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Earnings Call

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Call Participants

EXECUTIVES

Brian Scott Hertzman
Senior VP & CFO

Carl Henry Lindner
Co-CEO & Director

Diane P. Weidner
Vice President of Investor & Media Relations

Stephen Craig Lindner
Co-CEO & Director

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

Charles William Lederer
Citigroup Inc., Research Division

Meyer Shields
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Michael David Zaremski
BMO Capital Markets Equity Research

Unknown Analyst

Presentation

Operator

Thank you for standing by, and welcome to American Financial Group's First Quarter 2024 Earnings Conference Call. [Operator Instructions]

I would now like to hand the call over to Diane Weidner, Vice President, Investor Relations. Please go ahead.

Diane P. Weidner
Vice President of Investor & Media Relations

Thank you. Good morning, and welcome to American Financial Group's First Quarter 2024 Earnings Results Conference Call. We released our 2024 first quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call. .

I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause our actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release.

And finally, if you're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. And as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl Henry Lindner
Co-CEO & Director

Good morning. I'll begin my remarks by sharing a few highlights of AFG's 2024 First Quarter, after which Craig and I will walk through more details. I will then open it up for Q&A, where Craig, Brian and I will respond to your questions.

AFG's financial performance during the first quarter was excellent. In addition to producing an annualized first quarter operating return on equity of 20%, net written premiums grew by 8% year-over-year. Our compelling mix of specialty insurance businesses and entrepreneurial culture, disciplined operating philosophy and astute within in-house investment professionals, collectively have enabled us to outperform many of our peers over time. Craig and I thank God, our talented management team and our great employees for helping us to achieve these results.

I'll now turn the discussion over to Craig to walk us through some of the details.

Stephen Craig Lindner
Co-CEO & Director

Thanks, Carl. Please turn to Slides 3 and 4 for a summary of earnings information for the quarter. AFG reported core net operating earnings of $2.76 per share in the 2024 first quarter. The year-over-year decrease reflects lower return to AFG's alternative investment portfolio when compared to the very strong performance of this portfolio in the prior year period.

Now I'd like to turn to an overview of AFG investment performance, financial position and share a few comments about AFG's capital and liquidity. The details surrounding our $15.3 billion investment portfolio are presented on Slides 5 and 6. Looking at results for the first quarter, Property & Casualty net investment income was approximately 1% lower than the comparable 2023 period. Excluding the impact of alternative investments, net investment income and our P&C insurance operations for the three months ended March 31, 2024, increased by 16% year-over-year as a result of the impact of higher interest rates and higher balances of invested assets.

As you'll see on Slide 6, approximately 68% of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 6%. Current reinvestment rates compare favorably to the nearly 5% yield earned on fixed maturities at our P&C portfolio during the first quarter of 2024.

The duration of our P&C fixed maturity portfolio, including cash and cash equivalents, was 2.9 years at March 31, 2024. We've strategically managed duration to take advantage of market opportunities as interest rates have increased from recent historic lows.

The annualized return on alternative investments in our P&C portfolio was approximately 9% for the 2024 first quarter compared to 14.2% for the prior year quarter. Strong returns related to our traditional private equity portfolio were offset by lower returns on investments tied to multifamily housing, which represent about half of our alternative investment portfolio. And where we continue to experience headwinds from the impact of increased supply and the leveling out of rental rates on these investments.

We expect these headwinds may continue throughout the remainder of 2024. Longer term, we remain optimistic regarding the prospects of our investments in multifamily housing as these properties continue to generate strong net operating income and have desirable geographic positioning and high occupancy rates. The average return -- average annual return on alternative investments over the 5 calendar years ended December 31, 2023, was approximately 13%.

Please turn to Slide 7, where you will find a summary of AFG's financial position at March 31, 2024. During the quarter, we returned $269 million to our shareholders through the payment of our regular $0.71 per share quarterly dividend as well as a $2.5 per share special dividend. We expect our operations to continue to generate significant excess capital throughout the remainder of 2024, which provides ample opportunity for additional special dividends or share repurchases over the next year.

