Perspectives

CBRE Investment Management

It's Morning for Listed Real Estate

DECEMBER 2023

JOSEPH P. SMITH, CFA
Chief Investment Officer
Listed Real Assets
joseph.smith@cbreim.com

KENNETH S. WEINBERG, CFA
Chief Investment Officer
Listed Real Estate
kenneth.weinberg@cbreim.com

JONATHAN MINIMAN, CFA
Portfolio Manager
jonathan.miniman@cbreim.com

JUSTIN PICA
Portfolio Manager
justin.pica@cbreim.com

JON TREITEL, CFA
Portfolio Strategist
jon.treitel@cbreim.com

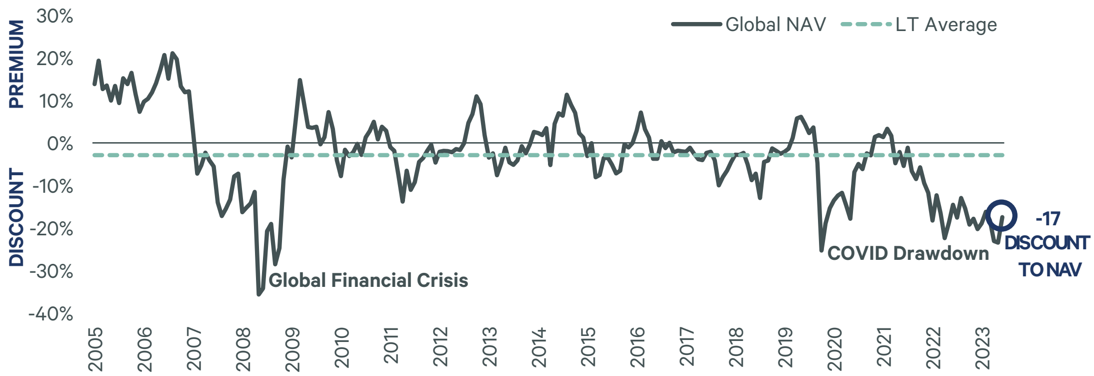
At CBRE IM, we believe listed real estate represents amongst the highest total return potential in broad equities and in real assets for 2024. Listed REITs meet investors at a special moment in history, following generational hikes in central bank rates, turmoil in capital markets, and nearly two years of negative REIT returns. With current inflation rates now less than half of what they were a year ago, we see a potential pause in the Fed cycle as an important catalyst for REIT investors, who can look forward with more confidence to the future. When we review the asset class, we find:

- Historic discounts compared to private markets: the potential for future returns
- Resilient earnings and balance sheets: the ability to prosper in a "higher for longer" regime
- Similarities to the 1991-1997 playbook: the opportunity to ignite a cycle of accretive acquisitions

After the depths of winter, the force of spring

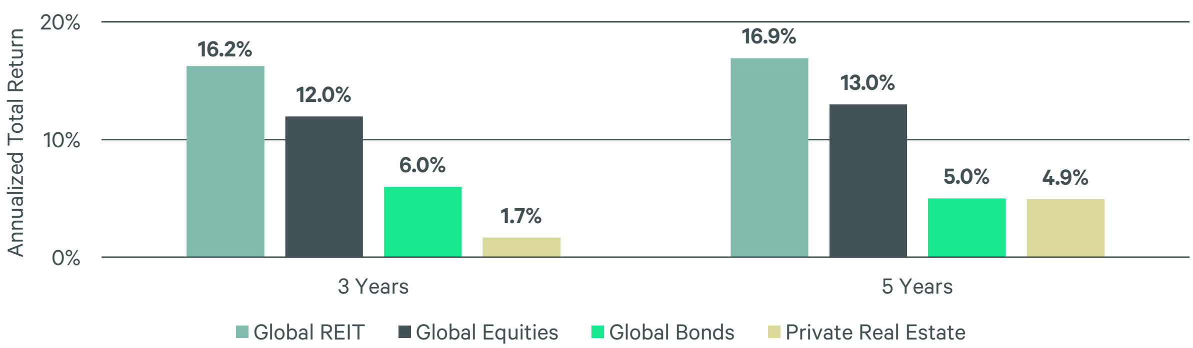
After ~500bps of increases in U.S. interest rates, REITs have posted nearly two years of negative returns. Two years of declines in REITs is a relatively rare occurrence; it has only happened twice before, in 1998/1999 and 2007/2008, and both of those periods proved favorable entry points for investors.[1] Today, REIT underperformance has left valuations compelling. We see global real estate at a 17% discount to NAV, even after moderating our own assumptions for values by ~25% over the last two years to reflect higher-for-longer rates. Such discounts to NAV have historically resulted in strong forward returns for REITs.

