

## What is It?

CenterSquare's REIT Cap Rate Perspective presents the market pricing of \$1.5 trillion of real estate in the U.S. REIT market, seeking to quantify the valuation gap between public and private markets. While at times the disparity may be temporary or driven by short term volatility, the forward discounting inherent in public markets can also offer investors insights as to the possible future direction of real estate values. In this report we share our proprietary REIT implied cap rate results at the sector and geographical level on a quarterly basis.

For a copy of CenterSquare's full REIT Cap Rate Perspective report, or to learn more about our strategies, please email [contactus@centersquare.com](mailto:contactus@centersquare.com).

## Fourth Quarter 2019 Report Highlights:

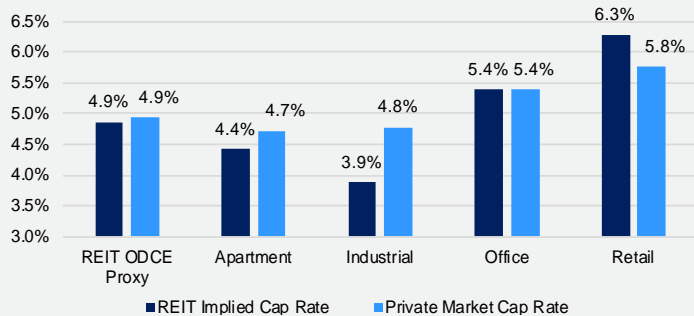
### ❖ Pricing the Real Estate of the Future

Evolving demand patterns are structurally changing how we live, work, and shop, and the real estate of the future facilitates these changing demand patterns. While the private market has been slow to price this into valuations, the REIT market has rapidly incorporated this phenomenon into pricing.

#### Where We Shop – Shift in consumption from storefront to online, from goods to services

The change in how we consume goods and services has disrupted the retail and industrial sectors. The public markets have priced these changes into the valuations of retail and industrial REITs while the private markets have lagged on this price discovery. Within the retail space, we see a notable mispricing of assets in the private market with regards to their internet sensitivity where public markets have priced in the lower internet sensitivity of service retail versus the higher internet sensitivity of malls.

Private vs REIT Implied Cap Rates

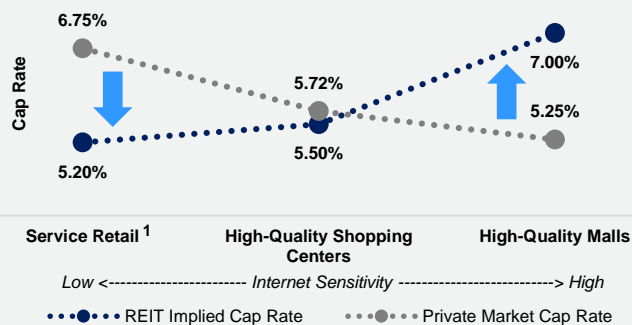


Source: CenterSquare Investment Management, as of November 30, 2019.

#### Where We Work – Improving cost of human capital justifying rent premiums for new office space

Even though WeWork's IPO disintegrated, the company's push into creating new, creative, and efficient office space is part of the structural change in how we utilize workspaces. The premium for such office space is quite stark when compared to the legacy office spaces that represent a large portion of the existing office stock. Since occupancy costs represent a much smaller portion of their cost structure compared to the cost of human capital, tenants are willing to pay premiums for newer and more efficient office space that can improve the productivity and retention of their workforce. Regardless of the geography, from the East Coast to the West Coast and the Sunbelt markets in between, the REIT markets have priced the office space of the future at a 75bps premium to old workspaces. The private market has yet to make the differentiation here as the pricing discrepancy is only 25bps.

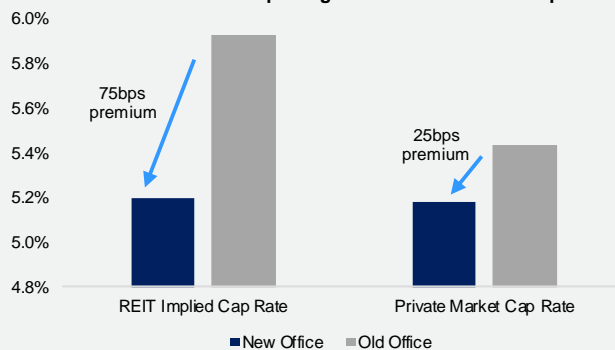
Private Market Mispricing of Internet Sensitivity



Source: CenterSquare Investment Management, as of November 30, 2019.

<sup>1</sup> The brick and mortar interface of service delivery such as health & beauty, food & beverage, business, services, health & medical.

