

The NFI-ODCE Index (pronounced “odyssey”) has been widely used by institutional investors as the benchmark for core private real estate performance, much like the S&P 500 Index for public equities. It has begun to show signs of moderation in recent months, posting a slightly positive return during the third quarter. Fundamentals of the index remain healthy overall with strong NOI growth and occupancy rates above their long-term average. Write-downs that began in the second half of 2022 have dampened liquidity to an all time low and lifted the leverage profile of the index, though concerns over potential defaults are overstated given the conservative usage of debt by index constituents.

## Notable Takeaways

### | PERFORMANCE

- The NFI-ODCE Index quarterly return turned positive for the first time in seven quarters.
- All major property types, except office, exhibited positive performance.
- Retail was the best performing sector QoQ & YoY.

### | ALLOCATION

- Combined allocation weighting of the Index to Industrial & Residential hit all time high at 63% (based on gross asset value).
- Conversely, allocation weighting to Office hit an all-time low at 17%.

### | MARKET

- Occupancy rates remain above the Index's historical average.
- Component fund performance dispersion remains at the high-end of its historical range.
- Redemption queues (outflows) across the Index have started to decline.

## Index Performance

	2024 YTD	1-YEAR	Q3 2024	Q2 2024	Q1 2024	Q4 2023
INCOME	3.1%	4.1%	1.0%	1.0%	1.0%	1.0%
APPRECIATION	-5.5%	-11.0%	-0.8%	-1.5%	-3.3%	-5.8%
TOTAL GROSS	-2.6%	-7.3%	0.2%	-0.4%	-2.4%	-4.8%
TOTAL NET	-3.2%	-8.0%	0.0%	-0.7%	-2.6%	-5.0%

## | BY PROPERTY TYPE

	2024 YTD	1-YEAR	Q3 2024	Q2 2024	Q1 2024	Q4 2023
RESIDENTIAL	0.6%	-3.3%	1.2%	0.4%	-1.1%	-3.9%
INDUSTRIAL	1.4%	-0.9%	1.0%	0.4%	-0.1%	-2.2%
OFFICE	-9.0%	-14.5%	-1.1%	-2.5%	-5.6%	-6.0%
RETAIL	3.3%	2.0%	1.6%	1.0%	0.7%	-1.2%
OTHER	0.8%	-1.5%	1.6%	-0.1%	-0.6%	-2.3%

## | BY REGION

	2024 YTD	1-YEAR	Q3 2024	Q2 2024	Q1 2024	Q4 2023
EAST	-0.8%	-4.3%	1.1%	-0.2%	-1.7%	-3.6%
SOUTH	2.2%	-0.3%	1.3%	0.9%	0.0%	-2.4%
MIDWEST	-0.9%	-3.9%	1.0%	0.2%	-2.1%	-3.0%
WEST	-2.2%	-5.8%	0.3%	-0.6%	-1.9%	-3.7%

## Index Allocation

	Δ QOQ	Δ YOY	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023
# OF FUNDS	0	0	25	25	25	25	25
# OF PROPERTIES	-33	-126	3,337	3,370	3,440	3,467	3,463
OCCUPANCY	-0.4%	-0.9%	91.4%	91.8%	90.8%	91.6%	92.3%
LEVERAGE	0.0%	2.2%	27.2%	27.2%	26.9%	26.2%	25.0%

## | BY PROPERTY TYPE

	Δ QOQ	Δ YOY	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023
RESIDENTIAL	0.0%	0.0%	29.3%	29.3%	29.2%	29.1%	29.4%
INDUSTRIAL	0.1%	1.2%	33.9%	33.8%	33.6%	33.1%	32.7%
OFFICE	-0.4%	-1.9%	16.9%	17.3%	18.0%	18.1%	18.7%
RETAIL	0.1%	0.5%	10.9%	10.8%	10.6%	10.5%	10.4%
OTHER	0.2%	0.2%	9.0%	8.8%	8.6%	9.2%	8.8%

## | BY REGION

	Δ QOQ	Δ YOY	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023
EAST	0.3%	0.0%	29.0%	28.7%	28.8%	28.8%	29.0%
SOUTH	-0.1%	0.4%	21.5%	21.6%	21.5%	21.4%	21.1%
MIDWEST	0.0%	-0.1%	5.8%	5.8%	5.8%	5.9%	5.9%
WEST	-0.1%	-0.4%	43.7%	43.8%	43.9%	43.9%	44.1%

### Contributing Factors

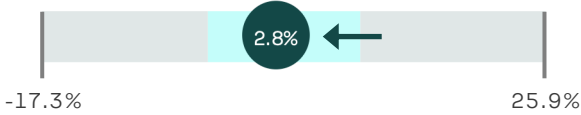


#### FUNDAMENTALS

Occupancy



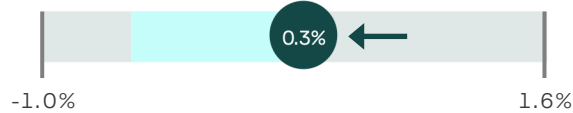
NOI Growth (Trailing Year)



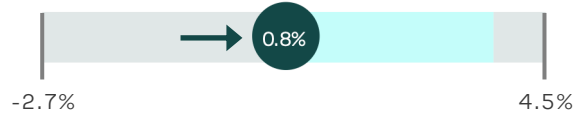
Fundamentals for the ODCE Index remain resilient despite recent market challenges. Occupancy rates remain above the historical average for the Index and strong income growth continues to play an instrumental role in mitigating the negative impacts of rising interest rates.

#### VALUATIONS

Cap Rate Change (Trailing Year)



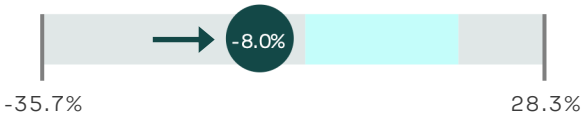
Cap Rate Spread-to-Treasury



Valuations remain challenged as cap rates continue to rise across all property types. Market participants continue to feel pressure from historically elevated interest rates, though the 50-basis-point rate cut and signals of additional rate cuts to come have started to create some breathing room for valuations.

#### PERFORMANCE

Net Total Return (Trailing Year)



Returns for the ODCE Index remain negative on a 1-Year trailing basis as real estate values continue to adjust to the higher interest rate environment. However, early signs of a market recovery are beginning to appear as the Index posted its first positive quarterly net total return in two years.

#### VOLATILITY

Performance Dispersion (Trailing Year)



Volatility within the ODCE Index has crept higher in the past three quarters as performance outcomes remain wide. Component fund performance dispersion is currently at the higher-end of the historical range, which has been driven largely by property sector allocation.

## Contributing Factors



### LIQUIDITY

Net Investment Queue



Liquidity for the ODCE Index remains at historic lows due to uncertainty surrounding valuations & subdued transaction activity across the market. Liquidity is expected to remain a challenge in the near term, though exit queues across the Index have started to decline as early signs of a market recovery appear.

### LEVERAGE

Loan-to-Value



Leverage currently sits slightly above the typical range due to write-downs over the past two years. ODCE debt is largely fixed rate and is conservatively laddered over the next 5-15 years, making the default risk substantially lower than the broader real estate market.

## Disclosures

All data as of 9/30/2024.

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