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A BETTER ALTERNATIVE

3Q24 REIT Review/Outlook

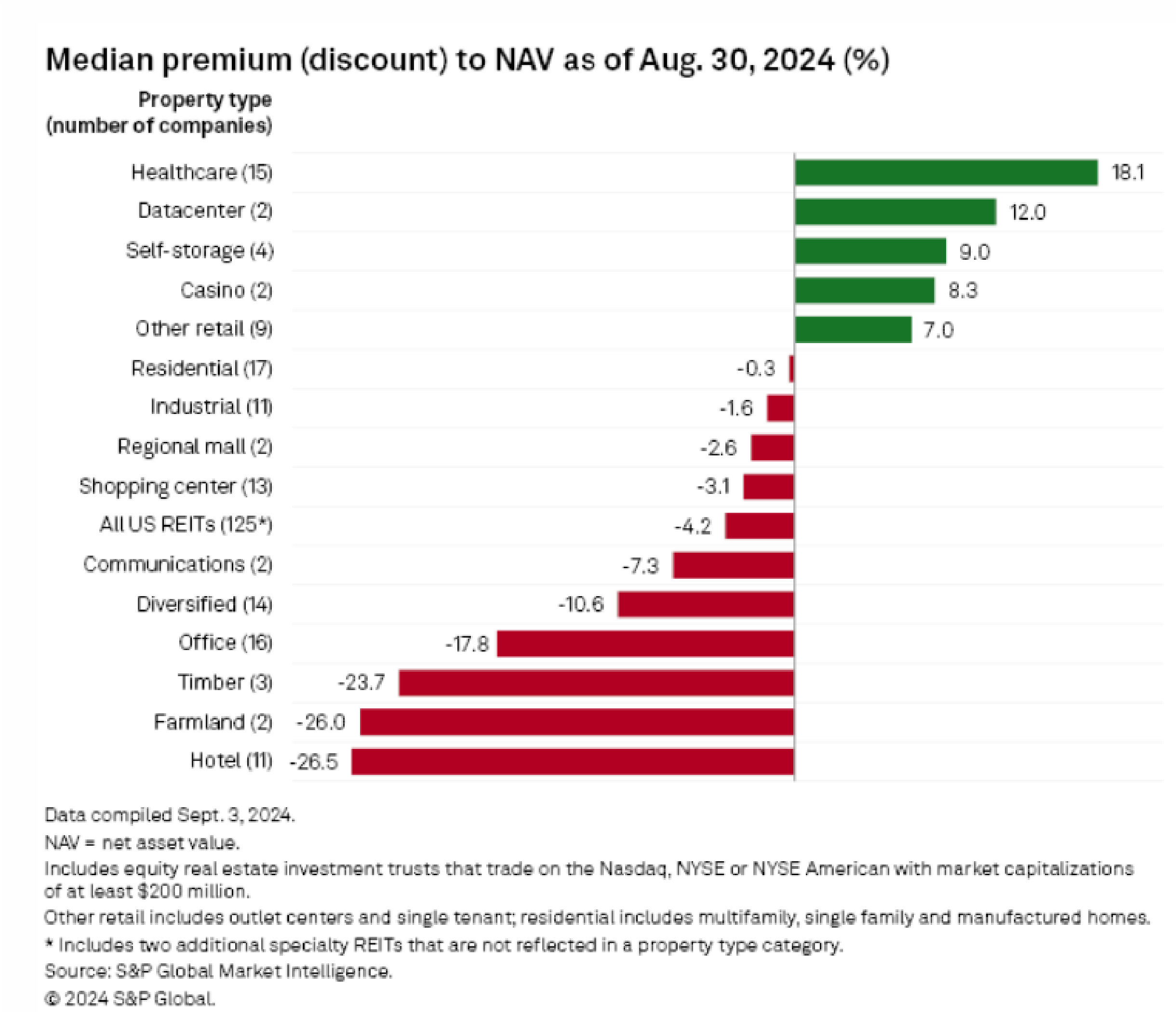
Executive Summary

- ***REIT stocks returned to favor principally reflecting investor optimism for interest rate reductions.***
- ***There was repositioning/broadening of the stock market as Big Tech/AI lost some of its market leadership.***
- ***The Fed cut Fed Funds by 50bps to 4.75-5.0% in September 2024 and indicated they expect that rate cuts will be 100bps over 2024 with a further 100bps of reductions in 2025.***
- ***Markets are expecting a 'soft landing' for the economy with no recession. Corporate Earnings Y/Y growth expectations are for high single/low double digits.***
- ***There has been a modest increase in CRE transactions typically by early movers with access to capital that includes public REITs, likely signaling we are close to the bottom of the cycle.***