We continue to view total value creation as measured by growth in book value plus dividends is an important measure of performance over the long term. For the 3 months ended March 31, 2024, AFG's growth in book value per share, excluding AOCI plus dividends, was 5.1%.

I'll now turn the call back over to Carl to discuss the results of our P&C operations.

Carl Henry Lindner
Co-CEO & Director

Thank you, Craig. Please turn to Slides 8 and 9 of the webcast, which include an overview of our first quarter results. As you'll see on Slide 8, our Specialty Property & Casualty Insurance businesses generated a strong 90.1% combined ratio in the first quarter of '24, 1 point higher than the 89.2% reported in the first quarter of last year. Results for the 2024 first quarter included 2.3 points of the catastrophe losses compared to 2.2 points in last year's first quarter, and 3.3 points of favorable prior year reserve development compared to 4.5 points in the first quarter of 2023.

First quarter 2024 gross and net written premiums were both up 8% when compared to the same period last year. Year-over-year growth was reported within each of the Specialty Property and Casualty groups as a result of additional crop premiums from Crop Risk Services acquisition, new business opportunities, increased exposures and a good renewal rate environment. Along those lines average renewal pricing across our Property & Casualty Group, excluding our Workers' Comp businesses, was up 8% for the quarter, accelerating about 1% from the previous quarter. Including Workers' Compensation renewal rates were up 6% overall, in line with the previous quarter.

This is our 31st consecutive quarter to report overall renewal rate increases, and we believe we're achieving overall renewal rate increases and excessive prospective loss ratio trends to meet or exceed targeted returns. In addition to renewal pricing, we continue to focus on insured debt values in our property-related businesses to ensure that our premiums reflect inflationary considerations.

Now I'd like to turn to Slide 9 to review a few highlights from each Specialty Property and Casualty business groups. Details are included in our earnings release. So I'll focus on our summary results here. The businesses in the Property and Transportation Group achieved an 89 calendar year combined ratio overall in the first quarter of 2024, an improvement of 2 points from the 91 reported in the comparable 2023 period. First quarter 2024 gross and net written premiums in this group were 10% and 7% higher, respectively, than the comparable prior year period. Additional crop premium associated with the CRS acquisition, as well as new business opportunities, a favorable rate environment and strong account retentions in our commercial auto and Ocean Marine businesses were the primary drivers of the increase in premiums.

Overall renewal rates in this group increased approximately 9% on average in the first quarter of 2024, an increase of about 2 points from the previous quarter. I'm particularly pleased with renewal rates that need in our commercial auto liability line of business where rates were up 21%.

The businesses in our Specialty Casualty Group achieved a strong 89.8 calendar year combined ratio in the first quarter of 2024, 2.3 points higher than the 87.5 reported in the comparable period last year. Cat losses added 2.2 points to the Specialty Casualty Group first quarter 2024 combined ratio and were the result of a winter storm that affected a large social services account in the northwestern part of the country.

I'm particularly pleased with the continued very strong underwriting margins in our executive liability and Workers' Comp businesses. First quarter 2024 gross and net premiums increased 3% and 4%, respectively, when compared to the same prior year period. While most of the businesses in this group reported premium growth during the first quarter, the higher year-over-year premiums resulted primarily from the growth in our excess and surplus lines and excess liability businesses, as a result of great increases in new business opportunities, higher rates, strong account retention and new business opportunities in several of our targeted markets businesses contributed to the year-over-year growth to a lesser extent.

Now renewal pricing for this group, excluding our Workers' Comp businesses, was up approximately 8% in the first quarter and was up about 5% overall, with both measures up about 1% from the renewal pricing in the previous quarter. I'm particularly pleased that we achieved renewal rate increases in excess of 10% and several of our social inflation exposed businesses during the quarter, including our public entity, social services and excess liability businesses.

Specialty Financial group continued to achieve excellent underwriting margins and reported an 86.3 combined ratio for the first quarter of 2024, a slight improvement from the comparable period in 2023. First quarter 2024 gross and net written premiums were up 26% and 27%, respectively, when compared to the same 2023 period. While most businesses in this group reported year-over-year growth, our financial institutions business was the primary driver of the higher premiums, representing a continuation of the growth we reported in both of our lender-placed and residential investor business products in the second half of 2023. Renewal pricing in this group was up approximately 7% in the first quarter.

