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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: September 16, 2024
RE: Quarterly Real Estate Performance Review as of June 30, 2024

In our role as the Board Real Estate Consultant, Meketa Investment Group ("Meketa") conducted a quarterly performance review of the Real Estate Portfolio ("the Portfolio") based on data provided in Wilshire's California Public Employees' Retirement System ("CalPERS") Real Assets Performance Analysis Review for the period ended June 30, 2024, and selected CalPERS reports.[1] This memorandum provides the Portfolio performance data and information on key policy parameters, along with summary market commentary.

Performance[2]

Portfolio-Level Returns

CalPERS ("the System") assigns the goals of diversification from public securities, current income, and inflation protection to its Real Assets portfolios, of which real estate comprises 74.7%. The Portfolio's diversification is serving the System, as different property sectors experience varying demand and supply dynamics. Similarly, CalPERS' focus on the highest quality locations and materials that attract credit worthy tenants provides defensive characteristics. Across real estate markets, no property type or geographic region necessarily outperforms over the long-term, so diversification is critical.

CalPERS' Real Estate Portfolio returns exceeded the benchmark for the one- and five-year time periods, and underperformed the benchmark for the three-- and ten-year time periods. While we anticipate near-term performance to continue to be challenging, the income return is generating reliable, positive cash flow to the System, fulfilling the role of the asset class in the broader CalPERS portfolio.

Measured by a percentage of Loan to Value ("LTV"), CalPERS has historically used more leverage than the benchmark (35.0% versus the benchmark of 26.4%). When property values are rising, this accelerates returns. When values decline, this detracts from performance. Measured by the 2.3x multiple of Net Operating Income to debt service, ("coverage ratio," or "DSCR"), and the strength of the tenancies, this is nevertheless deemed to be a prudent level of debt. Both LTV and DSCR are well within policy guidelines of <50% and >1.5x, respectively.

[1] Real Assets Program Allocation, Characteristics, and Leverage Reports (pdf) and Datasheets (Excel), Period Ending March 31, 2024, and Real Assets Quarterly Performance Report, Partnership Financial Statements as of March 31, 2024.
[2] Per Wilshire's CalPERS Real Assets Performance Analysis Review for the period ended June 30, 2024 reported with a 1-quarter lag, so effectively as of March 31, 2024.

Net Returns June 30, 2024	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Real Estate Returns	-10.8	2.3	2.9	5.2
Real Estate Policy Benchmark[1]	-11.9	2.5	2.5	5.8
Over (under) Performance	1.1	-0.2	0.4	-0.6

Institutional real estate has benefitted from more than a decade of low interest rates and economic growth tailwinds. Slower economic growth and higher interest rates have caused a re-pricing of the entire real estate sector. Meketa anticipates relative performance will be challenging to assess until the dust settles on the property and capital markets. We continue to expect significant near-term volatility in valuations; shorter-term performance should be viewed skeptically.

Performance Attribution

The portfolio continues to generate reasonable absolute returns over longer time periods with low leverage and a low risk profile, but near-term performance is challenging. The five-year return exceeded the benchmark by approximately 40 basis points. The ten-year net return of 5.2% and the three-year return of 2.3% trailed the benchmark by 60 and 20 basis points, respectively, largely as a result of somewhat less robust appreciation and a higher retail allocation than the benchmark. It should be noted that while returns for the office portfolio trail the benchmark for the one-, three-, and five-year time periods, CalPERS' office allocation is below that of the benchmark which is beneficial. Overall, the portfolio continues to generate consistent income with which CalPERS can pay its beneficiaries and the income return exceeded that of the benchmark for all time periods presented.

The big outlier in absolute performance is the one-year return. For the one-year period, the portfolio posted a negative 10.8% net return, consisting of 3.6% current income and negative appreciation of 14.4%. While the total net return exceeded the benchmark by approximately 110 basis points, all risks and sectors posted negative returns. Within the portfolio, data center, industrial, multifamily and retail properties outperformed the benchmark for the one-year time period.

The market continues to produce a remarkable dispersion of returns across property types and locations, with clear winners and losers from a space demand perspective. Even among core holdings where we would expect to see less volatility in performance, there was a wide range of returns. Data center buildings, which represent 6.0% of the core portfolio, generated a one-year return of negative 4.8%. Data center buildings are benefiting from increased cloud computing, technological device usage and artificial intelligence. At the other end of the spectrum were office buildings, which represent 10.4% of the core portfolio, and which generated a negative 27.3% one-year return, in addition to negative

[1] CalPERS Real Estate Policy Benchmark, with historical composition as follows: As of July 1, 2018 is the MSCI/PREA US ACOE Quarterly Property Fund Index (Unfrozen), Net of Fees. From July 1, 2011 through June 30, 2018, the Policy Benchmark was the NCREIF Fund Index Open-End Diversified Core Equity, Net of Fees. The. Policy Benchmark results are shown on a blended basis during the relevant trailing periods.

