# NCREIF Data Indicates Direct Property Market Turning

**By Allen Kenney**

**The downturn in commercial property prices that has been felt in the market appears to be finally showing up in reporting data. The direct property market appears to be turning down, based on new data.**

Reports on the **NCREIF Townsend Fund Indices** for the third quarter of 2008 and preliminary fourth quarter data from the **NCREIF Fund Index Open End Diversified Core Equity** (ODCE) were released on Jan. 13. The Townsend Fund Indices showed third quarter returns falling approximately 1 percent for core funds, 3 percent for value-added funds and more than 12 percent for opportunity funds. The ODCE index, which measures core fund performance, dropped an estimated 11 percent in the fourth quarter.

Brad Case, NAREIT's vice president for research and industry information, said the new data offered a clear indicator that the direct property investment market had soured.

"Other indexes of direct property values had shown declines beginning a year earlier, in the third quarter of 2007; now the fund data have finally caught up with the facts on the ground. Typically, recovery takes much longer for direct markets than for REIT stock prices—and with the preliminary numbers showing the loss on core funds widening from 0.6 percent in the third quarter to 11.0 percent in the fourth quarter, we're likely to see much bigger declines before any recovery begins in the direct property markets," Case said.

Case also pointed out that the data highlighted the downside of leverage's multiplier effect in a struggling market.

"A loss of 11 percent in one quarter—and that's core funds, where leverage is only about 25 percent and investors expect relatively low, but very steady, returns. If core funds lost 11 percent, then value-added and opportunistic funds—where leverage generally is well above 50 percent—will have lost much, much more," Case said.

**Click Here** to Return to **REIT.com**
The Source on REITs and Real Estate Investment