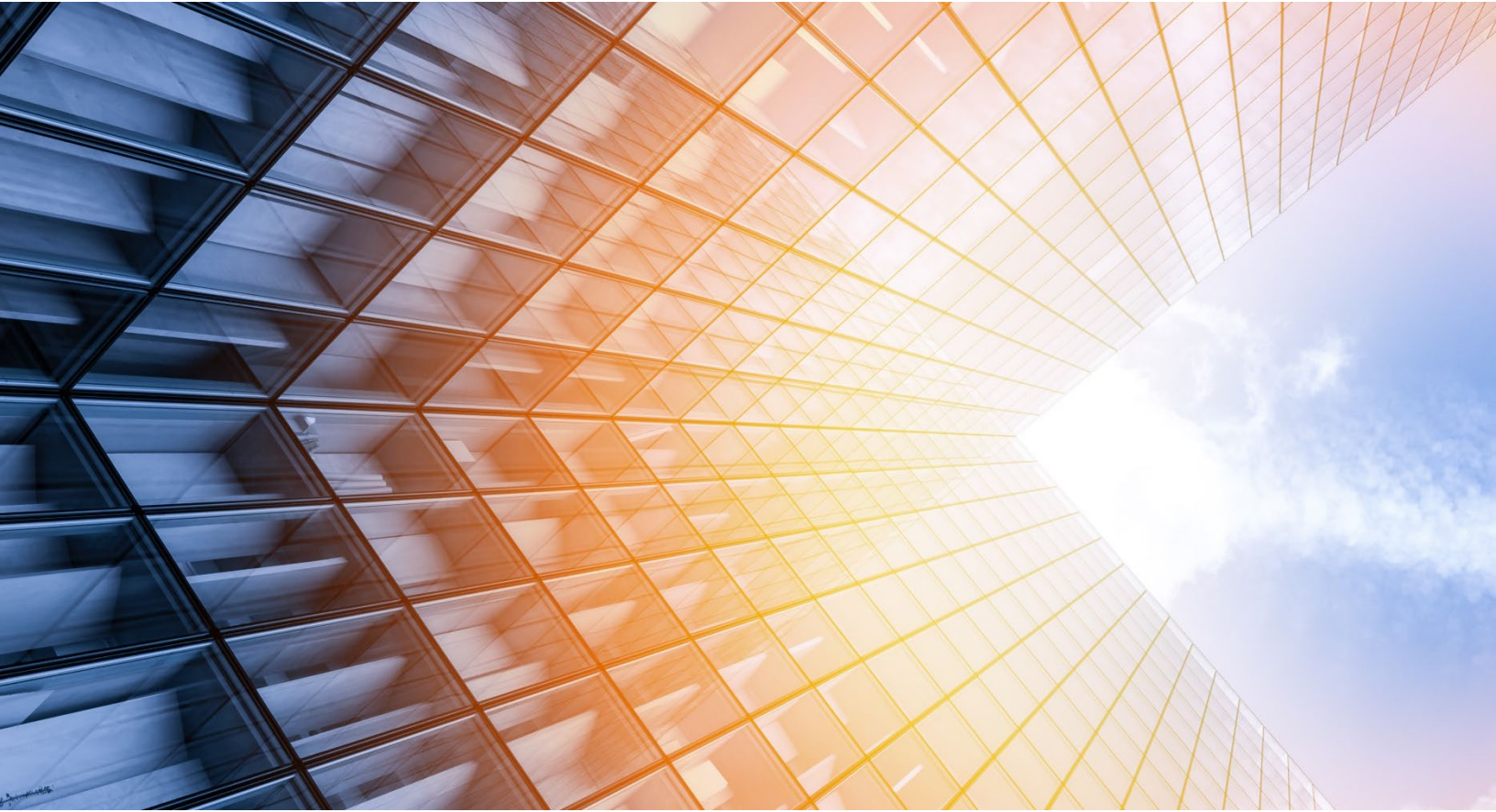




Q3 | 2024



# The REIT Cap Rate Perspective

## The Rally Continues

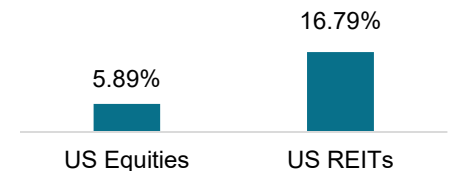
CenterSquare's REIT Cap Rate Perspective seeks to quantify the valuation gap between public and private markets, offering investors insights into the possible future direction of real estate values through our proprietary REIT Implied Cap Rate results across sectors.

## The Rally Continues

During the third quarter, we wrote about the [revival of the REIT sector](#) as markets looked forward to the interest rate cuts expected from the Federal Reserve. This dynamic played out throughout the third quarter, with REITs handily outperforming the broader market.

