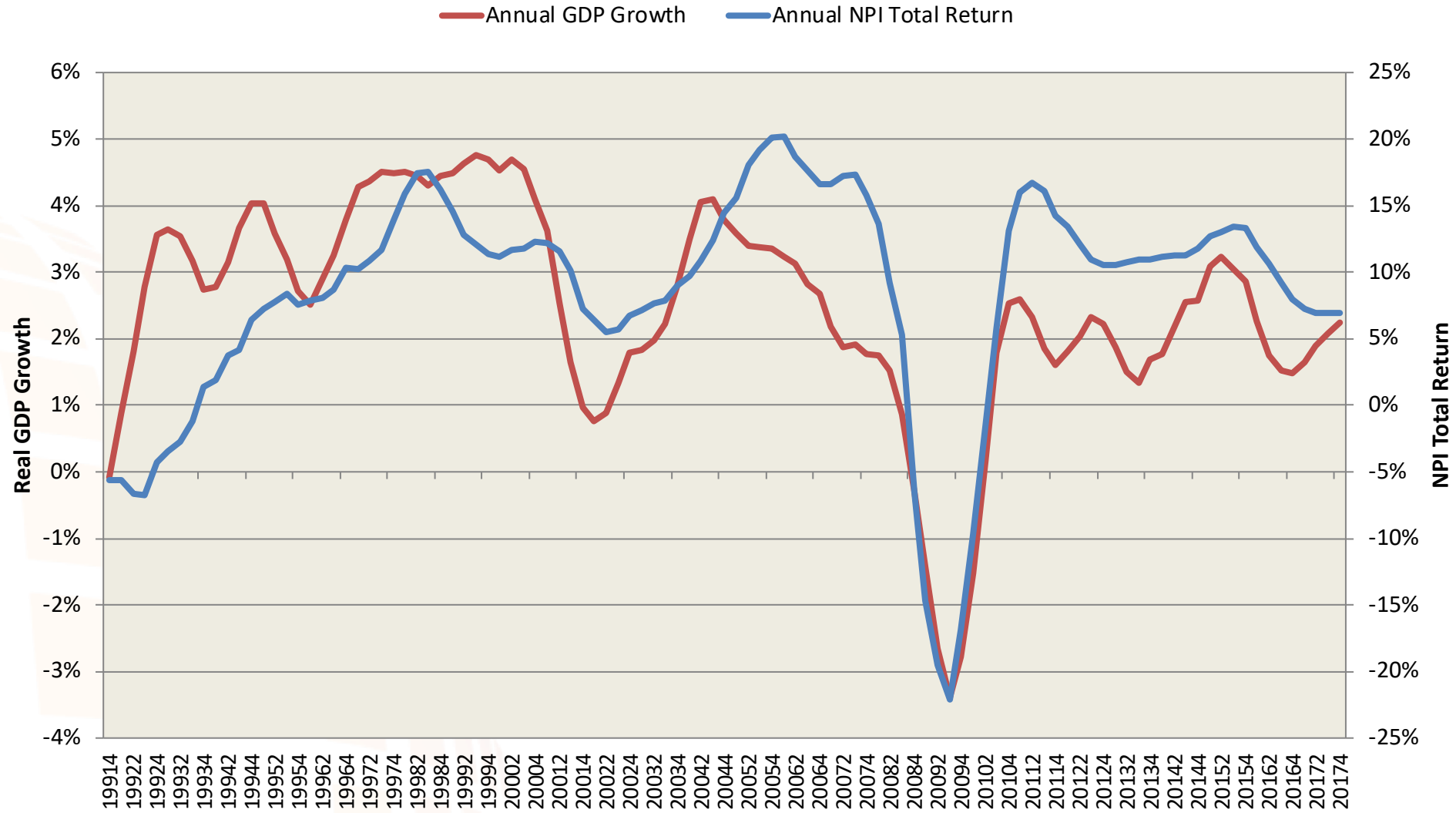
Acquisitions Volume (\$ Billions)

Office Industrial Retail Multifamily Hospitality Other/Unclassified



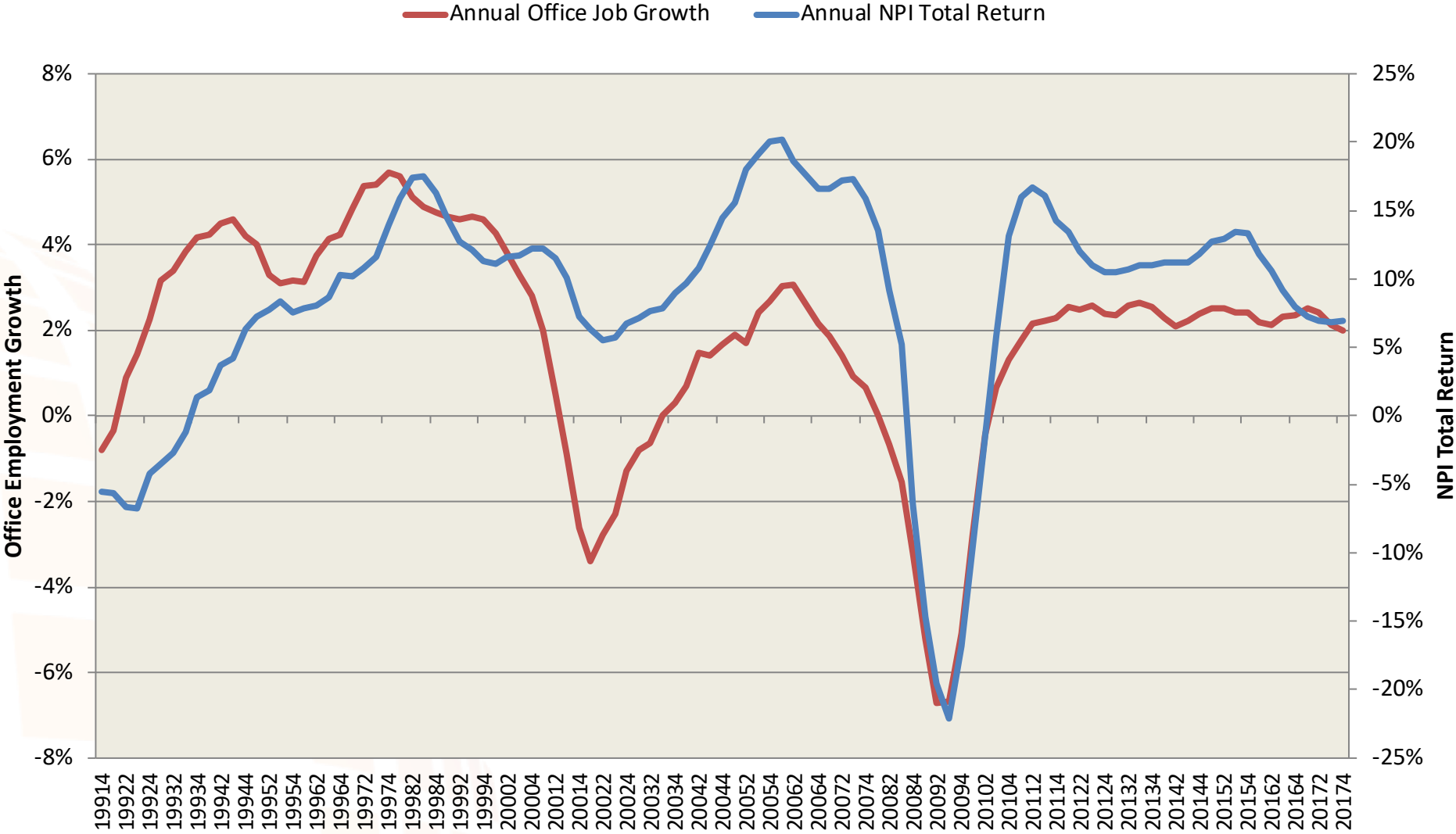
Source: CBRE Research, Real Capital Analytics, Q4 2017.

Annual Real GDP Growth and NPI Total Return



Source: U.S. Bureau of Labor Statistics, NCREIF.

Annual Office Employment Growth and NPI Total Returns

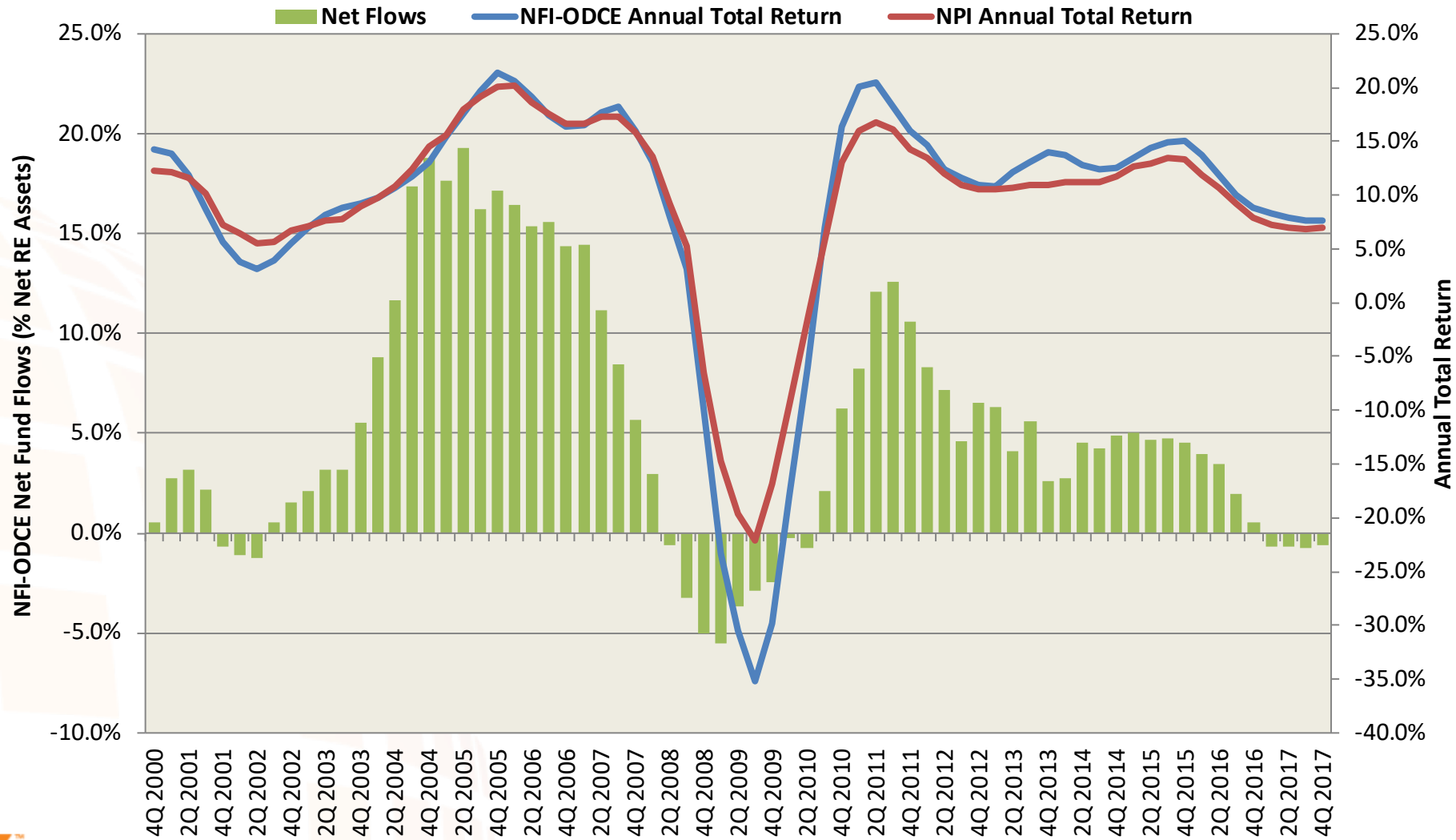


Source: U.S. Bureau of Labor Statistics, NCREIF.