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returns for the three- and five-year time periods. While CalPERS' underweight to office relative to the benchmark is a positive, the sector is very challenged and further deterioration is expected.

Industrial and multifamily returns have moderated from recent highs; both sectors generated negative returns during the one-year period. CalPERS' industrial portfolio, representing 34.1% of the core portfolio, posted returns for the one-year time period of negative 5.4%. CalPERS' multifamily portfolio, representing 26.3% of the core portfolio, posted returns for the one-year time period of negative 11.6%. Both sectors are experiencing slowing rental rate growth, and industrial properties with longer leases at below market rents are getting penalized for the lost potential revenue (the "loss to lease").

Longer-term performance for these property types is expected to be stronger, as both benefit from resilient demand drivers and moderating new supply. Industrial buildings continue to benefit from greater e-commerce volume and onshoring of manufacturing, while multifamily properties benefit from the shortage and lack of affordability of single family homes.

Mall retail property investments, to which CalPERS has had a material overweight compared to the benchmark, and which account for 9.9% of the core portfolio, posted a total return of negative 11.1% for the one-year time period. Since inception, these investments have produced a 5.7% total net return.

The other portion of CalPERS' retail holdings, grocery anchored shopping centers, which amount to 10.6% of the core portfolio, generated a return of negative 2.8% for the one-year time period. Shorter average lease terms, relative to big box retailers, and little new development have given owners of grocery anchored shopping centers the ability to more proactively push rents, especially given historically low vacancy within the sector.

As of this reporting period, the core risk portfolio, comprised of completed, leased and cash flowing assets, and representing 87.9% of the Real Estate Portfolio, produced longer-term returns of 3.5% for the five-year period, and exceeded the Real Estate Policy benchmark returns by 100 basis points. Strong ten-year returns of 7.0% handily exceeded the 5.8% benchmark return. Virtually all core properties are held directly in lower cost separate accounts (as opposed to investing in open-end commingled pools).

Net Returns As of June 30, 2024[1]	NAV ($B)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Core	44.4	-10.4	3.2	3.5	7.0
Value Add	3.8	-17.4	-4.1	-1.2	2.2
Opportunistic	1.2	-13.7	-4.0	-2.1	-0.1
Real Estate Policy Benchmark	--	-11.9	2.5	2.5	5.8

[1] Private Investment data are one quarter lagged, so effectively as of March 31, 2024.

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Key Policy Parameters

The Real Estate Portfolio is compliant with all key parameters related to diversification and other limits applicable at the Portfolio level, as demonstrated in the following table.

Key Portfolio Parameter	Policy Range/Limit	NAV 6/30/2024 Exposure[1]
Risk Classification	(%)	(%)[1]
Core	75-100	87.9
Value Add	0-25	8.3
Opportunistic-All Strategies	0-25	3.8
Geographic Region	(%)	(%)[2]
United States	75-100	93.4
International Developed	0-25	4.0
International Developing	0-15	2.6
International Frontier	0-5	0.0
Manager Exposure[3]	(%)	(%)
Largest Partner Relationship	20 max	15.6
Investments with No External Manager	20 max	0.0
Leverage[4]		
Loan to Value	50% max	35.0%
Debt Service Coverage Ratio	1.5x min	2.3x

Implementation

The Real Estate Portfolio had a market value of $49.6 billion at the end of the current reporting period, representing 74.7% of the Real Assets program and 9.9% of the total portfolio. Including Forestland and Infrastructure, the Real Assets program currently comprises 13.2% of the total portfolio against a long-term target allocation of 15.0%, within the policy range of 8% to 18%. CalPERS has a very small exposure to overseas properties, and almost no exposure to the hospitality industry in its private real estate holdings.