Craig and I are pleased to report these strong results for the first quarter, and we're proud of our proven track record of long-term value creation. Our insurance professionals have exercised their Specialty Property and Casualty knowledge and experience to skillfully navigate the marketplace. And our in-house investment team has been both strategic and opportunistic in the management of our $15 billion investment portfolio. We're well positioned to continue to build long-term value for our shareholders for the remainder of 2024 and beyond.

We'll now open the lines for the Q&A portion of today's call. Craig and Brian and I would be happy to respond to your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Charlie Lederer of Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

Wondering if you guys can share more about the reserve development in the quarter, I guess, specifically in Specialty Financial and Specialty Casualty just kind of the moving pieces there?

Brian Scott Hertzman
Senior VP & CFO

Charlie, this is Brian. So to talk about the Casualty segment first. There's a few things going on there. First of all, we did continue to see favorable development coming out of our Workers' Comp business as well as lower severity in our Executive Liability business. Offsetting that is some increased severity in our excess liability businesses and some increased severity in the social services businesses. When Carl mentioned the lower profitability in the Social Services businesses, that's coming through prior year development. And it's just on a number -- a few a few claims there, while we don't comment on specific claims. It is over a couple of the more recent accident years.

And then in the financial group, there's a small amount of adverse development there, and that's related to our innovative markets business where we're seeing a little bit of increased severity there. The innovative markets business includes some coverages related to complex intellectual property.

Charles William Lederer
Citigroup Inc., Research Division

Got it. Okay. And I guess -- that's helpful. I guess just on the commercial auto liability pricing increase, if I heard that, that kind of jumped off the page at 21%. I guess what did that compare to in the fourth quarter? And how should we think about that earning through and impacting your underlying margins in Property and Transportation as the year goes on?

Carl Henry Lindner
Co-CEO & Director

I definitely think it's a very positive result. I believe for all of 2023, it was around 11%. But I believe the fourth quarter jumped up to around 15% or so. So I definitely like the trends. It's our goal. We have solid underwriting performance for our overall Commercial Auto business in the first quarter and last year. But the Commercial Auto liability part of the business isn't where we want it with a small underwriting loss in that. So it's our objective to lower our overall commercial auto combined ratio, in particularly in commercial auto liability. So achieving rate increases at that level is very welcome at this point.

Operator

Our next question comes from the line of Michael Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

If we focus on the Specialty Casualty segment, the growth -- overall top line growth has been decelerating, which I guess seems like it makes sense, right? Workers Comp pricing is as it should be not great given how great profitability is. And then on the other hand, you have some of the other lines of business pricing power appears to be going -- moving north as the industries and AFG's reserve releases or I guess kind of dissipate a bit.

So I guess, does this just feel kind of like the cycle is playing out? Is it as it does, the pricing kind of in certain lines or noncomp are going in the right direction up because the industry is seeing that margins are missing a bit? And I guess just -- just trying to get a kind of does this cycle feel like it's turning the right way, with comp obviously being the -- I guess, also turning the right way, but got downwards given profits?

Carl Henry Lindner
Co-CEO & Director

Yes. When you look at the -- to address the growth side, the Workers' Comp part of the business, first quarter premium is roughly flat to up just a little bit. So when you exclude Workers' Comp and that's in the Specialty Casualty segment, we're growing about 6%. I've talked about in the past on the Social inflation-exposed businesses, as I just mentioned, really glad to see that we're getting double-digit price increase on a number of those businesses, which is a real positive.

But I think because of the claims environment in a lot of those lines, our guys are trying to position us for continued success regardless of the social inflation that's going on. I think I've talked in the past of -- in certain businesses like public sector substantially increasing the retentions over which we're writing business in the municipal pools and increasing -- moving up the towers, some with smaller limits and some of our excess liability businesses and that. So our guys are -- those businesses, the excess liability businesses have been very profitable for us, but our guys are trying to position us for continued success there going forward in this kind of environment in that.

