COVID-19: Real Estate Market Update - March 18, 2020

As we enter this unprecedented time in history, CenterSquare is committed to sharing with you our investment outlook and insights on a continual basis. Please expect to hear from us regularly with relevant and timely updates as we move through this period together.

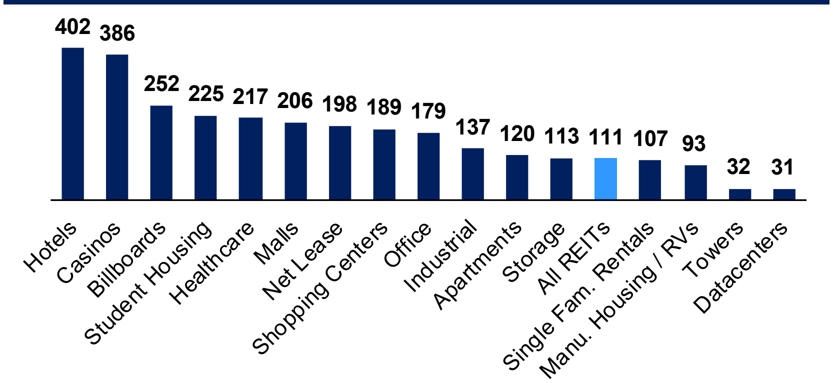
Overall Outlook

We expect a global economic recession to eventuate. The key question is how quickly the economy bounces back. This mostly depends on how rapidly COVID-19 is contained. We believe that real estate in general will see strong investor support in the medium term due to the increased need for yield alternatives given record low bond yields on one hand, and, even if the equity market bounces back, a desire for stable asset classes on the other.

Sector Outlook

There are several sectors within the real estate market that will be impacted in the short and medium term from both COVID-19 itself and the measures and behaviors that will be taken to address the pandemic. Those sectors negatively impacted include properties most susceptible to the direct effects from the ongoing spread of the virus, including:

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 disclosure link at the end of this material for CenterSquare cap rate methodology and definition of indices.

- **Hotels:** Travel bans will result in lower volumes for the foreseeable future.
- **Senior Housing:** Higher mortality rate for elderly residents, no current tours for new residents, and heightened expenses from higher levels of sanitization and staffing are expected to impact this sector.
- **Malls and Entertainment:** We expect significantly lower foot traffic as consumers avoid large places of gathering due to the growing number of mandated restrictions. Gaming REITs will also feel this impact but are triple-net leased at high levels of coverage. Movie theaters within net lease portfolios will also see dramatically lower levels of ticket sales in the near term.
- **Office:** Companies will continue to require a corporate location, and most tenants are not directly at risk. However, lease up of new space is expected to slow dramatically.

Sectors that have more resilient fundamentals include:

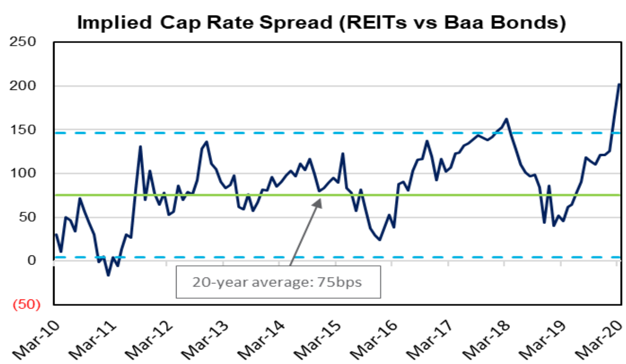
- **Cell Towers:** Growth stands to accelerate from the 5G buildout planned by the Sprint/T-Mobile merged entity. Low levels of labor and very high property level margins are a help as well.
- **Data Centers:** We expect resilient growth as accretive development continues; despite an expected lengthening in the decision-making cycle which could lead to lower levels of leasing, the sector screens favorably on a relative basis.
- **Single-Family Rentals:** Despite the recent drop in mortgage rates, home ownership remains out of reach for single-family rental tenants in high home price areas. We expect occupancy to remain sticky in the sector while families ride out the virus.
- **Industrial/Logistics:** Increased degrees of social distancing reinforces the need for an efficient supply chain to facilitate non-storefront consumption.
- **Apartments:** This sector should prove to be a resilient asset class even though the economy could come to a halt due to social distancing. Most corporations will hold onto labor given a tight job market coming into this crisis. In addition, social distancing requires people to stay at home and work from home. Thus, we believe rents will get paid and occupancy should hold up.

