

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](mailto:contactus@centersquare.com).

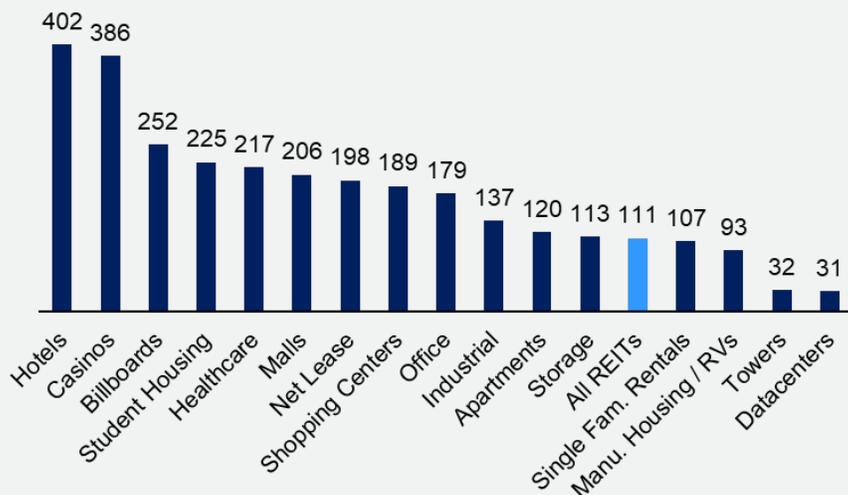
## First Quarter 2020 Report Highlights

### ❖ Viral Slowdown Tests Immunity of Sectors

COVID-19 impacts are being felt across the REIT space. However, sectors will be impacted differently by both COVID-19 itself and the behaviors and measures that will be taken to address the outbreak. While at the time of this writing, REITs are likely oversold, pricing in the REIT market is diverging between property types, which could point to the future direction of private market values.

Cap rates are indicating vulnerability for hotels, casinos, senior housing, and malls. Hotels and casinos will be directly impacted by lower travel volumes prompted by social distancing measures and travel bans. Senior housing carries risks due to the higher coronavirus mortality rate among its elderly residents. Given heightened restrictions, this business -- with already thin operating margins -- will likely see cost pressures as operators increase their sanitization protocols and staffing in response to combating the virus. Additionally, tours for new residents will be impacted as the population tries to reduce exposure. Already troubled malls are seeing their pain exacerbated by lower foot traffic as consumers shun large gathering places, potentially accelerating brick and mortar retailer bankruptcies.

Cap Rate Expansion Since 1/31/2020 (bps)

