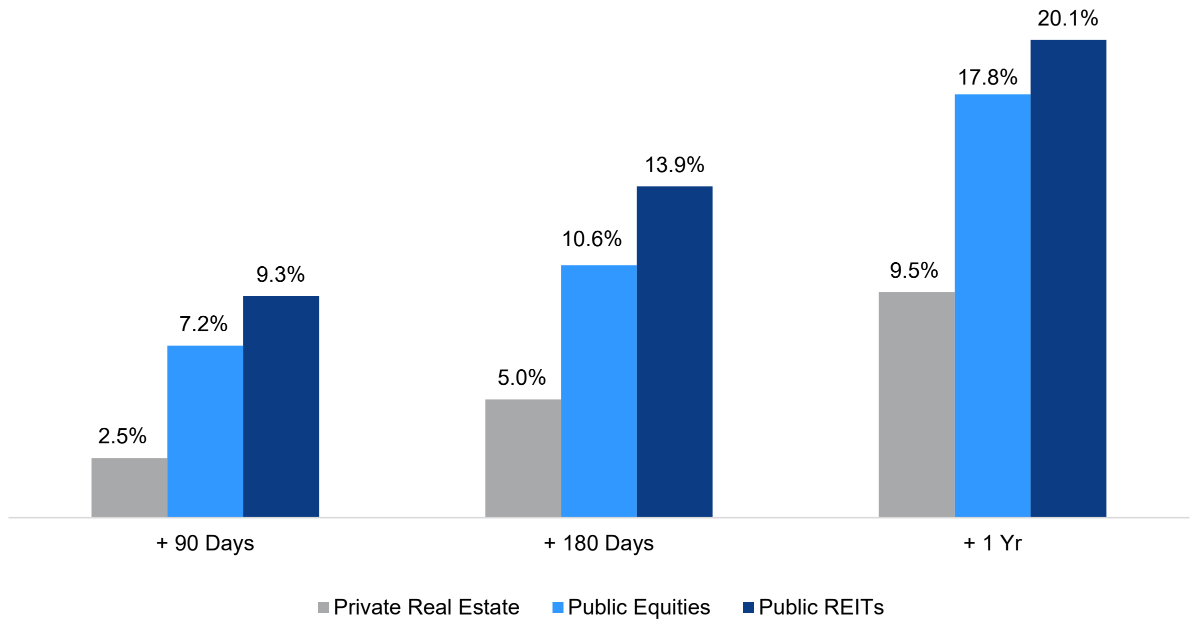
| Q2 2023

Once the Fed is done tightening, how will real estate perform?

The end of the Fed tightening cycle, which we believe to be imminent, has historically been an important juncture for markets as investors reposition for a new investment regime. A review of the four rate hike cycles over the last three decades shows that public REITs[1] outperformed both private real estate[2] and public equities[3] in the 90-day, 180-day, and 1-year periods following the end of Fed tightening (Figure 1).

Figure 1: Average Total Returns Following End of Fed Rate Hike Cycles

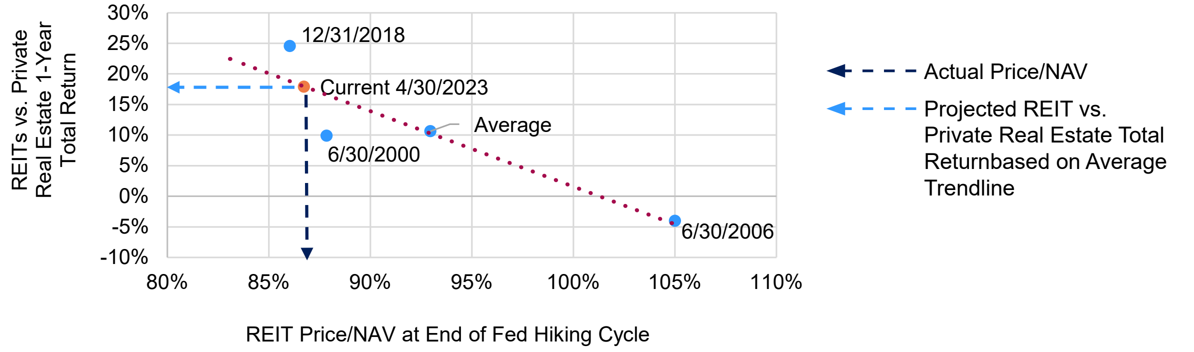


Average of returns beginning 3/31/1995, 6/30/2000, 6/30/2006, and 12/31/2018. Private real estate = NFI-ODCE Index; Public equities =S&P 500 Index; REITs = FTSE Nareit All Equity REITs (FNER). Source: Bloomberg, NCREIF, May 5, 2023.