Continued to be very pleased with the overall Workers' Comp results in the first quarter. So that's a positive and then that.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And maybe a follow-up just to stay on Workers' Comp, given it's a good part of your business that's been remained very profitable. And is there -- when we look at -- sorry.

Carl Henry Lindner
Co-CEO & Director

Mike, I mentioned one other in the crop business, we're happy with the -- right now, it's very early, but the crop year is starting out solid. Plannings of corn and soybeans are proceeding at a pace that exceeds the last 5-year average, while the U.S. drought monitor when you look at that is better overall than April of last year. And with reduced drought conditions across much of the Western corn belt work, some of the drought problems existed last year. Despite the rainfall, we also don't have significant concerns about floods or above-average preventative planning type of claims in that.

Corn and soybean prices have been very stable, which is good. And I'm being told that the winter wheat business seems to be performing much better, potentially much better than what it was last year. So like extremely early, but like the way we're starting out there on a pretty -- a very significant business for us.

Michael David Zaremski
BMO Capital Markets Equity Research

And the winter wheat, and I did have a follow-up on Workers' Comp. The winter wheat as a percentage of your portfolio, if you can remind us?

Carl Henry Lindner
Co-CEO & Director

I think it's maybe 8% or something like that. I think all wheat is maybe 10% or something around that.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. If I may, my follow-up was on workers comp, which is a big and profitable business for you all. If we just -- as -- and when we look at just overall industry trends versus American Financial Group last year, your Workers' Comp business was extremely profitable, but much less profitable year-over-year. And I'm looking at it on a combined ratio basis and your reserve releases were still high, but just decelerated. And the industry actually kind of became more -- showed an improvement, which was a surprise.

But just curious specific to your book, is there -- when you reflect on what the actions you took in 2023, are some of those just due to the nature of your book maybe being more concentrated in certain states that your experience was very different than it has been relative to the industry?

Carl Henry Lindner
Co-CEO & Director

I'm not sure there's that significant of a difference in that. We continue to have great result last year. Our first quarter results are continued to be excellent for Workers' Comp. I think in our Summit business, our strategic comp business, our high deductible business and National Interstate's Workers' Comp are all performing very well. Our California business is the part of the business that has an underrating loss, both last year and in the first quarter. So that's relatively small -- smaller part of our Workers' Comp business in that. But I suppose that could have some impact.

So we're getting a good start, have excellent comp results in the first quarter. We do think that this year that the profitability won't be as good as the previous year. One reason is the 15% rate decline in Florida, which is a significant state for one of our large comp subsidiaries Summit.

Operator

Our next question comes from the line of C. Gregory Peters of Raymond James.

Unknown Analyst

This is Sid on for Greg. Just wanted to follow up on the growth in the Specialty Financial. I know in the prepared remarks, you highlighted the financial institutions. But curious if you could provide a little bit more information on what you're seeing as attractive in that area of your business? It feels like there's been a step change in growth. I'm just trying to get a sense if we should expect this to continue.

Carl Henry Lindner
Co-CEO & Director

I think we expect solid growth this year. I think the first quarter was very strong in that. I think different companies talk about leaning into the property opportunities. This is a business that we've done very well over a long period of time with significant underwriting profitability. With pricing going up 9%, with an industry that's focused on getting the proper insured values, there are states like Florida, a number of other states that are moving to anybody doing this business, doing -- making sure that things are insured to replacement cost value, not just the principal balance, replacement cost value could be appraised value or it could be what's called [indiscernible] known coverage replacement cost, which would have been maybe somebody's last homeowners policy in that -- that was written.

So both price and getting proper insured value competitively. There have been a number of competitors that have faltered and that have allowed us to pick up significant accounts, one in particular last year that were continuing to benefit from. We'll see if we -- this is a lumpy business in that when you pick up an account or lose an account, it can have a decent impact on your overall comes in lumps.

