

## Second Quarter 2022

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.

### The Great Pricing Reset

When the state of the capital markets is in flux, and private markets are slow to adjust, we look to the public markets to directionally indicate the path for pricing. Public markets are pointing to cap rate expansion in the private markets, and the impact will be most acute for deals that were underwritten assuming low debt costs and a persistent growth environment. Against that backdrop, investments based on structural thematics and strong value-add business plans are still poised to generate attractive investment opportunities within real estate today.

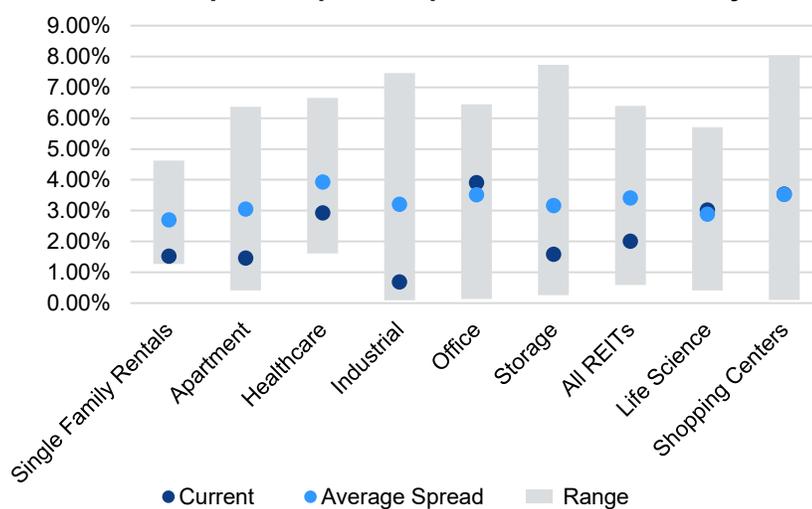
Over the last few years, we have seen meaningful cap rate compression in stabilized multifamily and industrial transactions. Investors were able to underwrite strong rent growth, access inexpensive debt capital, and assume cap rate compression upon exit into a strong market. Today, as that cost of debt has increased in the face of tightening monetary policy, we find 10-year treasuries trading above 3%. In the context of slowing growth, investors underwriting stabilized multifamily or industrial assets in the low-3% cap rate range will not meet return requirements without a strong value-add business plan in place.

Historically, apartments and industrial cap rates implied by the REIT market have traded at a 3.1% and 3.2% average spread respectively to 10-year treasuries. Today, despite the cap rate expansion in the REIT market for these sectors, apartments and industrial cap rates are only at 1.5% and 0.7% spreads respectively to the 10-year treasury, pointing to the likelihood of additional forthcoming cap rate expansion for these assets.

On the other hand, a number of sectors are still trading at their historical spread to treasuries. One notable sector is shopping centers where the relative expansion in cap rates has been among the lowest in the REIT space YTD, in part driven by a higher starting cap rate. Here, we anticipate this spread stability to translate meaningfully for the right retail assets, namely essential service retail centers in growing sub-markets driven by demand from aging millennials who are moving to the suburbs. These properties serve as the last-mile delivery of e-commerce resistant services (food & beverage, health & medical, and business services) which we expect to be more impervious to economic cycles.