The CalPERS business model for real estate emphasizes control, transparency, alignment and governance. CalPERS' market advantages are its size, scale and ability to hold assets for longer periods. The implementation of this business model is primarily through direct investing with separately managed accounts, in which CalPERS has effectively complete control. Cancellable separate accounts are created with expert, aligned fiduciary managers/partners. These relationships are overseen by Staff with the benefit of independent consultants' prudent person opinions and monitored on behalf of

[1] Real Assets Quarterly Performance Report as of March 31, 2024 and Real Assets March 31, 2024 Characteristics Report (PDF), based on asset-level risk.
[2] Real Assets Quarterly Performance Report as of March 31, 2024 and Real Assets March 31, 2024 Characteristics Report (PDF), based on asset-level geography.
[3] CalPERS Real Assets Portfolio Allocation Report (Excel), Period Ending March 31, 2024: calculated based on manager- and account-level NAV. Percent calculated using relevant NAV plus total unfunded commitments for relationships/investments and same for the Real Assets Program ($77.8 billion).
[4] CalPERS Real Assets Portfolio Leverage Report (PDF), Quarter Ending March 31, 2024.

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the Trustees by the Board Consultant. This provides a replicable, scalable model that can grow as the Total Fund size grows and invest within the strategic ranges based on market conditions and alternative investments available to the Total Fund. The Fund also uses closed end commingled funds to generate higher returns and to access differentiated strategies and management teams.

CalPERS continues to be an industry leader in creating and embracing Responsible Contractor Policies and ESG best practices at its properties. Additionally, during the last five years, the Staff has made progress harmonizing several of the private asset classes under the Real Assets Unit. This has improved continuity of research, decision-making, risk mitigation and reporting, as well as providing increased knowledge across INVO. This is consistent with a System wide, Total Fund approach rather than a collection of independent asset "silos."

Real Estate Market Commentary

It has been two years since the Federal Reserve began to rapidly increase interest rates in response to recent decades-high inflation. The results of the monetary policy actions of the Federal Reserve have had a widespread and negative impact on commercial real estate. Debt costs which have more than doubled, slowing rent growth, and restrictive capital markets have all contributed to a broad re-pricing of commercial real estate assets. Due to a lack of overall comparable sales and/or data from sales executed under stress and/or abnormal circumstances, determining "fair value" has been challenging. and there have been instances of wide dispersion of appraisal inputs. In addition, some asset owners with maturing debt are struggling to refinance or sell their asset(s). While the length of the current downturn is currently roughly equal to that of the Great Financial Crisis ("GFC"), the US economy is currently not in a recession, asset valuation declines were much sharper during the GFC, and current underlying property level fundamentals, such as occupancy, remain healthy. Resilient economic data has caused uncertainty around the timing and pace of potential interest rate cuts. The Federal Reserve has indicated that they are focused on lowering inflation while monitoring the broader economy and any rate cut decisions will be made based on economic data. All of the preceding have caused investors to adjust their return expectations assuming a higher for longer interest rate environment. As long as the trajectory of the US economy remains uncertain, we anticipate some continued volatility and dispersion of returns across property types and locations.

While headline inflation has been moderating, the pace has been uneven and slower than expected. Year-over-year headline inflation, as of June 2024, fell 30 basis points to 3.0%, but remains stubbornly above expectations. Core inflation (excluding food and energy) also slightly declined in June but increased 3.3% on a year over year basis. Overall, inflation continues to be primarily driven by high shelter costs, comprised of rent of a primary residence and owners' equivalent of rent. The multiple interest rate increases by the Federal Reserve during 2022 and 2023 aimed at reducing inflation have caused rent growth to slow dramatically across property types and locations, and for debt costs to more than double. For the first time in more than a decade, market conditions are resulting in "negative" or non-accretive leverage, meaning the cost of new debt financing exceeds the going-in-yield of the real estate acquisition. While "hard assets" such as real estate offer protection from inflation over the mid

to longer term because of their ability to raise rents, the timing and amount of correlation vary depending on the individual rent roll (weighted average lease terms), market supply and demand for competing space (also affected by changing usage needs), legislation, and other factors. While the likelihood of distress is increasing, it is not anticipated to be widespread.

Investors with upcoming loan maturities, expiring interest rate caps, and other situations requiring a refinancing of current debt could have difficulty obtaining financing and be forced to sell their commercial real estate asset(s) or to give the asset(s) back to the lender. Those holding office, hotel and retail property types will have more difficulty getting new financing than those holding industrial and/or multifamily assets. It should be noted that, due to uncertain demand and steep capital costs, office owners in particular, are currently more likely to be granted a loan extension by the lender rather than the lender taking possession of the asset or selling the loan at a loss. While asset sales or the need for additional equity infusions could create new investment opportunities for well capitalized, low leverage investors, for either whole assets or a portion thereof, the current economic uncertainty coupled with thin transaction volumes (and therefore comparable sales) makes finding reasonable price and return expectations challenging.

