

What is It?

CenterSquare's REIT Cap Rate Perspective presents the market pricing of \$1.5 trillion of real estate in the U.S. REIT market, seeking to quantify the valuation gap between public and private markets. While at times the disparity may be temporary or driven by short term volatility, the forward discounting inherent in public markets can also offer investors insights as to the possible future direction of real estate values. In this report we share our proprietary REIT implied cap rate results at the sector and geographical level on a quarterly basis.

For a copy of CenterSquare's full REIT Cap Rate Perspective report, or to learn more about our strategies, please email contactus@centersquare.com.

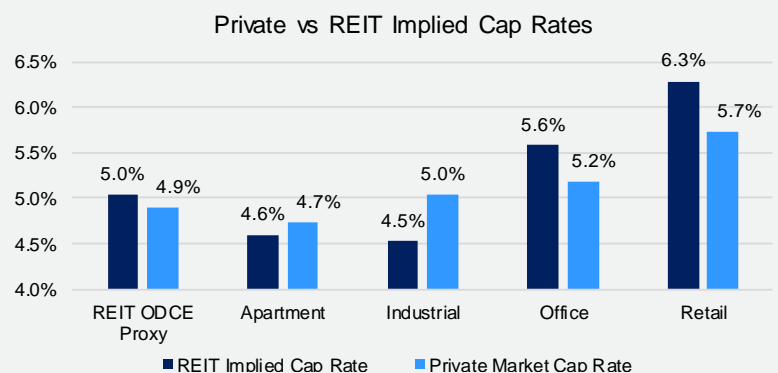
Second Quarter 2019 Report Highlights:

❖ Little public/private pricing dispersion overall, significant dispersion by property type

- Public markets were indicating a more pronounced cap rate expansion story a few months ago, but as interest rates have come in significantly, the public markets are pricing in relatively stable cap rates for real estate overall. However, the story is more interesting if analyzed by property type. While industrial and apartment implied cap rates are indicative of further cap rate compression in the private markets, office and retail implied cap rates tell the other story.

Sector	REIT Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
REIT ODCE Proxy*	5.0%	4.9%	(2.6%)
Apartment	4.6%	4.7%	3.0%
Industrial	4.5%	5.0%	11.3%
Office	5.6%	5.2%	(7.1%)
Retail	6.3%	5.7%	(8.6%)

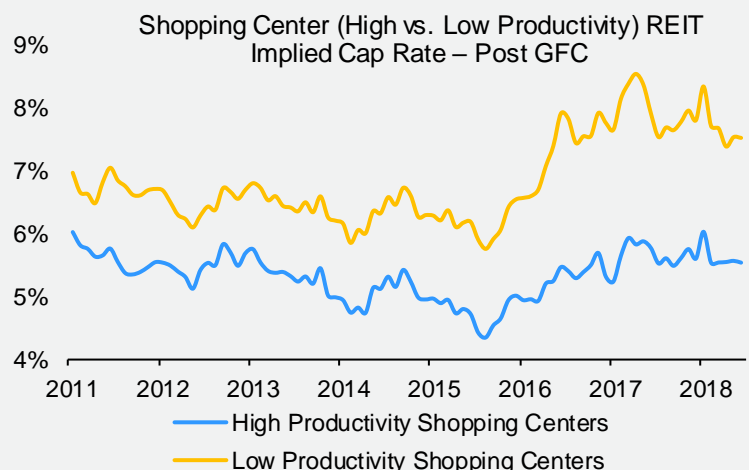
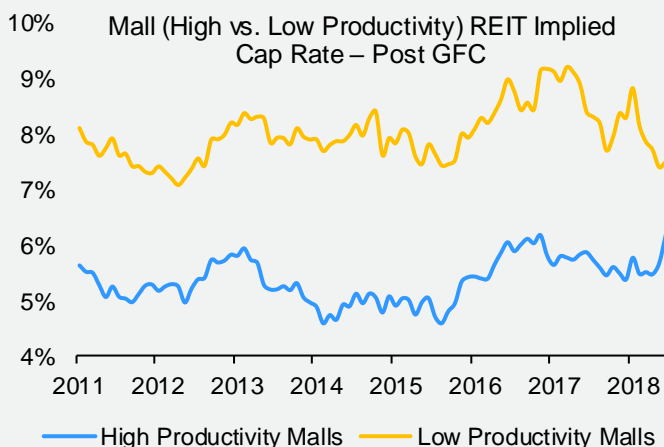
* The REIT ODCE Proxy is a universe of REIT stocks built to resemble the NCREIF Fund Index – Open End Diversified Core Equity (ODCE). The REIT ODCE Proxy is proprietary to CenterSquare and uses gateway/infill names in apartments, retail, industrial and office, and then weights them according to the ODCE index to create a proxy.