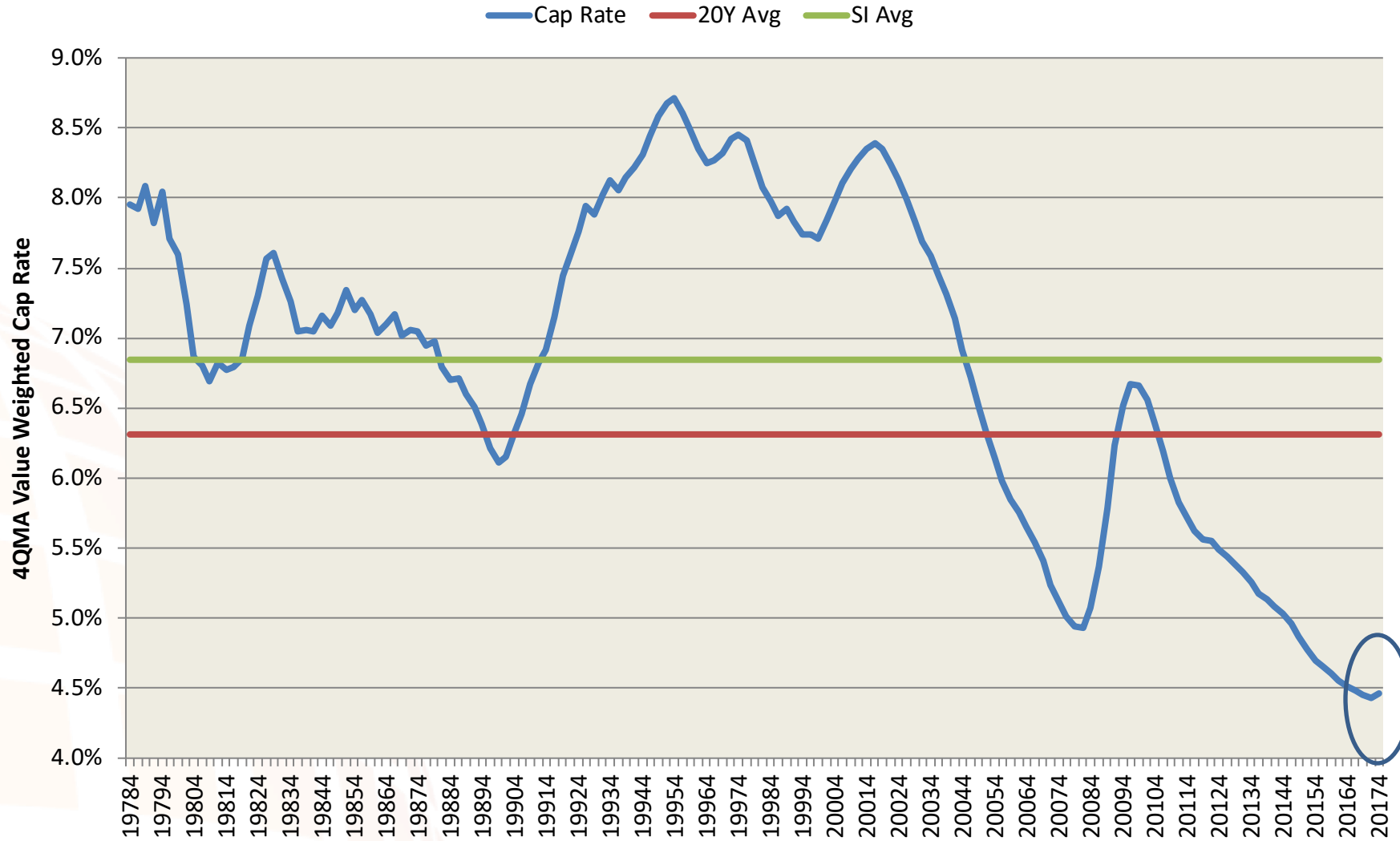


NFI-ODCE Net Fund Flows as Share of Net Real Estate Assets with Total Returns

4Q Rolling Fund Flows Share/Annual Returns as of December 31, 2017

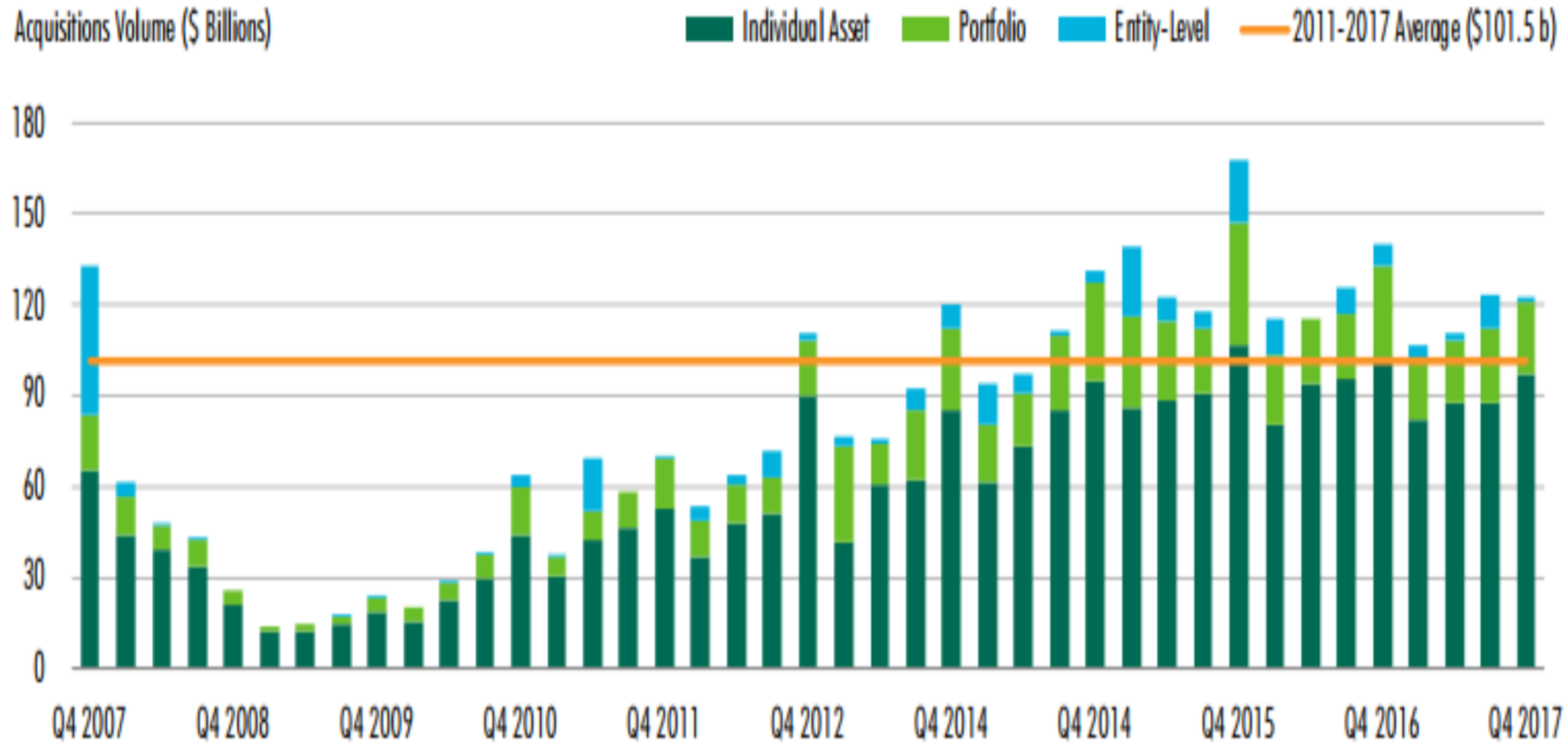


Long-Term NPI Implied Appraisal Capitalization Rate Trend



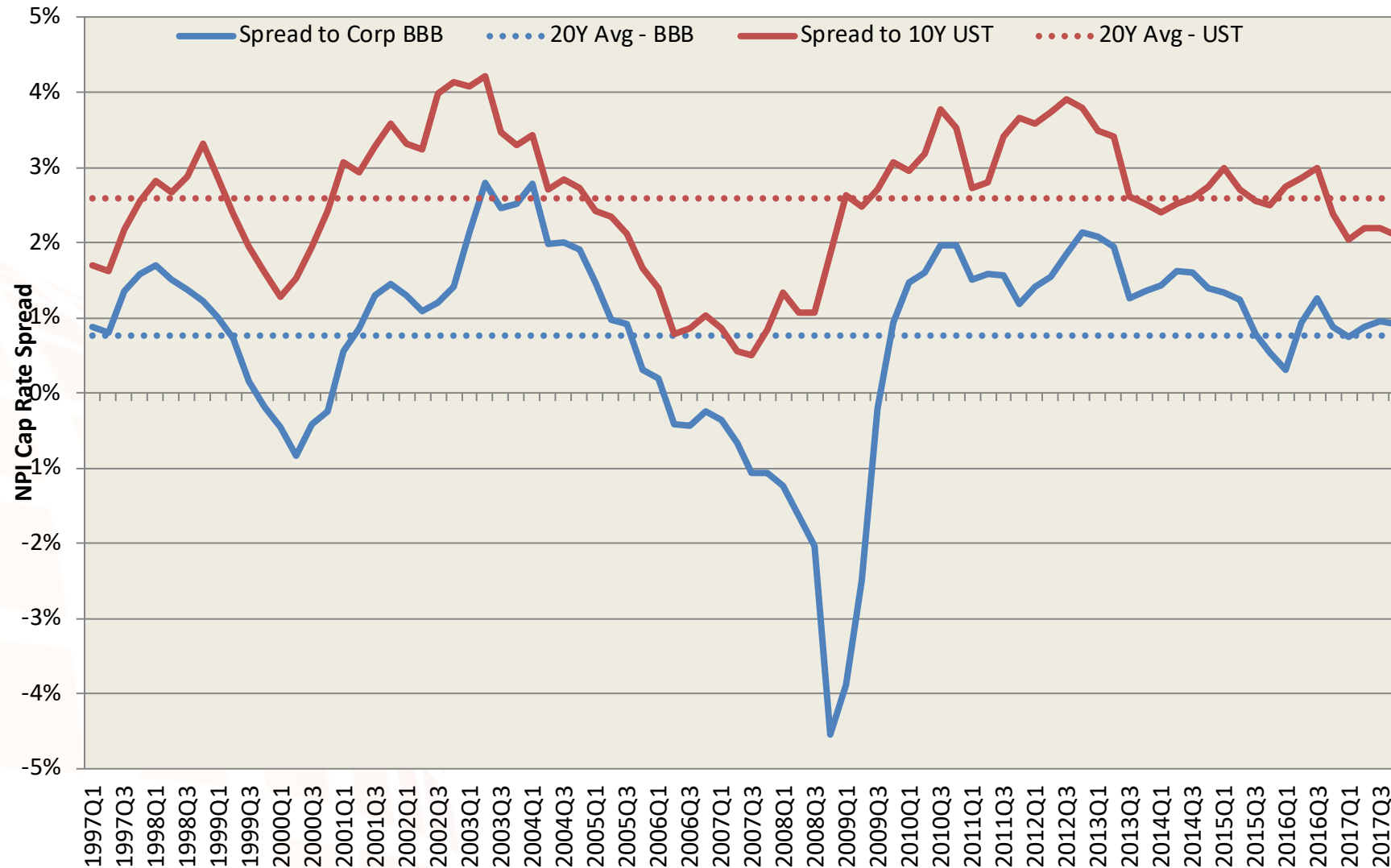
Note: Implied Cap Rate Equals Current Quarter NOI Divided by Current Quarter Market Value Multiplied by 4.

