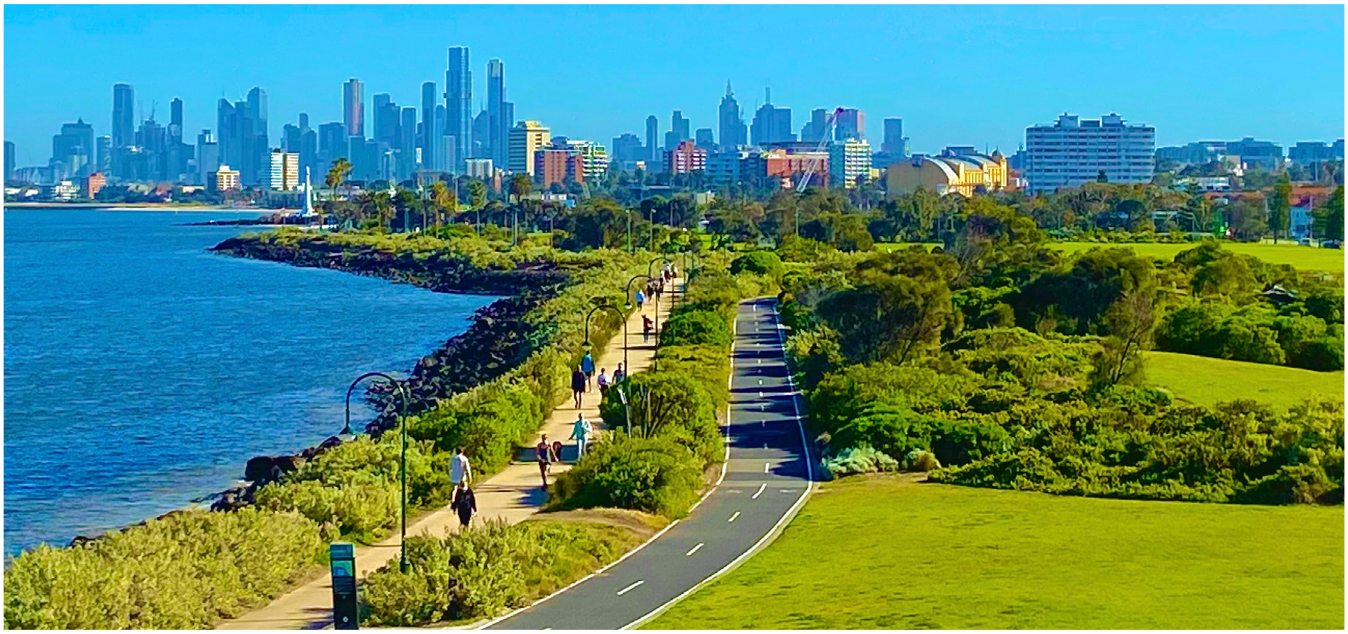

Why REITs Now

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Investors had been accustomed to a world with secularly declining interest rates since the 1980s. The U.S. 10-year treasury yield averaged 10.5% in the 1980s and fell to 2.4% in the 2010s. Then came the easy money environment brought on by the pandemic, when the 10-year treasury yield reached as low as 52 basis points in 2020. At CenterSquare, we believe this secular decline in interest rates has ended and expect the 10-year treasury yield to be closer to 4% going forward as a function of long-term growth and inflation expectations alongside an appropriate term premium to compensate investors for the increased level of uncertainty in the world today.

For real estate investors, this fundamentally changes a core building block for real estate valuations – the cost of debt. The forward-looking public REIT market has reacted quickly and, as it often does, overcorrected for this change. Meanwhile, the private real estate market has come to a halt as transaction volumes have plummeted due to the volatility in the debt markets, leading to a lack of price discovery and lagging appraisal valuations. As a result, REITs are now trading at a meaningful discount to their corresponding private market counterparts. We anticipate this valuation gap between public and private markets to close – either as REIT valuations increase or private valuations decrease. From today's starting point of discounted valuations for real estate in the public markets, we believe REITs will outperform core real estate over the coming years driven by:

