CenterSquare INVESTMENT MANAGEMENT

Entrepreneurial Culture, Institutional Strength.

E. Todd Briddell, CFA, Chief Executive Officer and Chief Investment Officer

REITS: WELL POSITIONED FOR A MID-CYCLE SLOWDOWN

Despite accommodative monetary policy in several major markets, substantial economic growth failed to materialize in 2015, and we are now experiencing what we have labelled a "growth recession", exhibiting positive but anaemic economic growth. In the fourth quarter, China's continued economic deceleration fuelled global market volatility, currency movements were volatile, and geopolitical activity continued to weigh on Europe and the Middle East. Additionally, weakness in U.S. productivity and a falling participation rate in the U.S. labor force, declining to its lowest level ever during an expansion, further point to a global economy in a mid-cycle slowdown. Expectations are that GDP forecasts from the International Monetary Fund (IMF) will decline as we continue into 2016. Subdued global demand and overcapacity continued to be reflected in oil prices, which fell to roughly $28 per barrel, down from over $130 per barrel less than two years ago.

The Pinnacle at Symphony Place, Nashville

In the United States, the Federal Reserve increased rates with a 25 basis point move in mid-December. However, we are concerned that due to current levels of inflation and growth, the Fed may have to temper its stated expectation of three increases in 2016 to avoid a negative impact on the economy. Our prediction of a flattening of the long-end of the yield curve has proven accurate; the 10-year U.S. Treasury rates stayed low, and, in fact, flattened, further signalling a mid-cycle economic slowdown.

A DECELERATING CHINA

We have held the view that Chinese growth has been materially lower than officially reported. Using an index of underlying economic variables (produced by ISI Evercore) measuring a weighted average of seven real aspects of the Chinese economy including railway freight, electricity consumption, and container through-put, among

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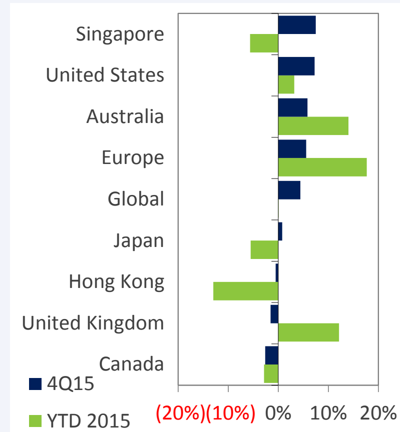
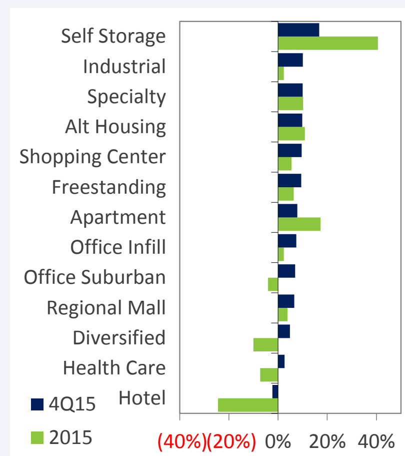
4Q15 PERFORMANCE REVIEW

FTSE EPRA/NAREIT DEVELOPED INDEX



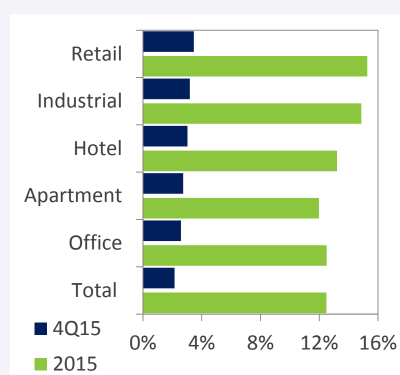
All returns in local currency.
Source: Bloomberg, FTSE, January 2016

FTSE NAREIT EQUITY REITS INDEX



Source: Bloomberg, FTSE, January 2016

NCREIF PROPERTY INDEX



Source: NCREIF, January 2016

others, Chinese growth has been averaging 3-4% over the last twelve months versus Chinese government reports of nearly 7% growth.