Source: CenterSquare Investment Management, as of May 31, 2019.

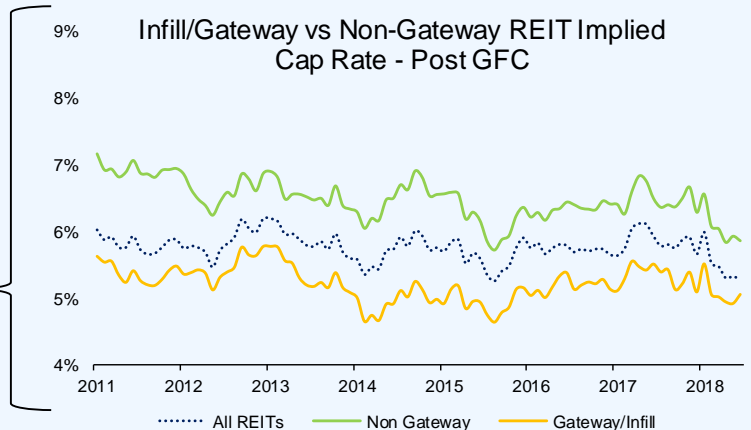
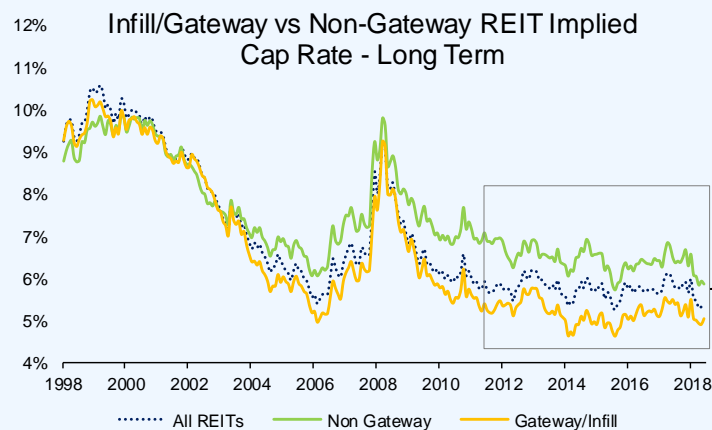
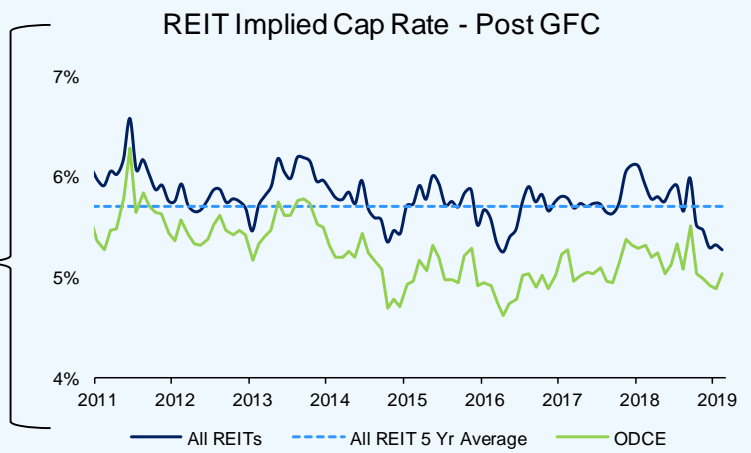
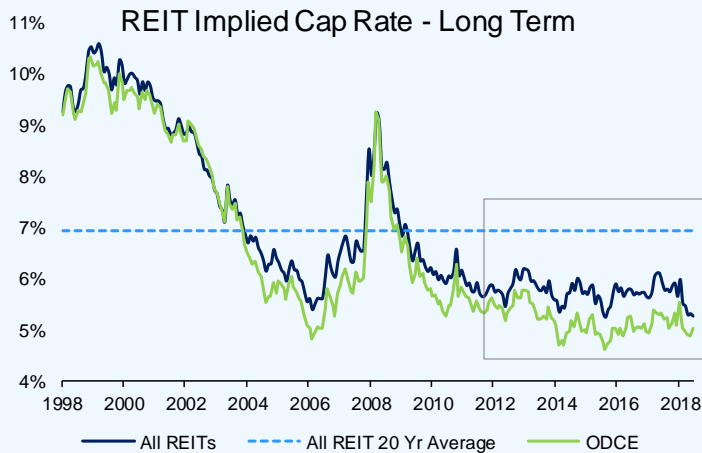
❖ The B Mall Contagion

