

# The REIT Cap Rate Perspective

## What is It?

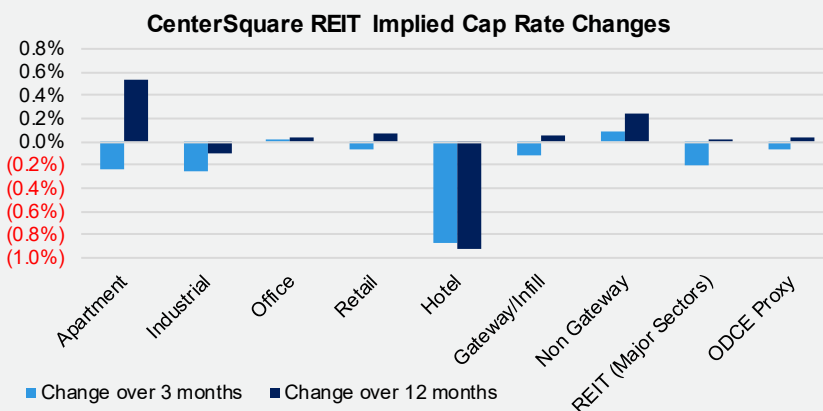
CenterSquare's REIT Cap Rate Perspective presents the market pricing of \$1.5 trillion of real estate in the U.S. REIT market, seeking to quantify the valuation gap between public and private markets. While at times the disparity may be temporary or driven by short term volatility, the forward discounting 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](mailto:contactus@centersquare.com).

## Second Quarter 2018 Report Highlights:

### ❖ Implied Cap Rates Signal Flat Valuations

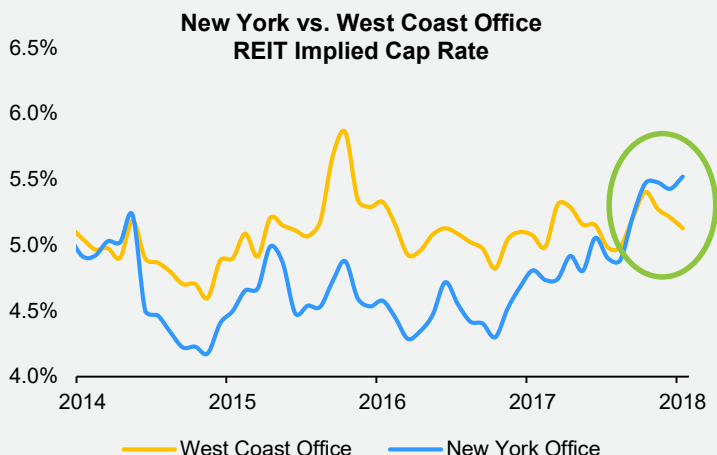
Sector	REIT Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	5.4%	4.8%	(11.4%)
Industrial	4.9%	5.4%	9.7%
Office	5.8%	5.2%	(9.9%)
Retail	6.4%	5.8%	(9.7%)
Hotel	6.8%	7.1%	5.1%
Gateway/Infill	5.4%	5.0%	(7.1%)
Non Gateway	6.7%	6.5%	(3.2%)
REIT (Major Sectors)	5.9%	5.5%	(5.6%)
REIT ODCE Proxy*	5.3%	5.0%	(6.5%)



\* 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.

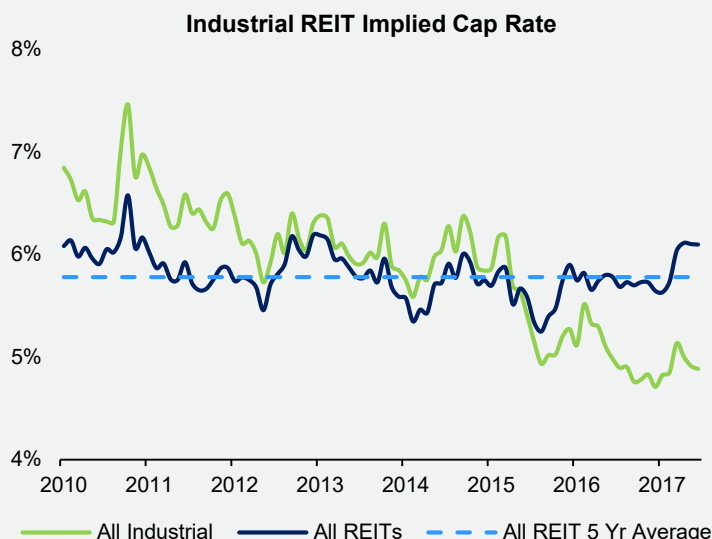
### ❖ West Coast is Now the Best Coast

- Shifting economic trends are challenging traditional norms with West Coast office now trading at a slightly lower cap rate than New York office. We think this is due to high levels of supply from Hudson Yards in Manhattan, as well as the changing locational preferences of tenants, as reviewed in CenterSquare's paper, "Amazon's Challenge to Institutional Real Estate."



### ❖ Continued Industrial Cap Rate Compression

- Though historically an above average asset class relative to the REIT market, industrial cap rates now trade amongst the tightest in the REIT market. REIT cap rates continue to point toward cap rate compression in private markets.