REITs outperformed the broader market during 3Q24/underperformed YTD End September 2024. Publicly traded REITs continue to trade at approximately a 5% discount to their net asset value (NAV) versus the private market values of their portfolios with higher growth sectors trading at a premium or significantly narrowing their discounts since our last report from an aggregate 16.5% discount to NAV. We believe this revaluation has been driven by an increase in REIT market values during the quarter along with the adjustment for lower cost of capital as reflected in declining interest rates across the yield curve.

The publicly traded REITs are presently trading at a forward estimated FFO per share multiple in the mid-to-high teens, a forward estimated AFFO/ to share in the low 20's. We think FFO and AFFO year over year growth will be in the range of 3-5% in 2024 and they are on-track to meet this target. We would expect a similar growth rate over 2025. REITs are currently paying a dividend yield of 3.6%. We think the year over year dividend growth rate will approximate the growth rate of FFO and AFFO suggesting yield growth above the current rate of inflation in 2025.

As mentioned, publicly traded REITs are trading at a 5% discount to estimates of their NAV versus the private market value for similar commercial real estate. Data from S&P suggest that the consensus sell-side discount of public REITs is about 4.5% as of the end of August with a wide variation among sectors. Please see chart ***- Median premium (discount) to NAV as of Aug 30,2024 (%) -*** on the following page.



We believe these discounts have bottomed since our last report and can be expected to continue to narrow and turn on average to premiums as REIT valuations move up and private market values adjust to revised cost of capital and a lower leverage environment.

As inflation has trended lower and the economy/labor market appears to be cooling, the Fed has commenced cutting rates and has signaled further cuts later this year and into 2025. We expect this will mean REITs/CRE will attract greater interest from both general investors looking for durable and growing income/dividend yields and private buyers. REIT's positive stock performance over 3Q is consistent with this narrative. Recent transactions notably including Equity Residential (EQR) purchase of $1bn of Sunbelt apartments from Blackstone (BX) and cold storage - Lineage (LINE) successful $4.4bn IPO are also supportive of this thesis.

Outperform vs the Overall Market, 3Q24/Underperform YTD thru 3Q24

Uniplan's Primary Benchmark Index[1] for REITs generated a Total Return of +16.6% for the quarter ended September 30, and a YTD End September 2024 total return of +14.2% as measured by the Primary Benchmark Index[1]. The equity market (SPX[2]) ended 3Q24 at 5,762.48, generating 5.9% Total Return over 3Q and 22.1% YTD ended September 2024[3]. The UST10Y yield closed 3Q at 3.80%, down 54bps over 3Q and down 6bps YTD End September 2024; the UST2Y yield closed at 3.66%, down 105bps over 3Q and down 57bps YTD End September 2024. These broader market moves reflect a change in the narrative over 1H to 3Q from modest economic/corporate earnings growth and several cuts in interest rates to higher economic/earnings growth with growing confidence of the start of interest rate reductions, which did commence in mid-September.

Equity market performance through mid-year had been led by mega-cap tech stocks (winnowed down to the Fabulous 4: Amazon, Nvidia, Meta and Microsoft - AMZN, NVDA, META, MSFT) but over 3Q, market performance had widened out to other sectors. Cyclicals and rate sensitive areas sectors attracted interest. UST yields have moved down, and the Yield Curve flattened/partially dis-inverted over 3Q while the Break-evens remained little changed with the US10Y Real Yield declined from the earlier ~200bps.

Normalization of the UST Yield Curve (an upward sloping curve) which would ordinarily be expected with a 'soft landing' of the economy, might mean little downward movement of long duration UST yields from current levels as short duration yields decline. Potentially, there could be some upward pressure on long duration yields. This is particularly important with regard to the UST10Y, especially so regarding CRE markets and the cost of capital.

