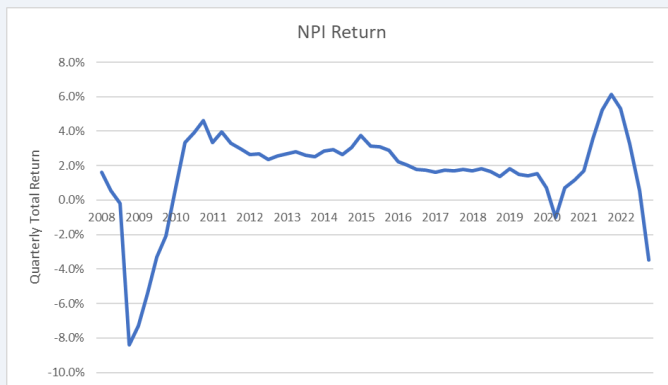


## SURGE IN WRITE-DOWNS LEADS TO LARGEST NEGATIVE RETURN SINCE GREAT RECESSION

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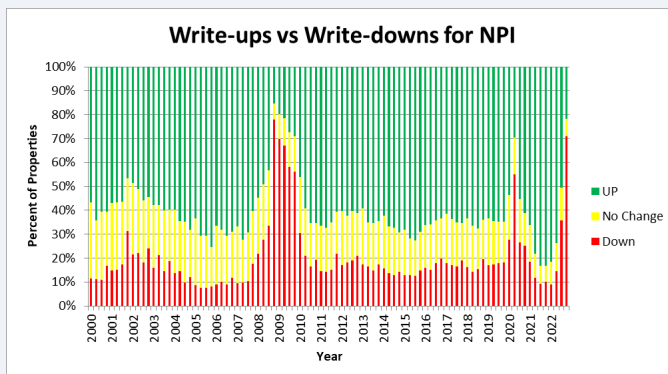
The quarterly total return was -3.50% for the fourth quarter which is the first negative return since the COVID impacted second quarter of 2020 and the largest decline since the Great Recession / Financial Crisis in 2009. The quarterly return consisted of 0.95% from income and -4.45% from appreciation. Appreciation is after the deduction of capital expenditures. Market values before considering capital expenditures decreased by 4.08%.

### Unleveraged NPI Returns



The decline reflected a significant increase in the number of write-downs during the quarter which doubled from about 35% to 70% of the properties written down.

### Write-downs

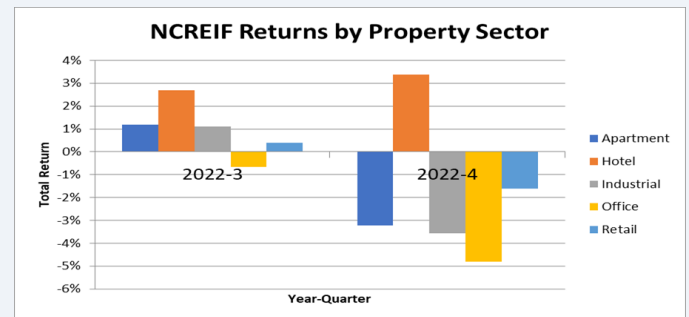


The -3.50% return is the unleveraged return for “operating properties” held by institutional investors throughout the U.S. As of quarter-end there were 4,672 properties with leverage and the weighted average loan to value ratio was 42%. Lower unleveraged returns coupled with

higher interest rates magnified the negative return for those properties with leverage. Properties with leverage had a total quarterly return on equity of -6.44%. The average interest rate on the leveraged properties rose to 4.3% for the fourth quarter, up from 3.9% the third quarter. A handful of properties had values which were equal to or less than their loan balance and a few properties were returned to the lender.

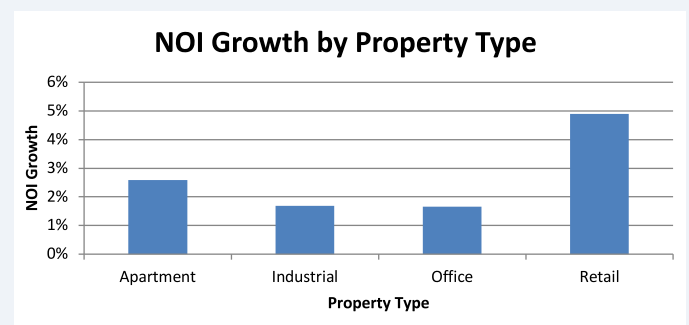
### Hotels Buck the Trend

Hotels were the only property sector in the NPI that had a positive return. The return increased to 3.37% during the fourth quarter compared to 2.69% in the third quarter. Note, however, that there is a much smaller sample of hotel properties in the NPI. The lowest return was for office properties which had a return for the quarter of -4.80%.



### NOI Growth Remains Positive

Despite negative returns, NOI growth remained positive for the main property sectors. Note that this is based on actual NOI

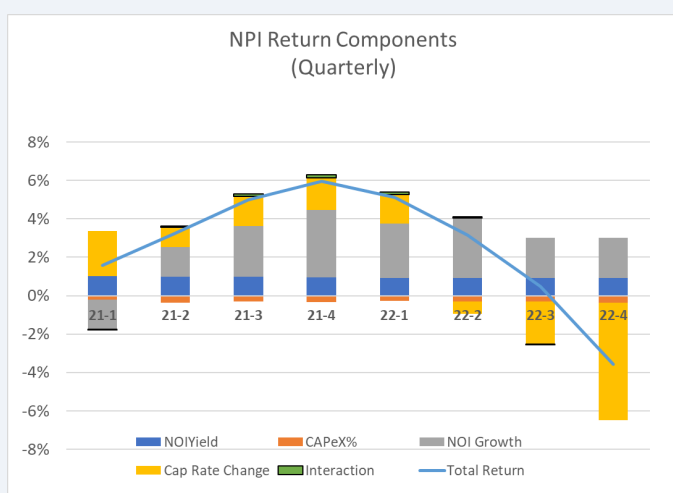


being collected and reflects leases that are already in place.

### Components of the NPI

Despite positive NOI growth as discussed above, values fell due to rising cap rates. As seen in the NPI Return Components chart below, rising cap rates have been an increasing drag on the NPI.

### NPI Return Components



### Conclusion

Whether returns continue to fall will depend on the tug of war between NOI growth which has remained positive versus cap rates which have been rising with the increase in interest rates. Cap rates might continue to rise until the Fed is done increasing interest rates to slow inflation to its target level.