

## Third Quarter 2021

CenterSquare's REIT Cap Rate Perspective seeks to quantify the valuation gap between public and private markets, offering investors insights as to the possible future direction of real estate values through our proprietary REIT implied cap rate results across sectors.

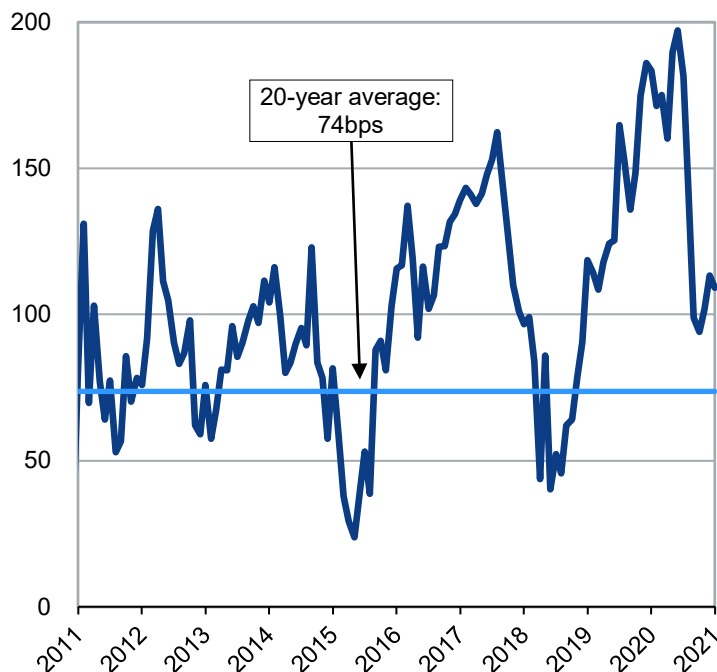
### Rational Exuberance?

As we approach the fourth quarter of 2021, cap rates have compressed significantly across most property types. The REIT market implied cap rate has moved from 5.1% pre-COVID at the end of 2019 to 4.3% at the end of August 2021. This compression has been particularly acute in the Sunbelt markets and with property types experiencing demographic and migration tailwinds. As long-term real estate investors with experience across multiple cycles, we are asking ourselves: Are these cap rates rational?

In the context of low interest rates, elevated inflation and robust growth, real estate is screening attractive relative to alternative assets, particularly fixed income. In fact, REITs offer almost a 110bps spread to Baa corporate bonds today. Despite the cap rate compression we have seen across REITs, this spread is still 35bps higher than the average spread over the last 20 years. Real estate also can provide inflation protection, especially as we look to shorter lease term property sectors like residential and self-storage. Lastly, real estate is experiencing elevated demand across property types at the same time supply chain bottlenecks and rising land values are increasing replacement costs. This dynamic is acting as a governor on elevated levels of new supply, another factor keeping cap rates low.

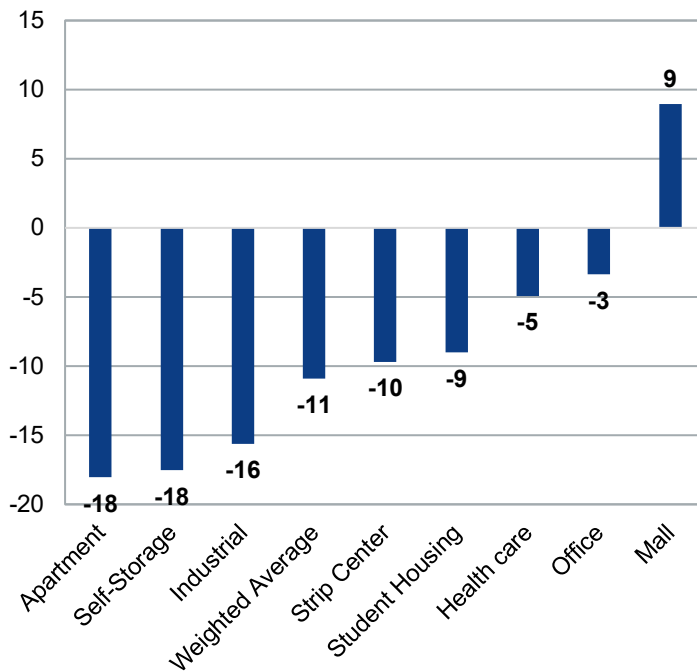
Hence, the real estate market can be described as “exuberant”, but labelling pricing “irrational” ignores the fundamental drivers underlying today's valuation. There remain many good reasons for investors to migrate toward the real estate sector, and specifically to reallocate capital away from fixed income. The elephant in the room, however, is whether or not fixed income yields are rational and can continue to remain at historical lows despite rising inflation. So far, the answer is yes.