Economic growth accelerated over 2Q24 to 3.0% GDP (1.6% over 1Q24) and is expected to remain solid over the balance of the Y24 and into Y25. This year the economy has featured a

[1] Primary Benchmark Index: Prior to 12/31/2023, the benchmark index was the FTSE NAREIT All Equity Index; thereafter, a custom benchmark that uses the 150 largest market capitalization companies. In creating a custom benchmark Uniplan applies a screening tool utilizing a KPI REIT universe. From there, Uniplan uses the 150 largest market capitalization companies. Basic exclusions from this universe include Commercial Real estate services & brokerage, real estate investment & services, and all Mortgage REITs. Uniplan reserves the right to remove a company from the custom benchmark for any or no reason at all. The Primary Benchmark is rebalanced quarterly and includes the reinvestment of dividends. It is not possible to invest directly in an index. The index figures do not reflect any deduction for fees, expenses or taxes.

[2] S&P 500 - The Standard & Poor's 500 Index (S&P 500) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

[3]

	QTD	YTD	1yr	5yr	10yr
Primary Benchmark Index	16.59	14.15	34.66	5.07	8.02
S&P 500	5.90	22.10	36.36	15.98	13.07

strong labor market, solid consumer spending and corporate earnings gains. The Fed with its most recent Statement of Economic Projects (September 2024) included Y24 expectations of solid economic growth (GDP 2.0% and unemployment YE 4.4%) inflation (Core PCE 2.6%) with 100bps of Fed Fund Rate cuts by YE including the 50bps cut in September.

Inflation and the Labor Market have remained points of focus over 3Q24. Inflation as measured by CPI (Headline) has declined from 6.5% in December 2022 (9.1% peak June 2022) to 2.4% in September 2024 with Core PCE down to 2.7% Y/Y in August. The jobs market has shown only small signs of cooling with an average of $186k/month jobs added over the last three months, with unemployment at 4.1% at the end of September and Y/Y Wage gains of 4.0%. There was a material reduction of 800k in the number of jobs added for the YTD End Mar. 2024. There were 1.2x openings per unemployed as per the Sept BLS Monthly data and the July JOLTs report. The cooling of inflation and some concern about the future resilience of the labor market has seen the Fed speak of looking to balance its 'Dual Mandate' of price stability and maximization of employment.

There has been no serious contagion of CRE loan woes among the small/medium sized - Regional banks since 1H23 though investor concerns have not entirely disappeared. The Regional Banks are disproportionally important to property lending. Regionals own two-thirds of CRE loans and ~40% of all loans. There are ~$500bn of mortgages maturing each year over the next 3yrs. The cost of borrowing has doubled from levels a couple of years ago and for many borrowers, loans are harder and, in some cases, impossible to come by. The office sector has been most negatively impacted, other property categories less so. Offices comprise less than 5% of the NAREIT Index of public REITs by equity market cap. Somewhat surprisingly, the CMBS market has revived, materially so with $42bn of issuance over 1H24 – a volume which exceeds the total for 2023.

Many investors have remained cautious about investing in CRE/REITs over recent years with worries about their sensitivity to interest rates and bank lending to the sector. The challenged state of the CBD office market has continued to generate plenty of news headlines. Property transaction volumes have picked up though an element of uncertainty persists about the extent prices have fully adjusted to current market clearance levels. The physical property asset market does take time to reset, whereas the public markets react much quicker. **To us, it does seem reasonable to think the majority of property price corrections are behind us, two years after the Fed started raising rates in 2022 and now with the start of what is expected to be a series of rate reductions. Indeed, REIT price gains over 3Q appear to be reflecting investor expectations of future property values growth.**

Over time, we think more investors will re-focus on the steady earnings and dividend growth potential of REITs. We believe overall REIT Y/Y earnings/dividend growth in Y24 should be in the 3-5% range and provisionally at this time, we think REIT earnings/dividend growth in Y25 will be in a similar 3-5% range to our Y24 estimate before some acceleration in 2026 and beyond assuming steady growth of the economy.