So we're hoping that we continue to have some opportunity to pick up maybe some additional accounts, by the same token. You know how -- what our thoughts are on business that's too catastrophe exposed. So if there are accounts that we don't think are performing or have too much catastrophe exposure or maybe we may decide not to go forward with some. So bottom line is we're pleased with how this business is starting out, very profitable, really good growth above the price increase and insured value momentum that we're getting. And I think we're excited about the business.

Unknown Analyst

Okay. And then as my follow-up, in the press release, I believe you said the returns in the alternative investment portfolio exceeded expectations for the quarter. And I know you're not providing detailed guidance anymore, but just curious if the first quarter results change your view on the expected performance of the portfolio for this year or if the 6% annualized return is still the right bogey to use for 2024?

Stephen Craig Lindner
Co-CEO & Director

Sure. This is Craig. On our last conference call, when we talked about assumptions that went into our plan -- we talked about a 6% assumption on total return on alternatives for the year, and that was made up of a low single-digit return on our multifamily properties which account for about half of that portfolio at a stronger return on the other investments. And what I would say is multifamily is performing pretty much in line with our expectations.

We're pretty much in line with what we were kind of expecting to see when we guided to or said that we were using a low single-digit return on that piece. I don't think we changed our thoughts on that, kind of given the outlook for the balance of the year on multifamily. We got off to a very good start. We had very good returns on the balance of the alternative portfolio. But as you know, that can be pretty low lumpy.

I think we did benefit from the very strong market in the fourth quarter of 2023. In calendar year 2023, we report the return margin a quarter delayed basis. And so I think in the first quarter, we benefited from the very strong work last year. It's early in the year. Hard to predict what the market is going to do the balance of the year. So at this point in time, we would not change the assumed 6% return for the year.

Operator

Our next question comes from the line of Andrew Andersen of Jefferies. .

Andrew E. Andersen
Jefferies LLC, Research Division

In the press release, you pointed to improved profitability on Workers' Comp. Am I correct in thinking that is due to stronger releases year-over-year and not due to the underlying loss ratio? And maybe with that, could you touch on the seasonality of perhaps how '23s Workers' Comp developed on a quarterly basis?

Carl Henry Lindner
Co-CEO & Director

So the combined ratio -- actually the combined ratio is fairly similar in Workers' Comp in the quarter-over-quarter as well as development. So there was a little bit of growth in Workers' Comp this year, but the underlying loss ratios were similar in that business. There was some -- there can be some lumpiness in the development, but this -- in the first quarter of 2024, it was similar to the first quarter of 2023. I think our press release said we had an increased margins there. I think I just said we did well. And I think that's what my earlier comment was that we had a strong quarter.

Andrew E. Andersen
Jefferies LLC, Research Division

Okay. And then maybe looking at some Schedule P accident year picks for other liability claims made seem to improve year-over-year and occurrence was kind of flat year-over-year for accident year '23. I guess I would have thought there'd be maybe a little bit more conservatism just given the loss trend environment. But can you kind of help us think through these picks here? .

Brian Scott Hertzman
Senior VP & CFO

Sure. So on the general liability occurrence, I think it's important to know there can be changes in mix of business. And we also have been getting rate increases there. And then in some of like our excess businesses, we've also still been looking at higher attachment points and higher deductibles. So there's really a change of mix of business that's happening that kind of mutes the impact on the loss pick changes.

In the claims made, we tend to be conservative early on and then that sets us up for more changes of favorable development there.

Operator

Our next question comes from the line of Meyer Shields of Keefe, Bruyette & Woods.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I think earlier, Carl, in your comments, you talked about 20% plus rate increases in commercial auto. And I'm wondering how we should think about that impacting demand for the cat solutions as opposed to maintaining same insurance programs companies that have?

Carl Henry Lindner
Co-CEO & Director

I don't think it probably has that big of an impact one way or the other. I mean, the whole marketplace is struggling with social inflation in the commercial auto liability side. And the market is allowing increases now. On specific captive accounts, if the experience is better, then it wouldn't be the 21%. The probably some parts -- some accounts and some businesses that got lower price increases and those that haven't had great results higher.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So then I guess with this is to just infer that as those rate increases earn in the improving on writing profit should basically emerge in a typical fashion instead of being sort of offset by clients retaining significantly more risk?