HISTORICAL COMMERCIAL REAL ESTATE ACQUISITIONS VOLUME



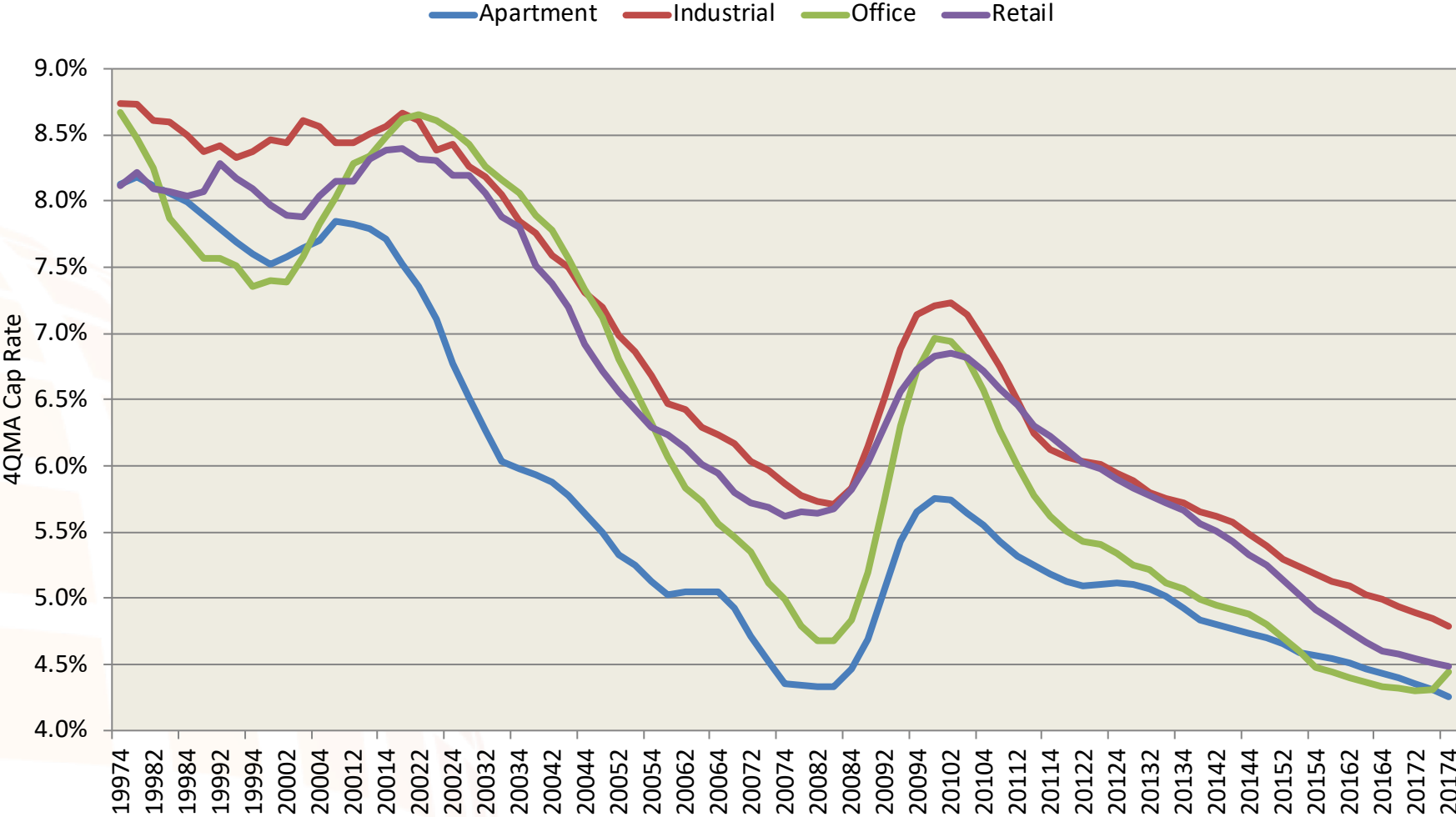
Source: CBRE Research, Real Capital Analytics, Q4 2017.

NPI Cap Rate Spreads: 10Y U.S. Treasury and Corporate BBB Effective Yield



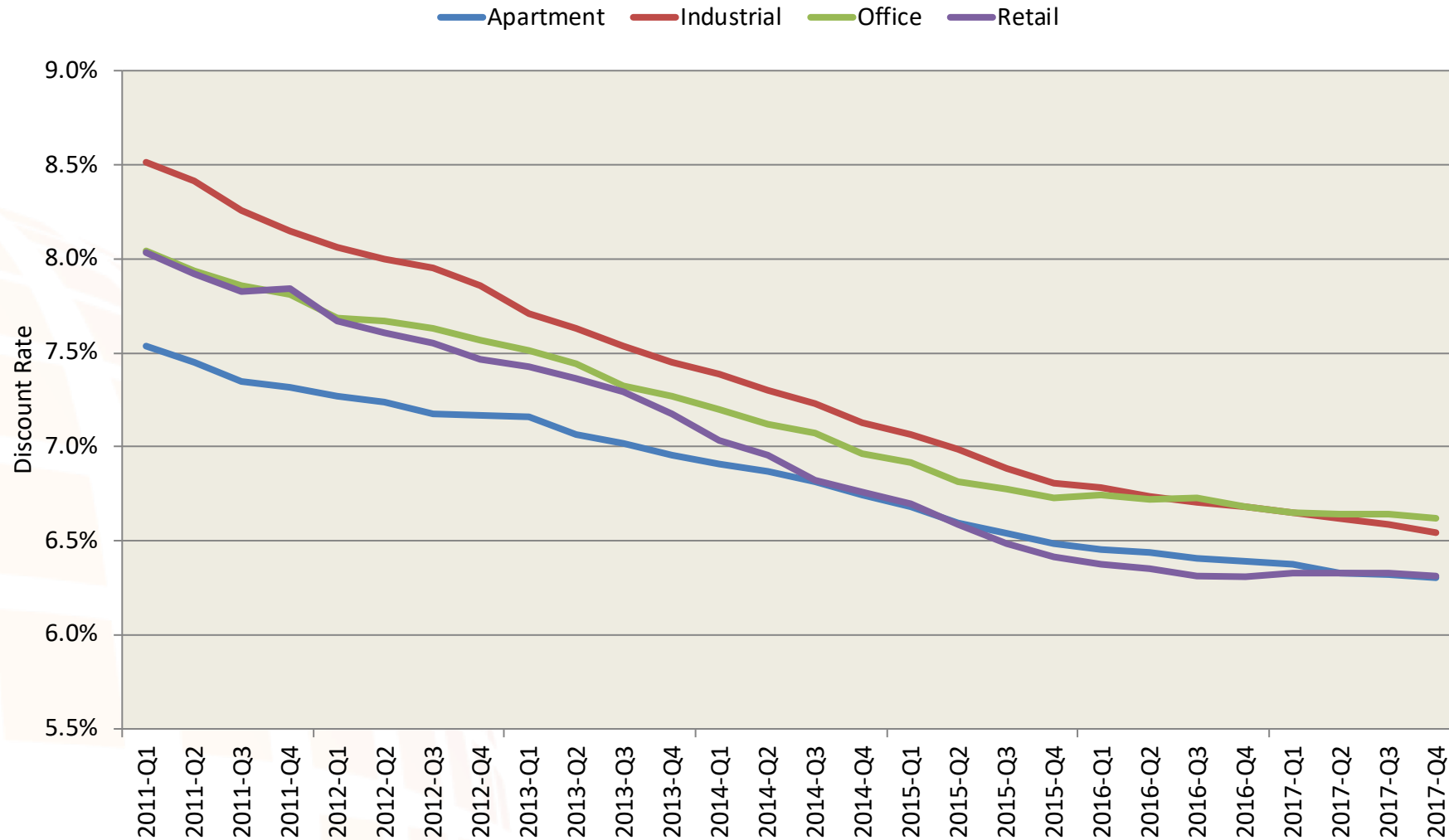
Source: Federal Reserve Bank of St. Louis (FRED), NCREIF.

NPI Capitalization Rates: Trend by Property Type



NFI-ODCE Fund Discount Rates: Trend by Property Type

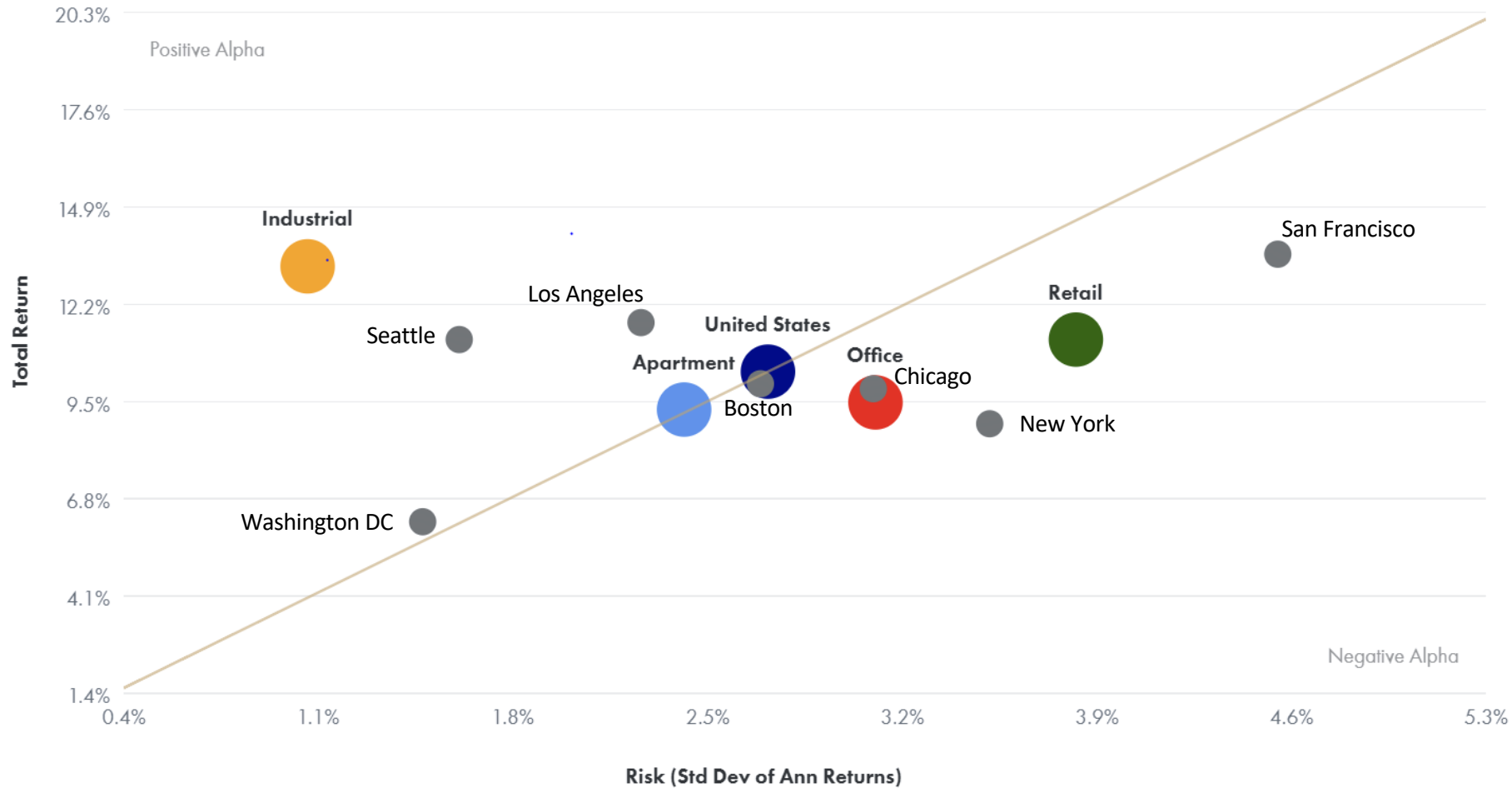
10-Year Holding Period



Note: Data excludes two NFI-ODCE funds. Source: Altus, NCREIF.

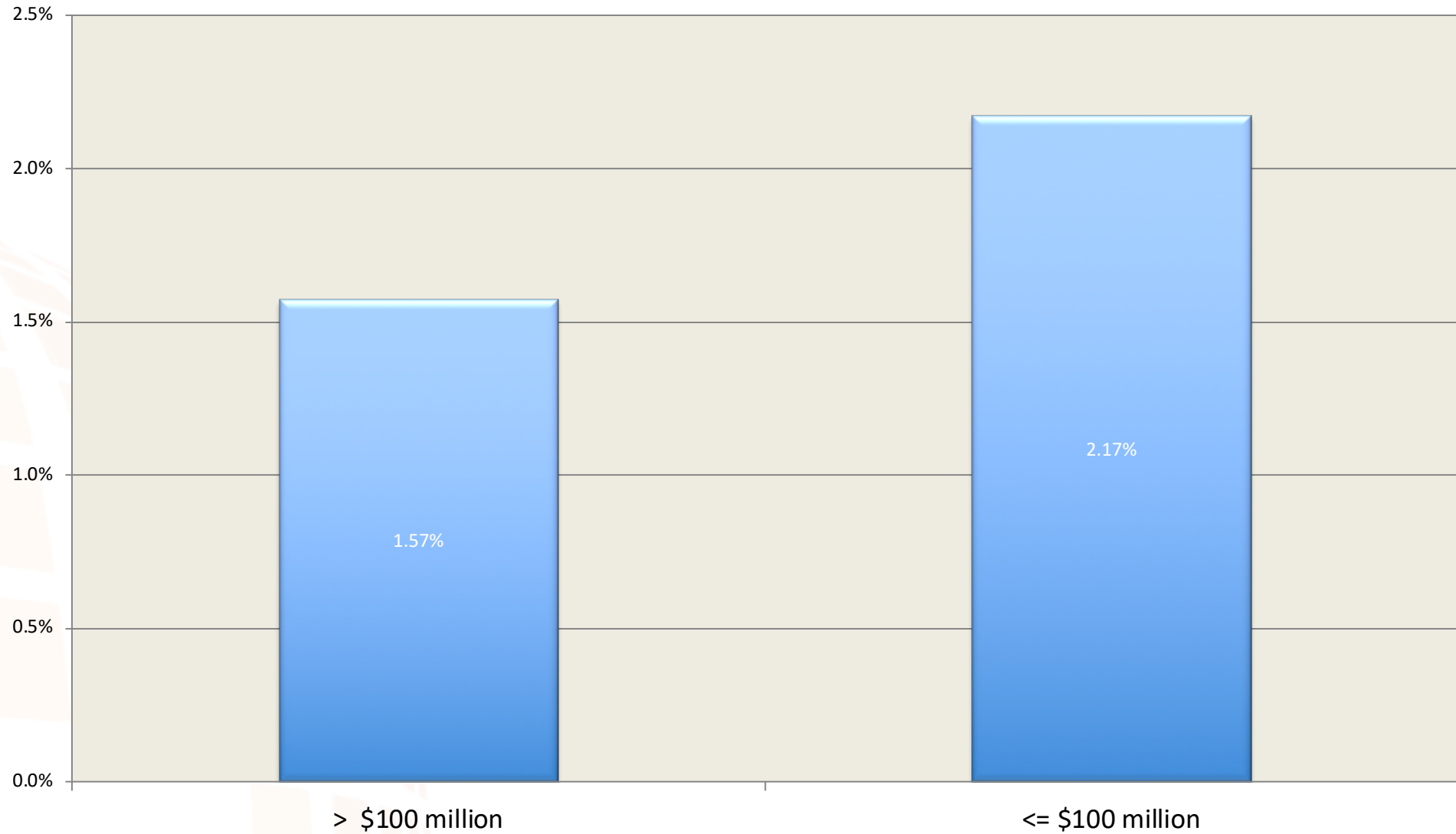
NCREIF Analytics: Market Performance Report