The banking institutions which previously provided the majority of financing to commercial real estate asset owners have reduced their lending activity due to more stringent capital regulatory requirements. When the Federal Reserve expanded the money supply in response to the pandemic, some small and regional lenders, who were not subject to the same regulatory requirements of larger institutions, decided to increase their lending activity. As a result, commercial real estate loan exposure at large banks is generally much less than at smaller, and/or regional banks. While some smaller banks may be experiencing stress, primarily due to high interest rates, commercial office building high vacancy coupled with declining values of these buildings, the situation is currently not anticipated to be a risk to the entire US banking system. However, there is more concern with non-bank mortgage lenders as they can have less liquidity options and cannot access the Federal Reserve's discount window through which the Federal Reserve is able to lend money directly to eligible banks. In addition, there is approximately $2.0 trillion of commercial real estate loans maturing between 2024 and 2026. The maturing debt was originated at much lower rates than the current prevailing rates. In addition, depending on when the loan was originated, the loan could be "underwater" due to recent property value declines. In recent quarters, many lenders have decided to "extend and pretend" pushing the loan maturity date out further in the hopes that market liquidity and lending conditions improve.

As of June 30, 2024, the NCREIF ODCE index had recorded eight consecutive quarters of negative appreciation and seven consecutive quarters of a negative total return. Trailing one-year net appreciation returns of negative 12.8% and trailing one-year net total returns of negative 10.0% are vastly different than the record-setting returns notched during calendar 2021 and the first half of 2022. Over the past two years, rent growth has slowed dramatically across property types and locations. While overall fundamentals, such as occupancy, remain healthy, softening demand is causing some property level fundamentals to be under pressure.

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While investors continue to evaluate the overall attractiveness and investment return potential of various property types and markets as they form their target allocations, asset selection has increasingly become paramount. Investors have become hyper-focused on using various criteria to narrow down the specific asset(s) they want to target. The increasing amount of data available and technological tools able to compile and analyze various data points and performance metrics is only anticipated to grow.

Core investors have been actively rebalancing their portfolios in light of portfolio growth, liquidity needs, increasing interest rates, and declining commercial real estate values. The redemption queues at many large open-end funds remain elevated and have exceeded levels seen during the GFC. While some funds satisfy redemption requests on a first-come first-serve basis, some will distribute redemption proceeds on a pro-rata basis. Many funds have been slow to distribute funds back to investors and given the dearth of transaction volumes and new commitments to core funds, it is unclear how long it will take to satisfy these redemption requests..

There remains significant dry powder equity capital (nearly $400 billion) raised and sitting on the sidelines ready to invest. However, capital raising slowed significantly in 2023, down 40-50% as compared to a year earlier. Excluding mega funds, the decline in fundraising is even greater. So far, 2024 is showing a similar amount of capital raised in comparison to the second half of 2023, but the number of funds closed has decreased. In addition, the length of time spent in the market fundraising has increased which indicates a difficult fundraising environment. Low transaction volumes have kept capital tied up in existing investments, so there have been fewer distributions of invested capital back to investors. Additionally continued price opacity and costly debt financing have severely constrained new capital deployment. Investors have been navigating both numerator and denominator effects on real estate allocations over the last few years and are likely to remain discerning around new capital commitments in today's uncertain markets.

High interest rates, lack of construction financing, rising input costs (labor and materials) and a slowing economy are causing a reduction in construction starts and, therefore, new supply. This represents an opportunity for investors like CalPERS with high quality, well-located assets to maintain long-term resilient income streams, and also- for those with quality development projects far enough along in the development pipeline with certainty around execution pricing and timing.

Conclusion

CalPERS' continued discipline, long-term investment horizon in this illiquid asset class, and focus on the role of the asset class should continue to serve the needs of the System. Adhering to the Strategic Plan, particularly in times of market uncertainty and disruption, will ensure the real estate program continues to scale in an appropriate manner and contribute to achieving CalPERS' investment objectives.

Please do not hesitate to contact us if you have questions or require additional information.