Carl Henry Lindner
Co-CEO & Director

Yes. Again, it's our goal to improve the commercial liability combined ratios over the next year or 2 and hence, having stronger overall commercial auto results. That's -- and as I mentioned in some of the specialty casualty lines, we're very underwriting profit driven company. I mean in commercial auto, we're probably outperforming the market by 5 or 6 points at least and we're serious about getting the right returns on that business. So if anything, on that part of the business, I'd say our guys are serious on getting the pricing terms changes and the selection of business that achieves our goal of improving things over the next year or 2. So definitely, our guys would be more focused on improving that result than growing a ton right now.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Perfect. And if I can switch gears briefly. Is the growth in Specialty Financial likely to impact the amount of reinsurance that you want to carry for the rest of the year?

Carl Henry Lindner
Co-CEO & Director

Definite, that's something that we -- as that business has grown, that we definitely are monitoring. I think, in fact, I believe we're looking at purchasing some gap insurance to cover the gap between our underlying cat tower and the catastrophe bond that we have.

Operator

[Operator Instructions] Our next question comes from the line of Charlie Lederer of Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

Just one follow-up. You mentioned the alternative markets business a little bit. We've heard about certain specialty peers kind of scaling it back after experiencing losses there. I know it's relatively small dollars for you. But curious if you can share whether your thoughts have changed on that business.

Brian Scott Hertzman
Senior VP & CFO

I assume you're referring to the innovative markets business, where we talked about having

Charles William Lederer
Citigroup Inc., Research Division

Yes. I misspoke. I said alternative. Yes, sorry, innovative markets, the IP business.

Brian Scott Hertzman
Senior VP & CFO

So in that business, we're evaluating the opportunities there and some of the particular programs that those losses are things that were no longer operating new coverage in.

Charlie, while we have you on your question earlier about prior year development in the Specialty Casualty, I think it's important also when you're looking at that to put it in context, where we're coming from in those results. So when you look at the businesses that we had some adverse development in, those are still very profitable businesses for us.

For example, for the full year 2023 most of our more social inflation exposed businesses had a counter underwriting profit despite some of the noise there. And only one of them had a return on equity that wasn't double digits. In fact, when you look at our excess and surplus businesses overall, -- all 3 of those had calendar year ROEs above 20% in 2023. So I thought it might be just good to remember when you're thinking about some of the lumps in prior development that those are in businesses that are generally very profitable over a number of years.

Operator

Our next question comes from the line of Michael Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Just a quick follow-up, probably for Craig. But on the real estate returns. I guess I probably should know this, but I don't think we all fully appreciate it. Does the -- how does some -- is it a mark-to-market there? Or how does that work? I think we appreciate how private equity works and sometimes a lag and how the private equity firms mark that, which I think are third parties. But can you remind us how other marks are created on your real estate portfolio?

Stephen Craig Lindner
Co-CEO & Director

Sure. It is similar to the private equity investments and that the general partners in our multifamily -- with our multifamily investments, review the valuation on a quarterly basis and mark them to market on a quarterly basis.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. So the interest rate -- so it's -- so just as a follow-up, could there be -- historically, has there been more volatility on the PE or the real estate, if there's a way to kind of just high-level size up whether we should maybe be thinking about there -- maybe there can be some lumpy quarters that actually come from real estate, whereas I thought it usually came from private equity?

Stephen Craig Lindner
Co-CEO & Director

Yes. I mean, if you look over a long period of time, there -- actually, the multifamily returns have been very predictable. We obviously have been in a somewhat unusual environment here in the last 6, 9 months with a very large increase in interest rates. The operating income of the multifamily properties is continues very strong. We're very pleased with the performance, but cap rates have moved up because of an increase in interest rates.

Operator

Thank you. I would now like to turn the conference back to Diane Weidner for closing remarks. Madam?

Diane P. Weidner
Vice President of Investor & Media Relations

Thank you all for joining us today as we discussed our first quarter results. We look forward to talking to you again next quarter, and hope you all have a great day.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.