The end of the global monetary tightening cycle – a catalyst for the public REIT market

The REIT market's competitive advantages – access to capital and high-growth alternative property types

The end of the global monetary tightening cycle

Most major central banks around the world, except for Japan, have been on a synchronized path to fight inflation over the last few years. However, we believe central banks globally are nearing the end of their tight monetary policies as inflation has materially subsided and economic growth has slowed. Policy makers have been communicating with the market, via verbal guidance or official economic projections, their intentions to reduce policy interest rates from current levels (Figure 1). In fact, two major central banks in Europe – Switzerland and Sweden – have already cut policy rates this year and we anticipate more to follow.

The beginning of easing monetary policy has historically acted as a catalyst for REIT performance and led to REITs outperforming private core real estate (Figure 2). We anticipate history to repeat itself in the coming rate-cutting cycle, especially given the material valuation discount for REITs today (Figure 3).

Figure 1: Central Bank Policy Rate Projections[1]

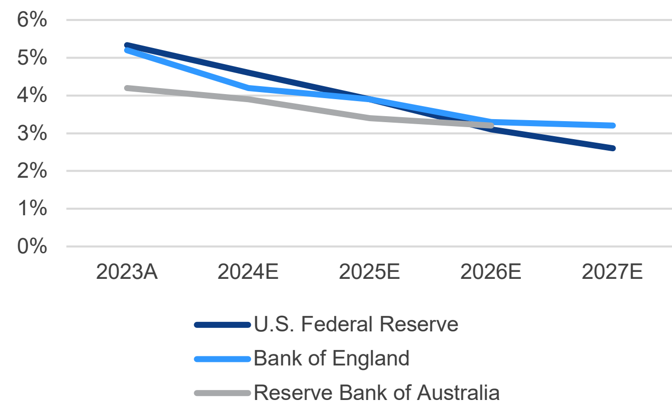


Figure 2: U.S. Average Total Return Following First Fed Rate Cut[2]

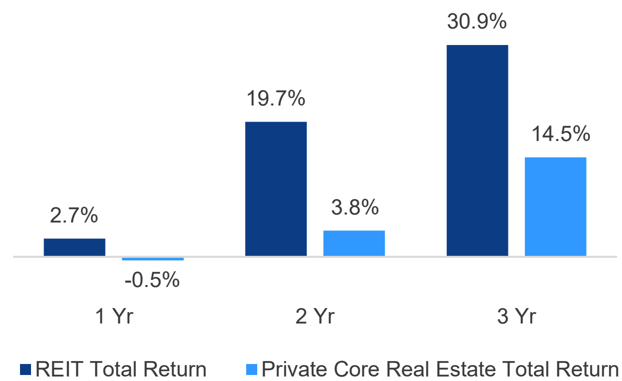


Figure 3: U.S. Public Real Estate vs. Private Core Real Estate Cap Rates[3]

	Public Real Estate	Private Core Real Estate	Public vs. Private Discount
Apartment	6.13%	4.25%	-31%
Industrial	3.89%	3.59%	-8%
Office	7.85%	6.07%	-23%
Retail	6.70%	5.47%	-18%

[1] The Federal Reserve, The Bank of England, Reserve Bank of Australia, as of March 2024. [2] Average of returns beginning 6/30/1990, 6/30/1995, 9/30/1998, 12/31/2000, 9/30/2007, 9/30/2008, 6/30/2019 and 3/31/2020. The closest quarter-end relative to the Fed rate cut is used as the start date for the analysis. Private real estate = NFI-ODCE Index; REITs = FTSE Nareit All Equity REITs (FNER); Bloomberg, NCREIF, January 31, 2024. [3] NCREIF, CenterSquare, as of March 31, 2024. Private Core Real Estate = NFI-ODCE Appraisal Cap Rates, Public Real Estate = U.S. REIT Implied Cap Rates.