CF/KR/SPM/jls

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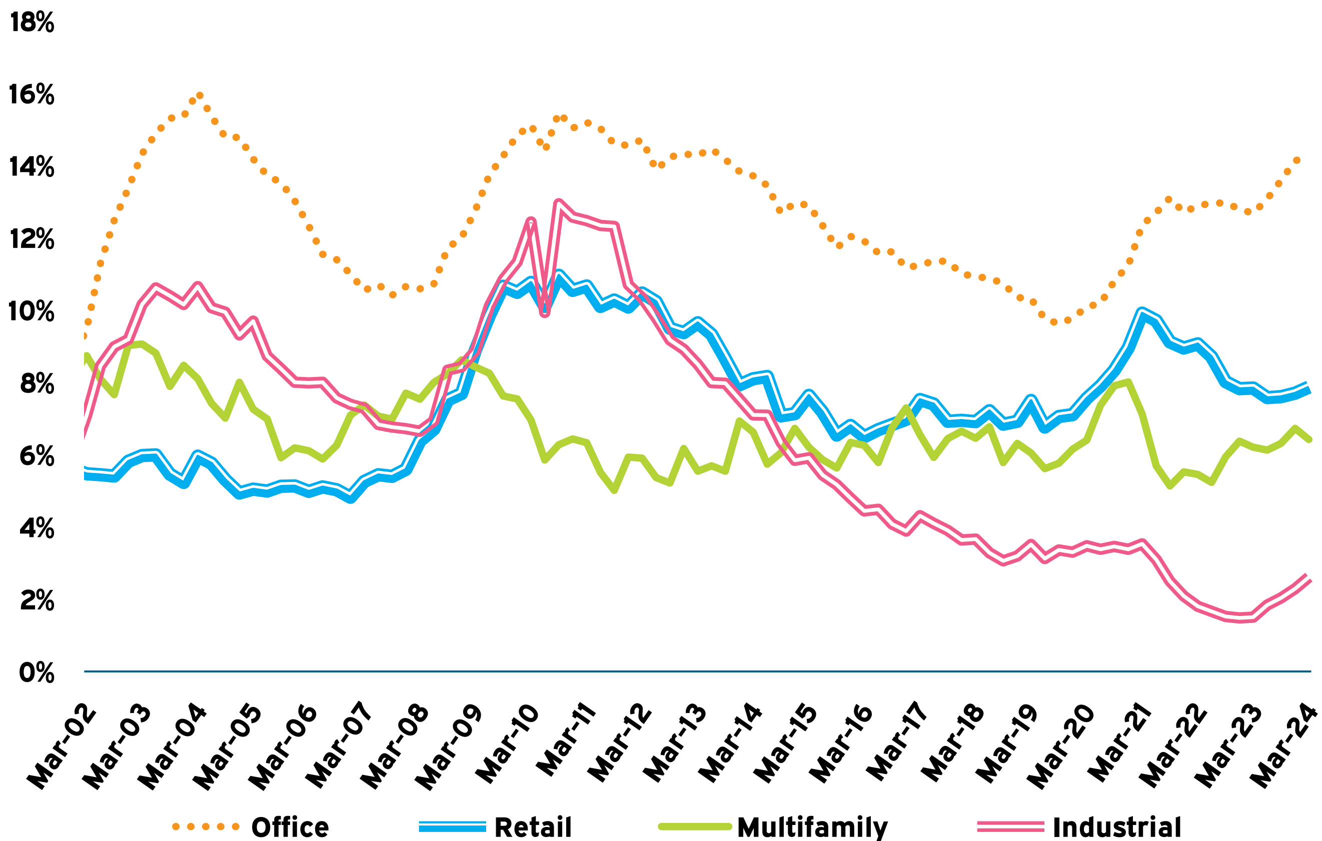
Attachment

Real Estate Market Views – Q1 2024

Vacancy by Property Type[1]



In the first quarter of 2024, vacancy rates increased for all property types, with the exception of the multifamily sector which experienced a slight decrease in vacancies of 31 basis points during the quarter. Industrial properties exhibited the highest vacancy rate increase of 32 basis points during the first quarter, although the sector still maintains a significantly low vacancy rate relative to other property types at 2.6%. The sector with the second lowest vacancy rate is multifamily at 6.4% as of March 31, 2024, exceeding industrial vacancies by nearly 400 basis points. Office vacancies have continued to trend upwards at a steady rate since the onset of COVID, increasing again by 14 basis points during the first quarter and by 159 basis points year-over-year, the largest increase of any sector over the past year by a margin of nearly 50 basis points. All other property types have similarly experienced an upwards trend in vacancy rates year-over-year, however retail has generally plateaued, increasing in vacancies by merely three basis points in aggregate since Q1 2023, which may be largely due to the strong fundamentals of the sector post-COVID, underpinned by a significant shortage of supply.

[1] Source: NCREIF.