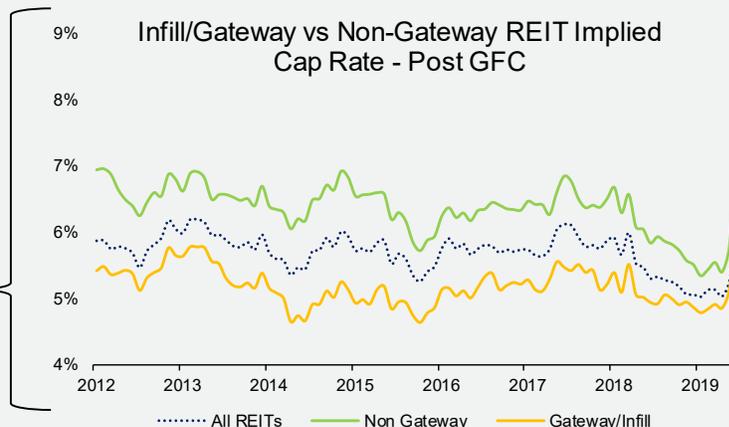
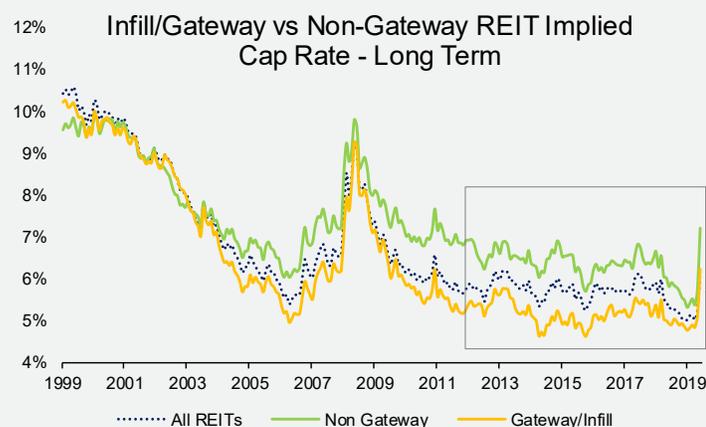
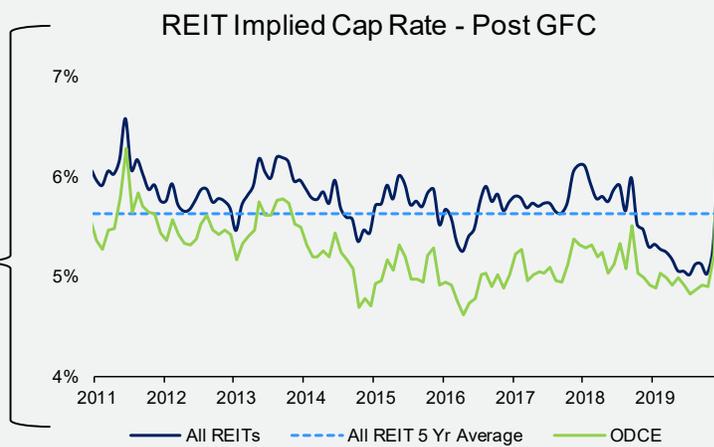
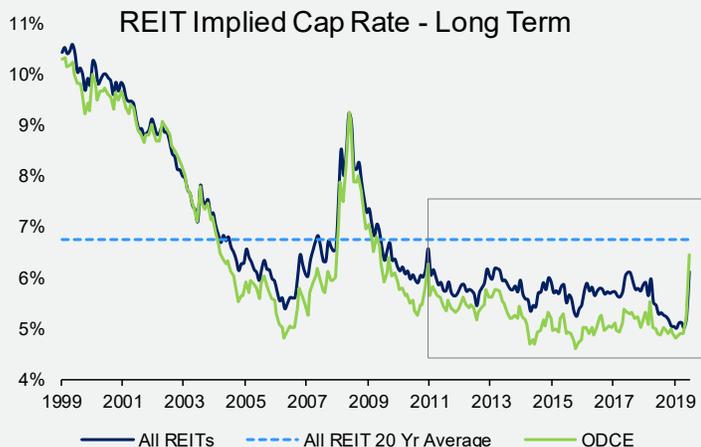


Source: CenterSquare Investment Management. Cap rates are based on CenterSquare public and private market cap rate estimates (1/31/2020 – 3/16/2020). All REITs cap rates is the weighted average of the FNER Index. Please refer to important disclosures and CenterSquare cap rate methodology at the end of this presentation.

Despite these challenges, cap rates are indicating resiliency for those sectors experiencing the tailwinds from structural demand changes. Sectors seeing the benefits of the ever-growing demand for connectivity and data usage, notably towers and data centers, should not only prove resilient, but their importance will likely be heightened as businesses try to operate through the coronavirus quarantines and travel restrictions. Turning to the demographic trend of aging millennials in need of space to accommodate their growing families and school-aged children, single family rentals are screening defensively through this environment. Occupancies should remain sticky despite lower mortgage rates, as the single-family rental REIT portfolios are located in submarkets with higher home prices that remain out of reach for the average tenant.

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 February 2020. All periods presented are ending February 2020 (i.e. 3 month change represents the change from financials reported in November 2019 to February 2020). 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 Ave Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	5.6%	120	89	5.0%	4.6%	(17.5%)
Industrial	5.2%	132	72	5.0%	4.5%	(13.7%)
Office	7.1%	170	161	5.5%	5.2%	(26.1%)
Retail	8.5%	225	264	6.0%	6.4%	(25.1%)
Hotel	11.2%	423	447	7.4%	6.2%	(45.0%)
Gateway/Infill	6.2%	140	130	5.1%	5.0%	(20.4%)
Non Gateway	7.2%	179	139	6.2%	6.0%	(16.9%)
<b>REIT (Major Sectors)</b>	<b>7.4%</b>	<b>206</b>	<b>201</b>	<b>5.7%</b>	<b>5.3%</b>	<b>(28.3%)</b>
<b>REIT ODCE Proxy</b>	<b>6.5%</b>	<b>159</b>	<b>154</b>	<b>5.1%</b>	<b>5.0%</b>	<b>(22.4%)</b>

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 2020. All periods presented are ending February 2020 (i.e. 3 month change represents the change from financials reported in November 2019 to February 2020). 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 4Q19 earnings reported in February 2020.

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.

## General Disclosures

Any statement of opinion constitutes only the current opinion of CenterSquare and its employees, which are subject to change and which CenterSquare does not undertake to update.