Despite the recent rally in the REIT market, the U.S. REIT Index is just now beginning to recover to the peak levels it reached coming out of COVID, at the end of 2021, prior to the Fed's rate hiking cycle. However, REITs have not recovered to the valuations and cap rates they reached at the peak, as interest rates have reset higher across the long end of the yield curve. At the end of 2021, the yield on the 10-year treasury was 1.5%. Prior to COVID, at the end of 2019, the yield on the 10-year treasury was 1.9%. Comparatively, the 10-year treasury yield today sits near 4.1%, a level we believe is reasonable given the longer-term outlook for growth, inflation, and a term premium.

### Q3 2024 Total Return

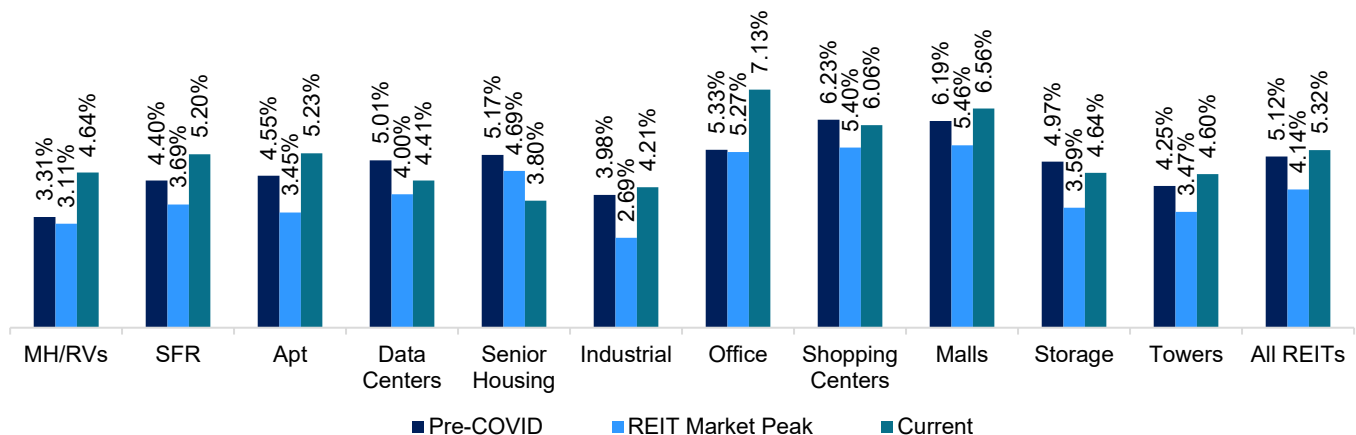


Source: Bloomberg, as of September 30, 2024.  
US Equities = S&P 500 Index, US REITs = FTSE NAREIT All Equity REITs Index.

While implied cap rates have expanded across most sectors, some are being valued today at lower implied cap rates than pre-COVID levels – data centers, shopping centers, senior housing, and storage. In the case of data centers, the booming demand for cloud computing and generative AI, coupled with the barriers to entry for new supply in the core markets for the data center REITs, has resulted in a structural shift in the value proposition of data centers and fundamentally changed the growth outlook for the sector. Shopping centers survived COVID and have proven their place within the broader shopping experience for the U.S. consumer; retailers are finding a real value proposition associated with open-air shopping centers. This renewed demand coupled with little new supply has resulted in strong operating fundamentals and leasing success with accelerating growth, while many other sectors are experiencing decelerating growth. Senior housing is now experiencing the demand associated with the aging demographics that will be a tailwind for the sector for the coming decade along with limited new supply, driving rent growth. That rent growth is occurring while occupancies are rising and labor costs are moderating across this operationally intensive low-margin business, driving strong NOI growth into the foreseeable future. Additionally, the attractive cost of equity capital afforded by these REITs allows them to acquire deals accretively, driving additional growth through acquisitions. The valuation change for the storage sector, however, seems less justifiable as the lack of demand and supply headwinds are driving muted operational success across the sector.

Overall, we believe the tide for REITs will continue to rise, with interesting dynamics across sectors. The interplay between supply and demand combined with shifting attitudes post-COVID has created both winners and losers across the REIT market.