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Transaction Volume ($B)[1]

$400
$350
$300
$250
$200
$150
$100
$50
$0

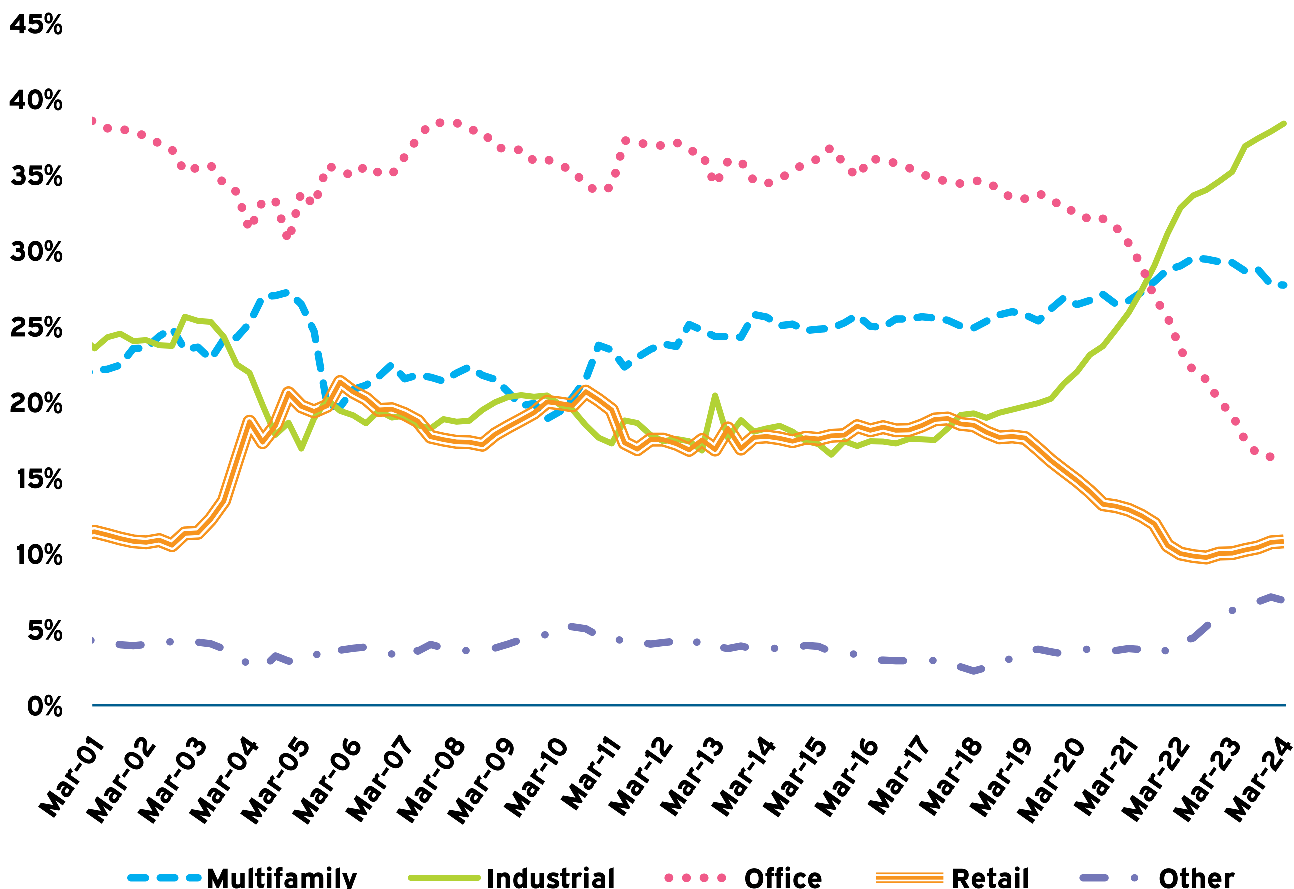
Q1 2013 Q3 2013 Q1 2014 Q3 2014 Q1 2015 Q3 2015 Q1 2016 Q3 2016 Q1 2017 Q3 2017 Q1 2018 Q3 2018 Q1 2019 Q3 2019 Q1 2020 Q3 2020 Q1 2021 Q3 2021 Q1 2022 Q3 2022 Q1 2023 Q3 2023 Q1 2024

2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 202

Industrial Multifamily Office Retail Hotel Land

Private real estate transaction volume for properties valued over $2.5 million was $79.4 billion in the first quarter of 2024, representing a meaningful decline from the $96.5 billion total last quarter and the lowest quarterly transaction volume since the third quarter of 2020. The overall slowdown in transaction volume was primarily driven by significant drops in multifamily and industrial activity, together representing $15.1 billion of the aggregate $17.1 billion decrease during the quarter. Hotel and land transaction volume also declined by $3.9 billion and $500 million, respectively. Transaction activity overall has continued to be relatively low as a result of the high-interest rate environment, further causing a lack of motivated sellers and a mismatch in pricing expectations. Retail was the only property type to see a material positive change during the first quarter, increasing in overall transaction volume by $2.1 billion, as the sector maintains strong fundamentals and a steady recovery post-COVID. Office transaction volume also increased slightly by $200 million during the first quarter, which may primarily represent distressed sales

[1] Source: PREA.



