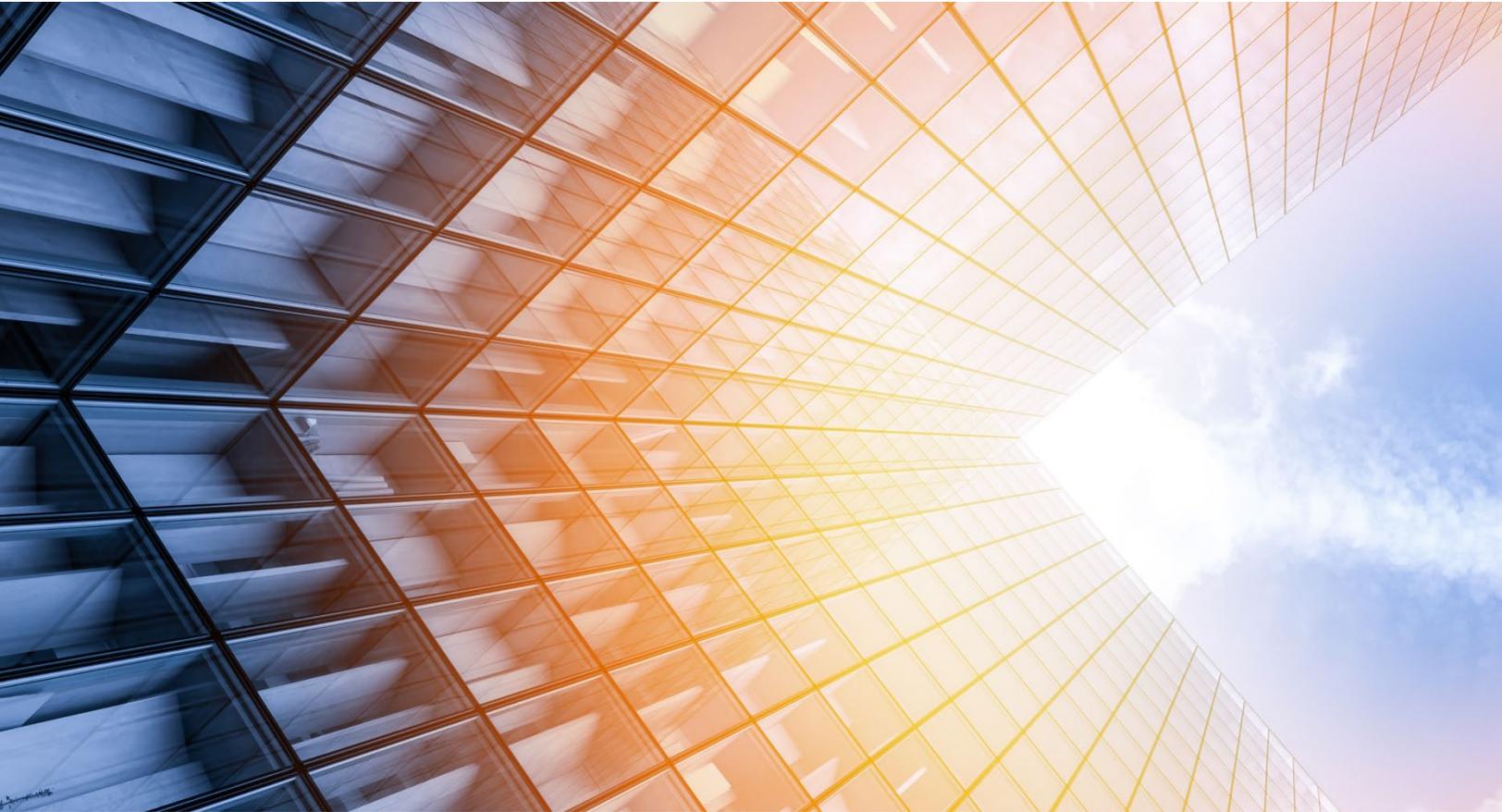




Q3 | 2023



The REIT Cap Rate Perspective

Trends Below the Surface of Uncertainty

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

Trends Below the Surface of Uncertainty

Throughout the third quarter, there has been a bustling debate amongst market participants.

