

Commercial Real Estate Update - Trends from the NCREIF Database

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Who is NCREIF?

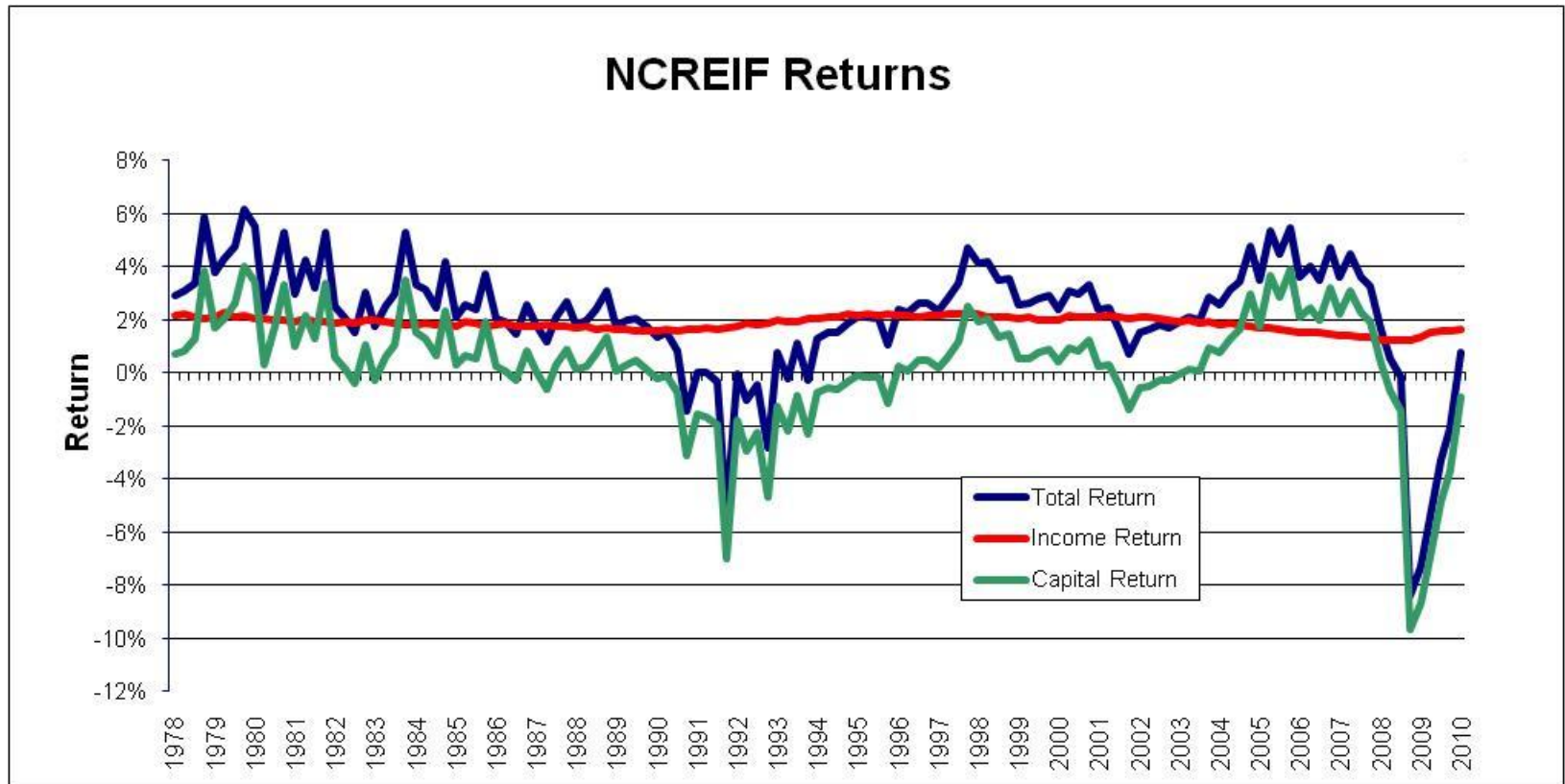
- Institutional real estate investors, e.g. J.P. Morgan, Prudential, CALPERS, Invesco, LaSalle, DeutchBank, etc.
- Report quarterly performance of properties to National Council of Real Estate Investment Fiduciaries (NCREIF) including NOI, CapEx and the appraised value. (Also details behind each).
- NCREIF produces the NCREIF Property Index (NPI) so investors can track the performance of institutionally owned commercial real estate compared with other asset classes like Stocks and Bonds.
- Index is quarterly from 1978 through the current quarter.
- Other information collected on properties such as occupancy, age, size etc.

NCREIF Index Returns

| Index | 2009Q4 Returns | | | One Year Return | Ten Year Return |
|------------|----------------|---------|--------|-----------------|-----------------|
| | Income | Capital | Total | | |
| NPI* | 1.60% | -3.71% | -2.11% | -16.9% | 7.3% |
| Farmland | 3.18% | -0.47% | 2.17% | 6.3% | 13.6% |
| Timberland | 0.40% | -4.96% | -4.55% | -4.8% | 7.3% |

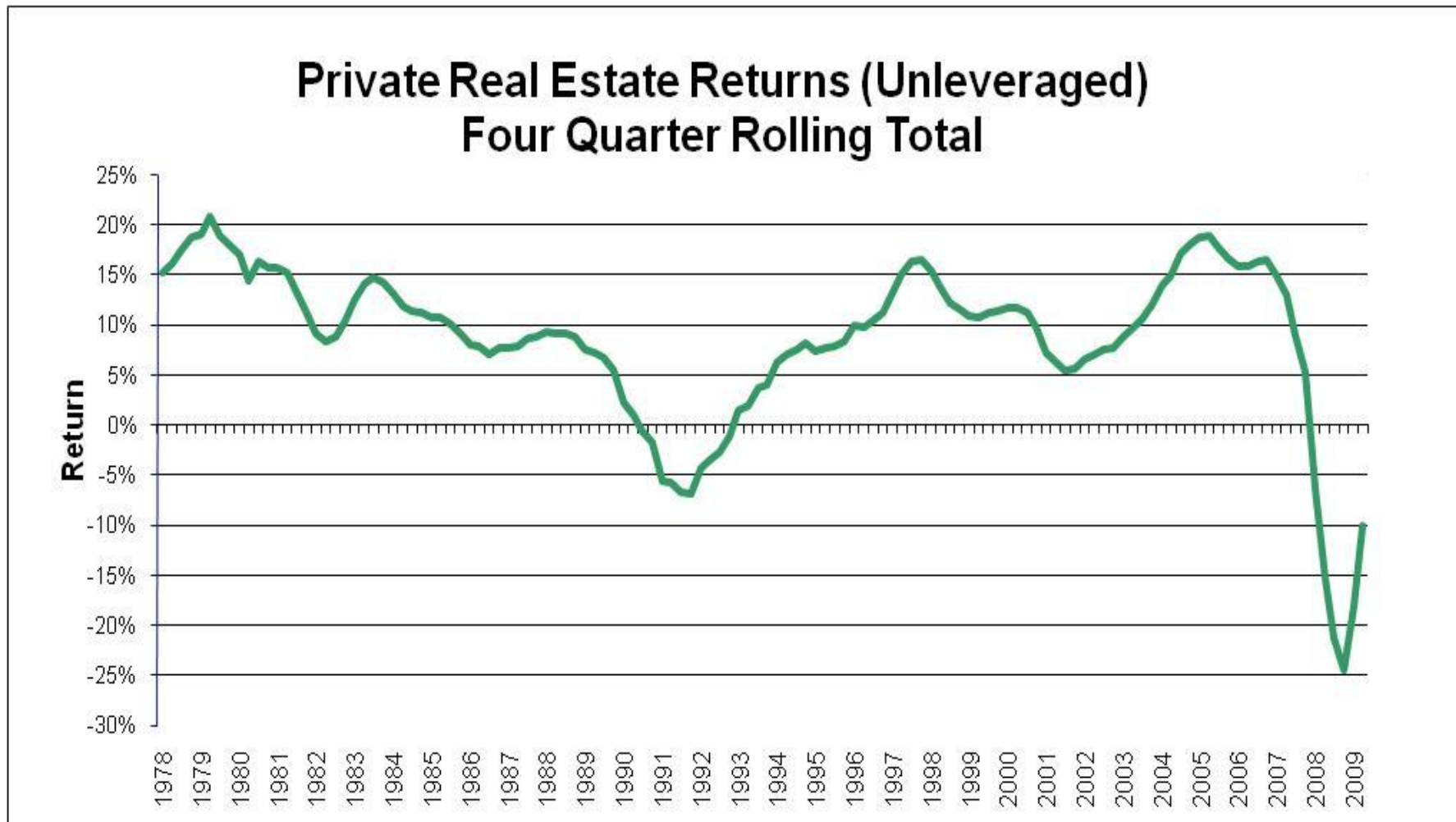
*Office, Retail, Apartment, Industrial, and Hotel.