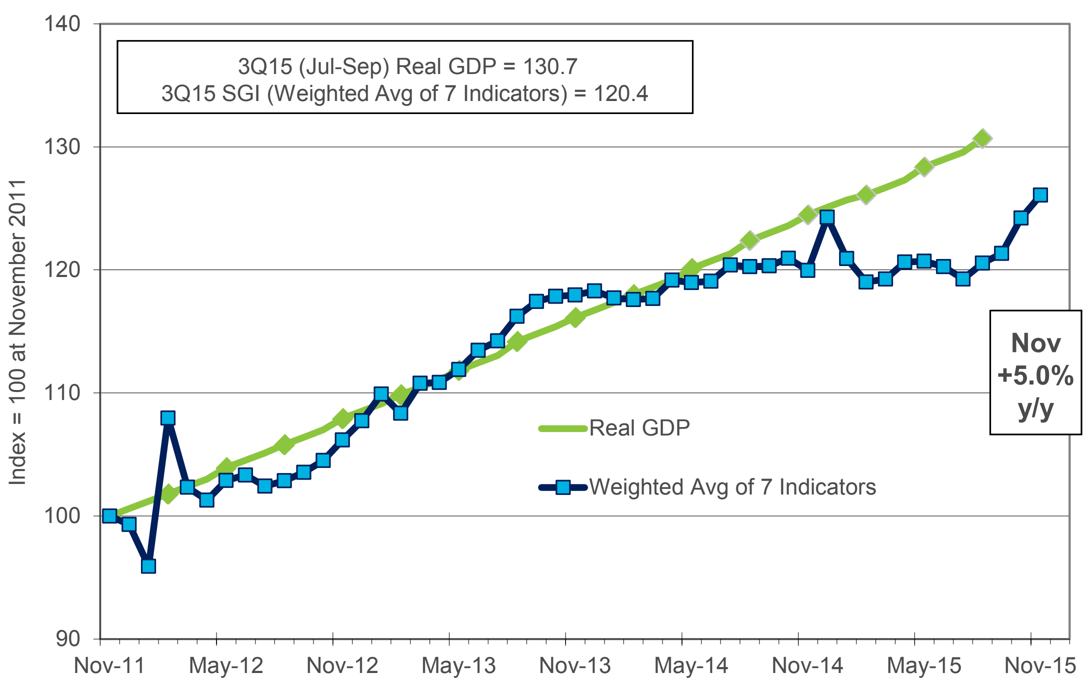
A FEED BACK LOOP THROUGH CREDIT SPREADS

An unintended consequence of global quantitative easing since the Global Financial Crisis was higher oil prices, which coupled with a period of strong Chinese fixed investment growth, in hindsight has led to overinvestment in the energy sector, with much of the debt financing provided by non-traditional lenders through bonds and loans. In fact, by some estimates over 50% of capital spending in the United States in 2014 was in energy services. But a slowing Chinese economy and increased supply from the Middle East has recently led to falling oil prices, making a significant portion of investment uneconomical. As a result, credit spreads have moved dramatically higher in the energy sector, as shown in the graph on page 3. In contrast, REIT debt spreads have remained stable, consistent with what we believe are robust REIT balance sheets and with high levels of liquidity, and solid underlying fundamentals.

REIT PERFORMANCE

Global REITs produced a 4.40% total return for the fourth quarter of 2015[1]. Both US and global REITs (as well as global listed infrastructure) relative performance has reflected the solid fundamentals and financial positions discussed above and have materially outperformed equities since the Fed raised interest rates in December. Strong fundamental markets in the United Kingdom, Germany and the Nordic area buoyed performance, while concerns over China's growth and instability continued to impede the Asia-Pacific region. In the United States, strong fundamentals supported a positive return of 7.26% for the fourth quarter, as posted by the FTSE NAREIT Equity REITs Index. It is our belief that if we enter a mid cycle slowdown economically in 2016, income producing real assets (REITs and infrastructure) are well positioned to deliver on their mandates to provide a defensive allocation in investors' portfolios.

China Real GDP vs. Synthetic Growth Index
Indexed (Growth is SA %M/M or %Q/Q)



Source: ISI Evercore, as of January 2016.

> The dominant themes that defined much of the year's investing environment persisted into the final quarter of 2015: stagnant global growth, accommodative monetary policy, and volatility surrounding China's economic slowdown.