These findings make intuitive sense; during times of rising rates, public markets tend to discount rate-sensitive assets such as real estate, and build in an associated risk premium that then creates a true discount and subsequent upside opportunity when the regime changes. Diving deeper into this historical relationship, we see that the steeper the REIT net asset value (NAV) discount at the end of the rate hiking cycle, the wider the outperformance of REITs versus private real estate in the one year that follows.

Today, REITs are trading at 87% of their underlying forward NAVs, materially below the historical average, due mainly to accelerated repricing in the public real estate market in the context of higher debt costs. This repricing has yet to fully occur in the private market, rendering a 15.6% difference in total returns over the trailing twelve months between public and private markets. Given these discounted public REIT valuations and the changing monetary regime, REITs screen as an attractive investment entry point today compared to their private counterparts and are poised to generate meaningful outperformance with a regime change (Figure 2 on the following page).

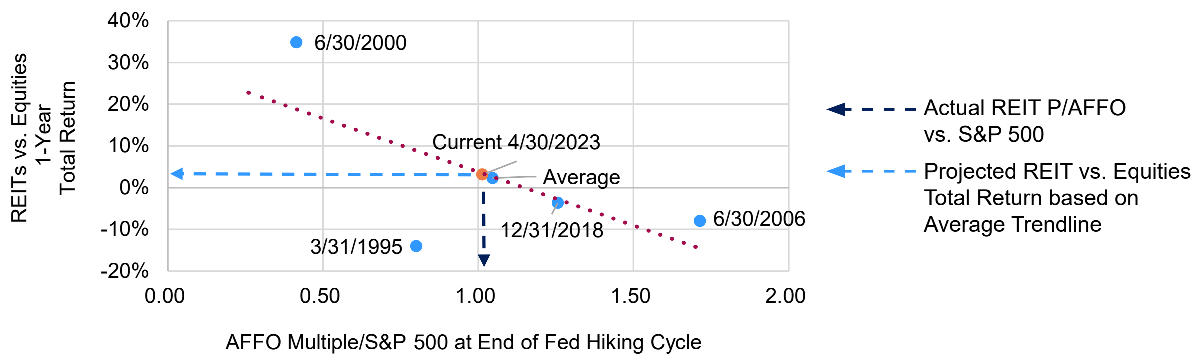
Figure 2: 1-Year Total Return Following End of Fed Hiking Cycle
REITs vs. Private Real Estate



Source: CenterSquare, Bloomberg, NCREIF as of April 30, 2023. The above contains forward looking projections which can not be guaranteed.

If we further examine the relationship between REITs and equities, we find that the cheaper REITs trade versus equities on a multiple basis at the time of the regime change, the steeper the REIT market outperforms those equities in the twelve months following the end of a rate hiking cycle. Typically, REITs trade at a slight premium to equities on a historical basis. Today, however, REITs are trading slightly cheaper, indicating the potential for moderate outperformance versus the S&P 500 in the twelve months following the end of this rate hiking cycle (Figure 3).

Figure 3: 1-Year Total Return Following End of Fed Hiking Cycle
REITs vs. Equities



Source: CenterSquare, Bloomberg, as of April 30, 2023. The above contains forward looking projections which can not be guaranteed.

While historical results are not necessarily indicative of future performance, we do believe favorable fundamentals coupled with balance sheet strength and discounted valuations across the U.S. REIT market sets up an attractive opportunity for investors in listed real estate. The data suggests that this scenario will be particularly true on a relative basis compared to opportunities in the private real estate market and broader equities.

[1] As measured by the FTSE Nareit All Equity REITs index.
[2] As measured by the NFI-ODCE Index.
[3] As measured by the S&P 500.

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Definition of Indices

FTSE Nareit All Equity REITs Index (FNER)
The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

S&P 500 Index
The S&P 500 is an index that is considered to be a gauge of the U.S. equities market. The index includes 500 leading companies spread across the major sectors of the U.S. economy. The index focuses on the larger cap segment of the U.S. market and represents approximately 75% of the market capitalization of U.S. securities. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill Companies.

NFI ODCE: NCREIF Open End Diversified Core Equity (ODCE) Index
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.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the portfolios comprise these benchmarks. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison. A direct investment an in index is not possible.

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Founded in 1987, CenterSquare Investment Management is an independent, employee-owned real asset manager focused on listed real estate, private real estate equity and private real estate debt investments. As a trusted fiduciary, our success is firmly rooted in aligning our interests with those of our clients, partners and employees. CenterSquare is headquartered in suburban Philadelphia, with offices in New York, Los Angeles, London and Singapore. With approximately $13 billion in assets under management (April 30, 2023), our firm and subsidiaries are proud to manage investments on behalf of some of the world's most well-known institutional and private investors.

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