NCREIF Property Index Return History



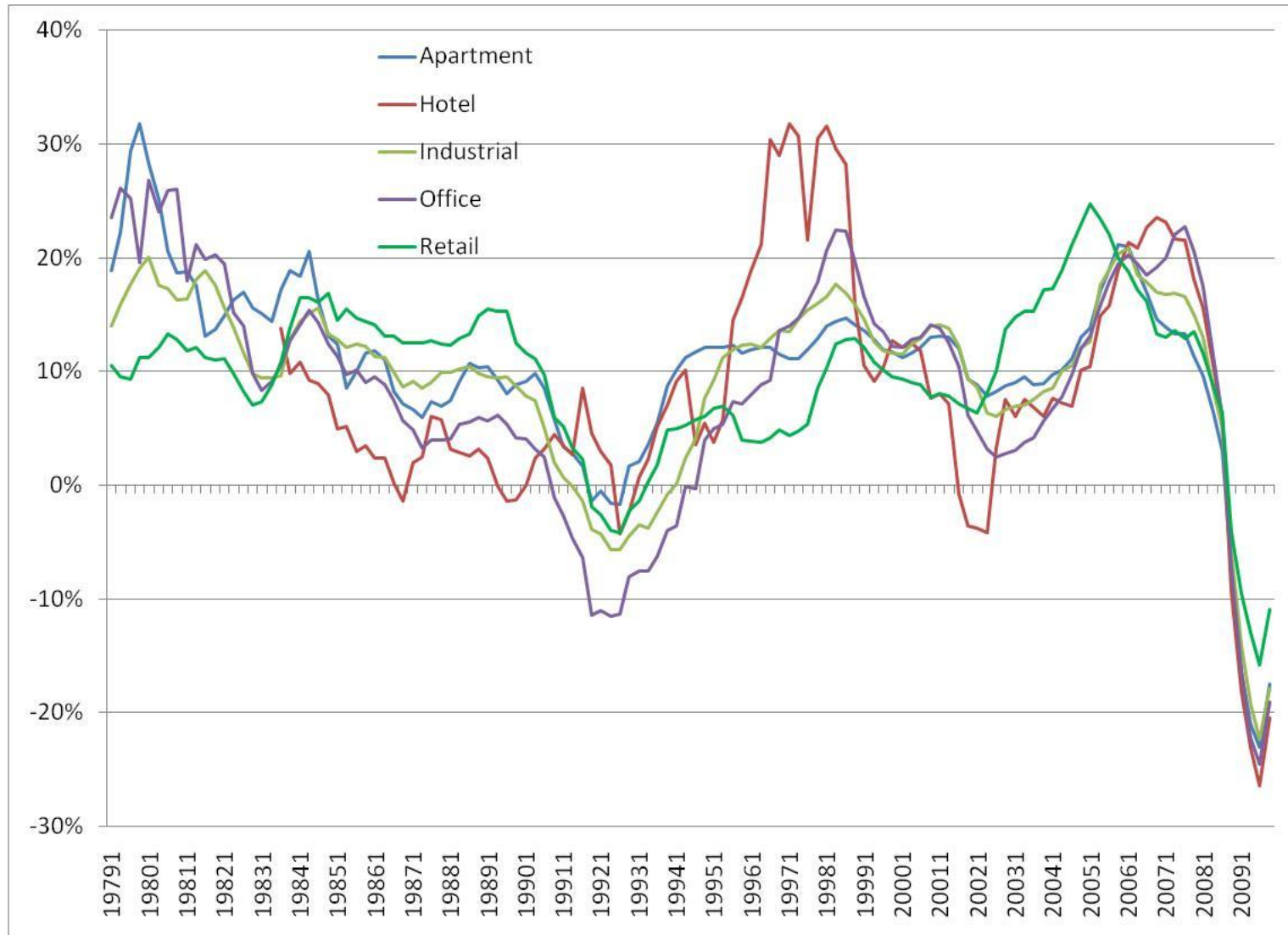
- Positive total returns! First since 2nd qtr of 2008.
- A “V” shaped recovery – not like the “saw-tooth” recovery in the early 90s.
- NCREIF doesn’t forecast – but feels like a bottom.

NPI Total Return History (4 Quarter Rolling)

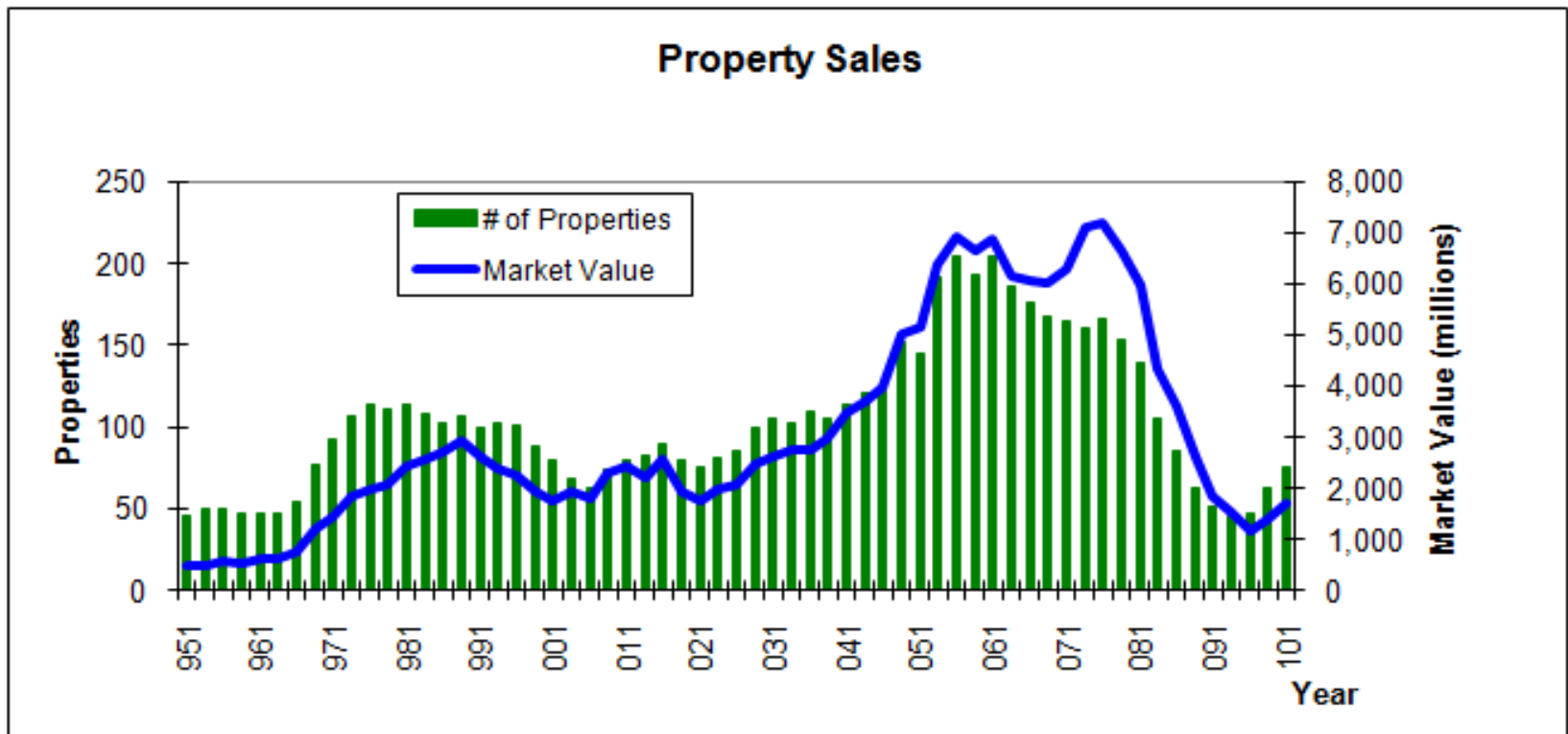


- Provides a better idea of the depth of the decline in return during the “great recession.”

