UNIPLAN
A BETTER ALTERNATIVE

2Q24 REIT Review/Outlook

Executive Summary

- ***REITs remained out of favor with investor sentiment weighed by the absence of rate cuts.***
- ***Big Tech/AI remained in vogue and led market performance with only limited rotation/repositioning/broadening of the stock market.***
- ***Post 2Q End, REITs have attracted investor attention and have performed well as enthusiasm for Big Tech has faltered and expectations of a rate cut have increased.***
- ***Markets reset expectations to less rate cuts over 2024 – now 1-2 (vs 6-7 at beginning of year). Corporate Earnings growth has exceeded expectations.***
- ***There have been some big investment deals in CRE over 2Q by typically early movers which signal optimism that we are close to the bottom of the cycle.***

REITs underperformed the broader market during the quarter/first half. Publicly traded REITs continue to trade at a substantial discount to their net asset value (NAV) versus the private market values of their portfolios. We believe these discounts are currently bottoming out and can be expected to narrow as REIT valuations move up and private market values adjust to the generally higher cost of capital and lower leverage environment. We have been in the higher for longer camp as it relates to the Fed, but as inflation has trended lower and the economy appears to be cooling, rate cuts appear likely later this year/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 in early July is consistent with this narrative. Recent transactions notably including Blackstone's $10bn acquisition of apartment owner AIR Communities at a 25% premium to its prior closing price and KKR's $2.1bn acquisition of apartments from Lennar (LEN) are also supportive of this thesis.

REITs Post Modest 2Q/1H Losses
Underperform vs the Overall Market, 2Q/1H

REITs (Primary Benchmark Index[1]) generated a -0.80% Total Return over 2Q, -2.1% 1H24. The equity market (SPX[2]) ended 2Q24 at 5,460.7, generating 4.3% Total Return over 2Q and 15.3% over 1H24[3]. The US10Y yield closed at 4.40%, up 19bps over 2Q and up 52bps over 1H24; the US2Y yield closed at 4.75%, up 16bps over 2Q and up 50bps over 1H24. These broader market moves reflect a change in the narrative over 2Q/1H from modest economic/corporate earnings growth and several cuts in interest rates to higher economic/earnings growth and one or two rate reductions over 2024.

Equity performance continued to be led by mega-cap tech stocks – arguably reduced from the Magnificent 7 to the Fabulous 4 (Amazon, Nvidia, Meta and Microsoft - AMZN, NVDA, META, MSFT). The SPX and NASDAQ Indices have both continued to regularly hit all-time highs over 2Q/1H. AI related enthusiasm (and specifically NVDA) has continued apace while hopes of a widening of optimism to other areas of the market (non-tech, smaller companies) have been subdued. US Treasury yields have moved up and the Yield Curve has flattened/partially dis-inverted over 2Q while the Break-evens remained little changed with the US10Y Real Yield that has been around 200bps.

Economic growth decelerated over 1Q to 1.4% GDP (3.4% during 4Q23) but is expected to reaccelerate a little in 2Q. This year the economy has featured a strong labor market, solid consumer spending and corporate earnings gains. The Fed with its most recent Statement of Economic Projects (June) maintained its Y24 expectations of solid economic growth (GDP

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[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	-0.80	-2.10	5.87	3.42	6.11
S&P 500	4.29	15.30	24.55	15.05	12.53

2.1% and employment (YE 4.0%) with inflation trending down (Core PCE 2.6%) and lowered expectations to one or two, 25bps Rate cuts later this year.

Inflation and the Labor Market have remained points of focus over 2Q/1H24. Inflation as measured by CPI (Headline) has declined from 6.5% in Dec 2022 (9.1% peak June 2022) to 3.4% in May '24 with Core PCE down to 2.6% Y/Y in May but has shown signs of being 'sticky' declining only slowly this year. The jobs market has shown only small signs of cooling with an average of 177k/month jobs added over the last three months, with unemployment at 4.1% at the end of June and Y/Y Wage gains of 3.9%. There were 1.2x openings per unemployed as per the June BLS Monthly data and the May JOLTs report. The Fed has been on 'pause' with FFR at 5.25-5.50% since Sept 2023.

There has been no serious contagion of CRE loan woes among the small/medium sized - Regional banks over 2Q/1H though investor concerns have not disappeared. The Regional Banks are disproportionally important to property lending. Regionals own two-thirds of CRE loans and 38% of all loans. There are ~$500bn of mortgages maturing each year over the next 3 years. The cost of borrowing has doubled from levels a year or two 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.

Investors have remained cautious about investing in REITs over 1H24 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 some 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. **It is reasonable to think that since the Fed started raising rates two years ago and now seems likely to hold/reduce rates in the near-medium term, the majority of property price corrections are behind us. Indeed, REIT prices already appear to have moved up a little from their cyclical valuation lows.**

Figure 1. Simple Example of Property and Net Asset Value Decline Compared to REIT Stock Price Movement

In simplified terms: Moving up cap rates from 5% to 6% = ~20% Decline in Property Value
Assuming 40% Leverage, 20% Property Decline = ~30% Decline in Net Asset Value (NAV)

REIT Stocks (as per IYR) from YE21 have declined 22% to mid-24 after hitting a low of -34% end October 2023/YE21

Source: Uniplan Investment Counsel, Inc.