The REIT market's competitve advantage

One of the most significant challenges for publicly traded REITs is the quick and harsh judgment of the public equity markets. The result, however, is the survival of the fittest – a basket of investment opportunities with high-quality assets, disciplined management teams, and responsible capital allocation in alignment with creating stakeholder value. Since the Global Financial Crisis (GFC), this has manifested in two significant evolutions in the REIT market that we have not seen to the same degree across the private real estate market – 1) the rightsizing of balance sheets and leverage levels and 2) the growth in exposure to alternative property types. In turn, this has created meaningful competitive advantages for REITs, providing them better access to capital and higher growth driven by secular demand tailwinds best captured by alternative property types.

Access to capital

During the GFC, REITs were penalized by the equity markets because of highly-levered balance sheets and large unfunded development pipelines, which resulted in dilutive share issuances that perpetuated a cycle of negative sentiment. In response, REITs have spent the last economic cycle working to reposition their balance sheets. Today, leverage levels are much lower than they were pre-GFC (Figure 4), and much of that leverage is in the form of fixed-rate debt (Figure 5) with strong interest rate coverage across the industry (Figure 6).

Figure 4: Leverage levels are much lower than pre-GFC[4]

Figure 5: REITs' debt is primarily fixed at lower average interest rates[4]

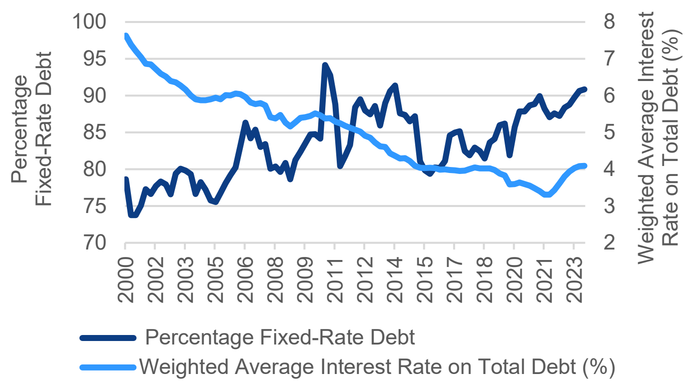
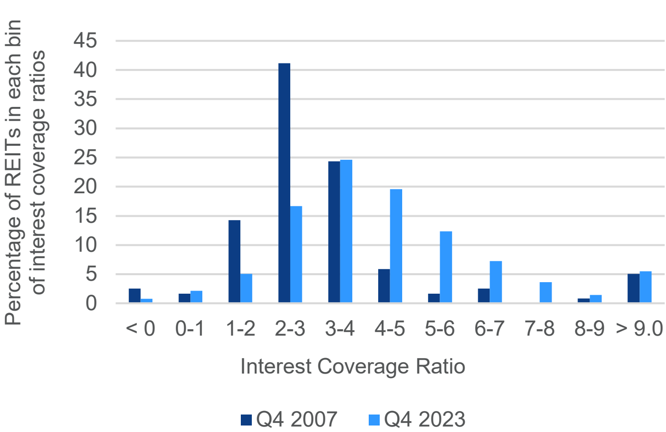


Figure 6: Improvement in interest rate coverage is more broad-based across the REIT industry than pre-GFC[4]



[4] Nareit, as of December 31, 2023.

Additionally, REITs have reduced their reliance on banks and increasingly sourced their debt capital from the unsecured bond market. Today, almost 80% of REIT debt is in the form of unsecured debt . This is providing REITs with a meaningful competitive advantage today as bank lending for commercial real estate remains challenging to source (Figures 7 & 8). REITs not only have access to debt capital, but they are also securing it at more attractive pricing than debt available across private markets (Figure 9).