5-Yr. Risk v. Return



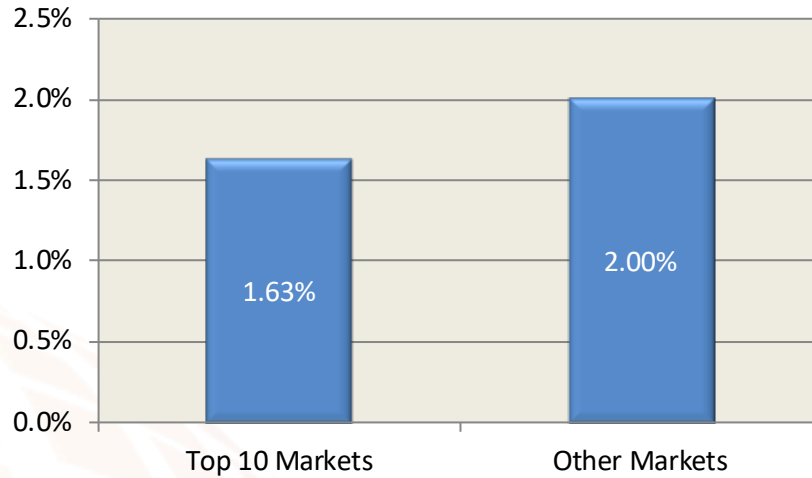
NPI Total Returns: Current Quarter Detail

Property Size Total Returns



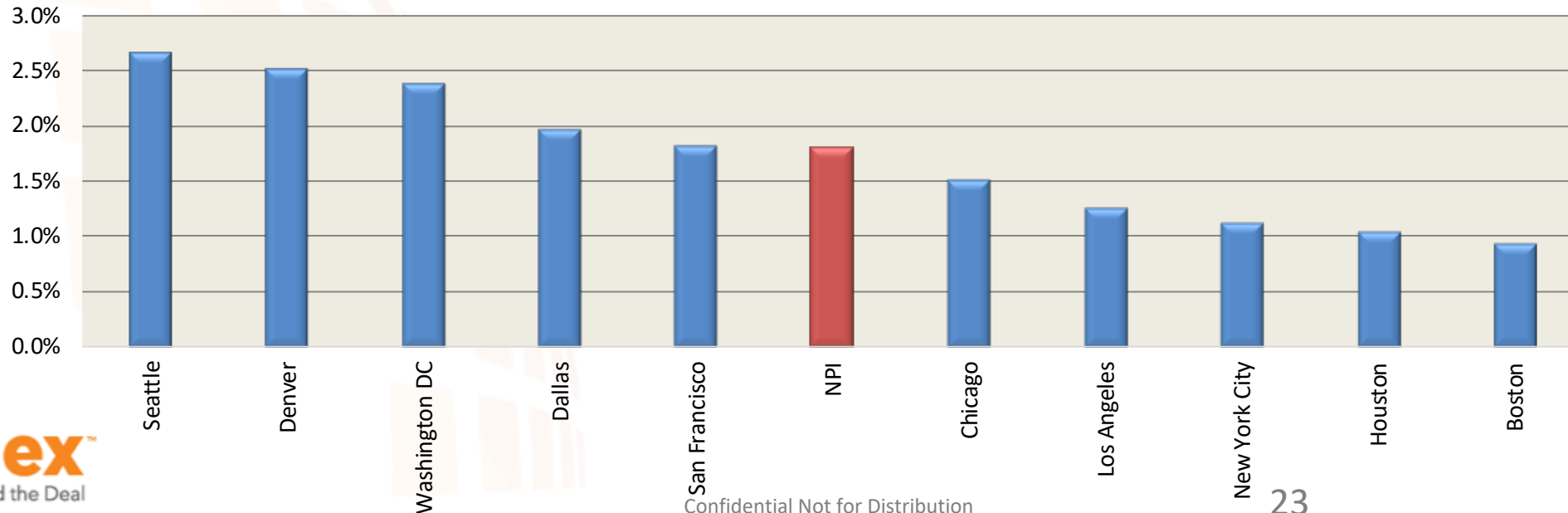
NPI Total Returns: Top 10 Markets by Market Value

Top 10 Markets versus All Others



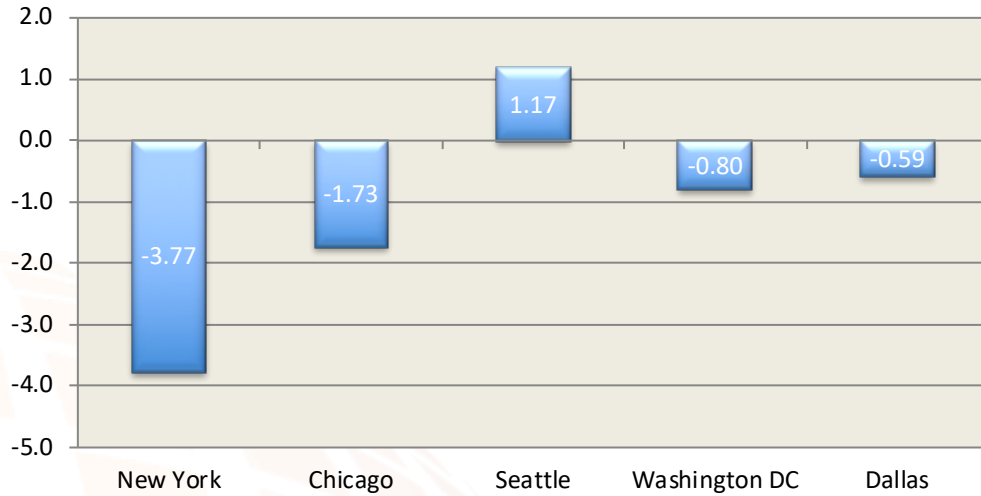
Top 10 Markets	MV (\$Bil)
New York City	\$ 66.74
Los Angeles	\$ 42.74
Washington DC	\$ 42.28
Chicago	\$ 33.26
San Francisco	\$ 25.78
Seattle	\$ 23.37
Dallas	\$ 23.05
Boston	\$ 21.75
Houston	\$ 21.01
Denver	\$ 15.48