Figure 1: REITs trade at a historically wide disconnect to our estimate of private market values



Source: CBRE Investment Management through 11/30/2023. Estimated Net Asset Value is calculated based on individual REIT only stocks followed by the firm's research team and are considered as investible. Global, Country, and Sector NAV Premium Discounts are calculated using simple average with CBRE Investment Management's proprietary models. Information is the opinion of CBRE Investment Management and subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

Figure 2: Global REIT and broad asset class performance following greater than 20% discounts to NAV

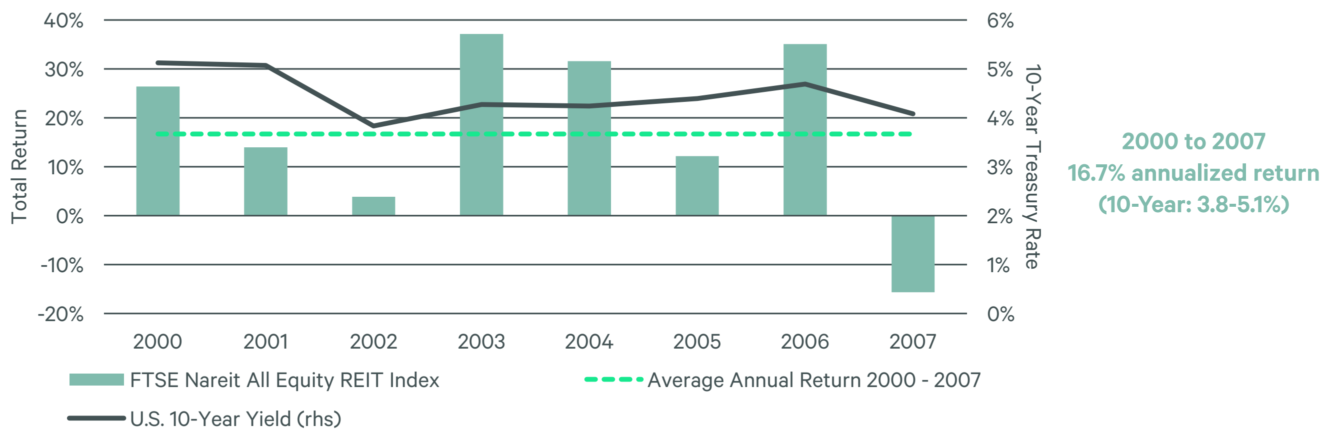


Source: FTSE EPRA Nareit Developed Index, MSCI World Equity Index, Bloomberg Barclays Global Aggregate Bond Index, NFI-ODCE Value Weighted Index and CBRE Investment management as of 11/30/2023. Returns are annualized and consider data between 1/31/1997-12/31/2020 . Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Past performance is no guarantee of future results, which will vary. An index is unmanaged and not available for direct investment. Forecasts and any factors discussed are not a guarantee of future results.

We see a catalyst for REIT performance in a potential Federal Reserve pause, which has spurred REITs in the past. Importantly, we do not believe we need interest rate cuts for REITs to work; rather we believe REITs can perform in a higher for longer-regime, just as they have previously. Below, we show U.S. REIT performance during the 2000-2007 period, when the 10 year treasury ranged between 3.8%-5.1%. REITs outperformed equities and delivered a ~17% annualized return during this period.

[1] Considers listed real estate returns from 1991 to 2022.

Figure 3: REITs can perform in a higher for longer regime

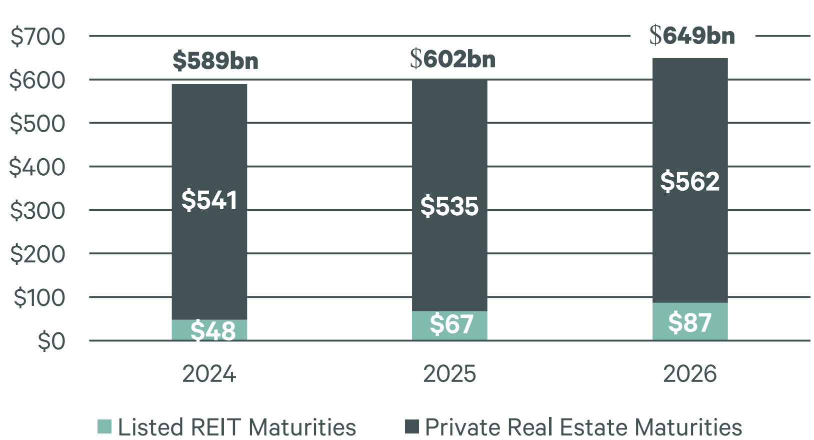


Source: CBRE Investment Management and FTSE Nareit All Equity REITs Index and 10-year bond yield. Information is the opinion of CBRE Investment Management and is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