NORTH AMERICA

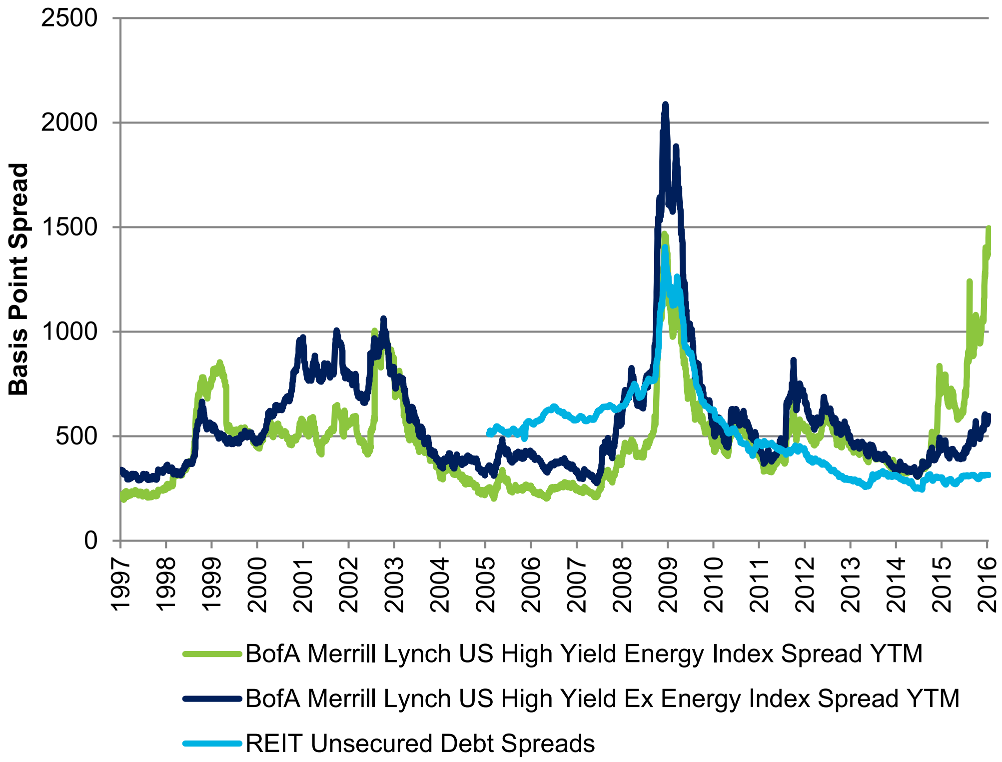
United States

Our focus within the U.S. REIT markets was on lower cyclicality, strong secular trends, and reasonable valuations. U.S. REITs remain cheap relative to historical averages in all three major metrics we monitor—price to NAV, yield spread relative to the 10-year U.S. Treasury bond, and multiples relative to the S&P 500. Given the decline thus far in 2016, REIT discounts are even more pronounced.

U.S. employment data trended positive through 2015, and strong demand for office space drove national vacancy rates lower. The supply-versus-demand balance also continued to be attractive in this sector. Given the dearth of accretive acquisition opportunities in major central business district markets, companies deploying value-add strategies appeared

[1]*Source: FTSE EPRA/NAREIT Developed Index as of December 2015*

U.S. High Yield Spreads



Source: Bloomberg, FTSE, ISI Evercore, as of January 2016.

to be stronger investments when compared to those employing core strategies.

Likewise, urbanization trends fuelled the multi-family sector, as the vast Millennial generation continued to favor in-city renting to suburban owning. Positive income growth in the top two quintiles of earners supported lower vacancies in higher quality assets. Retailers, however, felt the pinch of shifting consumer trends, as purchasing of goods has given way to more experiential spending. Anchor mall retailers also failed to adapt to the shifting landscape of fashion trends and online spending; lower quality malls suffered more than higher quality assets.

U.S. real estate fundamentals remain in positive ground as we head into 2016, but the recovery is maturing. We expect supply to accelerate but remain in balance for most sectors in the U.S., and debt capital appears plentiful while all-in rates are attractive.

Canada

Still struggling amid a low oil-price environment and weak organic growth, Canada's anemic economic condition continued. Canadian office fundamentals remained troublesome as the imbalance of supply and demand created further headwinds.

EUROPE

European growth hovered around 1.6% during the quarter[2], which kept inflation at nearly non-existent levels. Due to these factors, the European Central Bank extended quantitative easing programs and reduced rates in efforts to stimulate the economy. Continued geopolitical unrest and terrorist attacks caused concerns for investors; floods of Syrian migrants into Europe continued to present tremendous economic pressures, and tensions with Russia and other parts of the world persisted. However, we believe that real estate in this region may be very well positioned, as this market—not generally sought for its growth prospects—may present opportunities if executed properly.

Within European real estate markets, little evidence of consistent rental growth or improvements in the occupier market existed outside the United Kingdom, the Nordics, and Germany. In the United Kingdom, the dominant theme in the office space remained unchanged: the London office market was the preferred city for global investment, which helped accelerate rental growth in the West End market. Student accommodation, self-storage and healthcare are likely to continue as bright spots in the near-term.