Quarterly Total Return: Top 10 and NPI

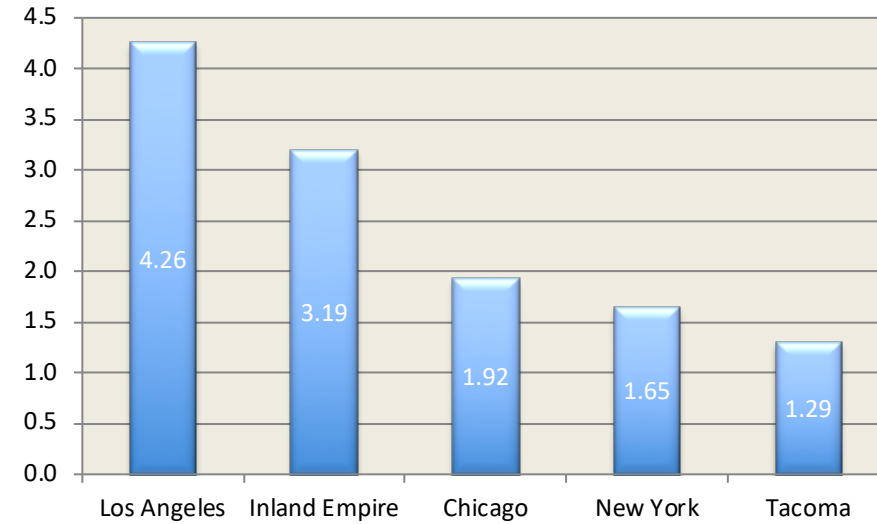


Current Quarter Basis Point Total Return Impact by Metro

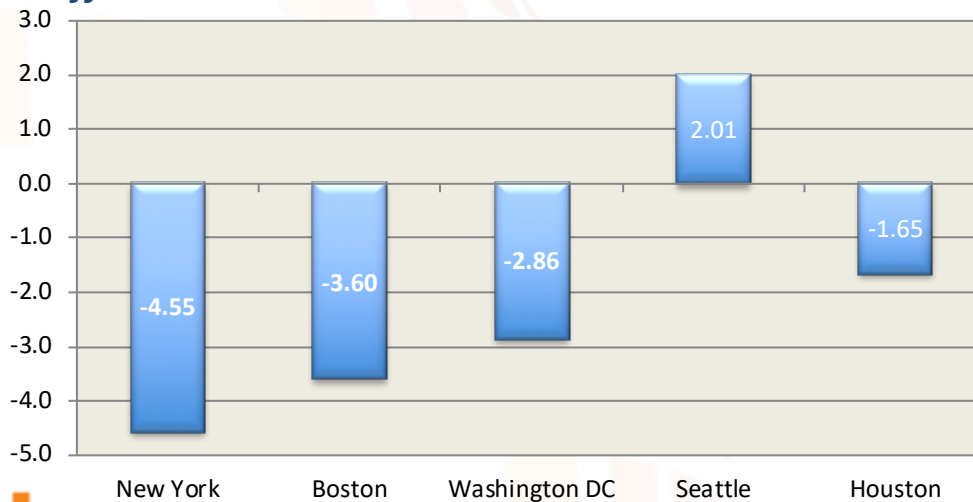
Apartment



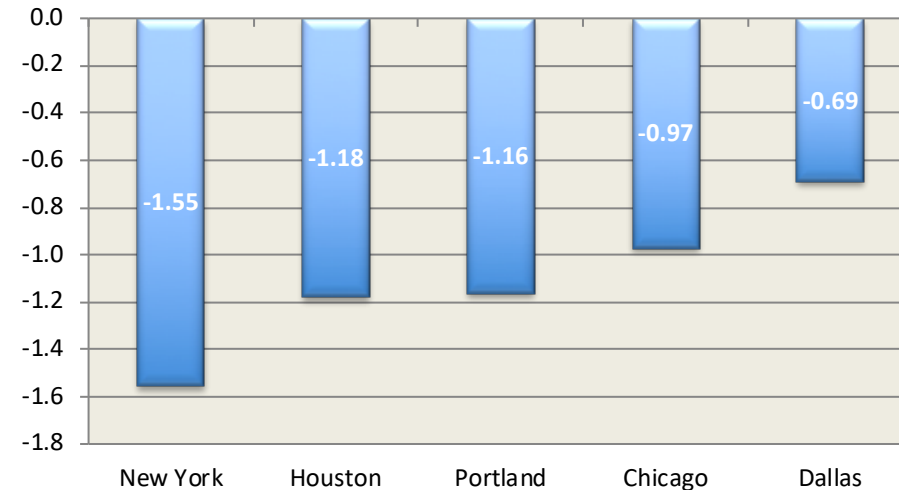
Industrial



Office

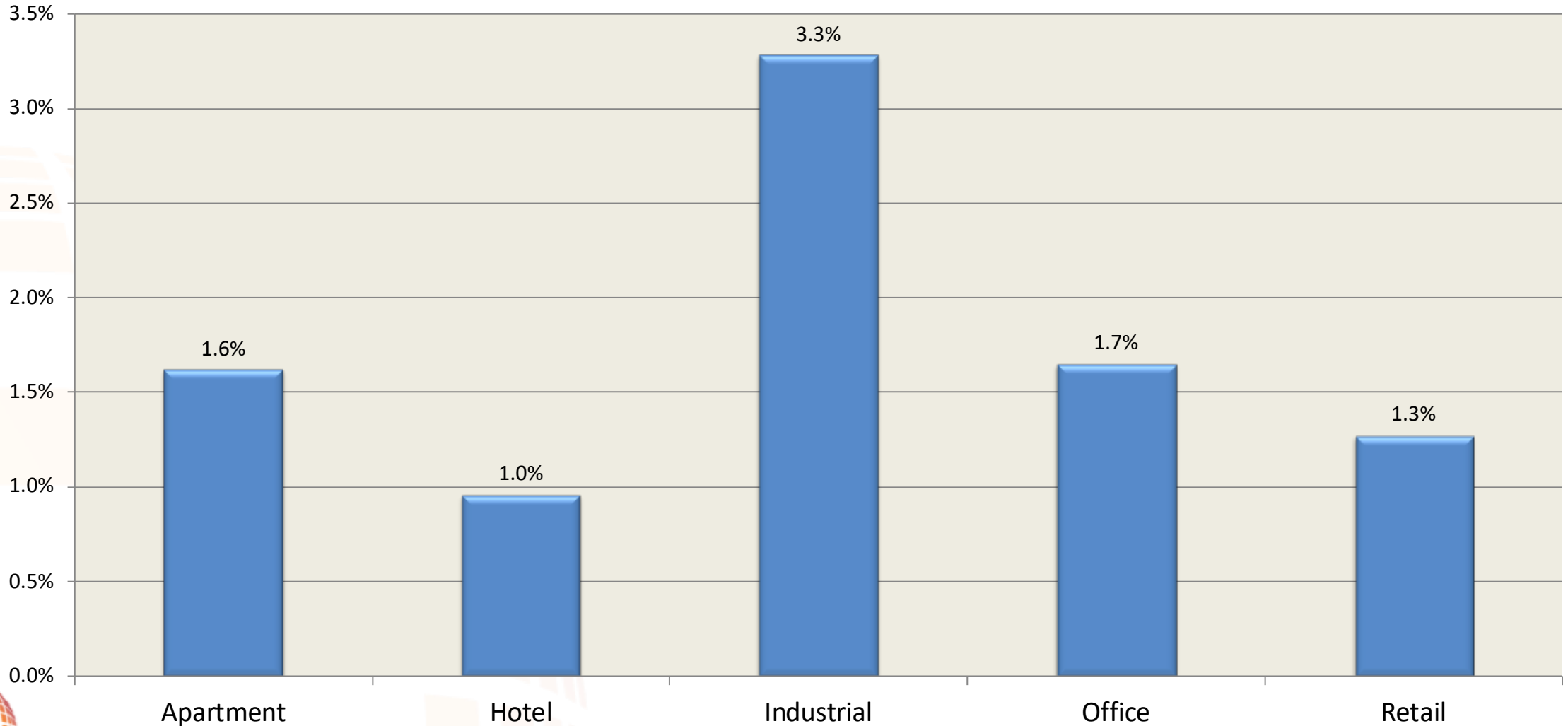


Retail



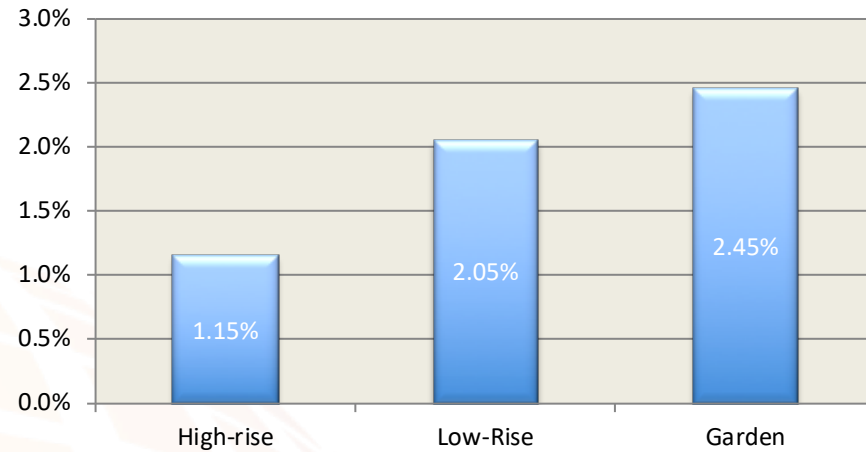
NPI Total Returns by Property Type: 4Q 2017