- Did the Fed manage to deliver a soft landing, or will there be a recession?
- If the economy can still deliver growth at these interest rate levels, what does that mean about the neutral interest rate level?
- How much will the Bank of Japan's plan to increase policy rates impact yields worldwide?
- When will the Federal Reserve be done with its interest rate hiking cycle?

Despite this continued uncertainty and rise in treasury yields, REIT pricing has remained relatively flat over the last quarter, which begs the question: Have we reached the bottom of REIT pricing? Time will tell, though we do believe that we're closer to the end of the Fed's rate hiking cycle, especially following Fed Chair Powell's commentary after the September meeting, which has historically been a positive catalyst for **REIT pricing**. Despite the flat REIT market of late, there are two meaningful valuation shifts worth noting.

The first shift has occurred in the office sector. While many are surprised to learn that the office sector represents less than 4% of the total US REIT investible universe, it is widely acknowledged the sector is trading at the steepest discount to the underlying value of its real estate portfolio today. While the jury remains out on the true value of office, REIT office portfolios are largely comprised of top-tier quality office product and operate with relatively strong balance sheets. Yet, the barrage of negative headlines surrounding the sector has led to office REITs being oversold. In recent months, the introduction of return-to-office mandates, along with early green shoots in the leasing environment, has suggested the sentiment bottom might be behind us. In response, we have observed a notable compression in implied cap rates within the office sector this past quarter.

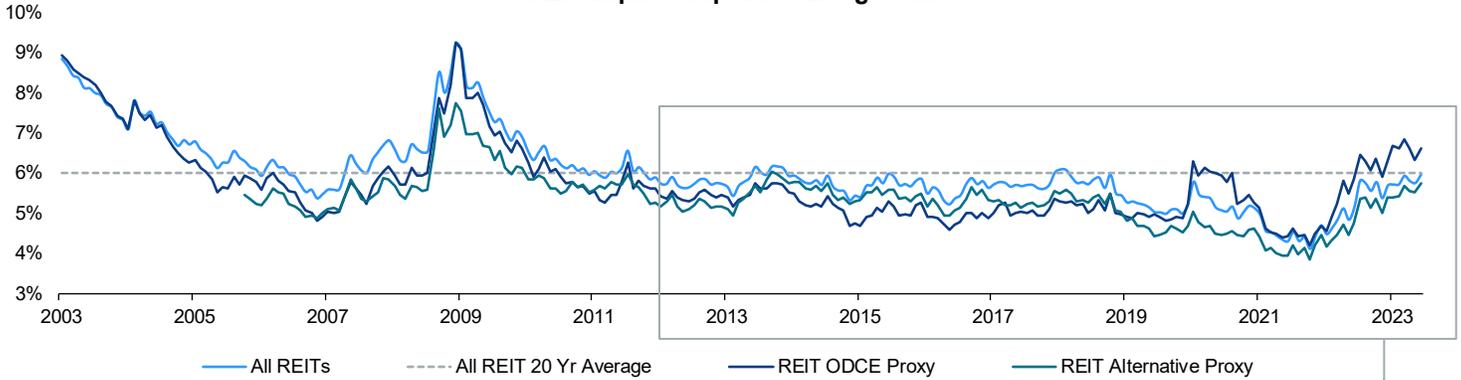
A second noteworthy shift in valuations occurred within the data center sector, primarily propelled by ongoing enthusiasm surrounding the market potential of artificial intelligence and the consequential surge in data center demand. In contrast to the uncertainty around economic growth creating cyclical headwinds elsewhere (like in the office or lodging sectors), the secular demand for data centers is expected to grow, exceeding the overall real estate market well into 2025. As a function of higher growth expectations, cap rates have continued to compress in this sector over the last quarter.