Over the balance of the year, the Fed has indicated it intends to reduce rates by an additional 50bps with further cuts in 2025. Against this background, we think the REIT sector may start to attract greater support beyond what we have seen since mid-year. And as always, the appeal of REIT's high, relatively secure dividend yield, we feel will be attractive to income seekers.

Property/REIT Markets

Property fundamentals – space supply and demand - over 3Q/YTD End September 2024 have remained generally positive. There are limited signs of oversupply and space demand has remained fairly solid for most property types as the economy has continued to grow and add jobs. Office space demand remains a point of contrast (bar healthy demand for properties of the highest quality). There has been increased supply of apartments in the Sunbelt that has mostly seen increased demand. The investment market continues to be subdued though there has been some increase in transaction volume providing some pricing references. The rapid increase in interest rates over 2022/2023 (FFR close to zero to the mid-5%'s) has raised the cost of capital, pushed cap rates up and reduced many property values. We think the recent reduction of interest rates and the prospects of further reductions in near-medium term should support an improvement in the cost/availability of debt which should facilitate a firming of property investment markets.

Sector Notes

The stock performance of **Datacenters and Cell Towers (21% of REITs by equity market capitalization at end September 2024)** have both modestly underperformed the sector YTD after a notably strong performance by datacenters in 2023. General investor enthusiasm for all things related to AI, Datacenters included has persisted albeit at a less frenzied pitch while Towers have been regarded as oversold. There is some hope that the telephone carriers will increase capex spending – related to 5G build-out – which should help push up Tower's growth prospects over the medium term. **Industrial/Distribution space** (12% of public REIT capitalization) demand led by e-comm, and generally modest new supply continues to support positive fundamentals. There have been some concerns about decelerating demand/rent growth from elevated levels and specially softness in the big southern California market. **Collectively, the tech-related, Cell Towers, Datacenters and Industrial/Distribution companies had a weighting of 34% of public REIT capitalization.**

Residential rental property with a **14% weighting of public REITs** continues to be regarded as a relatively stable and resilient property type. We continue to think overall residential supply (New Starts 1.3m annualized and limited supply of Pre-Owned For Sale) falls far below demand. Strong Home Price gains (>5%/Y) and mortgage rates (>6%) continue to pressure affordability which has supported increased rental demand. Growth in labor markets and personal incomes have also boosted demand. In some locations, mainly in the Sunbelt, there has been increased new supply which largely appears to have been absorbed. The current dearth of new construction loan finance from the regional banks would suggest it very likely there is a shortage of new rental supply over the next 2-3 years.

Retail (at 17% of the REIT sector) property has continued to experience a solid rebound from the Covid induced woes of 2020. Consumer spending has been solid and there has been a return to the physical stores. We believe with virtually no new supply of new properties over recent years, retailer demand for space for the better-quality properties has been strong for quality shopping centers, malls and stand-alone/triple-net properties. We think competition from e-commerce will continue to increase. On-line sales currently still only represent about 15% of total sales and has been growing at ~3x the rate of overall retail sales. It seems as if many retailers have adapted to 'omni-channel' models combining e-comm and physical stores. We think the best retail properties will do well but pressure will persist on many tertiary and secondary properties.

Other sub-sectors of note that individually represent less than 11% of the REIT market include: **Healthcare** properties continue to present a somewhat mixed picture: Senior Housing has continued to rebound from its over-supplied/Covid period. It does have the locked-in demographic tailwind driving long term demand. Life-science/ Medical Offices Buildings have seen a softening of demand and some new supply concerns. **Self Storage** has proved to be a cyclically resilient property type. Current operational/earnings performance is decelerating back towards longer-term trends after the Covid-related spurt. **Offices** have been negatively impacted by a slow Return-to-Office/tenant space demand and by worries about debt refinancing. There is good demand for the very best properties, but the broad challenges faced by offices seem likely to persist for some time. Many **Lodging** properties have recovered from Covid setbacks with rebounding leisure travel. Business travel has been slower to recover. The **Gaming REITs** which have been included in the Specialty sub-sector, continue to attract investor support. These companies have been among the most active deal makers over recent times. Their activities including some interesting development funding/option to buy agreements with entertainment/leisure operators.