Private Market Mispricing of Old vs. New Office Space



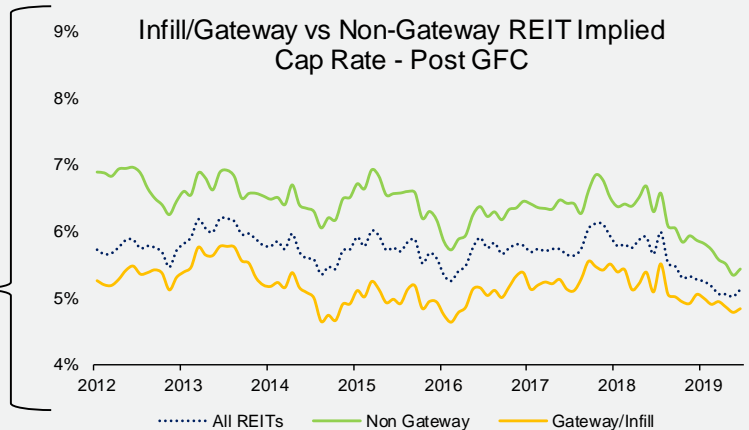
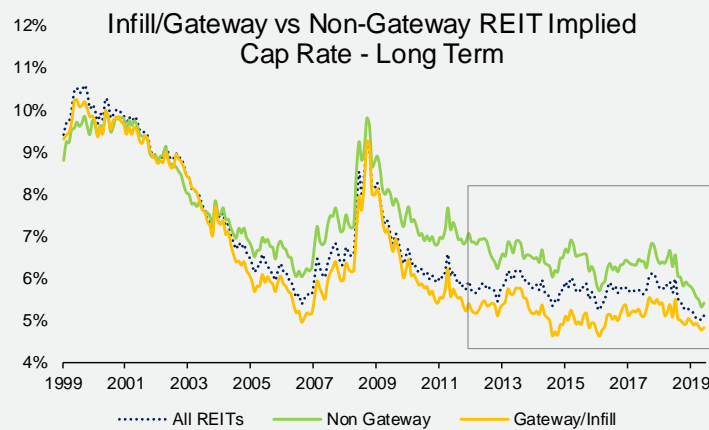
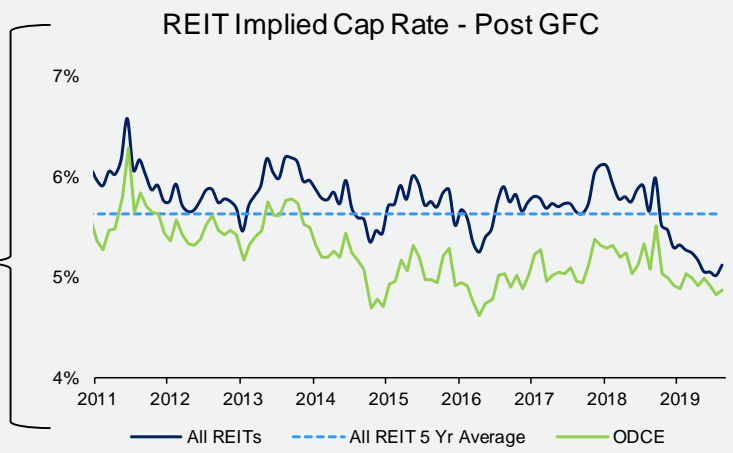
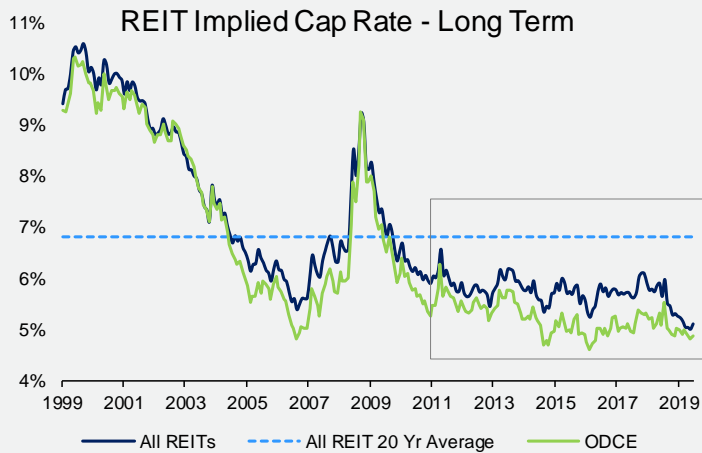
Source: CenterSquare Investment Management, as of November 30, 2019.

New office: newer vintage developments that offer creative, collaborative, and efficient workspaces with desirable amenities for tenants and their workforce.