Material in this publication is for general information only and is not intended to provide specific investment advice or recommendations for any purchase or sale of any specific security or commodity. Due to, among other things, the volatile nature of the markets and the investment areas discussed herein, investments may only be suitable for certain investors. Parties should independently investigate any investment area or manager, and should consult with qualified investment, legal, and tax professionals before making any investment. Some information contained herein has been obtained from third party sources and has not been independently verified by CenterSquare Investment Management LLC ("CenterSquare"). CenterSquare makes no representations as to the accuracy or the completeness of any of the information herein. Accordingly, this material is not to be reproduced in whole or in part or used for any other purpose. Investment products (other than deposit products) referenced in this material are not insured by the FDIC (or any other state or federal agency), are not deposits of or guaranteed by CenterSquare, and are subject to investment risk, including the loss of principal amount invested.

For marketing purposes only. Any statements and opinions expressed are as at the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of CenterSquare or any of its affiliates. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person.

Any indication of past performance is not a guide to future performance. The value of investments can fall as well as rise, so investors may get back less than originally invested.

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.

*Any statement of opinion constitutes only current opinions of CenterSquare and its employees, which are subject to change and which CenterSquare does not undertake to update.*

This communication is not an offer of securities for sale in the United States, Australia, Canada, Japan or any other jurisdiction where to do so would be unlawful. CenterSquare has not registered, and does not intend to register, any portion of the securities referred to herein in any of these jurisdictions and does not intend to conduct a public offering of securities in any of these jurisdictions. This communication is being distributed to, and is directed only at, persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply (such persons being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. Any investment activity (including, but not limited to, any invitation, offer or agreement to subscribe, purchase or otherwise acquire securities) to which this communication relates will only be available to, and will only be engaged with, persons who fall within the target market. This communication is an advertisement and is not a prospectus for the purposes of Directive 2003/71/EC, as amended (such directive, the "Prospectus Directive") and/or Part IV of the Financial Services and Markets Act 2000.

Any communication of this document by a person who is not an authorized person (as defined in the Financial Services and Markets Act 2000 ("FSMA")) is directed only at the following persons in the United Kingdom, namely (i) persons falling within any of the categories of "investment professionals" as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order"), (ii) persons falling within any of the categories of persons described in Article 49(2) of the Financial Promotion Order, (iii) persons falling within the categories of "certified high net worth individual" described in Article 48(2) of the Financial Promotion Order and "self-certified sophisticated investor" described in Article 50a(1) of the financial promotion order and (iv) any person to whom it may otherwise lawfully be made. Persons of any other description should not review, nor act upon, this document.

For the purposes of Article 19 of the Financial Promotion Order, this document is directed at persons having professional experience in matters relating to investments. Any investment or investment activity to which this document relates is available only to such persons. Persons who do not have professional experience in matters relating to investments (and in respect of whom another exemption is not available) should not rely on this document.

For the purposes of Article 49 of the Financial Promotion Order, this document is directed at persons meeting the respective minimum criteria specified in Article 49(2) of the Financial Promotion Order (for example, partnerships with net assets of not less than £5 million). Any investment or investment activity to which this document relates is available only to such persons. Persons who do not meet such minimum criteria (and in respect of whom another exemption is not available) should not rely on this document.

## Canada Specific Disclosures

This document has been prepared solely for information purposes and is not an offering memorandum nor any other kind of an offer to buy or sell or a solicitation of an offer to buy or sell any security, instrument or investment product or to participate in any particular trading strategy. It is not intended and should not be taken as any form of advertising, recommendation, investment advice or invitation to trade. This information is confidential and for the use of the intended recipients only. The distribution of this document in Canada is restricted to recipients who are qualified "permitted clients" for purposes of NI31-103. This document may not be reproduced, redistributed or copied in whole or in part for any purpose without prior written consent.

## Definition of Indices

### **FTSE Nareit Equity REITs Index "FNER"**

The FTSE Nareit US Real Estate Index Series is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market List. The index constituents span the commercial real estate space across the US economy and provides investors with exposure to all investment and property sectors.

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.

FTSE Data disclosure: Source: FTSE International Limited ("FTSE") © FTSE 2020. FTSE® is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

# About CenterSquare

Founded in 1987, CenterSquare Investment Management is an independent, management-owned real asset manager focused on listed real estate, private equity real estate, private real estate debt 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 New York, Los Angeles, London and Singapore. CenterSquare is 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:

*Philadelphia, Pennsylvania*

CenterSquare Investment Management LLC  
630 W. Germantown Pike, Suite 300, Plymouth Meeting, PA 19462  
Phone: 610-834-9500 / Fax: 610-834-9505  
[contactus@centersquare.com](mailto:contactus@centersquare.com)

[www.centersquare.com](http://www.centersquare.com)