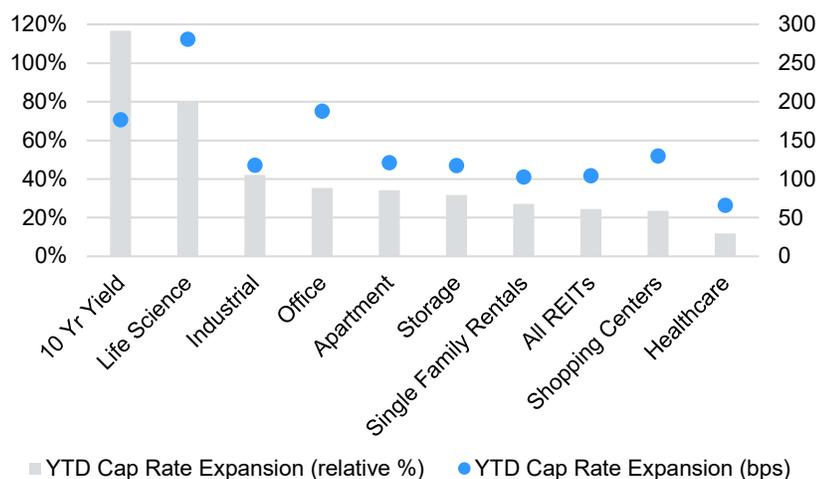
Overall, the REIT market is sending a definitive signal that we will see cap rate expansion and repricing across the board in the coming months. Impacts will vary and investors are wise to distinguish amongst sectors and past underwriting practices when considering the outlook for overall performance.

### REIT Implied Cap Rate Spread vs 10 Yr Treasury



Current: June 21, 2022; Average Spread and Range: 1997-2022. All REITs = FTSE Nareit All Equity REITs (FNER) Index.

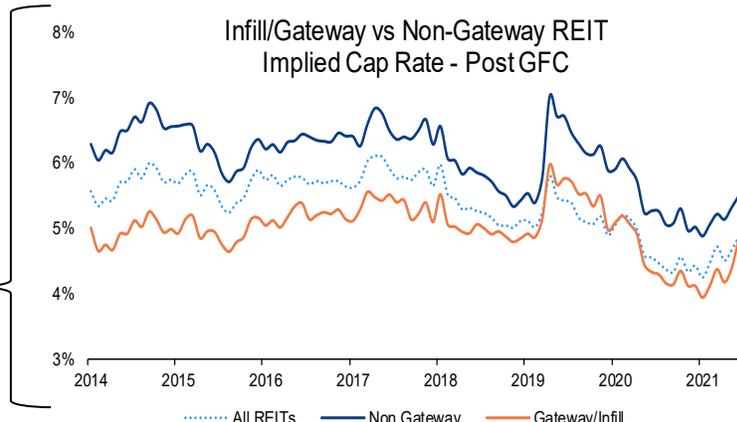
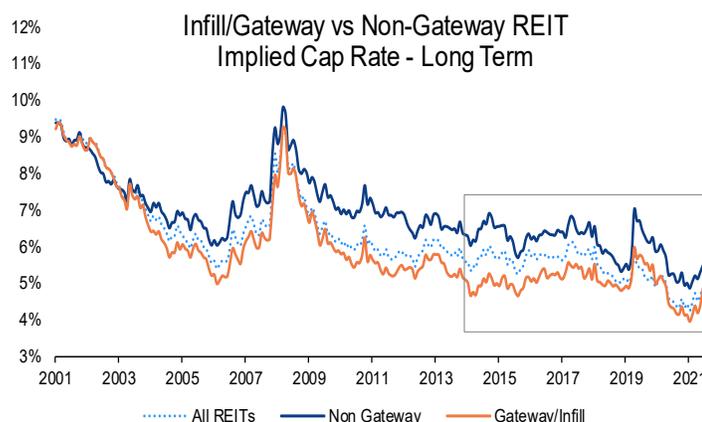
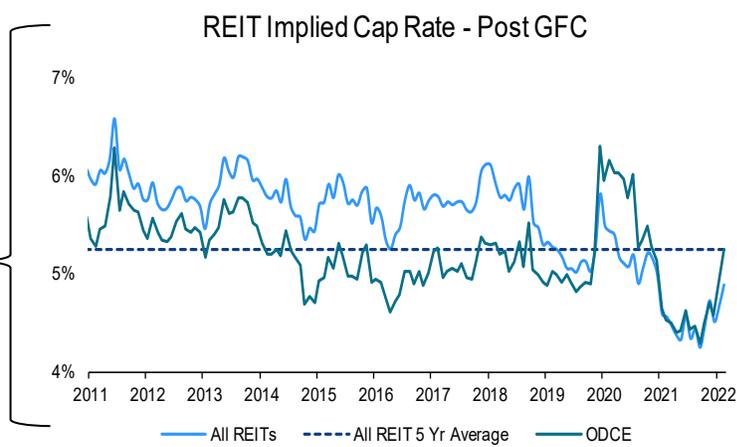
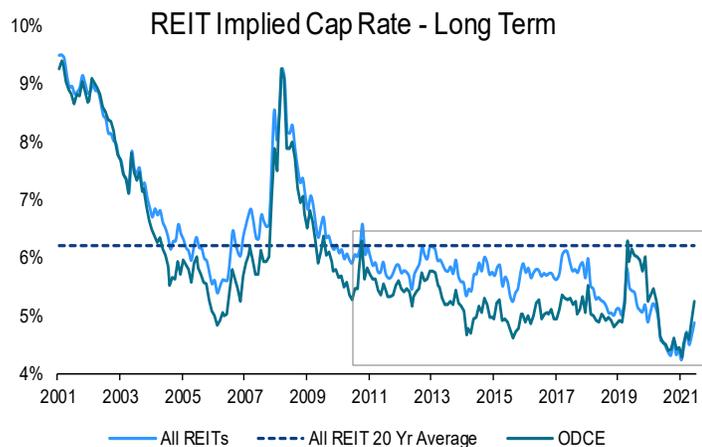
### YTD Yield Expansion