Figure 7: Commercial Real Estate debt origination volumes have been tepid[5]

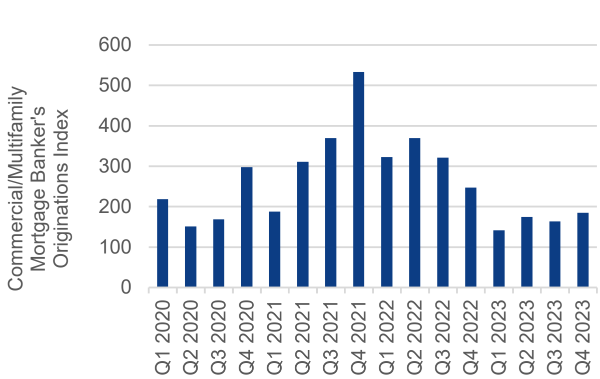


Figure 8: Lending standards for commercial real estate loans remain tight[6]

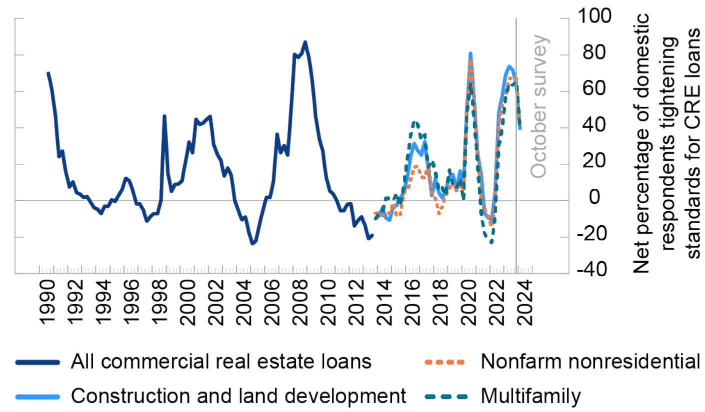
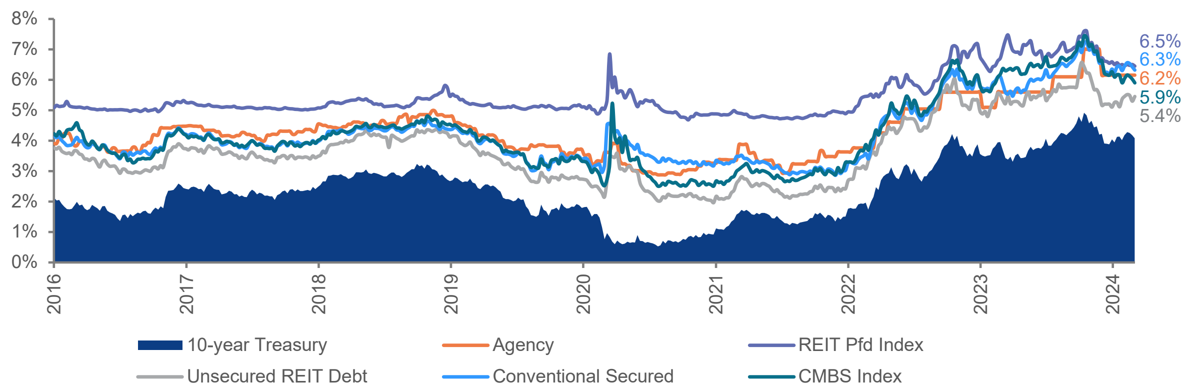


Figure 9: REITs are achieving the best cost of debt capital[7]



[5] Mortgage Bankers Association, as of February 12, 2024. [6] The Federal Reserve, as of Q1 2024. [7] CREFCOA, Cushman & Wakefield, Trepp, Green Street, as of March 8, 2024.

We anticipate REITs' well-positioned balance sheets will serve as an engine for growth in the coming years. Given their low leverage (read: capacity to add leverage from here) and access to capital across debt and equity markets, we believe REITs will likely be a solution for the commercial real estate market as it digests a wall of debt maturities in the coming years. There are over $900 billion commercial real estate loans maturing this year alone (Figure 10). With each refinancing, owners will be required to replace existing debt at meaningfully higher interest rates and adjust their capital stacks as banks reduce proceeds to protect against debt service coverage ratios. We anticipate this to create compelling opportunities to deploy capital, especially as valuations reset in the context of prevailing debt costs. REITs have historically taken advantage of resetting real estate cycles to accretively grow their portfolios (Figure 11); we expect this to occur in the coming cycle.