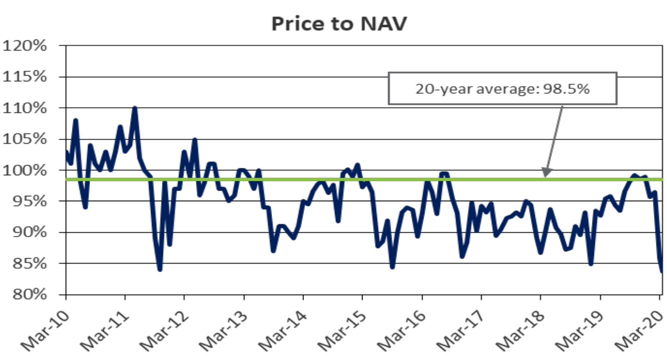
REIT Valuations

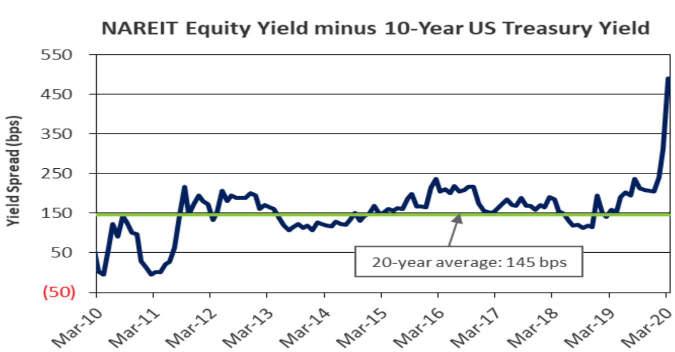
We see the following dynamics at play with regard to valuations:

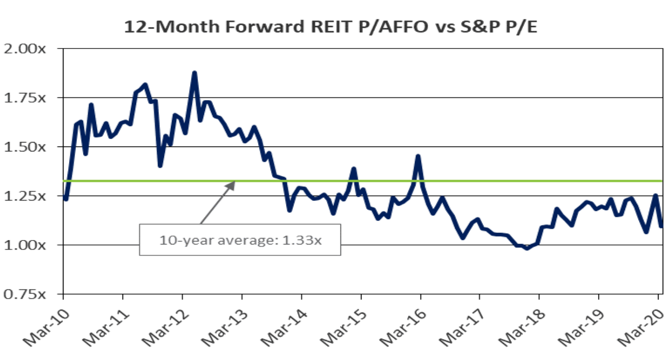
- REIT spreads to corporate and government bond yields are multiple standard deviations wide of their long term average.
- REITs are now trading at around a 20% discount to NAV.
- Despite what we believe to be a very defensive asset class, REITs have not meaningfully outperformed equities and are not priced at a premium to equities as they were at times of monetary policy easing earlier last decade.
- While the REIT market has priced property types for a recession today, private market pricing, especially for alternative property types, remains mispriced.

Valuation Metrics









Sources: Bloomberg, Bank of America Merrill Lynch, NAREIT, CenterSquare Investment Management. As of March 16, 2020.

Refer to important disclosures and definition of indices at the link at the end of this document.

REIT Balance Sheets and Liquidity

REITs and real estate in general are significantly less levered and have better interest coverage today than at any other time in the last two decades toward the end of an economic cycle. Balance sheets in general are solid. Interest coverage is also solid and is likely to improve given the significant decline in interest rates. We have been actively investing in companies with even lower leverage relative to industry averages which results in stronger balance sheets and the ability to potentially take advantage of acquisition opportunities that market volatility may present.

REIT Earnings

We expect earnings growth to roughly halve from current levels, to about 2% in 2020, with the biggest impact to malls, casinos and hotels. However, long lease durations and a normalization to economic growth in the second half of 2020 should see overall earnings growth remain positive.

Please do not hesitate to reach out to the CenterSquare team for additional context or with questions.

Stay tuned in the coming days for a CenterSquare-hosted webinar on the most recent developments in the real estate market in light of the COVID-19 crisis.

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.

*Please view additional disclosures and definition of indices **here**.*