Resilient earnings supporting by contracted cash flows and strong balance sheets

Aiding performance in a higher interest rate regime is the fundamental set-up for REITs. In general, we see earnings as resilient, dividend coverage ample (1.5x), balance sheets strong, and JV/alternative capital available to fund acquisitions. We project ~4% earnings growth in 2024, which fully incorporates higher for longer rates, but which excludes material transaction activity. Conservative earnings dovetails with strong balance sheets, which boast low loan to value ratios of ~27% on average, total debt stacks largely fixed, and significant terms to maturity. Oft-discussed, pending debt maturities for commercial real estate broadly are a much larger issue for the private markets then they are for REITs; listed REITs represent only 12% of the $1.8 trillion of CRE debt maturing through 2026. The greater financial flexibility of REITs compared to the private market is an advantage, one that supports the potential for REIT management teams to take advantage of acquisition opportunities over the cycle.

Figure 4: REITs are relatively insulated from rising rates compared to private markets
Commercial Real Estate Debt Maturities



Listed REIT Balance Sheets

27%
Average Loan-to-Value ratio

91%
% of total debt at fixed rate

6.5 years
Average term to debt maturity

Source: CBRE Investment Management, TREPP, Morgan Stanley Research, NAREIT as of September 2023. Information is the opinion of CBRE Investment Management and is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

To see a decade ahead, look two behind

Indeed, while a new interest rate reality may bite private real estate participants, REITs may benefit. One hallmark of the 1991-1997 period for REITs, during which they delivered a ~20% annualized return for investors, was an environment in which private markets had a lack of access to capital and public REITs had an abundance. Public REIT acquisitions during the 90s dramatically enhanced liquidity and enabled growth, as companies came to trade at NAV premiums, issued equity, and accretively acquired assets.

We see a similar potential for REITs to acquire today, even though they do not yet trade at premiums to NAV. While private owners of real estate may face liquidation queues, contemplate refinancing challenges, and present more uncertain values, public REITs are in a position of relative strength—their values are reset, refinancings are manageable, and the unsecured debt market is open. As 2023 closes, we've already seen REITs find opportunities, both purchasing directly from private investors, and from buying amongst their public peer set. We highlight notable metrics below. We believe this marks a return of animal spirits for REITs.

Figure 5: REITs are acquiring both private assets and undervalued publics

10	$37 billion
Acquisitions by listed U.S. REITs since December 2022	Total transaction value

Source: CBRE Investment Management, Forecasts and any factors discussed are not indicative of future investment performance.

As 2023 comes to a close, we see it as laying the groundwork for a potentially virtuous cycle of REIT acquisition. This cycle can only be strengthened by the valuation handoff, the potential for today's NAV discounts to turn into tomorrow's NAV premiums. As valuations potentially rise, REITs can have the ability to raise and deploy capital, with the ability to extend a cycle of performance for the asset class. As active managers, we continue to seek opportunities to compound additional value for investors. When we look ahead, we are optimistic for the asset class and for the opportunities that we see today to outperform. We look forward to a new morning for REITs in 2024.

About CBRE Investment Management

CBRE Investment Management is a leading global real assets investment management firm with $144.2 billion in assets under management* as of September 30, 2023, operating in more than 30 offices and 20 countries around the world. Through its investor-operator culture, the firm seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that its clients, people and communities thrive.

CBRE Investment Management is an independently operated affiliate of CBRE Group, Inc. (NYSE:CBRE), the world's largest commercial real estate services and investment firm (based on 2022 revenue). CBRE has approximately 115,000 employees (excluding Turner & Townsend employees) serving clients in more than 100 countries. CBRE Investment Management harnesses CBRE's data and market insights, investment sourcing and other resources for the benefit of its clients. For more information, please visit www.cbreim.com.

If you would like to discuss the contents of this paper with our team, or would like more information about investing in real assets, please contact:

Jon Treitel, CFA, CAIA
Portfolio Strategist,
Listed Real Assets
T: +1 610 995 8280
E: jon.treitel@cbreim.com

David Leggette, CAIA
Lead Product Strategist & Head of Marketing,
Listed Real Assets
T: +1 610 995 7349
E: david.leggette@cbreim.com

*Assets under management (AUM) refers to the fair market value of real assets-related investments with respect to which CBRE Investment Management provides, on a global basis, oversight, investment management services and other advice and which generally consist of investments in real assets; equity in funds and joint ventures; securities portfolios; operating companies and real assets-related loans. This AUM is intended principally to reflect the extent of CBRE Investment Management's presence in the global real assets market, and its calculation of AUM may differ from the calculations of other asset managers and from its calculation of regulatory assets under management for purposes of certain regulatory filings.