The NFI-ODCE Equal Weight Index currently comprises 28% multifamily, 38% industrial, 16% office, 11% retail, and 7% in other property types, based on its net asset value ("NAV") as of Q1 2024. The heavy weight towards multifamily and industrial results from a trend of consistent growth within those sectors over the past five years, combined with a steady decline in office exposure which was heightened after the onset of COVID in March 2020. In the past year (Q1 2023-Q1 2024), the office sector has experienced the largest decline in its ODCE allocation, decreasing by nearly 310 basis points. The multifamily sector has declined in its ODCE exposure by a lesser amount of nearly 150 basis points year-over-year. Alternatively, industrial and retail have experienced growth over the past year, increasing by approximately 320 basis points and 80 basis points, respectively. The "other" category has also seen a meaningful uptick over the past few years, increasing its allocation by over 60 basis points year-over-year. As of Q1 2024, the "other" category includes 2.9% self-storage, 1.2% healthcare, 0.7% land, 0.2% hotel, and 1.9% in other smaller sectors.

[1] Source: NCREIF.

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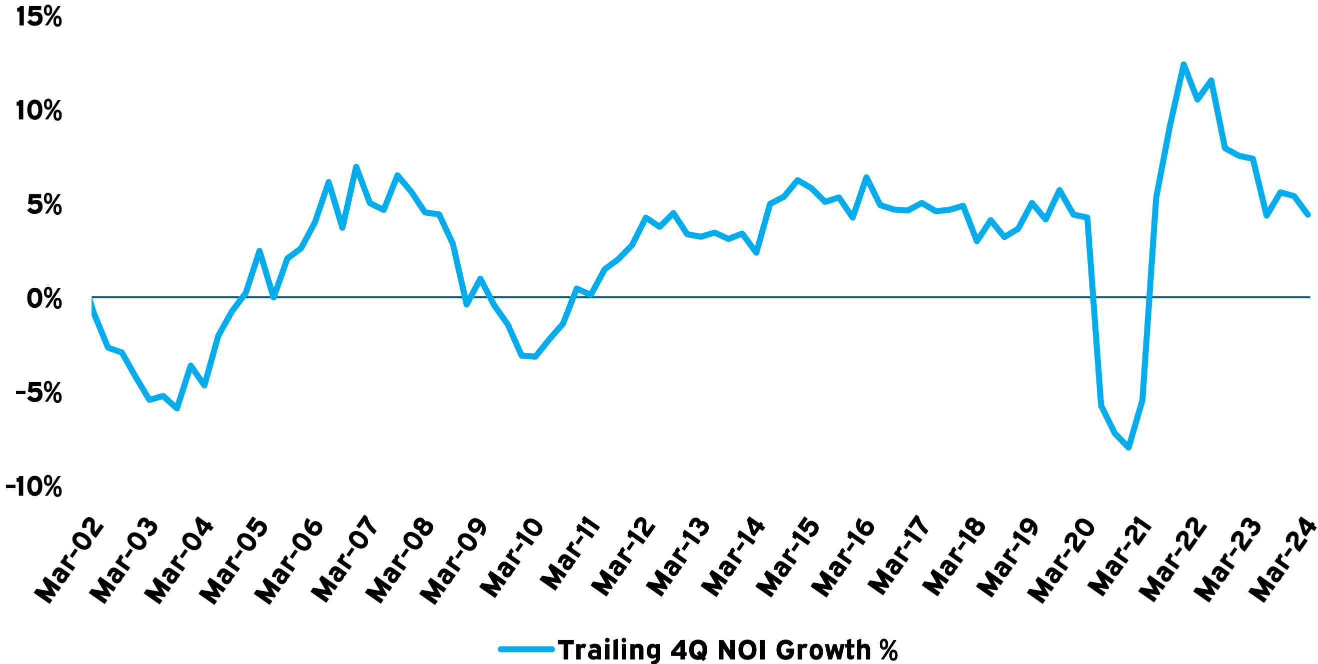

