Growing Demand for “Other” Real Estate Sectors

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This chart examines the most recent property type sector breakdown within the NFI-ODCE\(^1\) including apartments, industrial, office, retail and other. While the actual “other” sector only represents 4% of the NFI-ODCE index exposure and typically includes land, parking and self-storage, what’s not that apparent is the “other” allocations within apartments and office.

Over the past several years, NCREIF has been trying to capture and measure “other” subtypes such as student housing and medical office, life sciences, manufactured housing and senior living under a field labeled for usage, but the reporting among ODCE managers has been inconsistent across the board. For example, a manager may report a student housing asset as “apartment” with a classification for garden, high rise or low rise, while at the same time submit the asset under the “usage” field making it unclear how much student housing is represented within the apartments sector.

With that said, managers have started and are likely to increase their exposures to these “other” property types given their unique risk-adjusted return profiles in this mature market cycle. For example, medical office and life science tenants tend to be much stickier and sign longer-term leases compared to traditional office tenants making them a more attractive tenant to have. The question going forward will be whether or not these “other” sectors develop into more mainstream standalone sectors and how much they will represent within the ODCE over the coming years.

\(^1\) The NCREIF Fund Index – Open End Diversified Core Equity ("NFI-ODCE") is an index of fund-level investment returns reporting on both an historical and current basis, the results of 37 open-end commingled funds pursuing a core real estate investment strategy, some of which have performance histories dating back to the 1970s. As of March 31, 2018, there are twenty-four (24) active funds included in the index.
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