The **private property investment markets** continue to be subdued. It appears to us that some sellers have adjusted to lower prices but difficulty in obtaining/pricing of debt finance is holding back many buyers. As we move towards a more favorable financing environment, we would expect investment activity will increase. Many public REITs with access to capital regard this as being a favorable period to be buyers when they have an advantage over other typically more leveraged buyers. Over 3Q, we note Equity Residential (EQR) purchase of 3,600 Sunbelt apartment units from Blackstone (BX) for ~$1bn ($270k/unit, ~5% cap rate). Also of note, a number of sponsors including Ares, RXR and SL Green (SLG) are moving ahead in raising/deploying funds to invest in New York City offices.

Property Capital Markets – Through end July, REITs have raised $45.5bn (compared to $62bn over Y23). Debt has comprised $27.5bn through end July '24, ~60% of the total with equity issuance until recently by limited by low stock prices. Capital raising through end July is on pace with ~$78bn by YE24 which would be ~25% ahead of Y23. There have been numerous unsecured debt raisings over 3Q/YTD End September 2024 typically 10Y with the rate in the 5%'s, most recently in the 4%'s, ~200bps above expiring debt. Notable recent issuance includes: Simon Property (SPG) $1bn, 10Y at 4.75%; Crown Castle (CCI) $1.25bn - $550m, 5Y at 4.9% and $700m, 10Y at 5.2%, and Boston Property (BXP) $850m, 10Y at 5.75%. Notable equity issuance includes: AvalonBay (AVB) $710m and the Lineage (LINE) IPO which raised $4.4bn (implying a $18bn Equity Market Cap). New issuance in the CMBS market has picked up - $42bn was raised 1H24, higher than that raised over Y23. Loans with special services/delinquencies have moved up and there have been specific problems with Single Asset/Single Borrower office deals.

Many REITs have locked in low rates with extended maturities and reduced variable debt over recent years which gave them some protection against the rise in interest rates experienced over recent times. In the secured (mortgage) debt market, there continue to be some concerns related to the price and availability of new loans with high volume of debt maturing annually over the next few years and the regional banks being big lenders. Office loans unsurprisingly have been the most problematic. There have been some instances of borrowers 'handing back the keys' but with many banks reluctant to take back the properties this has meant forbearance agreements have increased with both lenders and borrowers sharing some pain.

All but a handful of REITs provide forward **earnings guidance.** Most REITs have fairly predictable businesses. Many REITs have spoken of this year's growth expectations being tempered by headwinds from increased operational costs and higher debt charges. For 2Q24, strong earnings were reported by Industrial and Healthcare REITs while there were down earnings from the Office companies. We continue we think overall Y/Y REIT FFO growth for Y24 will be in the low-mid single digit range assuming continued modest growth in GDP over the year and provisionally a similar/slightly higher rate of growth for 2025. **REIT stocks came back into vogue in 3Q24 after being out in the cold over recent years as the Fed raised rates to battle inflation. We think there remains the prospect of further absolute and relative for the sector as the Fed makes further rate reductions this year and into 2025.** Lower interest rates will likely increase investor interest in rate sensitive investments and if of sufficient magnitude they will help reduce the cost of capital and may put downward pressure of cap rates/upward pressure on property values/REIT NAV's which have historically traded at a 3%-4% on average over time. A slowing of the economy may suppress space demand but limited new supply of many property types in many locations will likely mean property fundamentals remain supportive of positive REIT operational performance barring an unexpected recession. REIT stock underperformance over the last couple of years and current relatively modest valuations will be regarded as representing an interesting entry level to some investors especially those that think we might be in the early days of revival of interest in the sector. The sector has attracted renewed interest from generalist investors and has seen much better stock performance since mid-year as enthusiasm for mega-tech stocks has waned somewhat and optimism about the prospects for a series of rate cuts by the Fed has increased. ***We believe our thesis as stated in our Q2 Flash Report for a better second half of 2024, and as witnessed during Q3, will continue to unfold into yearend as REITs gain momentum and continue to close the NAV gap.***

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All references to debt issuance, deals, etc., by individual REITs are sourced from Company Reports (typically press releases available on corporate websites and filings such as 10-K, 10-Q, and 8-K).

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