



### *Executive Summary*

- **2026 Return expectations** – We expect REITs will generate 8-10% total returns in 2026, approximately half comprising of a cash dividend yield of ~4%. REITs are on track to generate about 3-4% total returns over 2025. This is below our forecast of +8-10% for Y25 a year ago. For 2026, we assume GDP growth will be ~2.0% - a little faster than Y25 growth. We expect inflation may remain 'sticky' and despite softer jobs growth, will somewhat constrain the Fed from reducing rates below 3.0-3.5%. We believe REITs will produce Y/Y earnings growth of 3-5%, pay a ~4.0% cash dividend yield and that the earnings multiple will remain largely unchanged or possibly expand a modestly Y/Y to reflect slightly lower interest rates.
- **Y26 Earnings growth** – We assume earnings for most REITs will be largely supported by modest rental increases derived from incremental space demand and little new supply. As an offset, there will continue to be upward pressure on operating expenses and from increased debt costs. Some REITs should generate meaningful gains from acquisitions. Development is likely to remain limited.
- **Dividends** – The current 4.0% REIT sector dividend yield is over 3x the yield of the S&P 500 Index (1.2%) and roughly in line with the current 10Y UST yield. We continue to believe REITs over the medium-longer term will raise their dividends ~5% per annum, broadly consistent with our cash flow growth expectations for the sector. All while raising return and lowering volatility in the typical stock and bond portfolio.
- **Fund Flow** – Public REITs are on track to raise ~\$75bn of capital in 2025, a little less than the \$85bn they raised in 2024. About two-thirds of the capital raised YTD has been debt while equity issuance has been subdued. Private Equity Real Estate funds have seen reduced inflows but retain 'dry powder' (untapped money) to spend. We think many long-term investors will maintain an allocation to CRE of ~10%.
- **Principal Assumptions and Risks** – We assume Y26 GDP Y/Y growth will be ~2.0%, unemployment will remain in the mid-4%'s, PCE Core inflation will decline to ~2.5- 3.00% by YE26 and the Fed will reduce FFR to 3.0-3.5% by YE26 with the yield on the US10Y remaining in the low 4%'s. We regard the major risks to sector stock performance to include inflation that persists at elevated levels and the Fed possibly maintaining restrictive monetary conditions (interest rates); and the availability/price of debt could all be limiting factors for REITs. Given economic and business conditions, a recession in 2026 seems unlikely but would depress space demand. CRE/REIT stock valuations (specifically cap rates) may be perceived as not being reflective of 'true' market conditions. Excessive new development is

*commonly a cause of cyclical property risk but there is a low probability at present given the outlook for new construction which remains constrained due to higher input costs and market vacancy.*

### **Comment**

Property markets over 2025 have been supported by positive fundamentals. New supply has appeared to have been limited while space demand for most property types has reflected the growth/resilience of the economy/job gains. By contrast, there has been an increase in Sunbelt apartments construction and a slow office Return-To-Work which has kept office rental demand generally depressed. Investment activity has increased from low levels over recent years as lower interest rates have induced some optimism. The relatively modest number of investment transactions may mean it can be quite challenging to peg private market property valuations, but it does appear that cap rates have largely stabilized at least for better quality properties. The Fed reduced FFR by 100bps in late 2024 and by a further 50bps in Sept/Oct 2025 and indicated they could make further reductions by YE25/into 2026. **If our macro prediction for 2026 of solid economic growth with modest easing of monetary policy is right, then a reasonable case for improved space demand (and hence property income) and higher property/REIT valuations can be made.**

### **Ten Big REIT Themes for 2026**

- **Inflation, Interest Rates, and Employment** will continue to be critical macro themes for investors. Next year, we expect inflation will remain above 2.5% and while short term rates may decline, long term rates could track sideways. Property cap rates – valuations and the cost of capital should be stable/modestly improve. REIT's inflation hedge qualities seem to have been largely ignored over recent years but could become of greater interest in a sticky inflation environment. We expect the economy to expand, and unemployment remains in the ~mid-4%'s.
- **Dividend Yield and Long-term Growth Prospects** should look relatively attractive in a potentially more stable/normalized environment.
- **Property Debt Markets Remain Open** – A solid outlook for the economy and modest public debt market issuance should maintain the lenders appetite for risk. This should in turn support property transaction activity.
- **Space Demand** could be the principal focus in the absence of much new supply for most property types in most markets. Sunbelt apartment supply is set to decline. The largely unloved office sector should continue to experience a modest improvement.
- **Sunbelt vs Coasts.** Sunbelt and selected secondary cities will likely continue to see growth driven by cost/quality of life considerations compared to the coastal metros. San Francisco (AI-Big Tech) and New York (Fin Services) look set to see continued demand with limited new supply.
- **Sub-sector Divergence.** We think investors will continue to favor companies/sectors exhibiting the highest cash flow growth. Positive spread acquisitions are a feature. Shorter lease owners (apartments & lodging) could be early beneficiaries of a growing economy. Cell Towers may regain some favor over Datacenters due to low capex and growth in edge computing.