**REIT Implied Cap Rate Spread vs Baa Corp. Bonds**



Source: CenterSquare, September 2021.

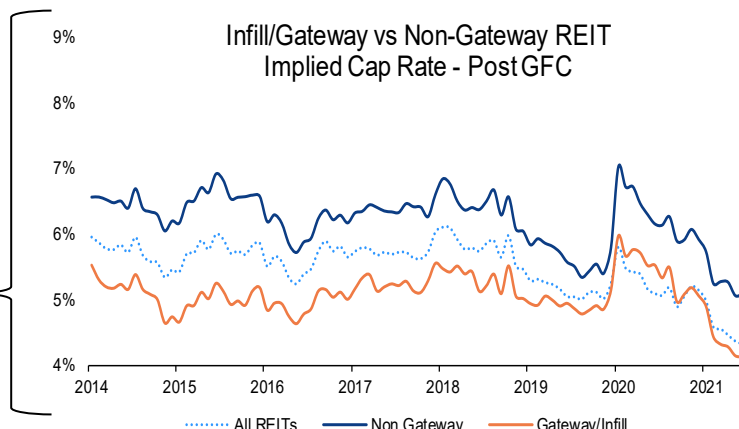
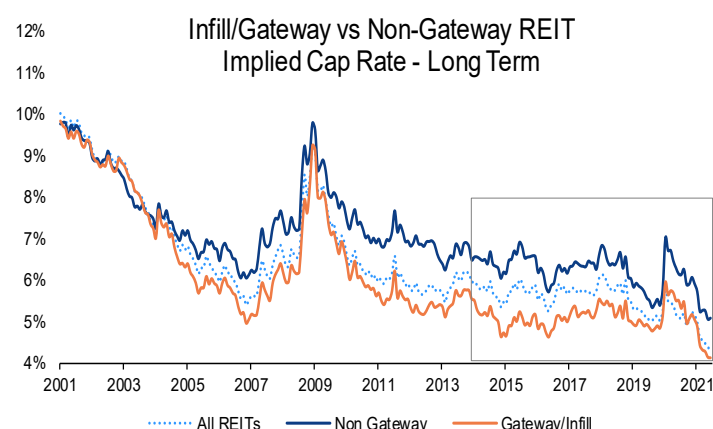
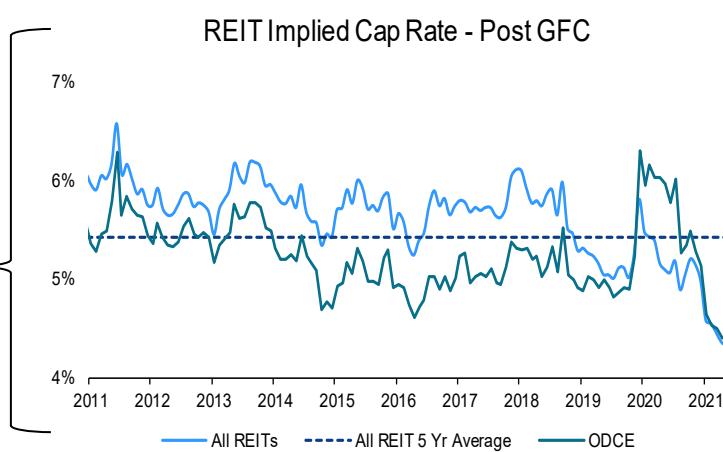
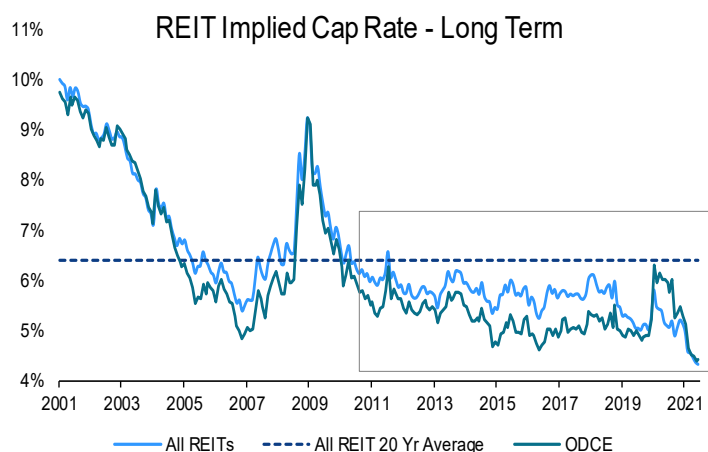
**Cap Rate Change in bps (Jun 2021 – Dec 2022)**