Figure 10: The impending wall of debt maturities[8]

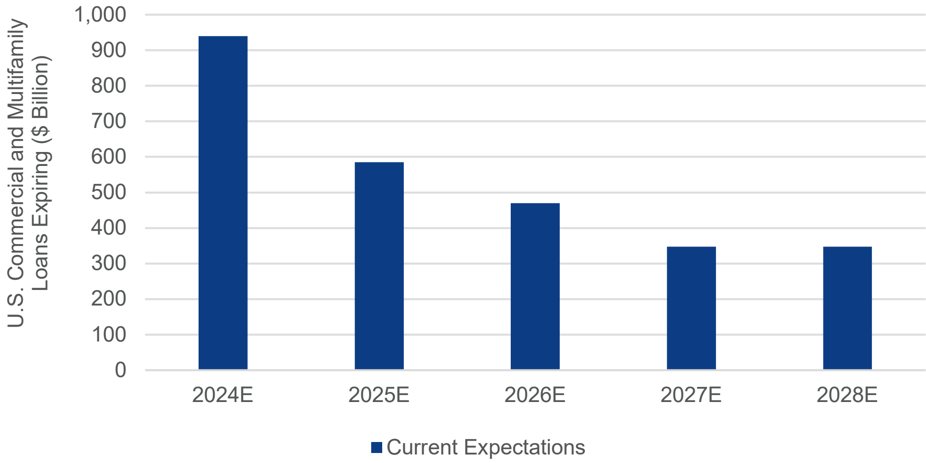


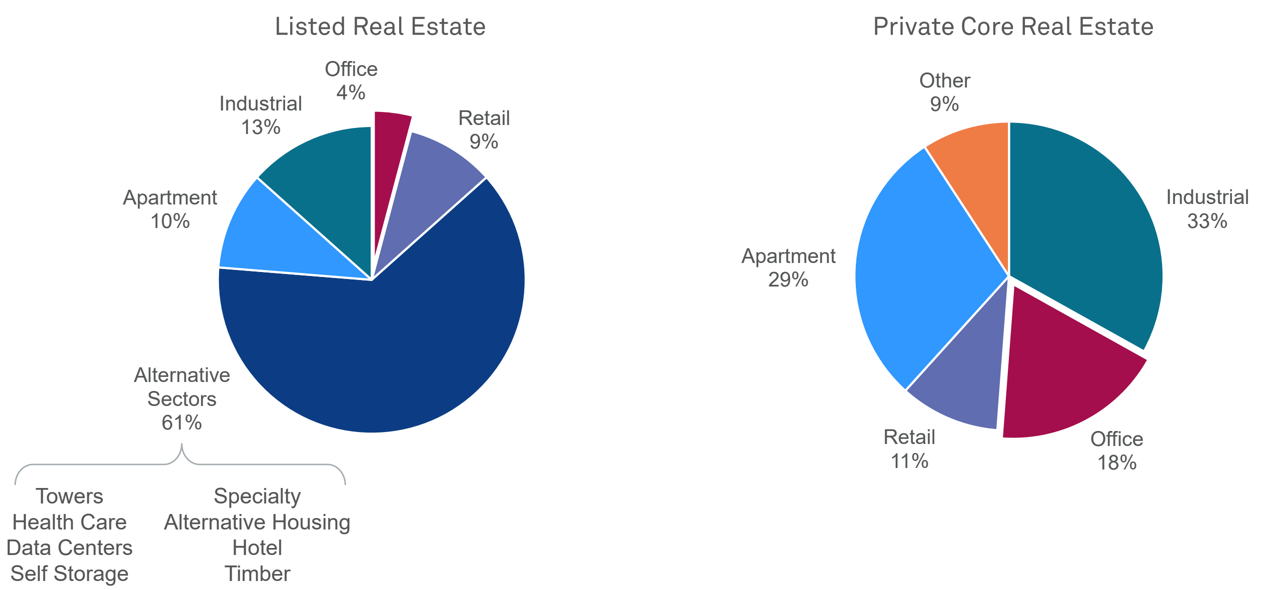
Figure 11: REIT Net Acquisitions[9]

[8] Mortgage Bankers Association, Empirical Research Partners Analysis, as of March 6, 2024. [9] Nareit, as of September 30, 2023.