- **M&A Activity** appears likely to continue albeit at modest levels. Activity appears to be focused on the smaller companies with ‘easy to trade’ properties such as residential and warehouses. The attractions of consolidation-scale considerations among the public companies, we believe will persist.
- **Insurance and Climate Risks Continue to Gain More Prominence** – Insurance costs have been rising and appear likely to escalate further. It seems that greater attention will be paid to areas of greatest risk to climatic events. Properties in states including California, Florida and Texas, which have enjoyed strong property markets over time, look to be most at risk.
- **Cash flow growth** (not Net Asset Value) appears to remain the principal driver of stock performance with the incremental buyer/seller of REITs being the general investor.
- **Private Equity RE/Non-Traded REITs ‘Past Peak’** The higher rate environment has challenged these business models that were significant beneficiaries of the ultra-low rate/low cap rate environment of the 2010’s. We think that more questions will be asked about ‘Privates/Alts’ valuations, leverage, high fees and lack of liquidity. *Modest debt levels and management with specialized operational and redevelopment abilities are common characteristics among public REITs.*

### Comment

According to NAREIT, US public equity REITs are up about 4% for the year ending 11/30/2025. Equities declined sharply in early April 2025 with the initial tariff announcement before starting a long bull run which has largely continued over the year, regularly hitting all-time Index highs. At the end of November 2025, the SPX closed at 6,849, up x17.81% (Total Return) YTD end Nov and the NASDAQ at 23,366, up 21.71% (Total Return) for YTD End Nov. The US10Y yield at end November 2025 closed at 4.02%, down 56bps over YTD End November, the UST2Y yield closed at 3.50%, down 74bps over YTD End November.

Since early April 2025, equities have reflected enthusiasm for AI-big tech/Mag 7, resilient earnings from much of the rest of the market and expectations of interest rate reductions by the Fed. To date, the impact of tariffs appears to have been less severe than anticipated and many ‘trade deals’ have been reached, reducing initial April 2025 levels. Over the last month or so, investor concerns regarding capex expenditures, future returns and circular/inter-company deals by AI-big tech saw the SPX and Nasdaq trade off ~5% and 7% respectively mid-November 2025 before rebounding. At present, the SPX is trading at ~25x Y25/~22x Y26 consensus EPS, with markets seemingly happy to look toward a strong earnings growth story in 2026 that would validate paying >20x. The Federal Reserve did reduce Fed Funds Rate twice by 25bps in September and October 2025 with the market pricing in further rate reductions. ***Note that we think it is the long duration bonds and not the front end, particularly the US10Y, that is of greatest significance to CRE/REIT investors as a reference point to the cost of debt capital and CRE cap rates.***

GDP grew 3.8% over 2Q25 after declining 0.5% over 1Q25. Consumer and producer behavior has been impacted by the tariffs all year with inventory build-up ahead of the full impact of tariffs spurring growth over 2Q. Expectations are that 3Q GDP growth is ~3%. The Fed with its most recent Statement of Economic Projections (Sept 2025) for Y25 forecasts 1.6% GDP growth, YE Unemployment of 4.5%,

Inflation (Core PCE) of 3.1% and Fed Fund Rate of 3.4% (assumes 2x, 25bps cuts by YE25 and further 1x 25bps in Y26).

**The Labor Market and Inflation** have remained big points of focus for investors over 2025. The Government Shutdown Oct/Nov has halted the release of important data. Recently we have seen the Sept Non-Farm Payrolls and CPI reports. Sept Job gains were 119k, Unemployment was 4.4% and Wage growth was 3.8%/Y. Gains over the 3mths ending Sept av 62k/month. The BLS revised down job gains over the 12mths ending March 2025 by ~900k. The current labor market has been described as 'low hire, low fire' with the slow gains rate prompting the Fed to reduce interest rates in September/October. Inflation as measured by CPI (Headline) has declined from a 9.1%/Y peak in June 2022 to 3.0%/Y in September 2025 with Core at 3.0%/Y. Inflation has been stalled in the mid-2%-3.0% over the last several months, well above the Fed's 2.0% target. The Fed with its 'Dual Mandate' of price stability and maximization of employment is faced with a serious challenge of finding a balance.