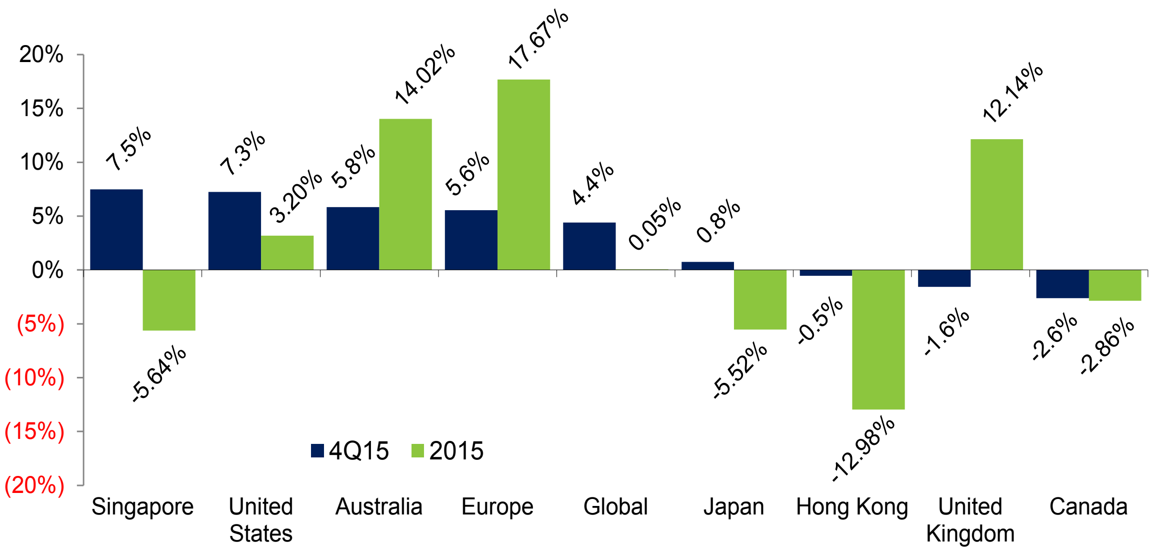
ASIA-PACIFIC

China

As previously discussed, volatility in Asia-Pacific region continued in the fourth quarter, fed by uncertainty surrounding China's economic slowdown. Consensus Chinese GDP growth hovers around 6.5% for 2016[2], but, as previously stated, supported variabilities also exist. Because of this, China has had to move focus from mid-term reform implementation to short-term survival mode with support and restriction to property and equity markets.

[2]*Source: Bloomberg, as of February 2016*

Performance by Region



Source: Bloomberg, January 2016
Returns are based on region-specific indexes, e.g. the FTSE NAREIT Equity REITs Index for the United States, the FTSE EPRA/NAREIT UK Index for the United Kingdom, etc.
All returns in local currency, other than Global, which is the FTSE EPRA/NAREIT Developed Index in USD.

Hong Kong

In Hong Kong, levels of corporate debt in Chinese entities and the path of the yuan also caused pause, as well as Hong Kong's strong relative currency which is eroding its competitiveness. Home prices in Hong Kong peaked and then fell 8% in the fourth quarter[3], and will likely continue to face downward pressure given the weakening economy and rising rate environment. Hong Kong's office rents increased 2.3% for the quarter and 13.3% for the year[4]; however, retail sales moved in the opposite direction.

We believe China's decision to devalue the yuan in an attempt to stimulate growth is a step backwards, regressing from an internal consumption, service-led economy back to an export, manufacturing-driven economy.

Singapore

Uncertainty around China's growth trajectory continued to drag on Singapore stocks with Chinese exposure, and local oversupply issues dragged on real estate as well.

Japan

Although Japanese GDP growth is moderate, it has not been enough to reflate the country's economy. Monetary stimulus has been ongoing, and the Bank of Japan extended the current maturities of Japanese government bonds from 7-10 years to 7-12 years, supporting a decline in the yield curve to encourage corporate activity. The Bank of Japan also extended purchase of JREITS during the quarter, supporting the real estate sector. However, despite these actions, Japan's modest growth rate paired with a lower-than-expected Consumer Price Index growth gives us pause when considering the country's economic outlook.

Perhaps the largest boon to the Japanese economy is the increase in tourist arrivals, which we expect will produce positive operating performance in the hospitality sector. The Tokyo office market continues to improve with vacancy rates below 5%, and stronger rental increases are expected in 2016 as corporate demand expands. Conversely, some concerns regarding construction issues in the domestic residential industry caused a slowdown in sales.

Australia

Despite the regional pressures exerted by Chinese economic uncertainty and slowdown in commodity consumption, Australia's economy remained steady in the fourth quarter, with infrastructure and housing construction activity absorbing some slack from mining capital expenditures. Australia's stable interest rate policy remained conducive to growth as well.