Access to high-growth alternative property types

The built environment has evolved to facilitate changing demand patterns, demographics, and technology. From this evolution, alternative property types like data centers, seniors housing, cold storage, and others have grown in importance and represent what we believe to be the real estate of the modern economy. REITs provide significant exposure to these asset classes unlike traditional core private real estate strategies (Figure 12). Notably, office REITs represent only 4% of the U.S. REIT market today while core real estate strategies' exposure to the office property type is meaningfully higher at 18%. Further, alternative property types are often more complex and operationally intensive than traditional real estate property types. In response, REITs have developed highly sophisticated development, acquisition, and operating platforms across alternative property types that cannot be easily replicated, creating a competitive moat around their business models. We believe growth in the REIT market will exceed that of the core private real estate market in the coming years as the public markets' industry-leading platforms more successfully capture secular demand tailwinds.

Figure 12: Listed real estate versus private core real estate property type exposure[10]



As we look forward to the beginning of the easing monetary cycle globally, we believe the REIT market offers a compelling opportunity for investors. Post-GFC, REITs have optimized balance sheets, reduced leverage, and diversified debt sources, giving them access to capital at competitive costs. This positions them well for growth opportunities, which include acquiring assets from the private market struggling with debt refinancing. Furthermore, REITs' exposure to high-growth alternative property types, fueled by demographic and technological shifts, offers potential for strong returns as they capitalize on operational expertise and scalable platforms to capture secular demand tailwinds. The confluence of these factors presents a compelling case for allocating capital to REITs, offering the potential for superior returns in the evolving real estate market landscape.

[10] CenterSquare, Bloomberg, December 31, 2023. Listed Real Estate Based on the FTSE Nareit All Equity REITs Index; Private Core Real Estate based on the NFI-ODCE Index.

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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.

FTSE Nareit Equity REITs Index (FNRE)
The FTSE Nareit U.S. Real Estate Index 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. The performance presented is based on total return calculations which adds the income a stock's dividend provides to the performance of the index, and is gross of investment management fees. Effective December 20, 2010 the ticker for the FTSE Nareit U.S. Real Estate Index changed from FNERTR (total return) to FNRETR (total return). The old ticker (FNERTR) has been reassigned to newly established FTSE Nareit All Equity REIT Index which is similar to the existing benchmark in all regards except that timber REITS will comprise approximately 7% of the new index and 0% in the FTSE Nareit Equity Real Estate Index.

NCREIF Open End Diversified Core Equity Index
The ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE), is the first of the NFI-ODCE Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 38 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s.

A direct investment in an index is not possible.

The CenterSquare Cap Rate 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 Q1 2024 earnings reported in December 2023.

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 (NFI-ODCE). The NFI-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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Uma Moriarity is the Senior Investment Strategist and Global ESG Lead for CenterSquare Investment Management LLC. She focuses on investment strategy and leads thought leadership across the Firm's public and private real estate platforms. She is part of the listed real estate investment team and serves on CenterSquare's Private Real Estate Debt Investment Committee. Uma leads the Firm's Environmental, Social, and Governance (ESG) strategy to incorporate ESG into the decision-making and management of listed and private real estate investments to create long-term value, reduce risk, and generate superior risk-adjusted investment returns. Prior to joining CenterSquare, she spent three years in corporate strategy and planning at ExxonMobil in Houston. Uma graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a B.S. in Finance with a minor in International Business, B.S. in Accounting, and Master of Accountancy. She is a CFA charterholder and member of the CFA Institute, a LEED Green Associate, and a member of the ULI San Francisco Sustainability Committee. She currently serves on the Board of Directors for Green Building United, the Penn State Smeal Sustainability Advisory Board, and the FTSE EPRA Nareit Americas Regional Advisory Committee.

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About CenterSquare

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