There has been no serious contagion of CRE loan woes among the small/medium sized 'Regional banks' since 1H23. The Regional Banks are disproportionately 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. The CMBS/CLO market has revived over the last year or so. Expectations are for more ~\$125bn of CMBS issuance this year.

Investors have been cautious about investing in CRE/REITs over recent years with concerns about the sensitivity to interest rates and bank lending to the sector. The challenged state of the CBD office market has continued to generate attention. Property transaction volumes have picked up from the 2022/23 lows though an element of uncertainty persists about the extent prices have fully adjusted to current market clearance levels. The physical property asset market is slower to adjust compared to the public markets which react much quicker. **It does seem reasonable to now believe the majority of property price corrections are behind us, three years after the Fed started raising rates in 2022 and then more recently started to reduce rates from mid/late-2024 and again in Sept/Oct 2025.**

Over time, we think REIT's steady earnings with relatively predictable growth/high dividend yield with CPI+ growth potential will attract more investors. We believe overall REIT Y/Y earnings/dividend growth in Y25 should be in the 3-5% range before some potential acceleration in 2026 and beyond assuming steady growth of the economy.

### **Property/REIT Markets**

Property fundamentals – space supply and demand - over 2025 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 the labor market has remained resilient. Office space demand remains a point of contrast (ex-healthy demand for properties of the highest quality). There has been increased supply of apartments in the Sunbelt that has been mostly met by increased demand. Space demand in datacenters is high with availability of energy a major constraint. Concerns about AI-Tech over-investment raise some hard to answer questions for datacenters. The investment market continues to be relatively subdued though there has been some increase in transaction volume providing some pricing references. The increase in interest rates over 2022/23 (FFR close to zero to the mid-5%'s) raised

the cost of capital, pushed cap rates up and reduced many property values. We think the recent 25bps reduction in FFR (and the prospect of further cuts) should support some improvement in the cost/availability of debt which would facilitate a firming of property investment markets. As we noted above, it is the UST10Y that is of greater significance to CRE markets than short-term rates.

## Valuation

The publicly traded REITs are presently trading at a forward Y25 estimated FFO/sh multiple in the mid-high teens, a forward estimated AFFO/sh in the low 20's. We think FFO/sh and AFFO/sh Y/Y growth will be in the range of 3%-5% over 2025 and seem likely to show a similar growth level, potentially a little higher, over 2026. REITs are currently paying a dividend yield of ~4.0%. We think the Y/Y dividend growth rate will approximate the growth rate of FFO/AFFO.

The **property investment markets** have seen some pick-up in activity levels compared to low levels over recent years. We think most potential sellers have adjusted to lower prices compared to 3-4 years ago but many buyers remain cautious. The tariff related uncertainty seems to have had a dampening effect on long-term investment activity (aside from AI-related). Public REITs, many with access to capital appear well placed to be winning buyers with an advantage over other typically more leveraged buyers. Over 2025, we note: Simon's (SPG) purchase of Miami Mall for \$512m; Vornado's (VNO) acquisition of 623 Fifth Ave and Norges Bank's purchase of 1177 Sixth Ave (both deals for Manhattan offices). Other than acquisitions, we note that BXP (BXP) has taken full ownership at 343 Madison Ave, a \$2.0bn Manhattan Midtown office development and announced a pre-lease of 30% of the space) and Plymouth Industrial (PLYM), the industrial property REIT, has agreed to an offer from PERE that values the company at \$2.1bn (TEV).

**Property Capital Markets** – YTEnd September, REITs had raised \$56bn, on track to raise ~90% of the \$85bn raised over Y24. Through September they have principally been active in raising Unsecured Debt \$39bn (70%/Total) with \$15bn Common Stock and \$2bn Preferred Stock. Many REITs have an appetite for unsecured long-term debt at interest rates for 10Y in the 5%'s – typically ~200bps above their expiring debt. Notable recent issuance includes: American Tower (AMT) EUR 500m (\$562m), 7Y at 3.625%; Gaming & Leisure Props (GLPI), \$1.3bn 8Y/12Y at ~5.5%; Invitation Homes (INVH), \$600m 8Y at 4.96%; and Brixmor (BRX), \$400m 8Y at 4.85%. BXP (BXP) raised \$650m, 2030 Exchangeable Notes with a 2.0% coupon/22.5% Conversion Premium. The CMBS market has revived over the last couple of years with new issuance increasing. Loans with special services/delinquencies have moved up and there have been specific problems with Single Asset/Single Borrower office deals. Additionally, we note SL Green (SLG) announced in mid-year that it had raised in excess of \$1bn for its New York City Office Debt fund.