NPI Property Type Return History (4 Quarter Rolling)

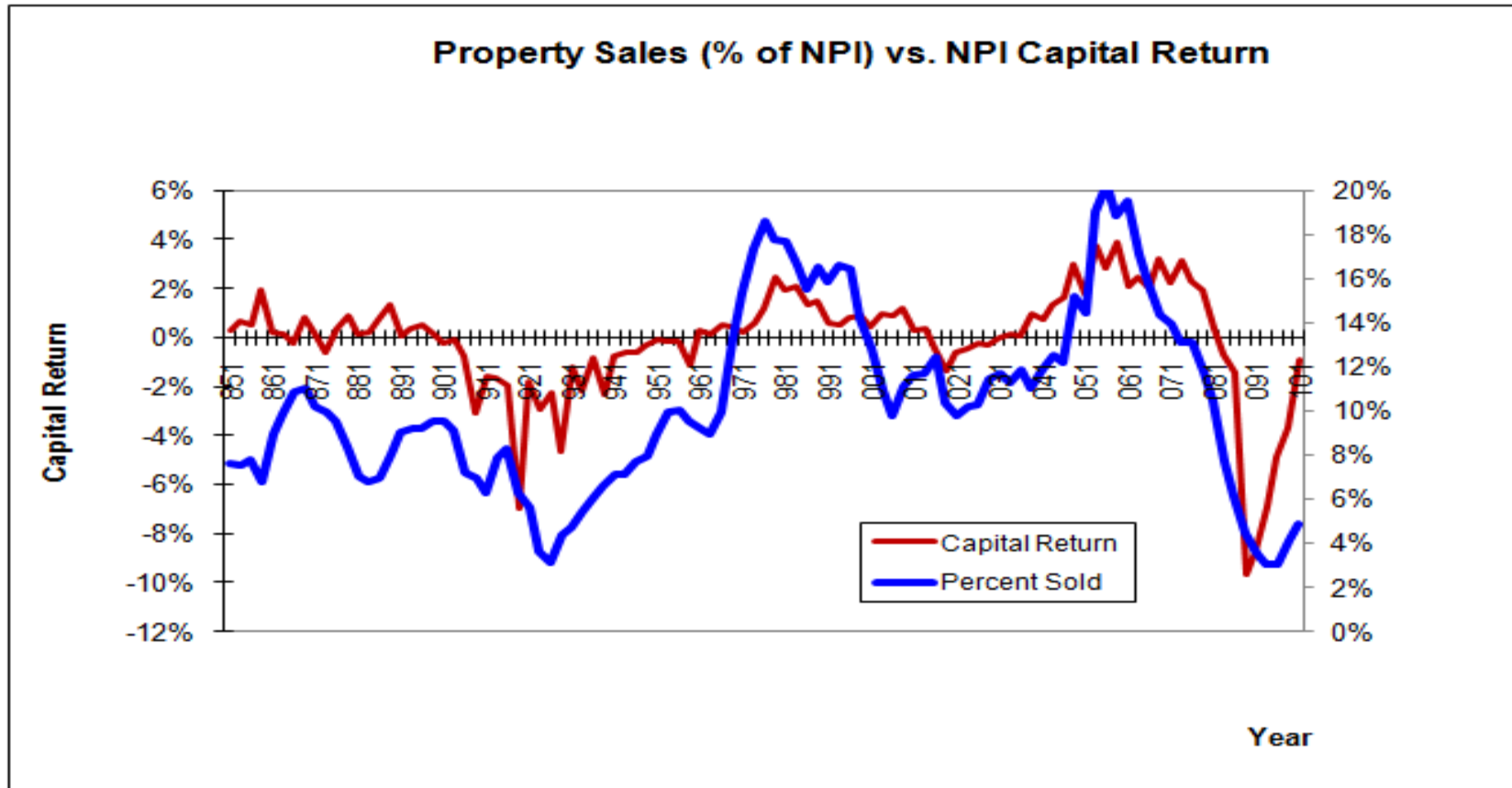


NPI Property Sales History (4 Quarter Rolling Sum)



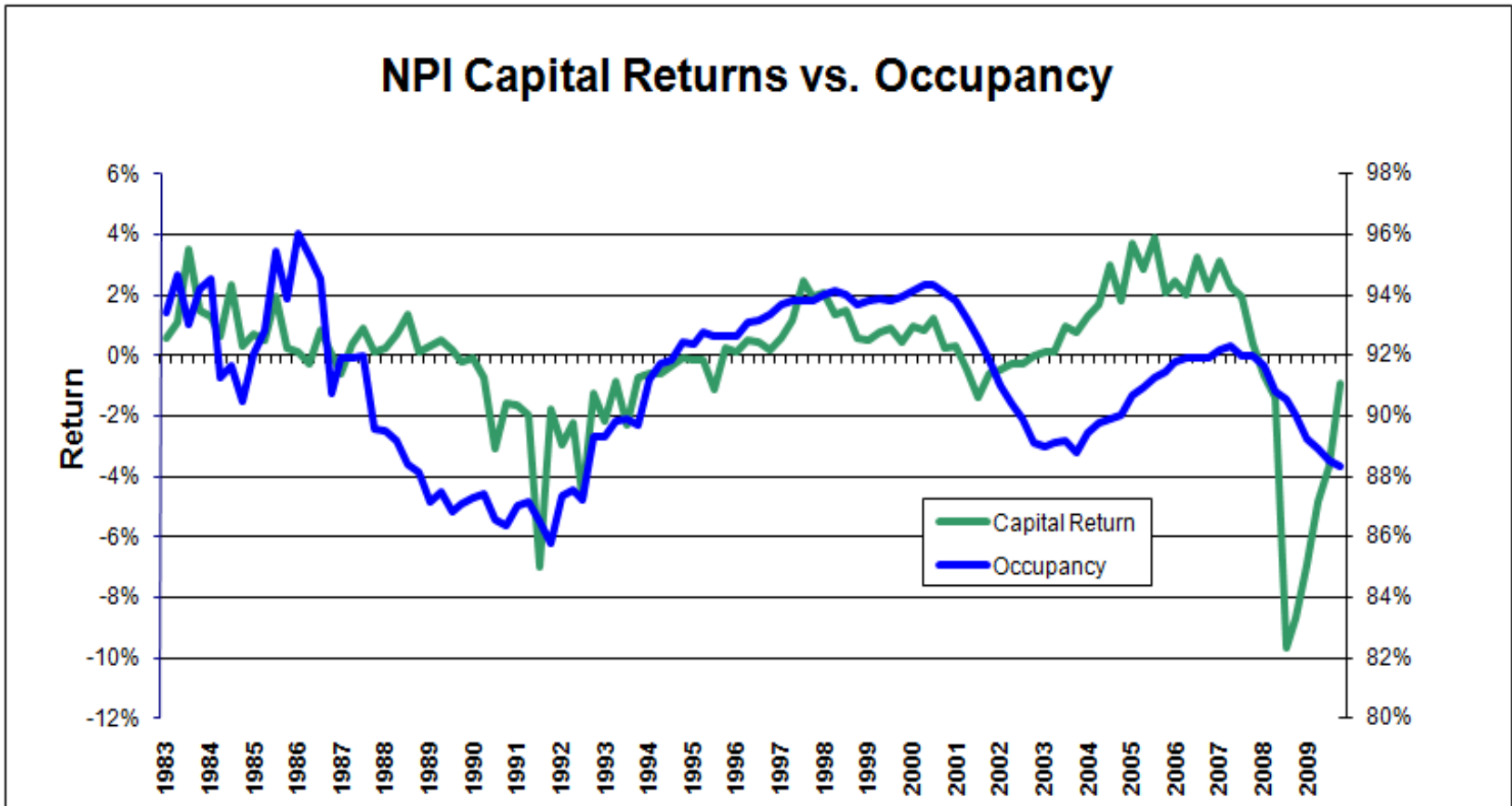
- Four quarter moving totals
- Transactions activity up for 3rd straight quarter (4 q moving total), quarterly bottomed in 2009Q1 and has increased each quarter since
- Indicates increasing liquidity in the market