Total

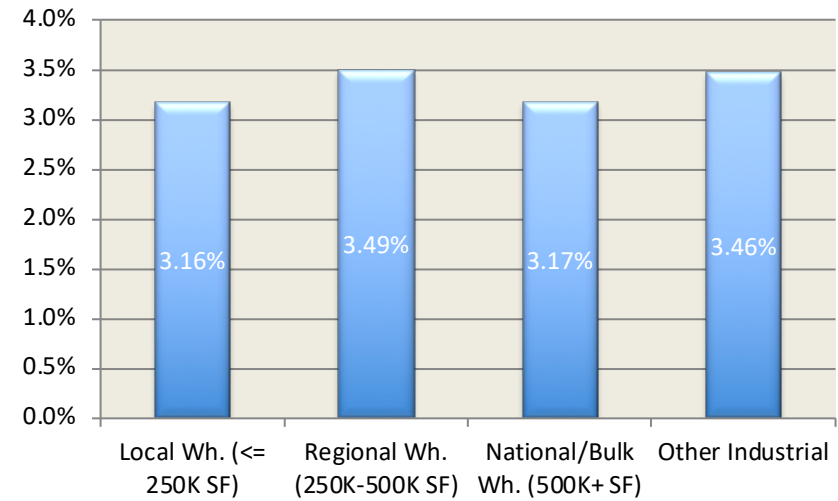


NPI Total Returns: Current Quarter Property Type Detail

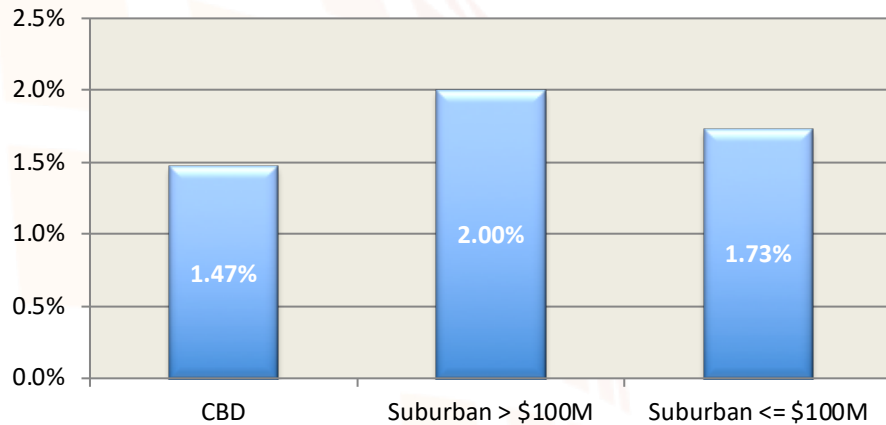
Apartment by Subtype



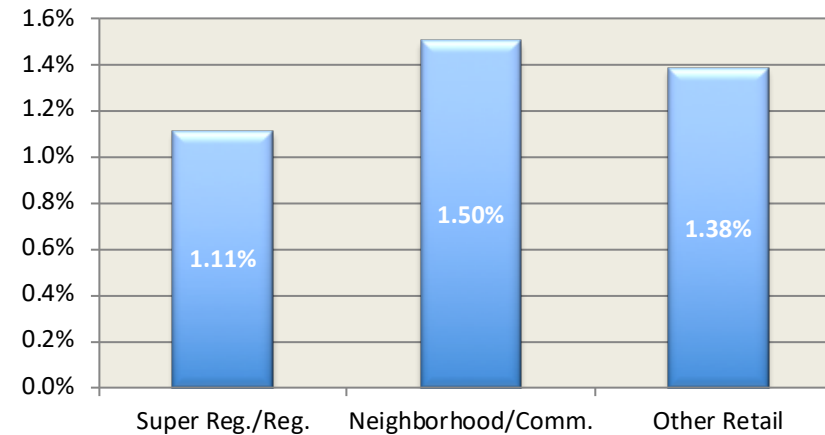
Industrial by Size/Type



Office by Location/Value

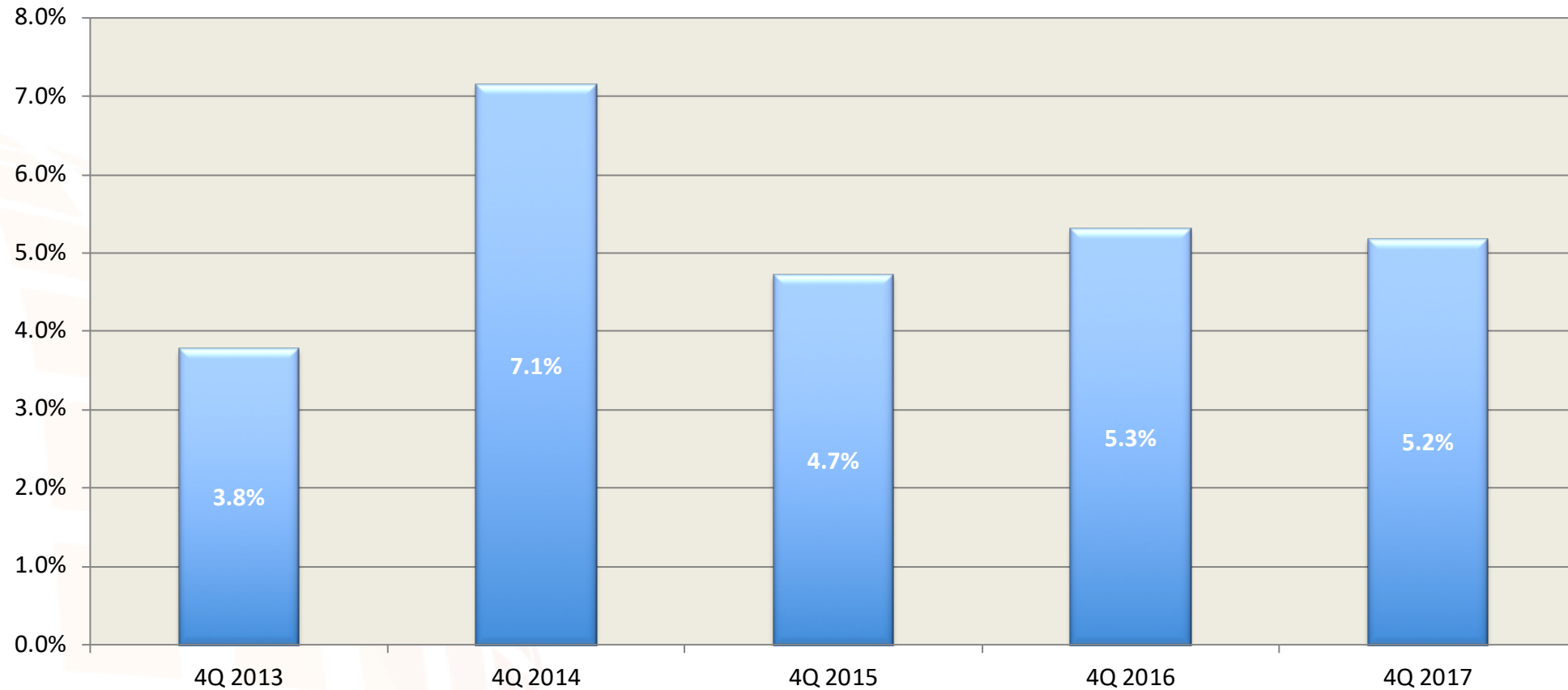


Retail by Type

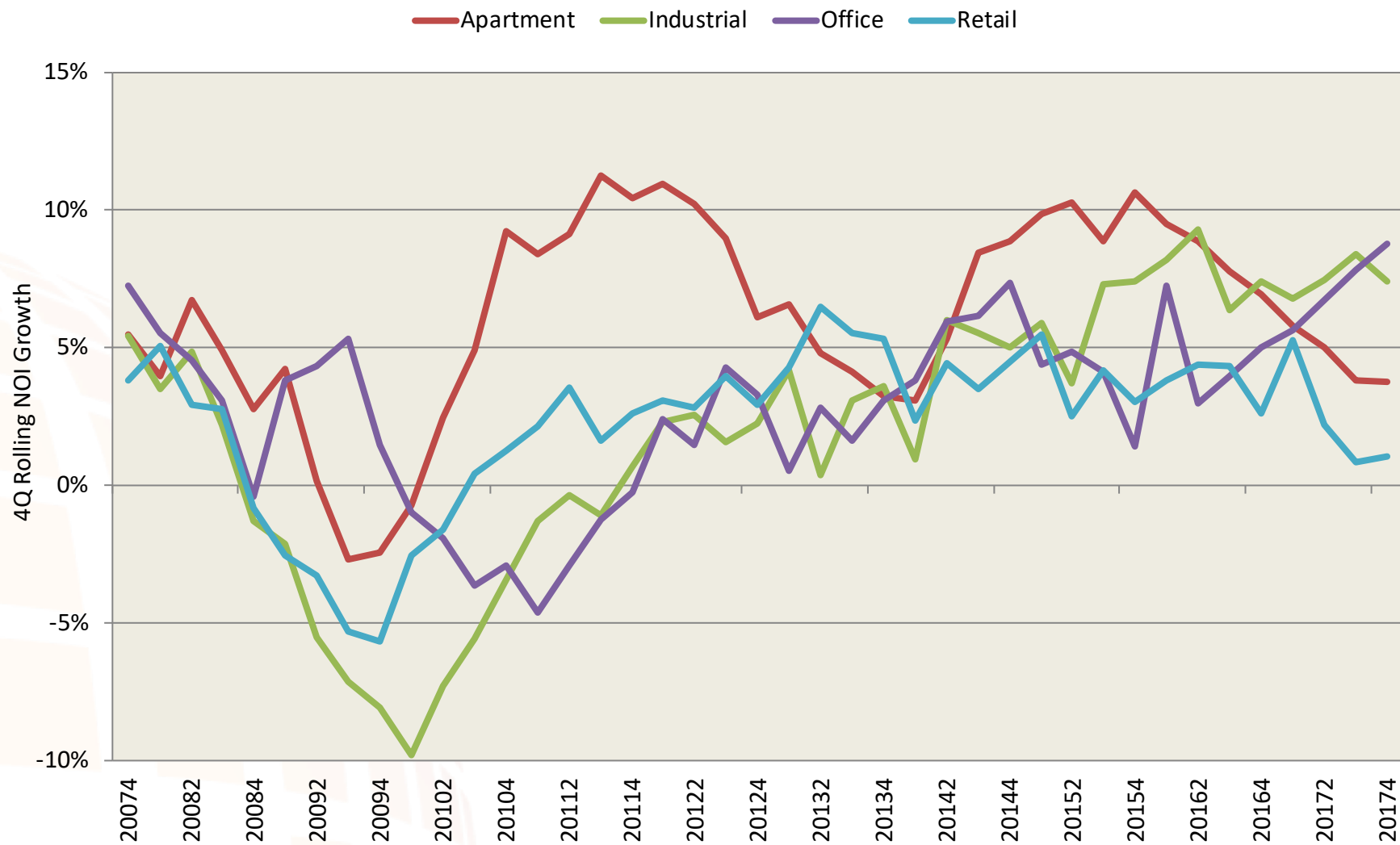


NPI Net Operating Income Growth

Rolling Four Quarters

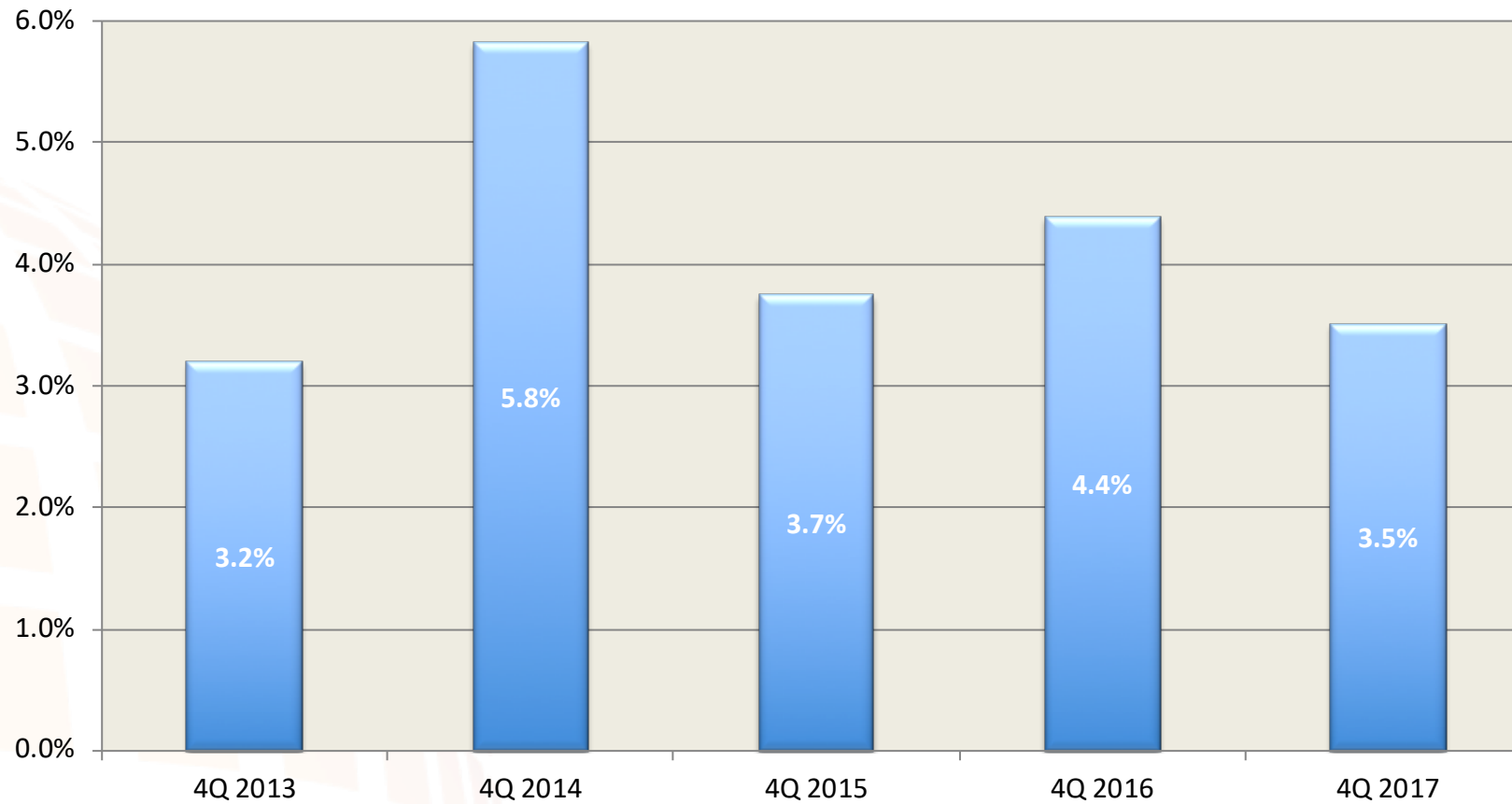