Many REITs have locked in low rates and extended maturities and reduced variable debt over recent years which gave them some protection against interest rates volatility 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** (currently for the Y25). Most REITs have fairly predictable businesses. In our opinion, many REITs growth expectations are being tempered by headwinds from increased operational costs and higher debt charges. For 3Q25, generally solid earnings were reported though there were Y/Y down earnings from the Office companies and rather anemic growth from many Residential REITs. We think overall Y/Y FFO/sh REIT growth for Y25 will be in the low single digit range. Our provisional thinking at this time is that Y/Y FFO/sh growth in 2026 will be mid-single digits assuming modest growth in GDP/jobs over the year.

### REIT Sub-Sector Notes

The stock performance of **Datacenters and Cell Towers (21%/Benchmark Index by equity market capitalization at end September 2025)** have exhibited divergent trends YTD that contrast with their Y24 performance. The Towers have shown better performance YTD buoyed by some improvement in their earnings prospects and the sale by Crown Castle (CCI) of its Small Cells/Fiber business. By contrast, the Datacenter stocks have underperformed YTD with investors rotating out of big tech/Mag 7 despite general enthusiasm for all-things AI. **Industrial/Distribution space (11%/Index)** demand continues to be led by e-comm. New supply appears to be peaking. The big Southern California market continues to be soft, and port-import related space demand has been impacted by tariffs. **Collectively, the tech-related, Cell Towers, Datacenters and Industrial/Distribution companies had a weighting of 32%/Index.**

**Retail (16%/Benchmark Index)** property has continued to experience a steady rebound from the Covid induced woes of 2020 though many retailers have recently warned of an uncertain outlook for sales. With virtually no new supply of new properties over recent years, retailer demand for space in the better-quality properties has been strong for the top shopping centers, malls and stand-alone/triple-net properties. While we think competition from e-commerce will continue to increase and has been growing at ~3x the rate of overall sales, on-line sales currently still only represent about 15% of total sales. Many retailers have adapted to 'omni-channel' models combining e-comm and physical stores. We think the best retail properties will continue to do well but pressure will persist on many tertiary and secondary properties.

**Healthcare (16%/Benchmark Index)** 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. Ownership remains highly fragmented, affording good acquisition opportunities for companies with access to competitive funding. By contrast, Life-science/Medical Offices Buildings from our view have seen a softening of demand and new supply concerns.

**Residential** rental property with a **13%/Benchmark Index weighting** is 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. Home Price gains (presently ~3-4%/Y) and mortgage rates (~6%) continue to pressure affordability which has led to increased rental demand. Renter demand in N CA and New York has been strong. New apartment supply in the Sunbelt has peaked with recent supply having largely been absorbed. The current dearth of construction loan finance from the regional banks would suggest it likely there will be a shortage of new supply over the next few years.

Other sub-sectors of note that represent less than 10% individually of the Index include: **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 the rise of Work-From-Home/soft 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 take some time to work through. 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 with their acquisitions and their funding of developments/option to buy agreements with entertainment/leisure operators.

### Concluding Thoughts

Investors for good reason regard CRE/REITs as being interest rate sensitive. Lower rates should help increase CRE asset values, reduce REIT's Cost-of-Capital and make their dividend yields look more attractive. Over the last 15 months or so, the Fed has reduced interest rate by 150bps and appears likely to reduce rates further in the near-medium term. In our opinion, CRE fundamentals are solid – there is little new supply of most property types in most locations and space demand is likely to increase with a growing economy. REIT stocks have been out-of-favor over recent years as high growth, big-tech have commanded much attention. We feel that there have been some signs of late that enthusiasm for AI-Big Tech has cooled down and the stock market has been broadening out. As we look into 2026, lower rates could add fuel to this market broadening, and this could include REITs which are beneficiaries of lower rates.

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*The views in this letter were as of December 2025 and may not necessarily reflect the same views on the date this letter is first published or any time thereafter. These views are intended to help shareholders in understanding the fund's investment methodology and do not constitute investment advice.*

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).

Benchmark Index – The Index was the FTSE NAREIT All Equity REITs Index until 12/31/2023. 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 FTSE NAREIT All Equity REITs index contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

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