Old office: older vintage office spaces that offer less collaborative and inefficient workspaces with few desirable amenities. CenterSquare selected the companies that meet these definitions.

Sources: CenterSquare Investment Management, REIT Company reports. All data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe (defined on page 3) during November 2019. All periods presented are ending November 2019 (i.e. 3 month change represents the change from financials reported in August 2019 to November 2019). REIT Implied cap rates are generated by a proprietary calculation that divides a company's reported net operating income ("NOI") adjusted for non-recurring items by the value of its equity and debt less the value of non-income producing assets. See full disclosures on page 3 for more information on calculation methodologies and stock universe used.

## The Data:



Sector	REIT Implied Cap Rate	3 Mo. Change (bps)	12 Mo. Change (bps)	5 Yr Ave Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	4.4%	2	(48)	5.0%	4.7%	7.0%
Industrial	3.9%	(27)	(90)	5.1%	4.8%	23.3%
Office	5.4%	(27)	(32)	5.4%	5.4%	(0.0%)
Retail	6.3%	(7)	37	5.8%	5.8%	(8.2%)
Hotel	7.0%	(20)	20	7.2%	6.2%	(10.5%)
Gateway/Infill	4.8%	(11)	(25)	5.1%	4.9%	1.5%
Non Gateway	5.4%	(14)	(86)	6.3%	6.1%	12.3%
<b>REIT (Major Sectors)</b>	<b>5.4%</b>	<b>(16)</b>	<b>(23)</b>	<b>5.7%</b>	<b>5.4%</b>	<b>(0.3%)</b>
<b>REIT ODCE Proxy</b>	<b>4.9%</b>	<b>(12)</b>	<b>(21)</b>	<b>5.0%</b>	<b>4.9%</b>	<b>1.4%</b>

Source: CenterSquare Investment Management, REIT Company reports. "All REITs" refers to CenterSquare's U.S. REIT coverage universe (defined on page 3). Data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe during November 2019. All periods presented are ending November 2019 (i.e. 3 month change represents the change from financials reported in August 2019 to November 2019). REIT Implied cap rates are generated by a proprietary calculation that divides a company's reported net operating income ("NOI") adjusted for non-recurring items by the value of its equity and debt less the value of non-income producing assets. See full disclosures on page 3 for more information on calculation methodologies and stock universe used.

## CenterSquare REIT Cap Rate Perspective Methodology

CenterSquare REIT Implied Cap Rates are based on a proprietary calculation that divides a company's reporting net operating income ("NOI") adjusted for non-recurring items by the value of its equity and debt less the value of non-income producing assets. The figures above are based on 3Q19 earnings reported in November 2019.

The universe of stocks used to aggregate the data presented is based on CenterSquare's coverage universe of approximately 200 U.S. listed real estate companies. Sector cap rates are market cap weighted. Sectors and market classifications are defined by the following:

Apartment: REITs that own and manage multifamily residential rental properties; Industrial: REITs that own and manage industrial facilities (i.e. warehouses, distribution centers); Office – REITs that own and manage commercial office properties; Retail – REITs that own and manage retail properties (i.e. malls, shopping centers); Hotel – REITs that own and manage lodging properties; Healthcare – REITs that own properties used by healthcare service tenants (i.e. hospitals, medical office buildings); Gateway – REITs with portfolios primarily in the Boston, Chicago, LA, NYC, SF, and DC markets; Non-Gateway – REITs without a presence in the gateway markets.

The REIT ODCE Proxy is a universe of REIT stocks built to resemble the NCREIF Fund Index – Open End Diversified Core Equity (ODCE). The ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity, is the first of the NCREIF Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 36 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The REIT ODCE Proxy is proprietary to CenterSquare and uses gateway/infill names in apartments, retail, industrial and office, and then weights them according to the ODCE index to create a proxy.

Private Market Cap Rates represent the cap rate achievable in the private market for the property portfolio owned by each company, and are based on estimates produced by CenterSquare's investment team informed by various market sources including broker estimates.

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Because the investment strategies concentrate their assets in the real estate

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Founded in 1987, CenterSquare Investment Management is an independent, management-owned real asset manager focused on listed and private equity real estate and listed infrastructure investments. As an investor and manager, our success is firmly rooted in aligning our firm's interests with those of our clients, partners and employees, as well as our commitment to alpha-generating research.

CenterSquare Investment Management is headquartered in suburban Philadelphia, with offices in New York, Los Angeles, London and Singapore. CenterSquare is proud to manage investments on behalf of some of the world's most well-known institutional and private investors.



*Philadelphia, Pennsylvania*

**For a copy of CenterSquare's full REIT Cap Rate Perspective report,  
or to learn more about our strategies, please contact:**

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