As of June 21, 2022. All REITs = FTSE Nareit All Equity REITs (FNER) Index.

Sources: CenterSquare Investment Management, REIT Company reports. All data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe (defined on page 3) during June 2022. 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 3 for more information on calculation methodologies and stock universe used. See important disclosures at the end of this presentation.

## The Data:



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	4.40%	46	45	4.73%	4.03%	-8.3%
Industrial	3.61%	43	17	4.12%	3.54%	-2.1%
Office	6.26%	63	81	5.74%	5.34%	-14.7%
Retail	6.44%	36	91	6.49%	6.39%	-0.8%
Hotel	4.97%	(34)	(149)	6.56%	6.05%	21.7%
Gateway/Infill	4.85%	48	52	5.00%	4.50%	-7.3%
Non Gateway	5.50%	28	23	5.94%	5.29%	-4.0%
All REITs	4.89%	16	33	5.94%	4.68%	-4.2%
REIT ODCE Proxy	5.24%	54	71	5.11%	4.79%	-8.7%

Source: CenterSquare Investment Management, REIT Company reports. "All REITs" refers to CenterSquare's U.S. REIT coverage universe (defined on page 3). Data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe during June 2022. All periods presented are ending June 2022 (i.e. 3 month change represents the change from financials reported in March 2022 to June 2022). 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 3 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 2Q22 earnings reported in June 2022.

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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Because the investment strategies concentrate their assets in the real estate industry, an investment is closely linked to the performance of the real estate markets. Investing in the equity securities of real estate companies entails certain risks and uncertainties. These companies experience the risks of investing in real estate directly. Real estate is a cyclical business, highly sensitive to general and local economic developments and characterized by intense competition and periodic overbuilding. Real estate income and values may also be greatly affected by demographic trends, such as population shifts or changing tastes and values. Companies in the real estate industry may be adversely affected by environmental conditions. Government actions, such as tax increases, zoning law changes or environmental regulations, may also have a major impact on real estate. Changing 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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Founded in 1987, CenterSquare Investment Management is an independent, employee-owned real asset manager focused on listed real estate, private real estate equity and private real estate debt investments. As a trusted fiduciary, our success is firmly rooted in aligning our interests with those of our clients, partners and employees. CenterSquare is headquartered in suburban Philadelphia, with offices in New York, Los Angeles, London and Singapore. With \$14 billion in assets under management (June 2022), our firm and subsidiaries are proud to manage investments on behalf of some of the world's most well-known institutional and private investors.



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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