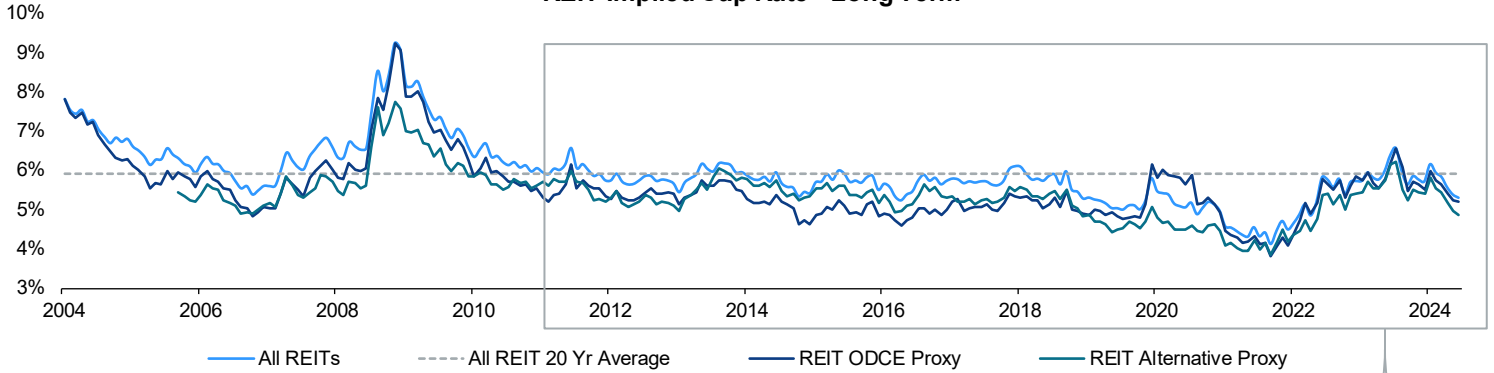
### Implied Cap Rates by Sector



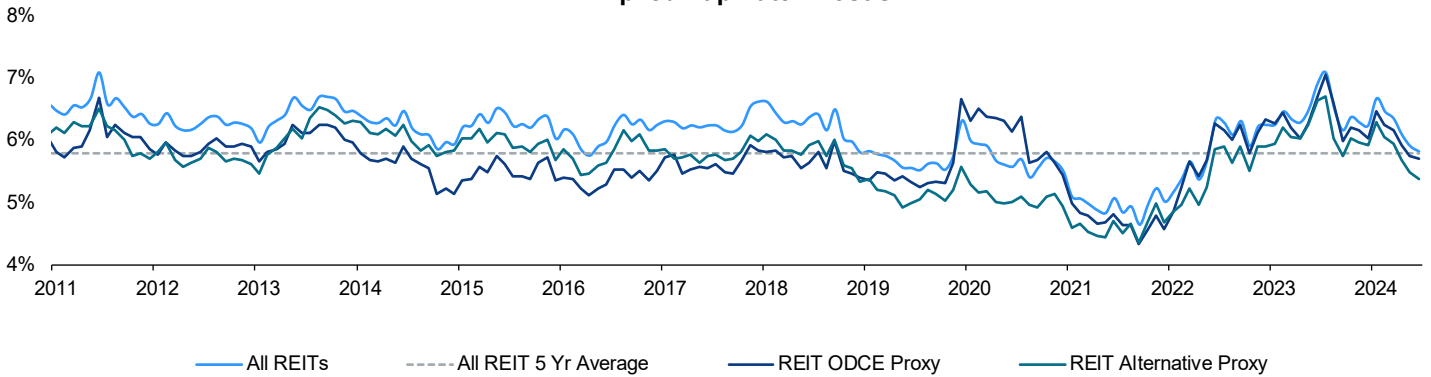
Source: CenterSquare as of September 30, 2024. Pre-COVID – 12/31/2019, REIT market peak – 12/31/2021, Current – 9/30/24.

# The Data

### REIT Implied Cap Rate - Long Term



### REIT Implied Cap Rate - Post GFC



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	5.23%	(38)	(116)	5.08%	5.19%	(0.7%)
Industrial	4.21%	(33)	(18)	3.82%	4.57%	8.7%
Office	7.13%	(88)	(188)	6.84%	6.98%	(2.1%)
Retail	6.21%	(59)	(141)	6.86%	7.05%	13.5%
Hotel	7.20%	7	(72)	6.60%	5.85%	(18.8%)
<b>REIT ODCE Proxy</b>	<b>5.21%</b>	<b>(44)</b>	<b>(98)</b>	<b>5.24%</b>	<b>5.43%</b>	<b>4.3%</b>
Life Sci	6.16%	(63)	(210)	5.26%	5.50%	(10.6%)
Healthcare	6.04%	(83)	(150)	6.34%	6.69%	10.8%
Single Family Rentals	5.20%	12	(30)	4.73%	4.74%	(8.8%)
Manufactured Housing / RVs	4.64%	(36)	(37)	4.10%	5.05%	8.7%
Towers	4.60%	(63)	(140)	4.34%	4.59%	(0.2%)
Data Centers	4.41%	(35)	(77)	4.76%	5.48%	24.2%
Self Storage	4.64%	(72)	(167)	6.14%	5.28%	14.0%
<b>REIT Alternative Proxy</b>	<b>4.88%</b>	<b>(57)</b>	<b>(127)</b>	<b>4.86%</b>	<b>5.44%</b>	<b>11.6%</b>
<b>All REITs</b>	<b>5.32%</b>	<b>(53)</b>	<b>(108)</b>	<b>6.12%</b>	<b>5.74%</b>	<b>7.9%</b>

Note: The ODCE sector weights have been re-adjusted in alignment with the latest ODCE data, as sector weights continue to shift.  
 Source: CenterSquare Investment Management, REIT Company reports. "All REITs" refers to CenterSquare's U.S. REIT coverage universe (defined on page 4). Data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe during June 2024. All periods presented are ending September 2024 (i.e. 3 month change represents the change from financials reported in June 2024 to September 2024). 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 4 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 Q3 2024 earnings reported in June 2024.

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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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 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.

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:**

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