NPI Net Operating Income Growth Trends by Property Type

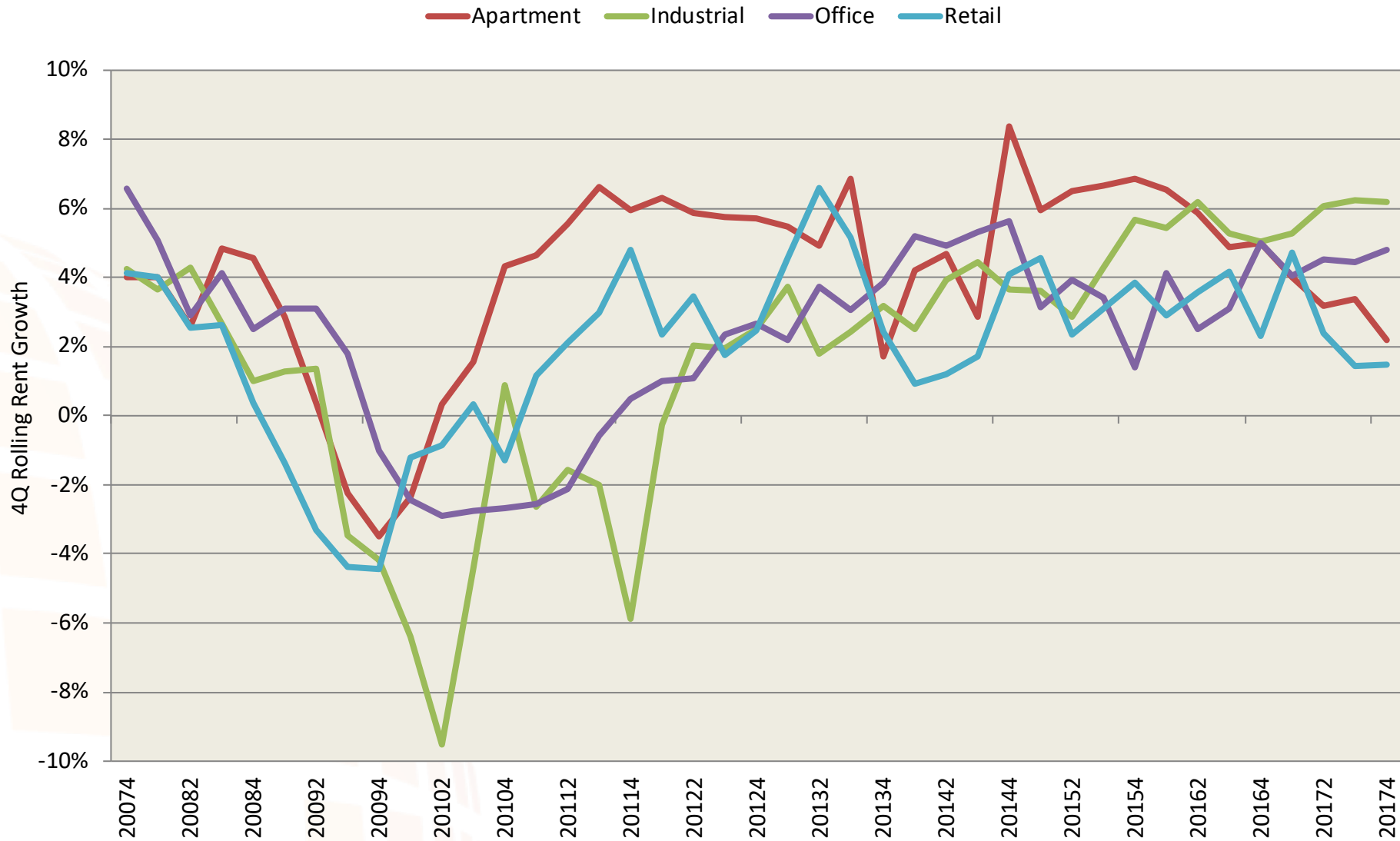


NPI Rental Income Growth

Rolling Four Quarters

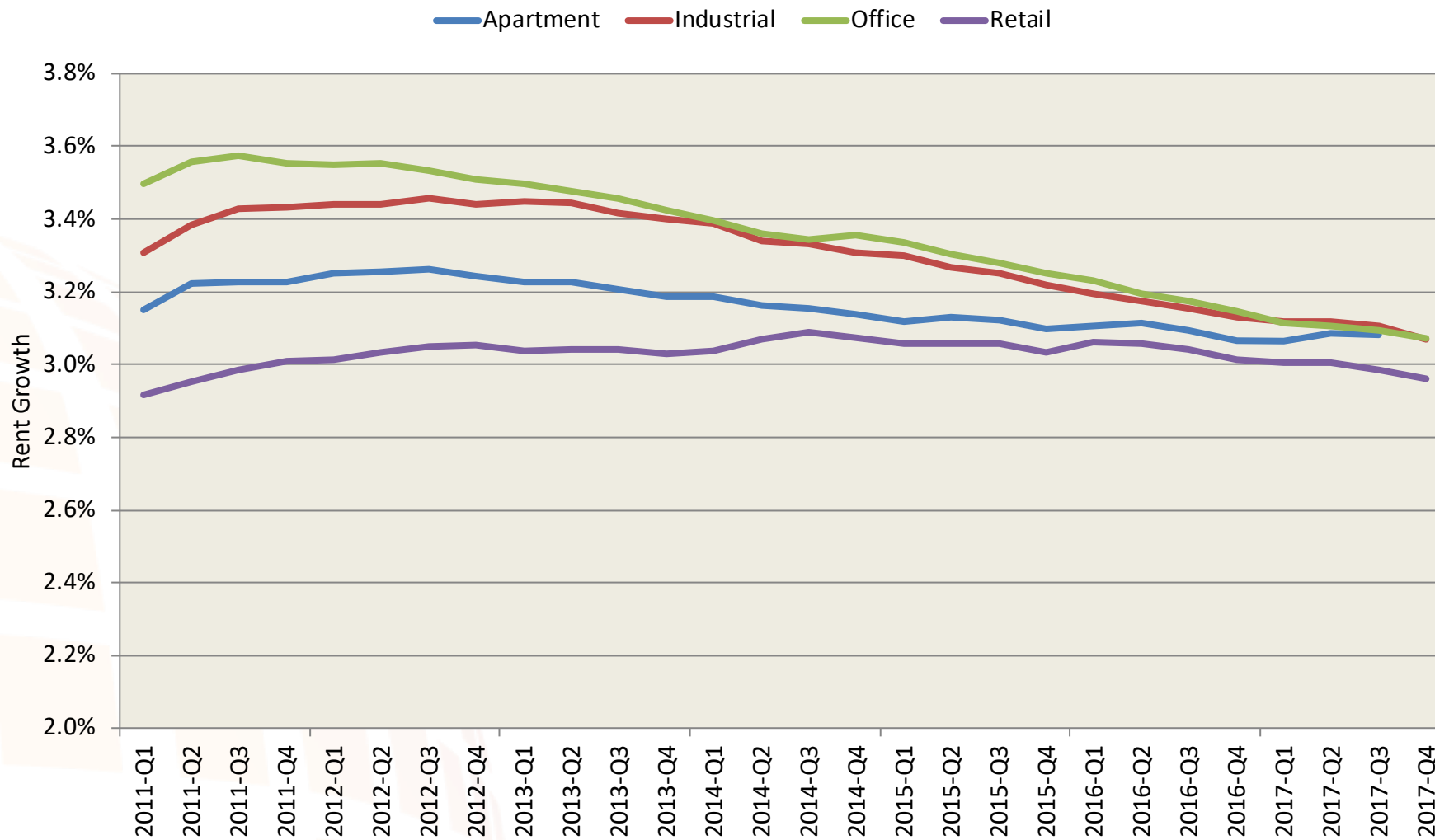


NPI Rental Income Growth Trends by Property Type



NFI-ODCE Average Projected Market Rent Growth by Property Type

10-Year Holding Period

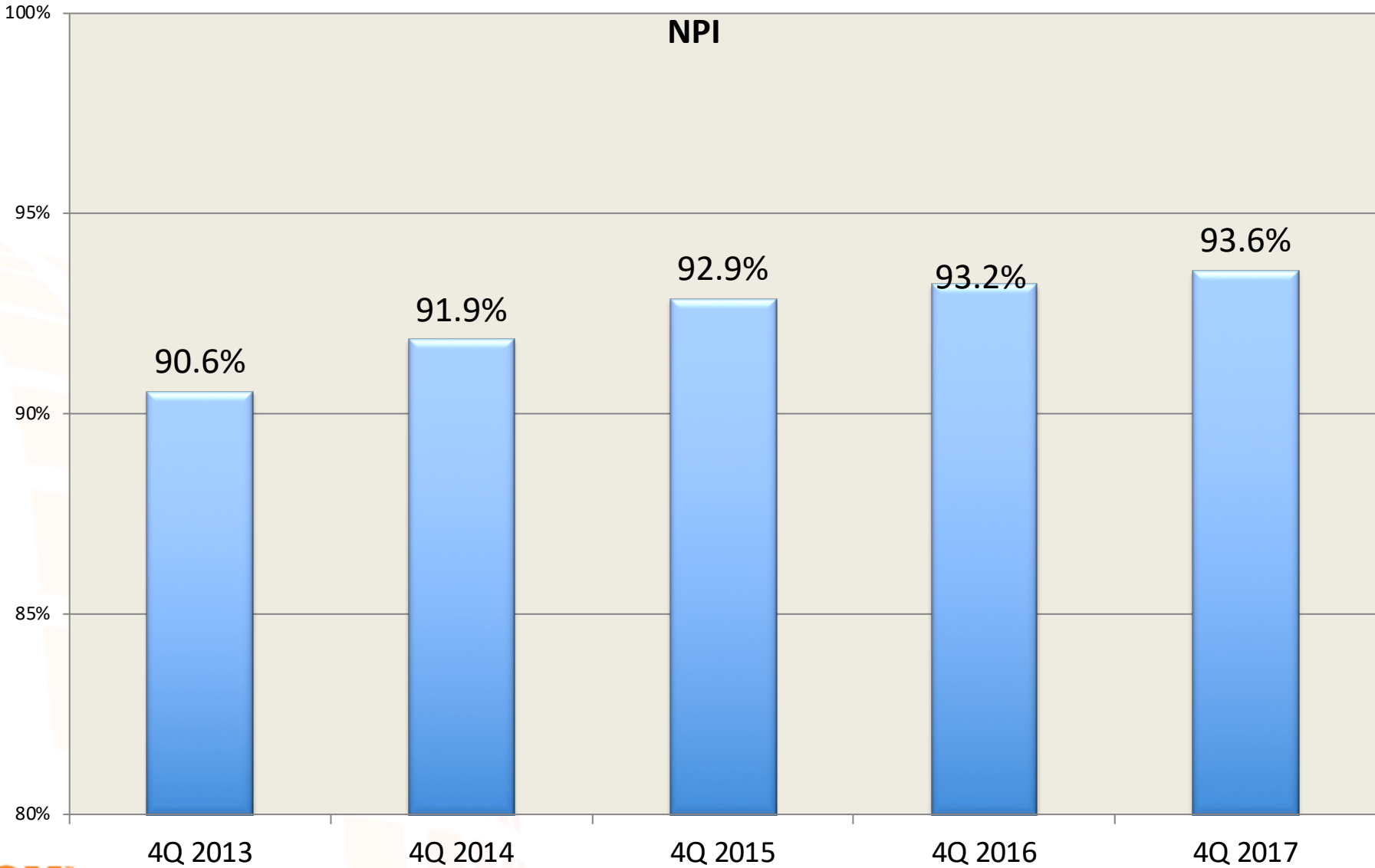


Note: Data excludes two NFI-ODCE funds. Source: Altus, NCREIF.