Over time, we think investors will re-focus on REITs steady earnings/dividend growth potential. We believe overall REIT Y/Y earnings/dividend growth in Y24 should be in the 3-5% range. 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.

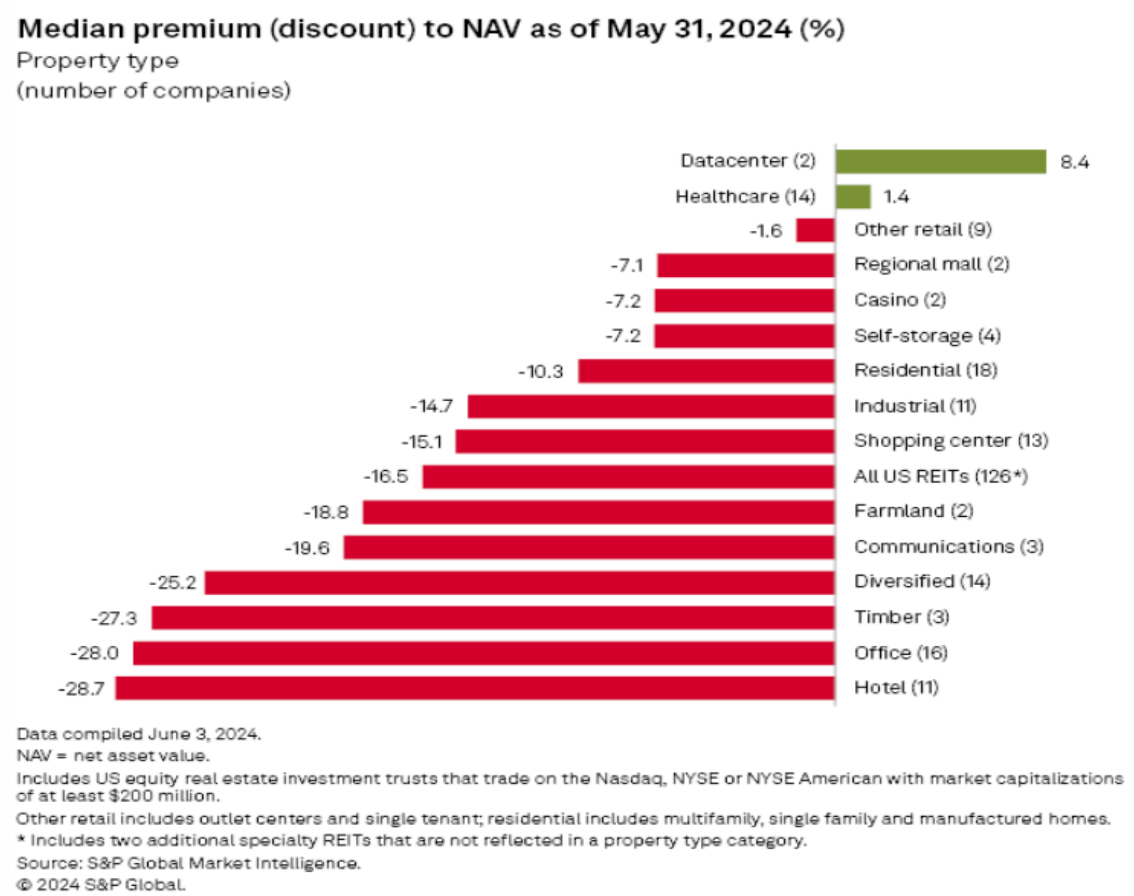
Over the balance of the year, we think the Fed may reduce rates 1-2 times as inflation gradually trends down, and economic growth slows. Against this background, we think the REIT sector may start to attract greater support as indeed REIT stock prices had in early July. And as always, the appeal of REIT's high, relatively secure dividend yield will be attractive to income seekers.

Property/REIT Markets

Property fundamentals – space supply and demand - over 2Q/1H24 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. Weak office space demand, apart from the highest quality space, is a point of contrast with the overall state of the property market. 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 stabilization of interest rates/prospect of rate reduction in near-medium term should support an improvement in the cost/availability of debt which should facilitate a firming of property investment markets.

Valuation

Publicly traded REITs continue to trade at a substantial discount to estimates of their net asset value (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 16.5% as of May 31, 2024. We believe these discounts are in a bottoming phase and they will begin to narrow as REIT valuations move up and private market values adjust lower as a result of the generally higher cost of capital and lower leverage environment. Please see chart ***-Median premium (discount) to NAV as of May 31,2024 (%) -*** on the following page.



Source: S&P Global, Inc.