Property Sales (% of NPI) vs. NPI Capital Return



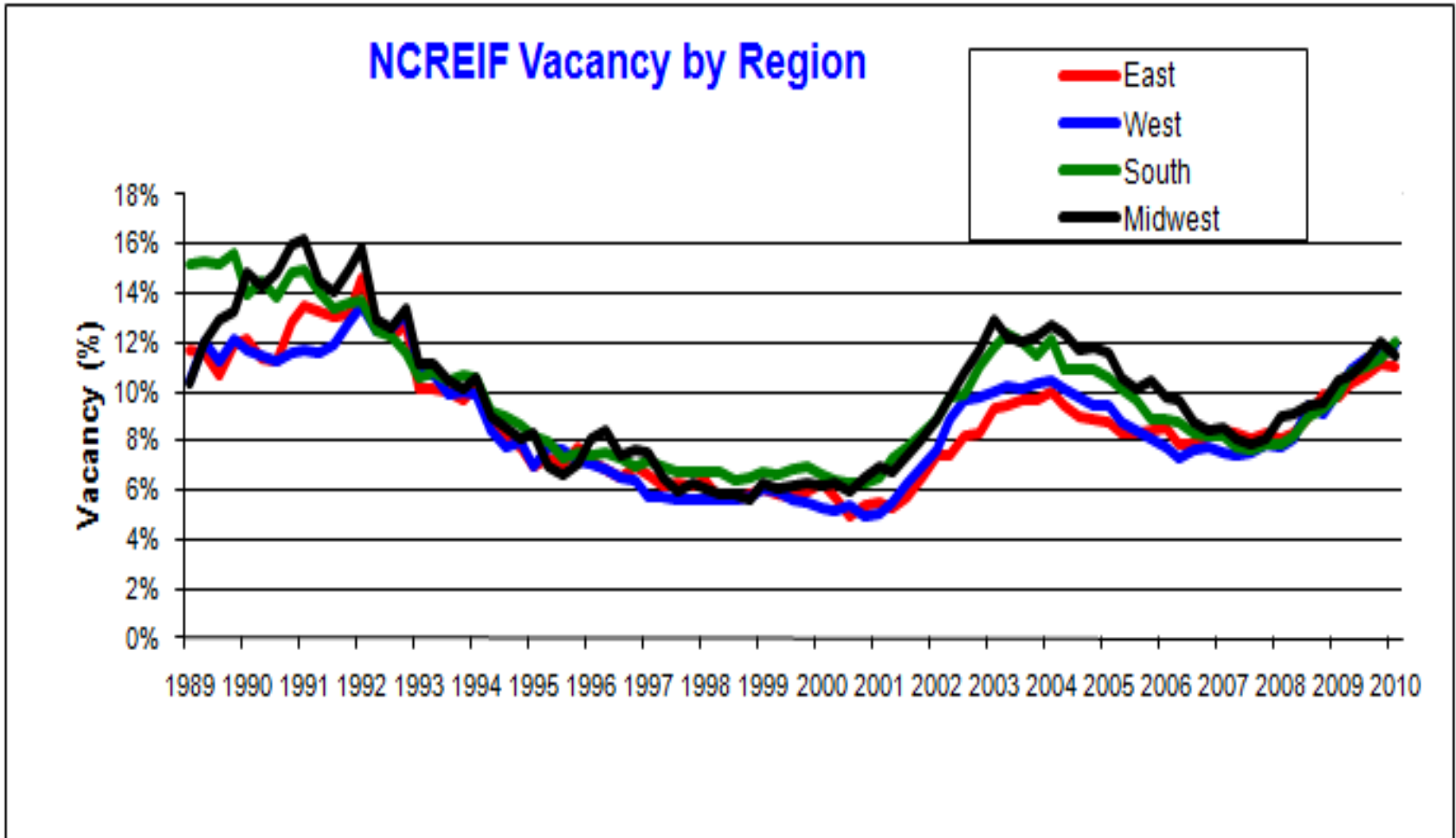
- Transactions activity and returns continue to be highly correlated

NPI Property Occupancy vs. NPI Capital Return

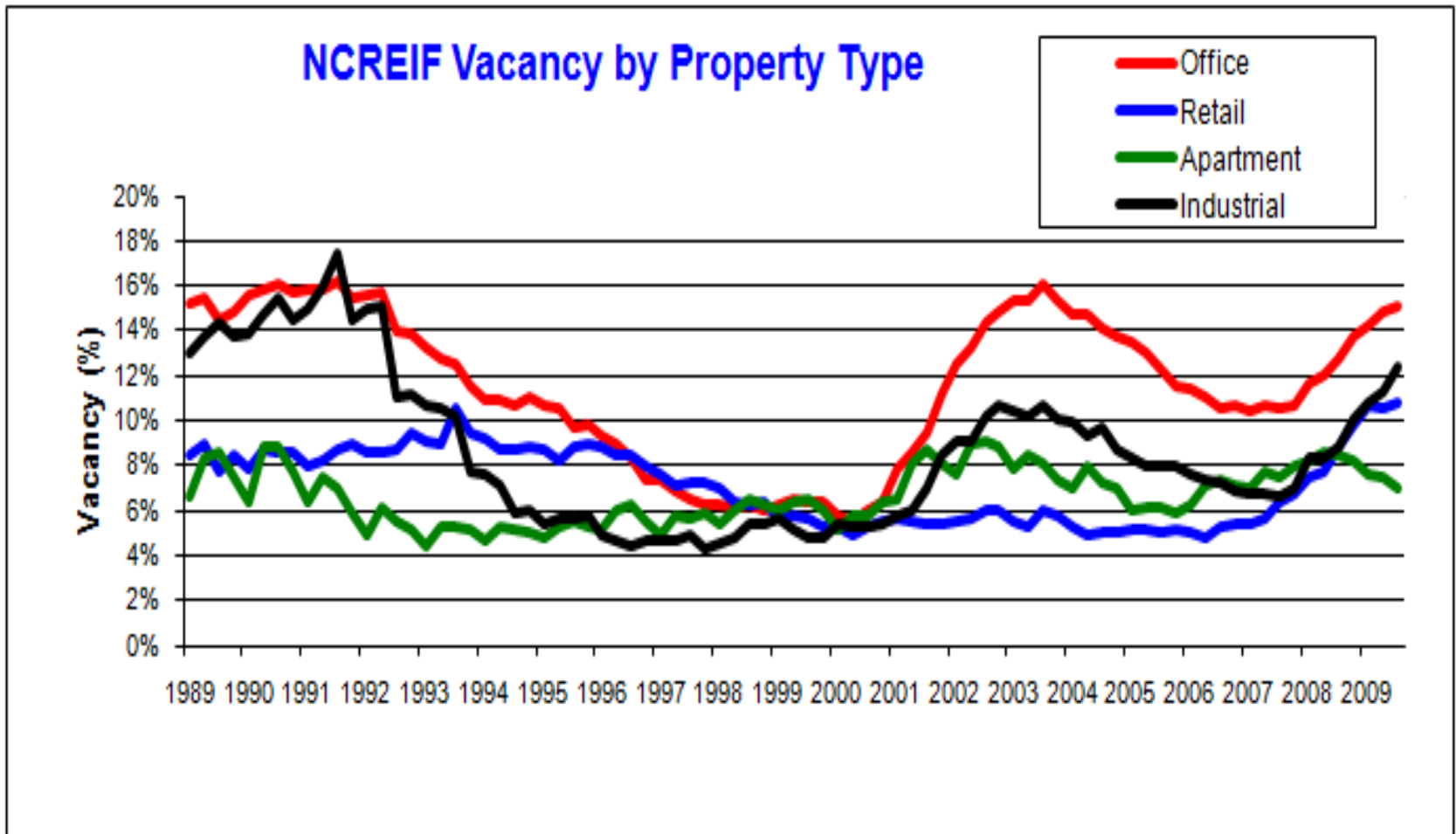


- In the “long run”, improvement in returns will likely depend on increases in occupancy.