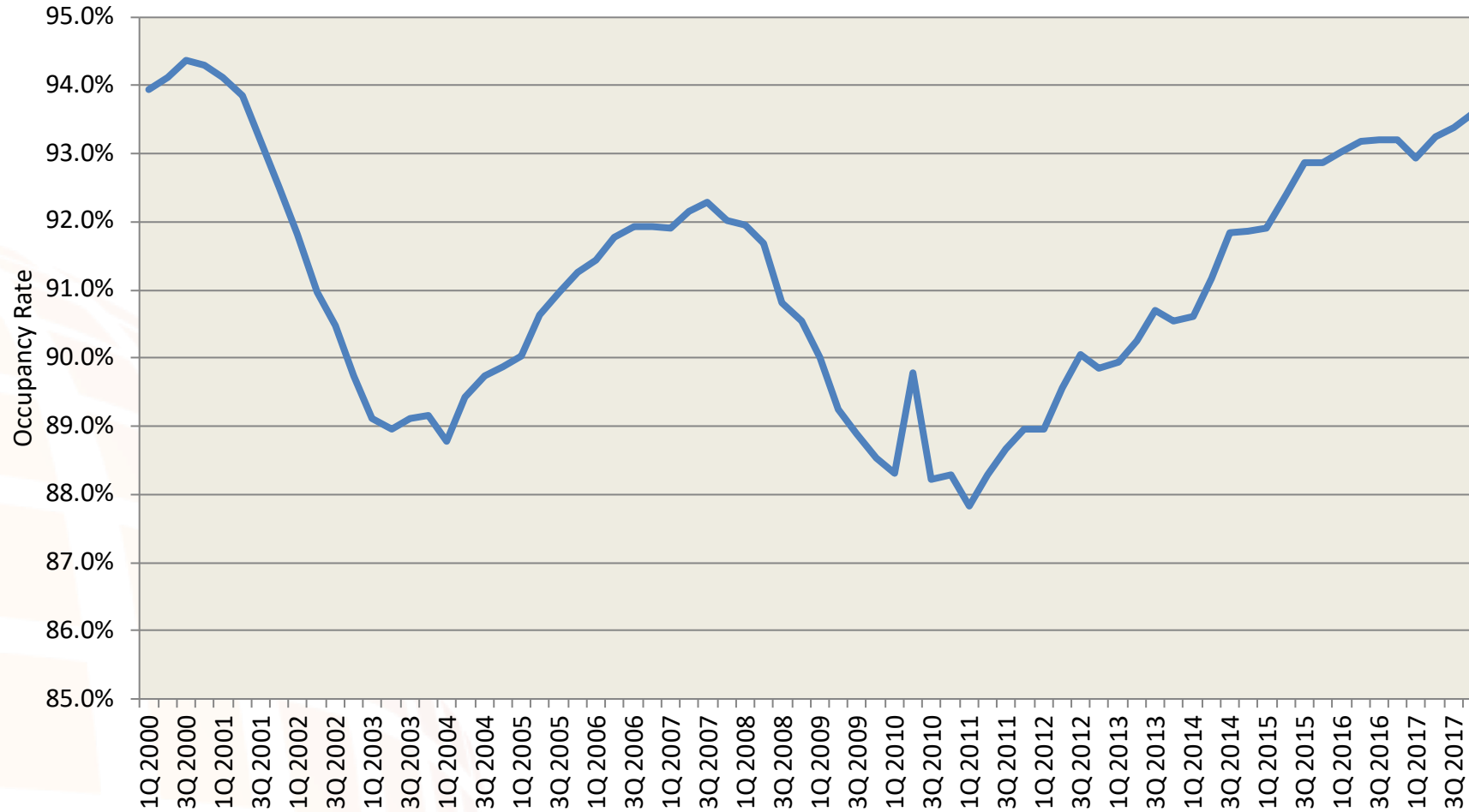


Recent Occupancy Rate Trends

Occupancy Last Five Years

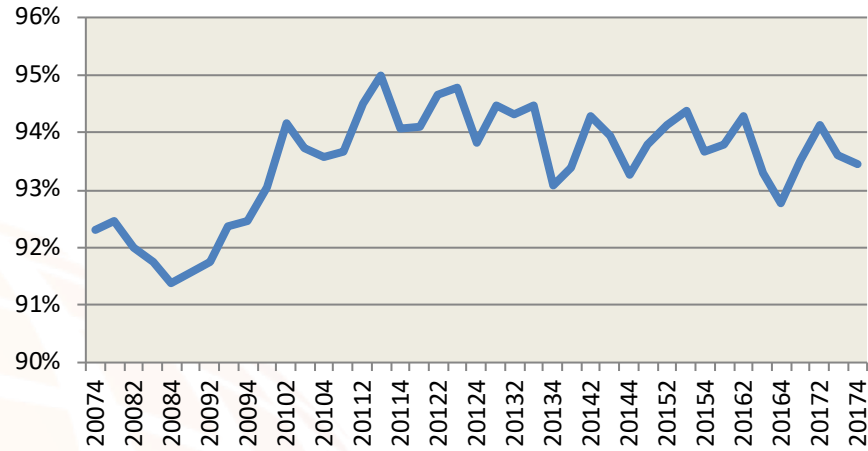


NPI Long-Term Occupancy Rate Trends

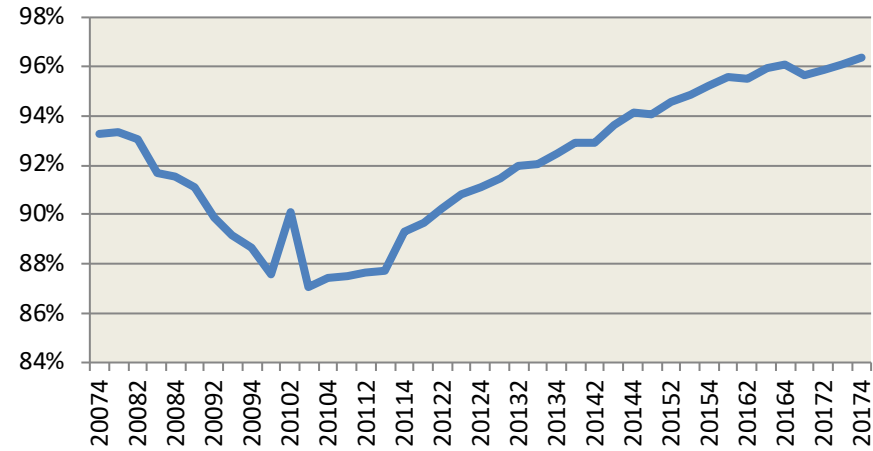


Occupancy Rate Trends by Property Type

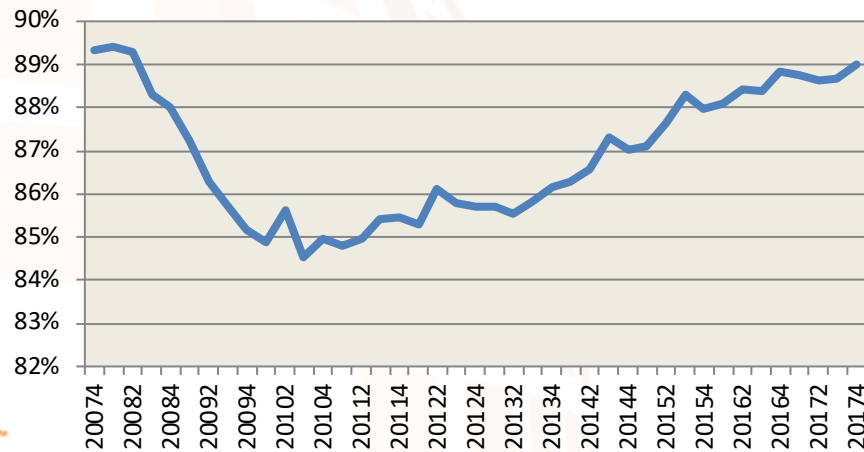
Apartment



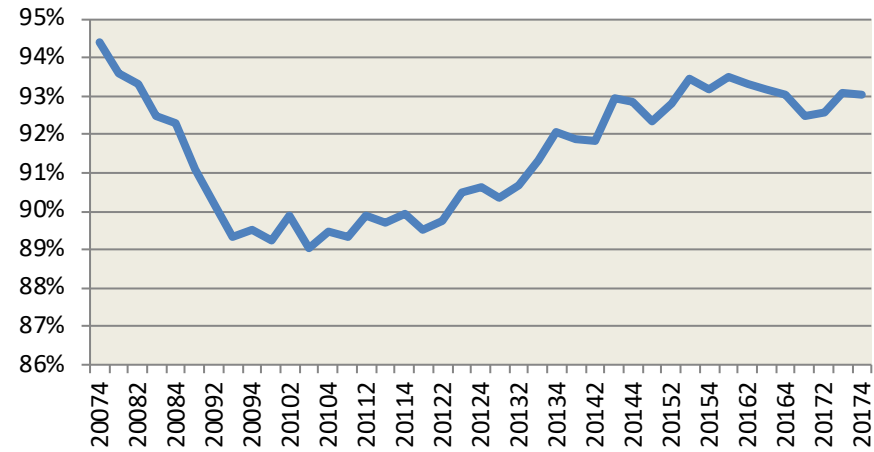
Industrial



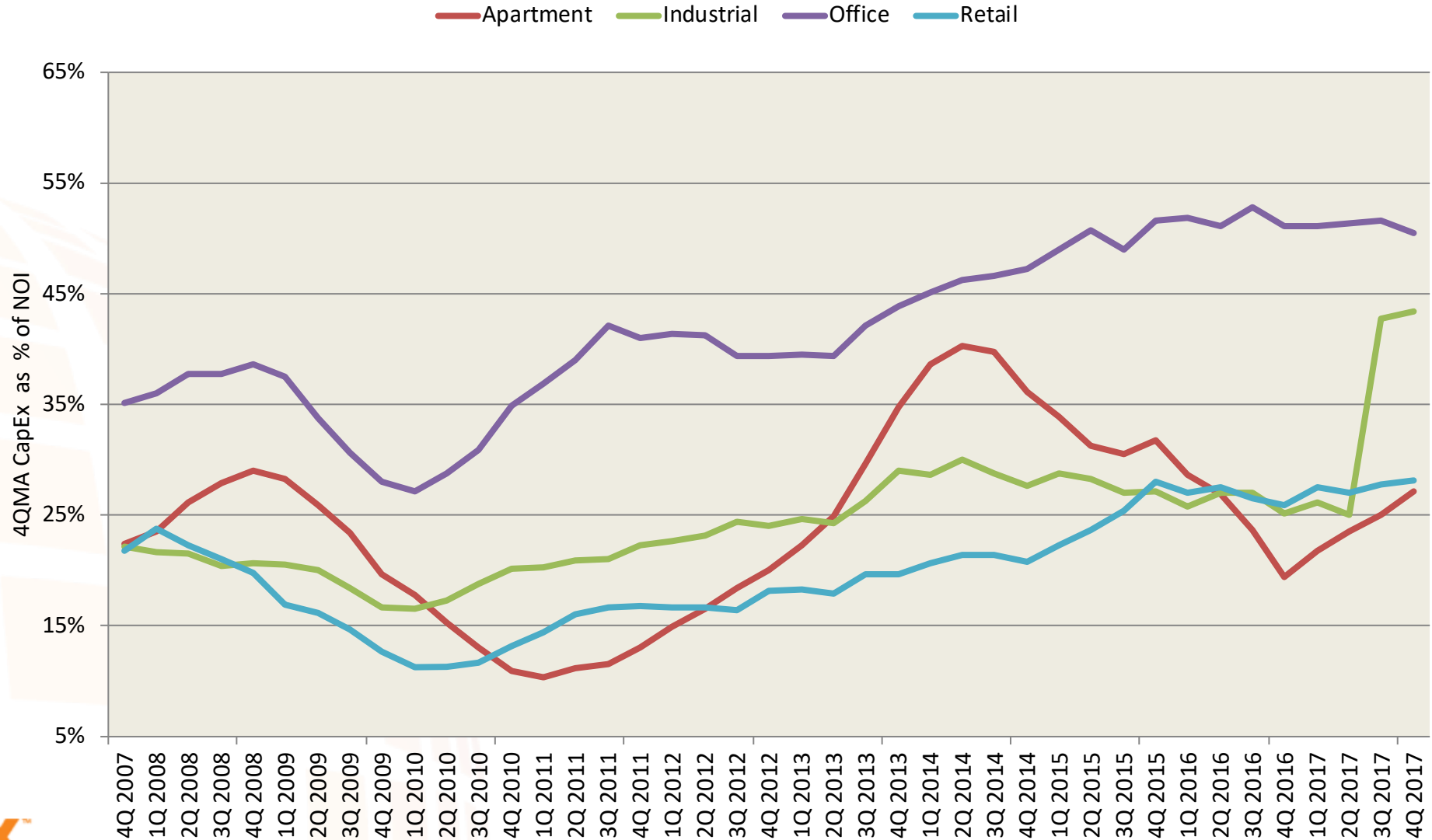
Office



Retail



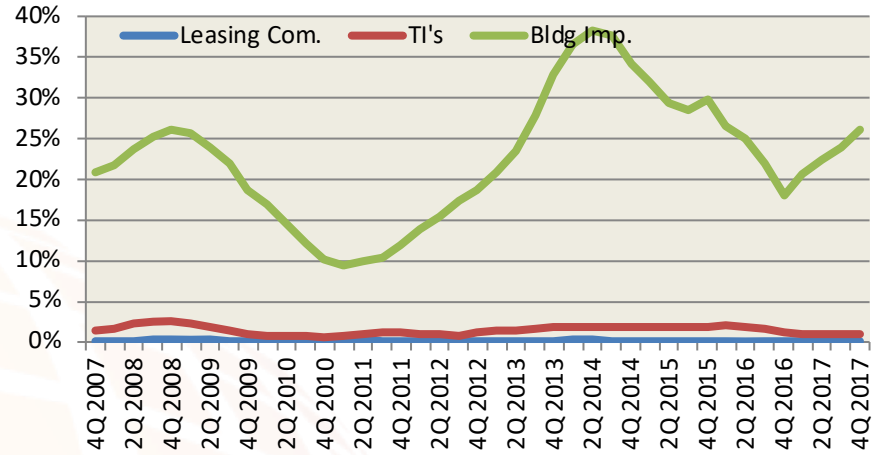
NCREIF Indicators: Total Capital Expenditures as Share of NOI by Property Type



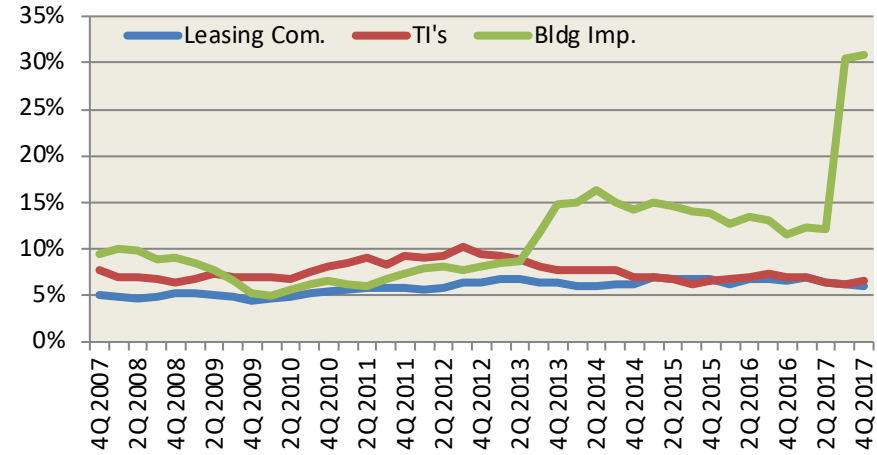
NCREIF Indicators:

Capital Expenditure Detail as Share of NOI by Property Type

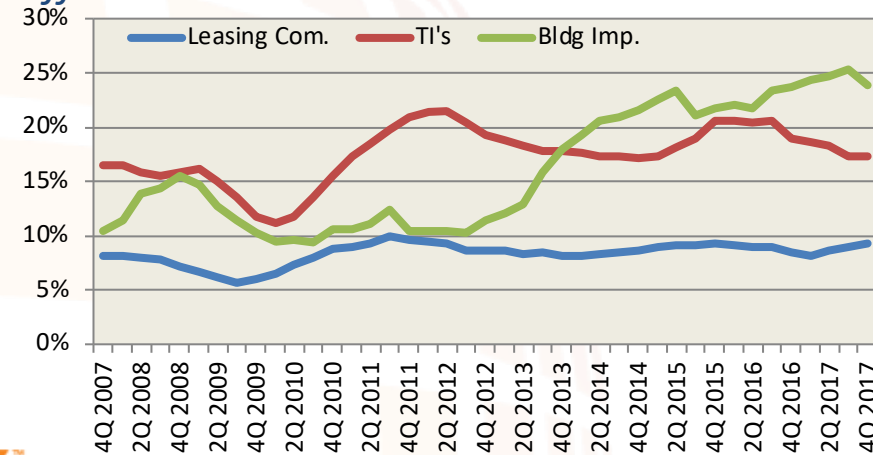
Apartment



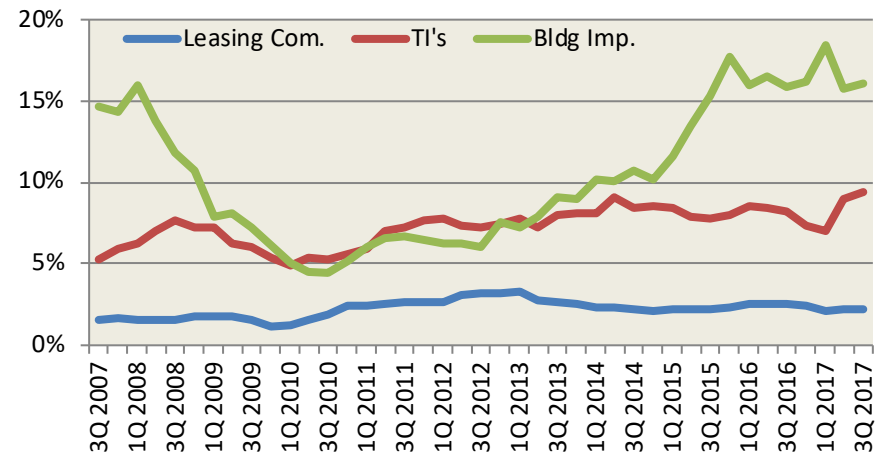
Industrial



Office



Retail



Other Interesting Trends

El Segundo-based startup Aperture Real Estate Ventures plans to launch a real estate-backed cryptocurrency by the end of February.

In an already speculative market, Aperture's Property Coin lets investors in on home fix-and-flip model



February 12, 2018 11:00AM

Summary

- Fundamentals should support solid, although below average real estate returns
- Cap rate spreads near long-term averages could insulate values from rising interest rates
- Rental income and NOI growth are above average overall, although retail and apartment slowing
- Overall occupancy at historic high driven by industrial
- Institutional investors expect returns to continue at current level throughout 2018 – but nothing guaranteed!

Questions?

Thank you for joining us!

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