Sector Notes

The stock performance of **Datacenters and Cell Towers (22%/Index by equity market capitalization at end June 2024)** has continued to show a divergence over 2Q/1H24. Investor enthusiasm for all things related to AI has helped Datacenters maintain their status as one of the better performing REIT sub-sector YTD, albeit below their top performing standing over Y23. The Towers have been weighed down by reduced big carrier capex over the last year or two. The carrier capex outlook appears to be for higher spend including 5G expansion implying increased tower space demand over the medium term. **Industrial/Distribution space** (12%/Index) demand led by e-commerce, 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 S CA market. **Collectively, the tech-related, Cell Towers, Datacenters and Industrial/Distribution companies had a weighting of 34%/Index**.

Residential rental property with a **15% Index weighting** 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) falls far below demand. Strong Home Price gains (>6%/Y) and mortgage rates (>7%) have reduced affordability which has fed into 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. The current dearth of construction loan finance from the regional banks would suggest it very likely there is a shortage of new supply over the next 2-3 years.

Retail (15%/Index) 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. 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 sales. 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 10% of the Index include: **Healthcare** properties continue to represent 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 remained generally positive, albeit with 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 spurt. **Offices** have been negatively impacted by a slow Return-to-Office/tenant space demand and by concerns 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 **property investment markets** continue to be rather subdued with sellers taking time to adjust to lower prices that reflect potential buyer’s higher cost of capital. As we move towards a more stable financing/possibly lower rate 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 2Q, we note two big industrial deals and two big multifamily apartment deals: Rexford (REXR) bought a $1bn portfolio in S CA from Blackstone (BX); Terreno (TRNO) acquired $450m of properties, principally smaller properties in NY/NJ, San Francisco, and Los Angeles. BX is buying AIR Communities (AIRC) – owns 27k units – for

$10bn EV. KKR buys $2.1bn apartment portfolio from Lennar (LEN). Host Hotels (HST) bought Turtle Bay Resort, a 450-bed Hawaii hotel for $680m. Also of note, a number of sponsors including Ares, RXR and SL Green (SLG) appear to be moving ahead in raising/deploying funds to invest in New York City offices.

Property capital markets – Through the end of May 2024, REITs have raised $35bn (compared to $62bn over Y23). Debt has comprised $22.4bn, two-thirds of the total with equity issuance limited by low stock prices/limited investor appetite. The pace of capital raising through the end of May 2024 is on pace with ~$84bn by YE24 which would be ~third ahead of Y23. There have been several unsecured debt raisings over 2Q/1H typically 10Y with the rate in the 5%'s, ~200bps above expiring debt. Notable recent issuance includes: American Tower (AMT) $1.3bn, 5 & 10Y at 5.3% blended and EUR 1bn ($1.1bn) at 4.0% blended; Alexandria (ARE) $1bn, 12Y and 30Y at 5.5%, blended; Extra Space (EXR) $600m, 7Y at 5.9%; American Homes 4 Rent (AMH) $600m 10Y at 5.5%; and Essex Property (ESS) $350m, 10Y at 5.5%. Notable equity issuance includes: Digital Realty (DLR) $1.5bn and Invitation Homes (INVH) $1.5bn Forward.

Many REITs have locked in low rates, extended maturities, and reduced variable debt over recent years giving them some protection against higher interest rates in the near-medium term. In the secured (mortgage) debt market, there are worries 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. New issuance in the CMBS market has picked up off very low levels despite loans with special services/delinquencies being on the rise and specific problems emerging with Single Asset/Single Borrower office deals.

The **Non-Traded REITs** (BREIT, SREIT and others) have enjoyed considerable support from retail investor inflows a few years back. They have however 'gated' (limited) investors from selling their stock over the last couple of years as redemption requests exceeded capped limits. Most recently, SREIT has lowered its monthly buy-back cap to 0.33%/NAV (from 2.0%). Retail investors have been learning of the value of stock liquidity the hard way. These investment vehicles, like Private Equity Real Estate (PERE), thrived during the 'free money' era (2008-2021), will need to adapt if they are to generate attractive returns in a higher rate environment. Institutional investors in PERE funds appear to harbor few doubts about CRE's prospects – Blackstone (BX) recently raised $30bn equity for BREP X to invest globally across property sectors.

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 1Q24, notably strong earnings were reported by Industrial and Datacenter REITs while there were down earnings from the Office companies. We continue to think overall Y/Y FFO/sh REIT growth for Y24 will be in the low-mid single digit range assuming modest growth in GDP over the year and provisionally a similar/slightly higher rate of growth for Y25.

Following a disappointing first half of the year for REIT stocks, we think there are some grounds that support hopes for a better second half. Rate cuts by the Fed will likely increase investor interest in rate sensitive investments and if cuts are 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. 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 a 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 investors and has seen much better stock performance since the start of July as enthusiasm for mega-tech stocks has waned and optimism about the prospects for rate cuts by the Fed has increased.

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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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