CONCLUSION

Increased market volatility has defined the start of 2016, as slowing growth in Asia and commodity market struggles have had a pronounced effect on debt markets and global growth outlooks. Chinese growth deceleration will continue to be a weight on global economies, while geopolitical tensions and attacks may gain greater importance economically.

By and large, U.S. capital markets experienced a volatile start to 2016, but remain open to most industries outside distressed sectors such as energy. We believe real estate values will likely soften in 2016, but will avoid a material correction.

[3]*Source: Centaline, as of December 2015*
[4]*Source: Jones Lang LaSalle, as of January 2016*

When we consider real estate and infrastructure specifically, we believe both are well positioned. REITs appear well capitalized, with strong liquidity and low levels of development, and their debt to asset value, fixed charge coverage ratio, and implied capital rate are all robust. Because lower growth expectations keep long-term bonds yields in check, we believe the lower-for-longer yield environment will ultimately have investors re-evaluating REITs and their defensive characteristics, and we may see capital flows back into the sector that have been largely absent over the past couple of years. Finally, recent liberalization of the U.S.'s Foreign Investment in Real Property Tax (FIRPTA) policy in December may have a significantly positive impact on foreign capital flows into the U.S. which allows for more flexibility in ownership structure and greater investment by foreign pension funds into U.S. real estate. In conclusion, we believe that while underlying real estate markets will likely moderate globally, current discounted real estate stock values imply that such an outcome (and more) is already priced in, and allocations to real assets should provide investors a defensive ballast in a what we expect to be a volatile 2016.

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The following indices were included in the commentary for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. The indices have volatility and other material characteristics that may differ from actual investments, are unmanaged, are not available for direct investment, and are not subject to management fees. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

FTSE NAREIT Equity REITs Index
The FTSE NAREIT Equity REITs Index is a free float market capitalization-weighted index measuring equity tax-qualified real estate investments trusts which meet minimum size and liquidity criteria and are traded on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ National Market System. The performance presented is based on total return calculations which add the income a stock's dividend provides to the

performance of the index and is gross of investment management fees. The FTSE NAREIT Equity REITs Index is part of the FTSE NAREIT U.S. Real Estate Index Series.

FTSE EPRA/NAREIT Developed Index
The FTSE EPRA/NAREIT Developed Real Estate Index Series covers both the FTSE EPRA/NAREIT Equity Index and the FTSE EPRA/NAREIT Developed ex-U.S. Index. Designed to track the performance of listed real estate companies and REITs worldwide, the series acts as a performance measure of the overall market. The performance presented is based on total return calculations which add the income a stock's dividend provides to the performance of the index, and is gross of withholding taxes and investment management fees. The index changed names on March 23, 2009, and was formerly known as the FTSE EPRA/NAREIT Global Real Estate Index.

NCREIF Property Index
The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index is a quarterly time series composite total return measure of investment performance of a very large pool of individual commercial real estate properties (apartments, hotels, industrial properties, office buildings and retail only) acquired in the private market for investment purposes.

S&P 500 Index
The S&P 500 is an index that is considered to be a gauge of the U.S. equities market. The index includes 500 leading companies spread across the major sectors of the U.S. economy. The index focuses on the larger cap segment of the U.S. market and represents approximately 75% of the market capitalization of U.S. securities. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill Companies.

ISI Evercore Synthetic Growth Index (SGI)
The ISI Evercore Synthetic Growth Index (SGI) is a proprietary index that seeks to track Chinese economic growth using indicators not easily manipulated by the government. The index uses the weighted average of seven components including railway freight, airline passengers, electricity consumption, container throughput, passenger vehicle sales, commercial vehicle sales and industrial commodity consumption.

BofA Merrill Lynch US High Yield Energy Index and Ex Energy Index
The BofA Merrill Lynch U.S. High Yield Master II Index is a commonly used benchmark for high yield corporate bonds and tracks the performance of U.S. dollar-denominated, below-investment-grade-rated corporate debt publically issued in the U.S. domestic market. The BofA Merrill Lynch U.S. High Yield Energy Index is a subset of the BofA Merrill Lynch US High Yield Index including all securities of Energy issuers.

FOR MORE INFORMATION, PLEASE CONTACT:

NORTH AMERICA
Scott Maguire, CFA, CAIA
Managing Director, Global Head of Client Service & Marketing
630 West Germantown Pike
Suite 300
Plymouth Meeting, PA 19462
610 818 4612
SMaguire@centersquare.com

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