Looking forward, as we approach the year's end and beyond, we anticipate secular tailwinds will continue to influence valuations across sectors.

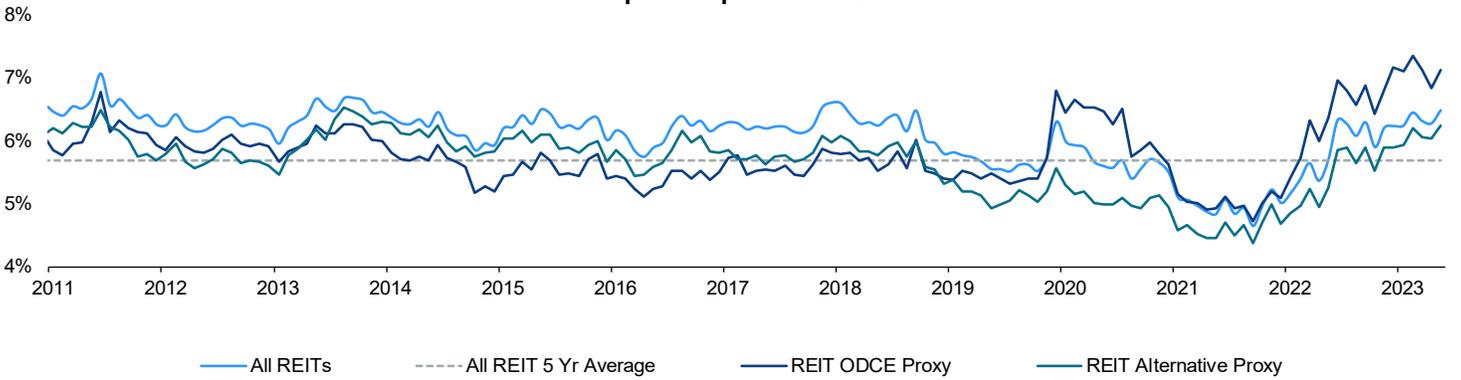
Times of uncertainty have always produced opportunity, and today's environment will be no exception. Looking forward, as we approach the year's end and beyond, we anticipate secular tailwinds will continue to influence valuations across sectors. As the economic landscape for 2024 comes into focus, we are anticipating the realization of these valuation shifts creating meaningful upside for astute investors who remain attuned to these developments.

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	5.88%	(6)	104	4.81%	5.22%	(11.2%)
Industrial	4.01%	16	32	3.88%	4.21%	4.9%
Office	8.34%	(41)	118	6.32%	6.63%	(20.5%)
Retail	7.32%	(31)	18	6.69%	7.03%	(4.0%)
Hotel	7.90%	21	72	6.54%	5.94%	(24.9%)
REIT ODCE Proxy	6.63%	(23)	77	5.40%	5.77%	(13.0%)
Life Sci	7.37%	12	194	4.77%	5.20%	(29.5%)
Healthcare	7.30%	2	113	6.08%	6.47%	(11.4%)
Single Family Rentals	5.19%	1	40	4.64%	4.68%	(9.7%)
Manufactured Housing / RVs	4.83%	(3)	51	3.88%	4.78%	(0.9%)
Towers	5.61%	13	154	4.22%	4.58%	(18.3%)
Data Centers	4.77%	(42)	(33)	4.95%	5.47%	14.7%
Self Storage	5.81%	33	118	5.93%	5.28%	(9.1%)
REIT Alternative Proxy	5.76%	5	100	4.75%	5.28%	(8.4%)
All REITs	5.99%	4	80	5.91%	5.45%	(9.0%)

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 September 2023. All periods presented are ending September 2023 (i.e. 3 month change represents the change from financials reported in June 2023 to September 2023). 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 2023 earnings reported in September 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 (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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