The index's trailing twelve-month NOI growth rate decelerated in Q1 2024 to 4.4%, as compared to 5.4% in Q4 2023, representing a notable decrease of nearly 100 basis points over the quarter. Industrial experienced the highest deceleration over the quarter (-276 basis points), resulting in a trailing 12-month NOI growth rate of 9.5% as of March 31, 2024. Despite such a decline, industrial comfortably maintains the highest trailing 4Q NOI growth rate across all property types by a significant margin of over 600 basis points as of Q1 2024. Multifamily NOI growth also decelerated by over 160 basis points to a 2.8% year-over-year growth rate. Both industrial and multifamily's current trailing 12-month NOI growth rate constitute the lowest percentages for each sector since the first half of 2021, as both property types continue to face increasing construction & operating expenses, rising borrowing costs, and a surge of new supply. Retail also decelerated by a smaller amount (-40 basis points), reporting 2.4% NOI growth year-over-year as of Q1 2024. Office constituted the only sector to experience NOI growth acceleration over the quarter, increasing by 85 basis points to 2.3% trailing 12-month NOI growth rate, as leasing reached its second-highest quarterly total in Q1 2024 over the past six quarters[2].

[1] Source: NCREIF.

[2] Source: JLL Research.

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Real Estate Capital Markets
Cap Rates vs. 10-Year Treasury[1]

9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%

Mar-02 Mar-03 Mar-04 Mar-05 Mar-06 Mar-07 Mar-08 Mar-09 Mar-10 Mar-11 Mar-12 Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22 Mar-23 Mar-24

NPI Value Wtd Cap Rate | 10-Yr Treasury | Spread | Average Spread

The NPI Value Weighted Cap Rate increased to 4.7% (+15 basis points) in Q1 2024. The 10-year Treasury yield increased by 32 basis points in Q1 2024 to approximately 4.2%, resulting in a positive spread of 50 basis points between cap rates and treasury yields, although remaining tight and well-below the historical average spread of 232 basis points.

[1] Source: NCREIF and US Department of the Treasury.

Trailing Period Returns[1]

As of March 31, 2024	Quarter (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
NFI-ODCE (Equal Weight, net)	-2.4	-12.3	2.8	3.0	6.2
NFI-ODCE (Value Weight, net)	-2.6	-12.0	2.5	2.6	5.8
NCREIF Property Index	-1.0	-7.2	3.6	3.7	6.4
NAREIT Equity REIT Index	-1.3	8.0	2.5	4.0	6.9

Private real estate indices generated negative quarterly returns in Q1 2024, as well as over the one- year time horizon. The 3-year, 5-year, and 10-year horizons remained positive. Notably, as of March 31, 2024, the NAREIT Equity REIT Index has outperformed the NFI-ODCE indices by a meaningful margin across the time horizons displayed in the above table, with the exception of the 3-year time- weighted return. REITs, and the broader public market, responded positively from mid-October through the end of 2023 as Treasury yields declined in the fourth quarter, resulting in a 20.5% return for the NAREIT Equity REIT Index since mid-October 2023 through Q1 2024, and, therefore, a positive snowball effect across the additional time horizons.

[1] Source: NCREIF.

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ODCE Return Components[1]
(Equal Weight, Net)

9% 8% 7% 6% 5% 4% 3% 2% 1% 0% -1% -2% -3% -4% -5% -6% -7%

Mar-13 Jun-13 Sep-13 Dec-13 Mar-14 Jun-14 Sep-14 Dec-14 Mar-15 Jun-15 Sep-15 Dec-15 Mar-16 Jun-16 Sep-16 Dec-16 Mar-17 Jun-17 Sep-17 Dec-17 Mar-18 Jun-18 Sep-18 Dec-18 Mar-19 Jun-19 Sep-19 Dec-19 Mar-20 Jun-20 Sep-20 Dec-20 Mar-21 Jun-21 Sep-21 Dec-21 Mar-22 Jun-22 Sep-22 Dec-22 Mar-23 Jun-23 Sep-23 Dec-23 Mar-24

Income Appreciation

In Q1 2024, the NFI-ODCE Equal Weight Index reflected a net return of -2.4%, representing its sixth consecutive negative return, but a meaningful increase of 270 basis points from the prior quarter. This result was driven by a -3.2% appreciation return for the quarter, which was slightly offset by a 0.8% income return. Upward adjustments to the discount rate, used in valuations to reflect increasing interest rates and the cost of debt financing, continue to negatively impact the appreciation component of returns. Over the last four quarters, the NFI-ODCE Equal Weight Index has reported a cumulative negative appreciation return of -14.9%. The recent sequence of negative appreciation is slightly offset by the outsized performance of the index in prior quarters from June 2021 through June 2022, reporting a 23.0% appreciation return over the five-quarter period. Conversely, the last six quarters produced an aggregate negative appreciation return of -16.8%, therefore constituting positive performance overall for groups who may have invested in March 2021.

[1] Source: NCREIF.

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