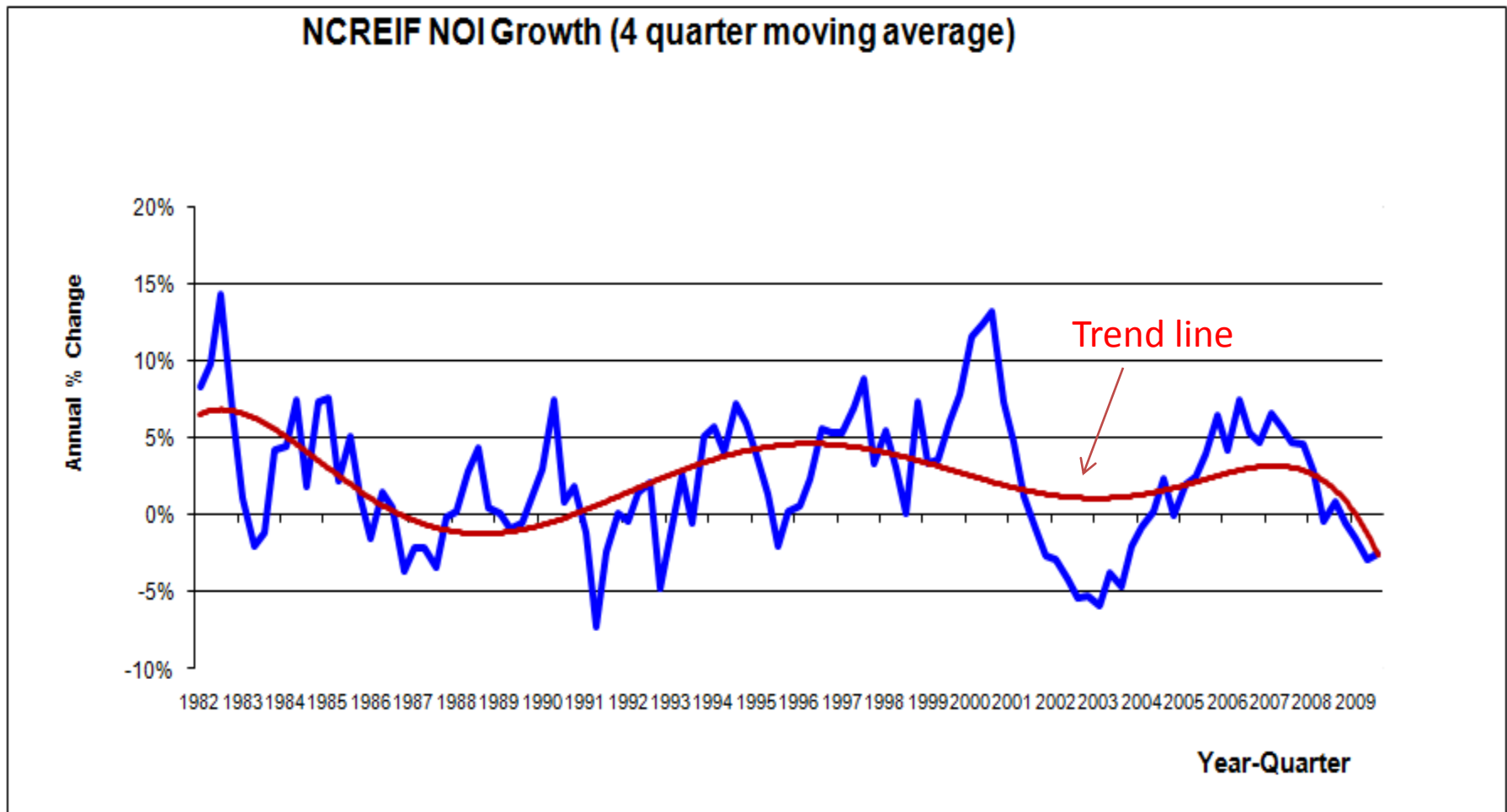
NPI Property Vacancy by Region



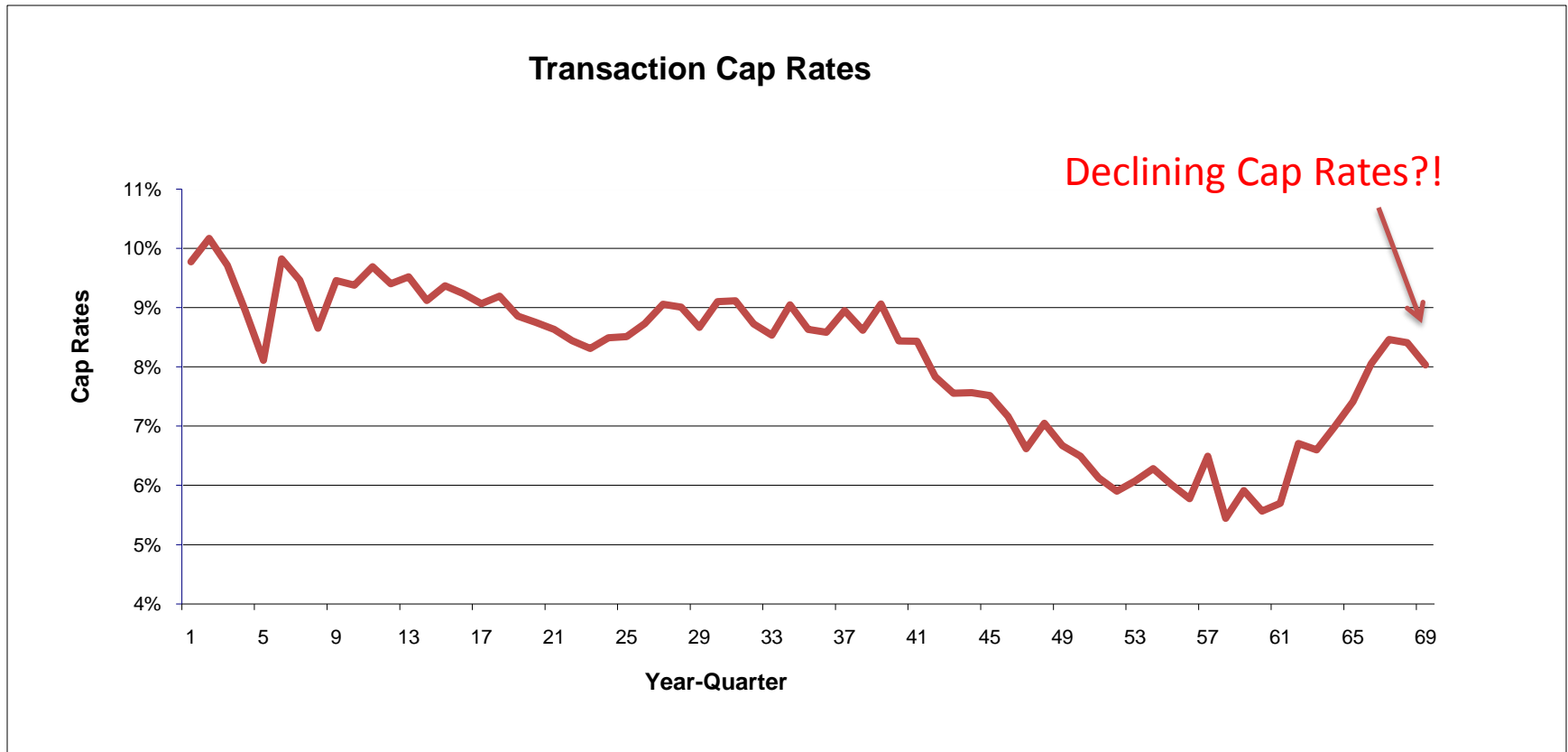
NPI Property Vacancy by Property Type



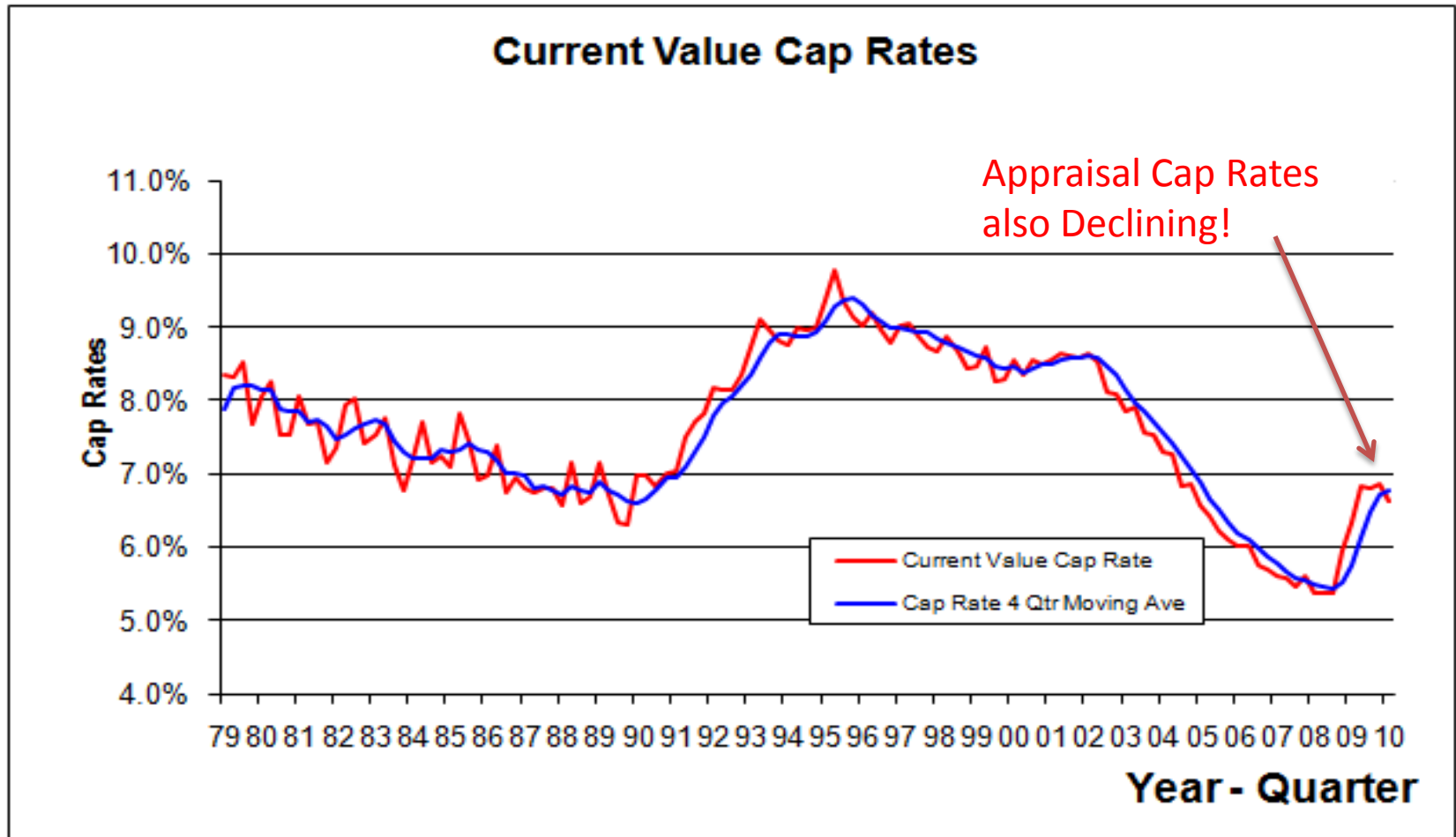
NPI Same Property NOI Growth (4 Quarter Moving Total)