- Retail troubles are no secret today but the winners and losers are becoming more apparent as retailers rationalize their physical footprint. Retailers have demonstrated a preference for two types of spaces – very high quality malls (the top 150 malls in the country that are truly A+ assets) and well-located, high quality shopping centers. In fact, what is becoming apparent is that the epicenter of the problem in retail is the mall, and the break point between A and B malls is likely at a higher sales per square foot than previously thought. As the classifications for malls become more binary between the top malls and all the rest, the public markets are starting to price “the rest” more similarly, leading to a convergence in “high” and low quality mall implied cap rates. The cap rate spread between high and low quality shopping centers, however, continues to persist as retailers' demand for high quality shopping centers remains steady.



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 May 2019. All periods presented are ending May 2019 (i.e. 3 month change represents the change from financials reported in February 2019 to May 2019). 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.

The Data:



Sector	REIT Implied Cap Rate	3 Mo. Change (bps)	12 Mo. Change (bps)	5 Yr Ave Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	4.6%	(19)	(64)	5.1%	4.7%	3.0%
Industrial	4.5%	(8)	(27)	5.3%	5.0%	11.3%
Office	5.6%	(5)	(5)	5.4%	5.2%	(7.1%)
Retail	6.3%	33	(46)	5.8%	5.7%	(8.6%)
Hotel	6.9%	22	42	7.1%	6.5%	(6.4%)
Gateway/Infill	5.1%	(25)	(45)	5.1%	4.9%	(2.7%)
Non Gateway	5.9%	(66)	(64)	6.4%	6.2%	5.8%
REIT (Major Sectors)	5.5%	(50)	(28)	5.6%	5.3%	(2.6%)
REIT ODCE Proxy	5.0%	(23)	(28)	5.1%	4.9%	(2.6%)

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 February 2019. All periods presented are ending May 2019 (i.e. 3 month change represents the change from financials reported in February 2019 to May 2019). 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.

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 1Q19 earnings reported in May 2019.

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

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Founded in 1987, CenterSquare Investment Management is an independent, management-owned real asset manager focused on listed and private equity real estate and listed infrastructure investments. As an investor and manager, our success is firmly rooted in aligning our firm's interests with those of our clients, partners and employees, as well as our commitment to alpha-generating research.

CenterSquare Investment Management is headquartered in suburban Philadelphia, with offices in Los Angeles, Denver, London and Singapore. CenterSquare is proud to manage investments on behalf of some of the world's most well-known institutional and private investors.



Philadelphia, Pennsylvania

**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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