Source: CenterSquare, September 2021. The above chart contains forward-looking information, actual results may vary.

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 September 2021. All periods presented are ending September 2021 (i.e. 3 month change represents the change from financials reported in June 2021 to September 2021). 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. See important disclosures at the end of this presentation.

## The Data:



Sector	REIT Implied Cap Rate	3 Mo. Change (bps)	12 Mo. Change (bps)	5 Yr Avg Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	3.6%	(30)	(196)	4.9%	3.8%	3.1%
Industrial	3.2%	(25)	(49)	4.4%	3.7%	14.6%
Office	5.4%	(7)	(99)	5.7%	5.1%	(5.8%)
Retail	5.8%	22	(302)	6.5%	6.4%	12.0%
Hotel	5.2%	(130)	100	7.0%	5.8%	13.2%
<b>Gateway/Infill</b>	<b>4.1%</b>	<b>(19)</b>	<b>(138)</b>	<b>5.1%</b>	<b>4.4%</b>	<b>7.4%</b>
<b>Non Gateway</b>	<b>5.1%</b>	<b>(19)</b>	<b>(107)</b>	<b>6.1%</b>	<b>5.5%</b>	<b>8.6%</b>
<b>REIT (Major Sectors)</b>	<b>4.5%</b>	<b>(33)</b>	<b>(111)</b>	<b>5.6%</b>	<b>4.8%</b>	<b>7.0%</b>
<b>REIT ODCE Proxy</b>	<b>4.4%</b>	<b>(10)</b>	<b>(154)</b>	<b>5.2%</b>	<b>4.6%</b>	<b>4.9%</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 September 2021. All periods presented are ending September 2021 (i.e. 3 month change represents the change from financials reported in June 2021 to September 2021). 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. See important disclosures at the end of this presentation.

## 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 3Q21 earnings reported in September 2021.

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 industry, an investment is closely linked to the performance of the real estate markets. Investing in the equity securities of real estate companies entails certain risks and uncertainties. These companies experience the risks of investing in real estate directly. Real estate is a cyclical business, highly sensitive to general and local economic developments and characterized by intense competition and periodic overbuilding. Real estate income and values may also be greatly affected by demographic trends, such as population shifts or changing tastes and values. Companies in the real estate industry may be adversely affected by environmental conditions. Government actions, such as tax increases, zoning law changes or environmental regulations, may also have a major impact on real estate. Changing interest rates and credit quality requirements will also affect the cash flow of real estate companies and their ability to meet capital needs.

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## Definition of Indices

### FTSE Nareit Equity REITs Index "FNER"

The FTSE Nareit US Real Estate Index Series is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market List. The index constituents span the commercial real estate space across the US economy and provides investors with exposure to all investment and property sectors.

This benchmark is a broad-based index which is used for illustrative purposes only. The investment activities and performance of an actual portfolio may be considerably more volatile than these indices and may have material differences from the performance of any of this index.

A direct investment in an index is not possible.

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

**CenterSquare Investment Management LLC**

630 W. Germantown Pike, Suite 300, Plymouth Meeting, PA 19462

Phone: 610-834-9500 / Fax: 610-834-9505

[contactus@centersquare.com](mailto:contactus@centersquare.com)

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