NPI Transaction Cap Rates 4 Quarter Moving Average



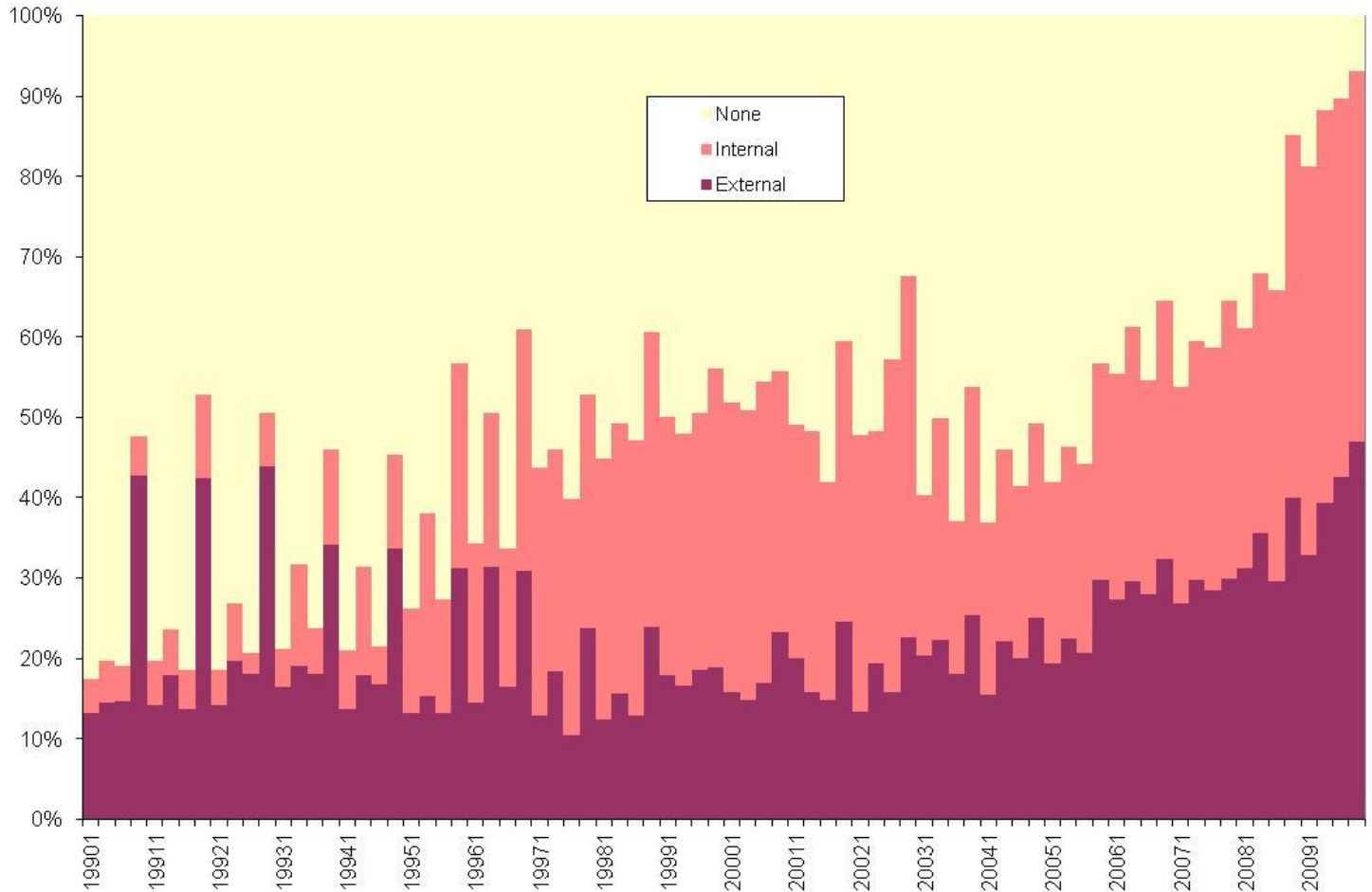
NPI Current Value Cap Rates



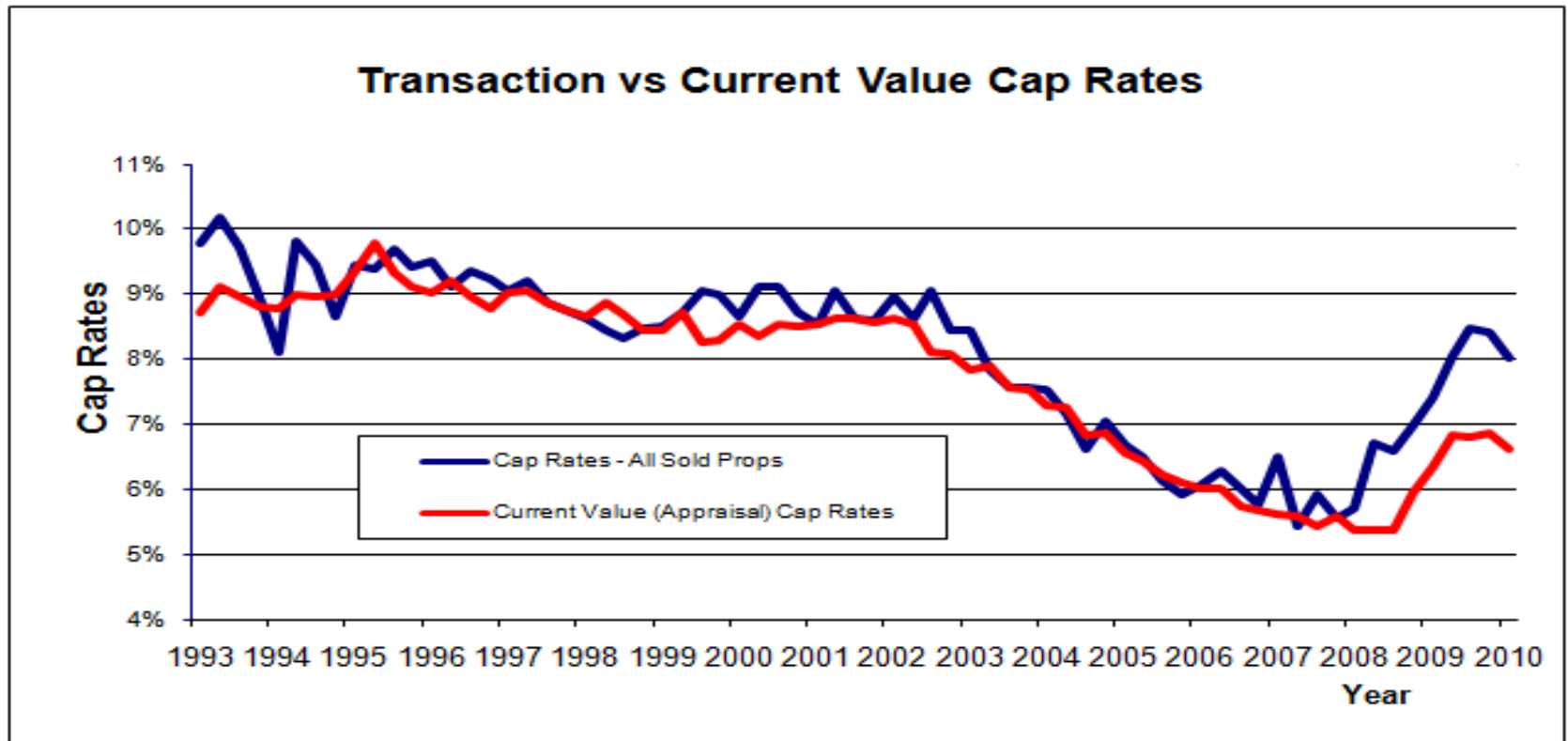
NPI Property Valuation Trends

Valuation frequency for Properties in the NPI in all four quarters of 2009:

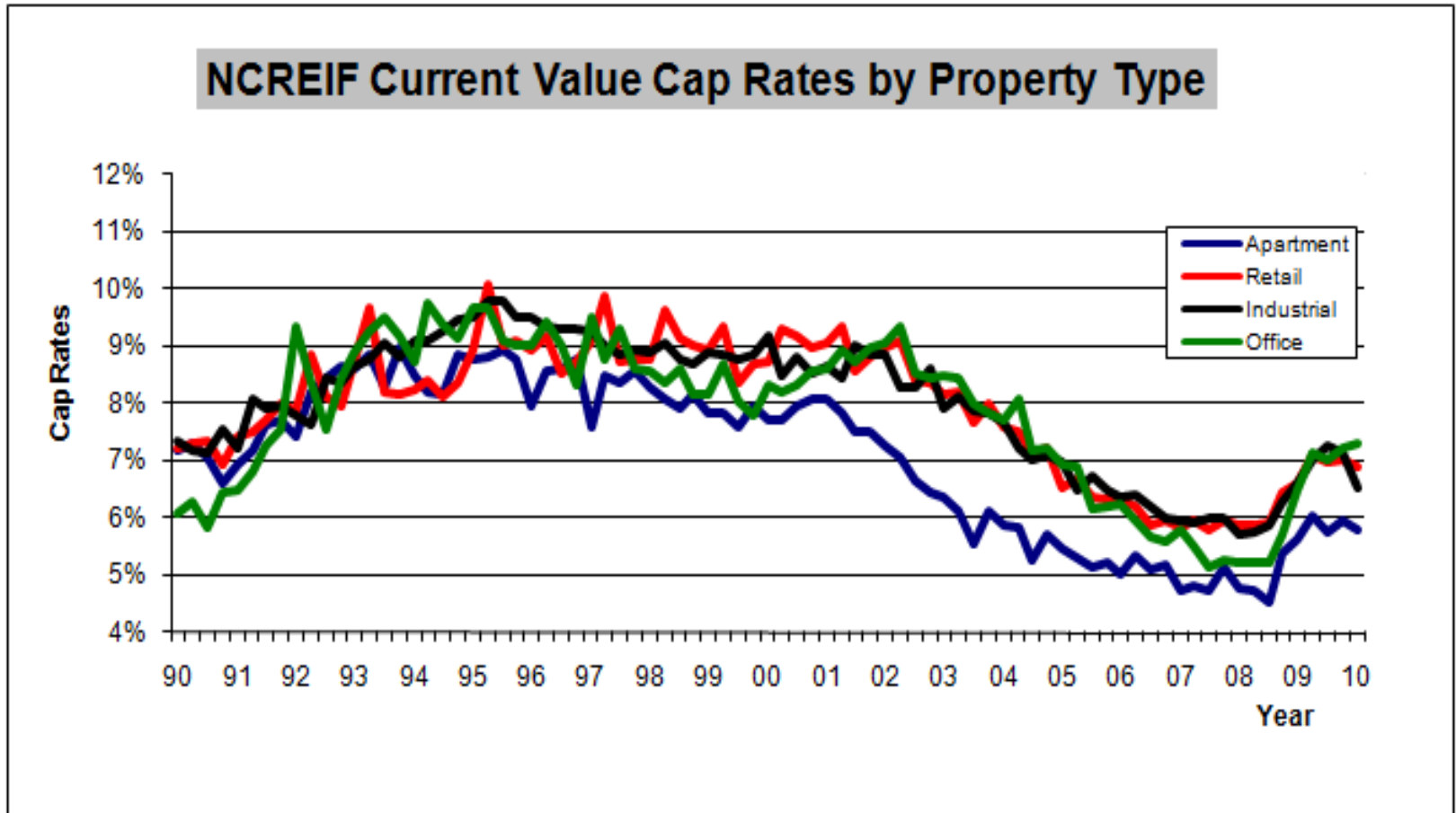
| | |
|--------|-------|
| 4 of 4 | 77.0% |
| 3 of 4 | 8.9% |
| 2 of 4 | 8.5% |
| 1 of 4 | 2.9% |
| None | 2.8% |



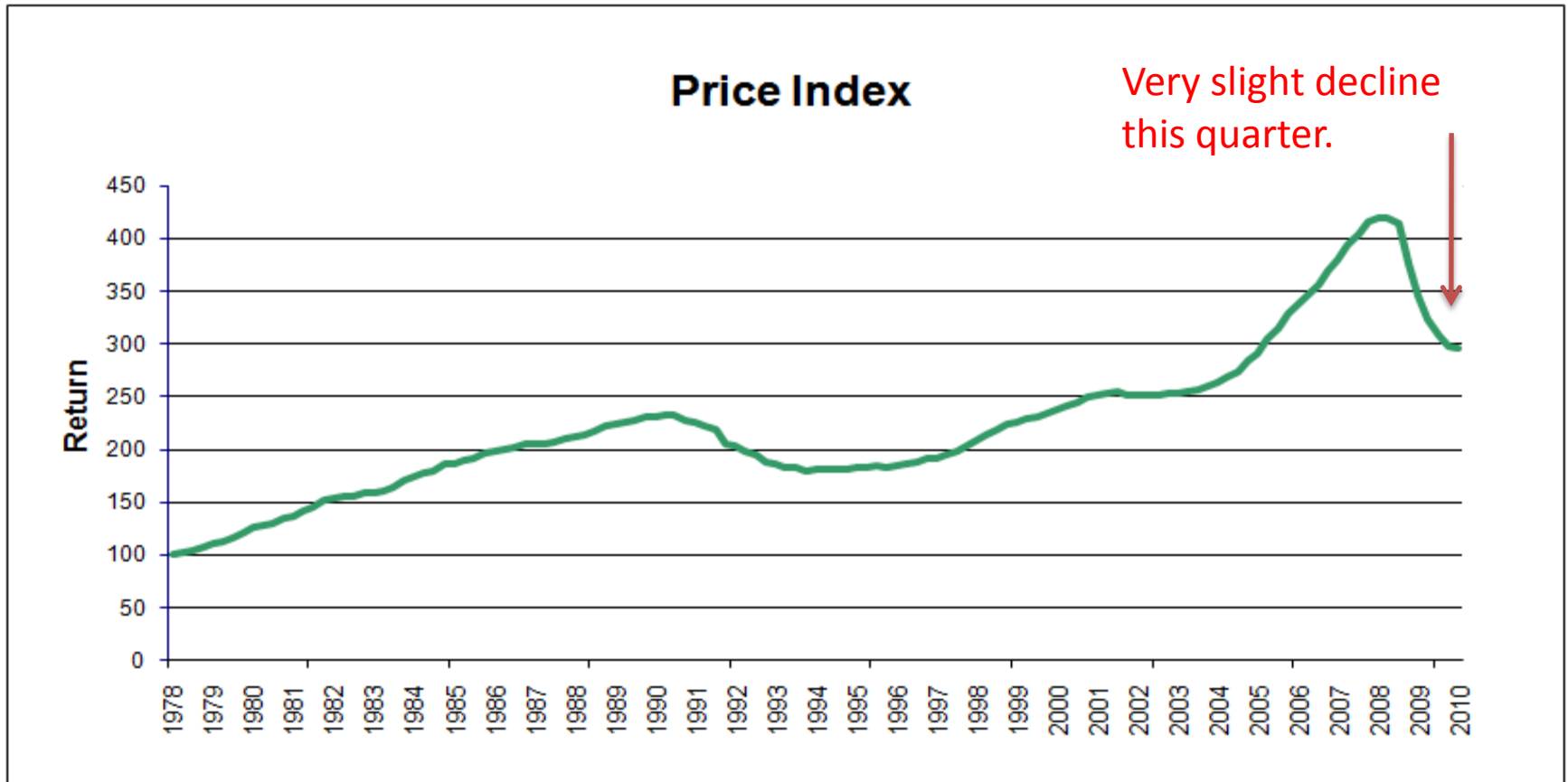
NPI Transaction vs. Current Value Cap Rates



NPI Current Value Cap Rates by Prop Type



NPI Price Index (NOT Capital Value Index)

