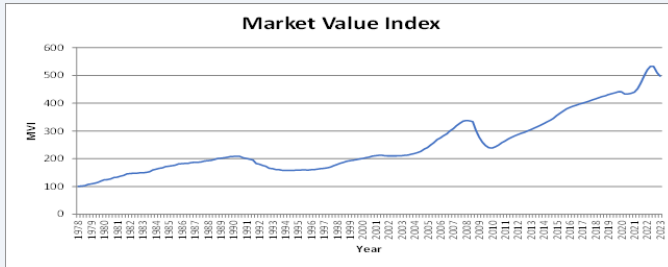


## INSTITUTIONAL PROPERTY VALUES CONTINUE QUARTERLY DECLINE

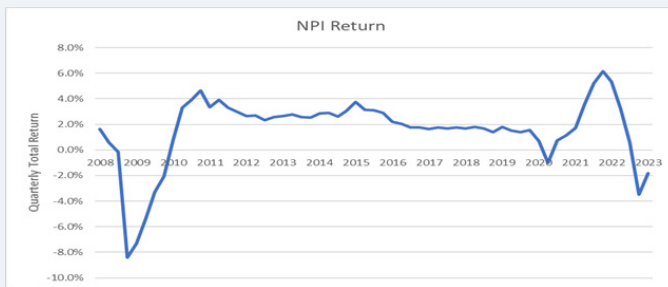
By Jeffrey D. Fisher, Ph.D., NCREIF Senior Consultant

The aggregate market value of the properties in the index declined for the third straight quarter and the returns were negative for the second straight quarter.



The market value index declined by 2.6% during the first quarter and the total return for the quarter was -1.81%. Although the return was negative, it was less negative than the -3.49% return during the 4th quarter of 2022 and the decline in value was less than it was in the 4th quarter.

The quarterly return consisted of 1.01% from income and -2.82% from negative property appreciation. Appreciation is after the deduction of capital expenditures.

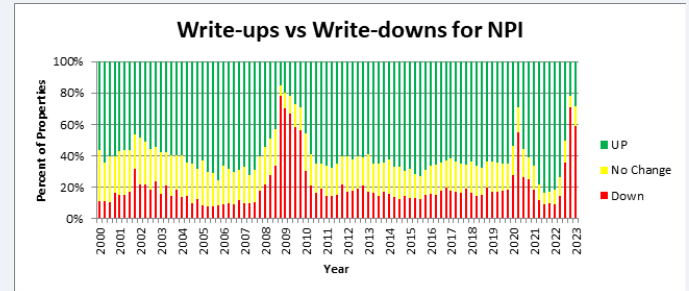


The -1.81% return is the unleveraged return for “operating properties” held by institutional investors throughout the U.S. As of quarter-end there were 4,717 properties with leverage and the weighted average loan to value ratio was 43%. Lower unleveraged returns coupled with higher interest rates magnified the negative return for those properties with leverage. Properties with leverage had a total quarterly return on equity of -4.19%. The average interest rate on the leveraged properties rose to 4.71% for the first quarter, up from 4.34%

in the fourth quarter of 2022. 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.

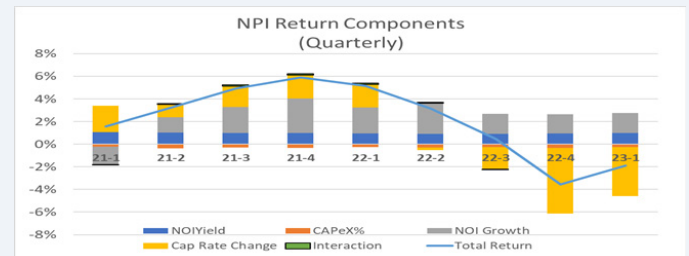
### Write-downs Continue to Push Down Returns

About 60% of the properties in the NPI were written down during the first quarter and only about 30% were written up. The remaining 10% had no change in value.



### Return Components

Rising cap rates continue to be the greatest drag on the NPI return, more than offsetting the positive NOI growth. The NOI yield component of the return is relatively low and capital expenditures have only a small impact on the return.

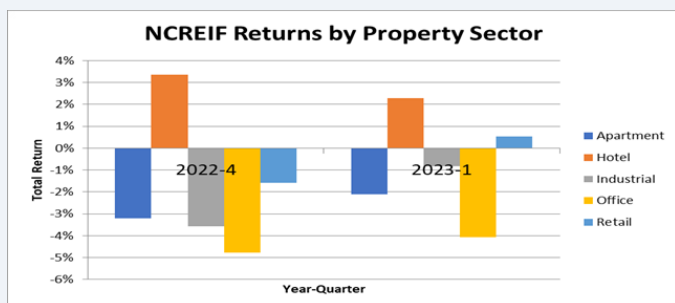


## Retail and Hotels Buck the Trend

Retail properties, which have struggled for several years relative to the other property sectors, managed to have a positive return of 0.52% for the first quarter and hotels had a positive return of 2.30%. Office properties had the lowest return at -4.06%. The next lowest return was for apartments with a total return of -2.10% for the quarter. Industrial properties consisting mainly of warehouse properties which had experienced very strong performance for many years had a negative return of -0.82%.

## 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.



## Capitalization Rates and NOI Growth

Market value weighted capitalization (cap) rates based on appraisals for unsold properties in the index increased to 4.19% compared to 4.03% in the prior quarter. While there are relatively few properties that are sold each quarter, for those properties that did sell, the average cap rate was significantly higher at 5.61%. NOI growth was surprisingly positive at 2.3% during the first quarter.