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 2018. All periods presented are ending May 2018 (i.e. 3 month change represents the change from financials reported in February 2018 to May 2018). 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 Investment Management LLC

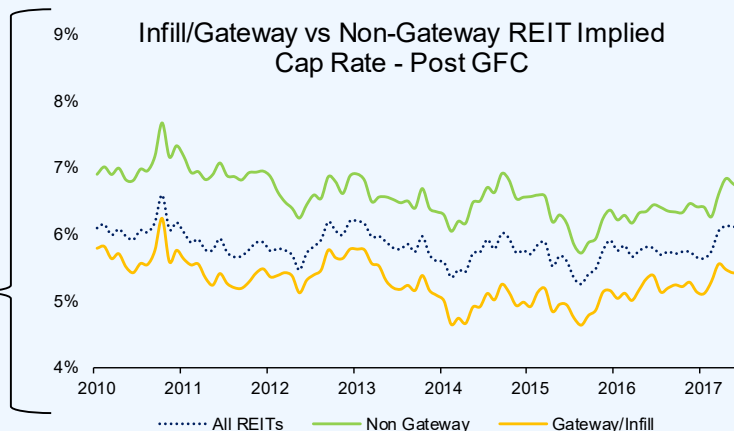
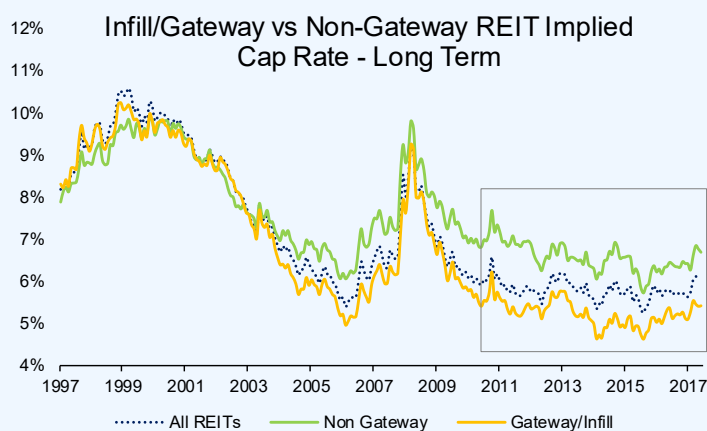
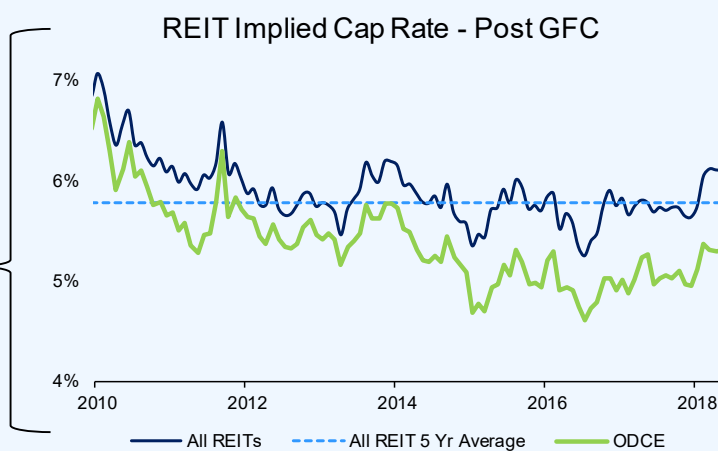
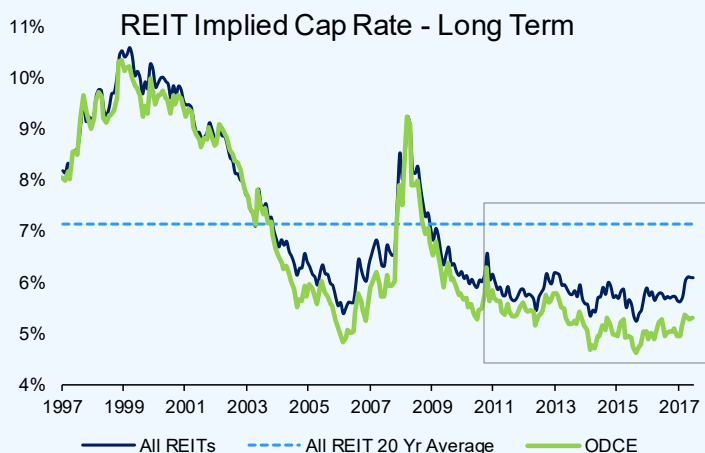
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## The Data:



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	5.4%	(23)	53	5.2%	4.8%	(11.4%)
Industrial	4.9%	(25)	(10)	5.6%	5.4%	9.7%
Office	5.8%	1	3	5.5%	5.2%	(9.9%)
Retail	6.4%	(7)	7	5.7%	5.8%	(9.7%)
Hotel	6.8%	(87)	(93)	7.1%	7.1%	5.1%
Gateway/Infill	5.4%	(12)	5	5.2%	5.0%	(7.1%)
Non Gateway	6.7%	8	24	6.4%	6.5%	(3.2%)
<b>REIT (Major Sectors)</b>	<b>5.9%</b>	<b>(21)</b>	<b>1</b>	<b>5.7%</b>	<b>5.5%</b>	<b>(5.6%)</b>
<b>REIT ODCE Proxy</b>	<b>5.3%</b>	<b>(6)</b>	<b>5</b>	<b>5.1%</b>	<b>5.0%</b>	<b>(6.5%)</b>

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 2018. All periods presented are ending May 2018 (i.e. 3 month change represents the change from financials reported in February 2018 to May 2018). 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 1Q18 earnings reported in May 2018.

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.

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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*

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or to learn more about our strategies, please contact:**

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