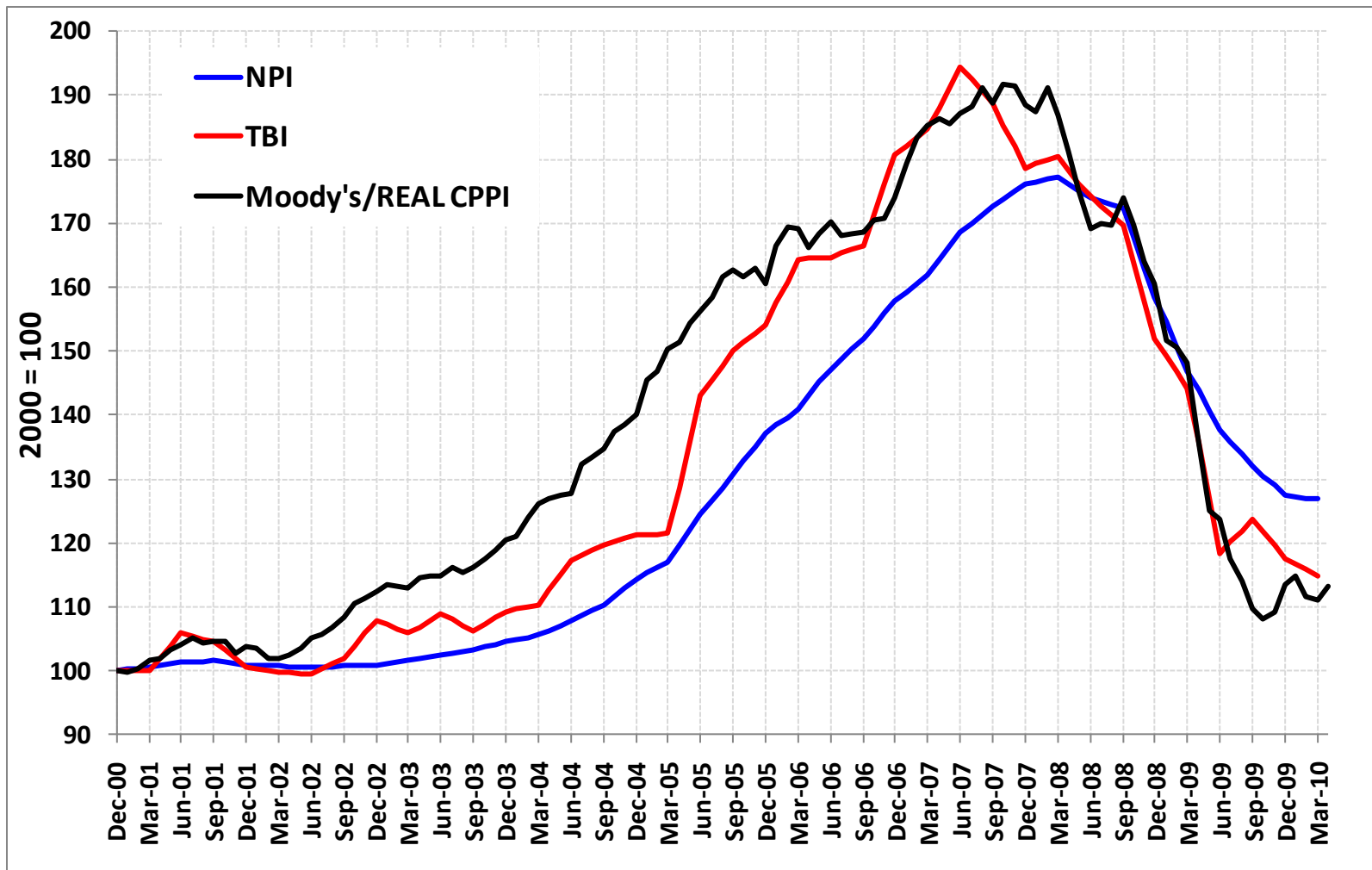


- NOT the capital return index!
- Capital return index net of capex

Repeat-sales index of U.S. CRE Prices (CPPI)

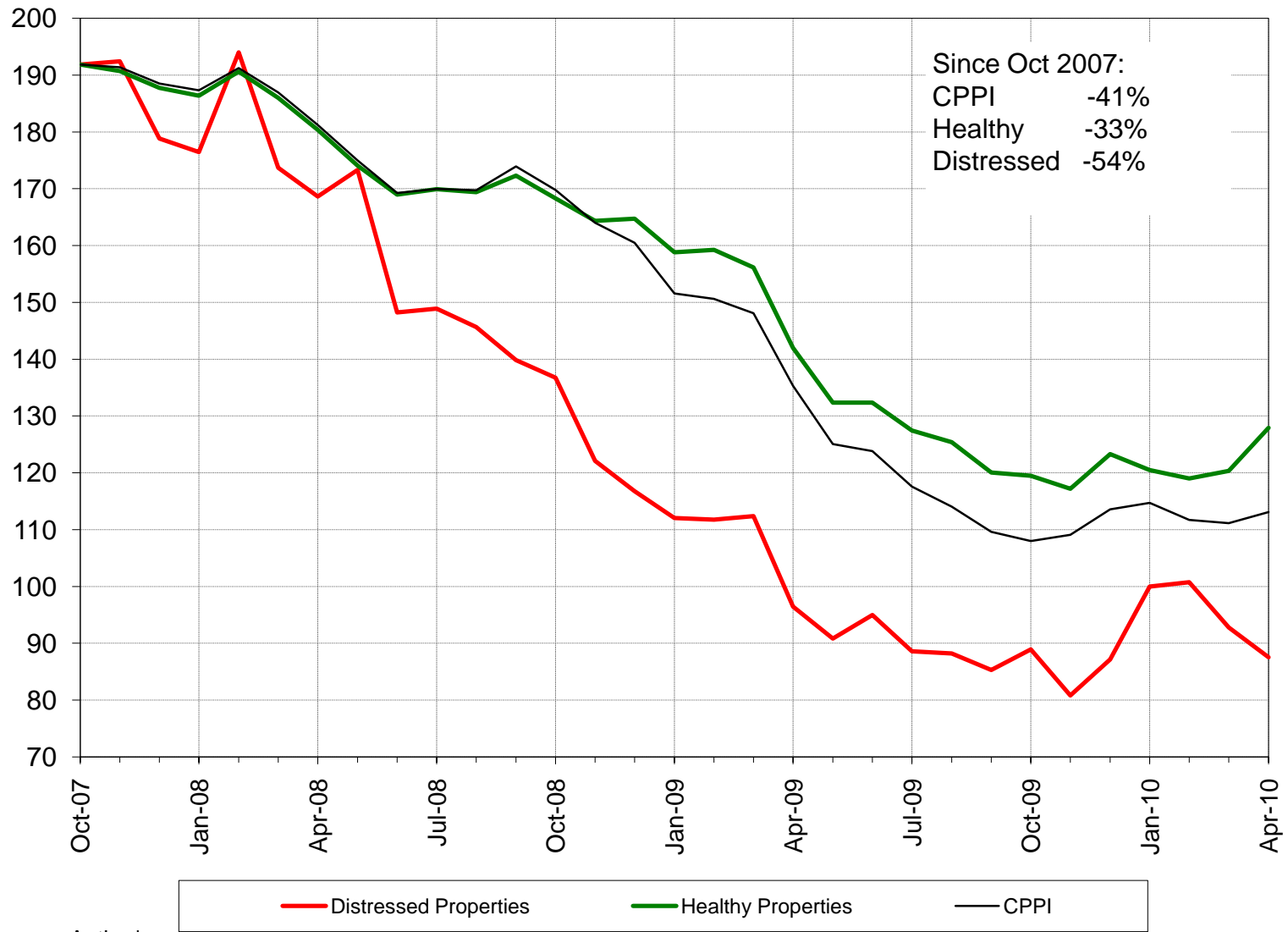
Hedonic index of NCREIF Property Prices (TBI)

Appraisal-based index of NCREIF Property Prices (NPI)



Note: NPI reported valuations were actually slightly above corresponding transaction prices at end of 2000, hence NPI is set slightly low in this chart relative to the transaction indices (to re-set probably add < 5 points to NPI here).

Healthy & Distressed Property Prices vs CPPI since Mkt Peak



Source: Author's estimates based on RCA data

Creating a Responsible Property Investment Index

LEED Certified



Energy Star



Transit Oriented



Urban Regeneration



Walkable



Why an RPI Index?

- Provide a way of knowing how properties with RPI characteristics perform relative to non-RPI properties
- Allow individual investors to compare the performance of their RPI investments against a benchmark
- Provide more awareness about RPI properties as an investment strategy and perhaps attract more capital to RPI properties

Methodology

- Use data from National Council of Real Estate Investment Fiduciaries (NCREIF)
- RPI Score assigned to each property ranging from 0 to 100 depending on number of characteristics
- Create an index based on the performance of properties with an RPI Score in a certain range and compare to performance of non-RPI properties.

Total Return Index

