The REIT Cap Rate Perspective

CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

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 across sectors.

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

Third Quarter 2020 Report Highlights

Concern at the Core?

The economic fallout from the COVID-19 pandemic has weighed heavily on most markets, and real estate is no exception. While some sectors have displayed notable resiliency (i.e. data centers, towers), the REIT market is experiencing a more pronounced impact of the crisis on "core" real estate sectors.

Prior to the COVID-19 pandemic, retail assets were already troubled, and the pandemic has only accelerated the demise of the most distressed sub-sectors in retail. We expect as much as 25% of the retail footprint in the U.S. – concentrated mostly in shopping malls -- to shutter within the next year. This sector, which traded at a discount in the public markets prior to COVID-19 is today trading at even lower levels. This, however, continues to be a tale of two cities where malls are the crux of the issue while "service retail" assets providing the last-mile delivery of beauty, health, dining and professional services are weathering the storm with much higher resiliency.

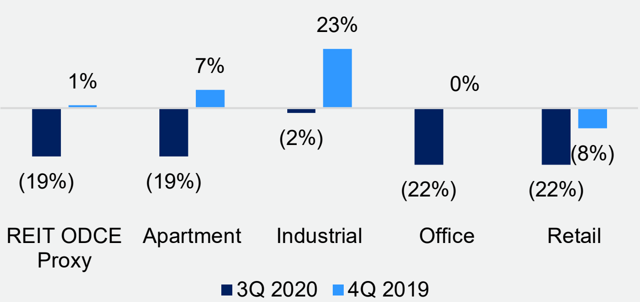
A more recent area of concern is the office sector, which is trading today at a similar net asset value (NAV) discount to retail. The "work from home" movement is one of the most impactful potential outcomes from COVID-19. Given the longer lease term associated with office assets, the impact of this trend would be manifested across a lengthy period and potentially lead to the rationalization of the office footprint. Additionally, demand for office space is increasingly biased toward newer, healthier assets, which is forcing many landlords to spend defensive capex to attract and retain tenants.

Apartments are not trading too far behind in terms of the discount ascribed by the public markets. It remains to be seen however whether this is a long or short term phenomenon once a COVID-19 vaccine is available. The aging millennials, now working from home with young families are beginning to rethink their small urban apartments and consider larger living spaces in the form of single-family homes. Unemployment and furloughs are making many urban districts unaffordable and are leading to the introduction of new restrictions and mandates related to evictions and rent growth for apartment operators. Communal amenities that make city centers attractive have all but disappeared for the foreseeable future, triggering an exodus out of urban areas which have a heavy bi-coastal and gateway footprint.

Not all sectors are feeling the stress. Industrial assets, which were trading at a large premium in the public market prior to COVID-19, are trading largely in line with private market valuations today. Unlike significant headwinds facing other sectors, the industrial sector is benefitting from the surge in ecommerce adoption precipitated by the pandemic.

While the REIT market is imputing significant discounts for most core sectors, it is ascribing lower cap rates than the private market for many non-core, alternative assets such as data centers, towers, and alternative housing. This distinction possibly gives us a lens into the future of the real estate sector. The REIT market has increasingly demonstrated that, in the case of a persistent valuation gap, the public market tends to be directionally correct in price discovery.

REIT vs. Private Market Valuation Gap



Source: CenterSquare Investment Management, as of September 21, 2020.

Sector	REIT Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	5.6%	4.6%	(18.7%)
Industrial	3.7%	3.6%	(2.4%)
Office	6.4%	5.0%	(22.2%)
Retail	8.8%	6.9%	(21.7%)
Gateway/Infill	5.5%	4.7%	(16.0%)
Non Gateway	6.2%	5.4%	(13.1%)
REIT (Major Sectors)	5.8%	4.9%	(15.6%)
REIT ODCE Proxy*	6.0%	4.8%	(19.3%)

** 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.*

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 September 2020. All periods presented are ending September 2020 (i.e. 3 month change represents the change from financials reported in June 2020 to September 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.

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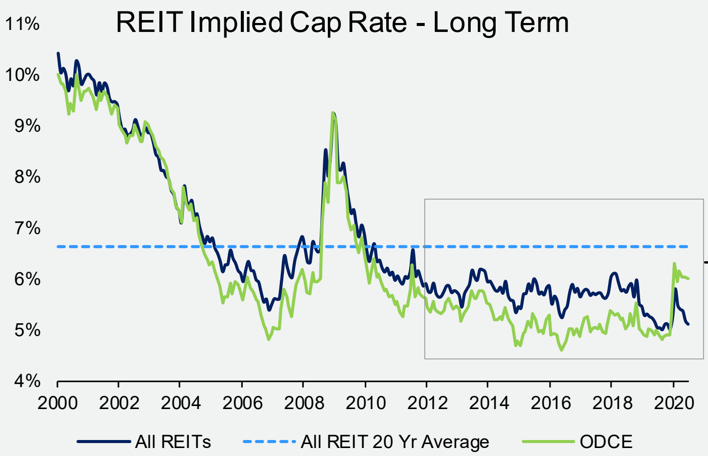
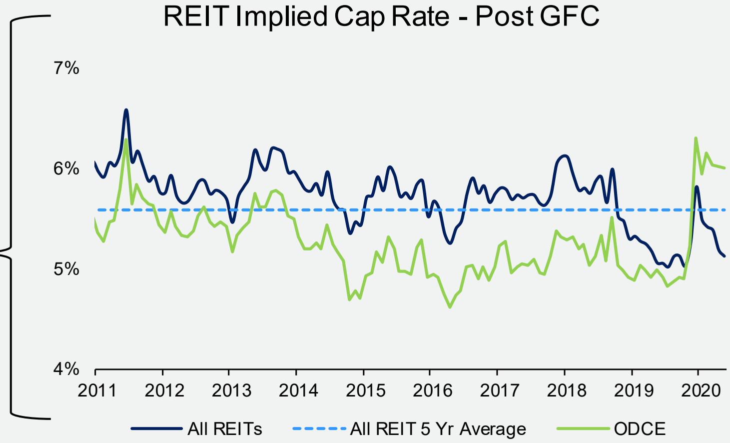
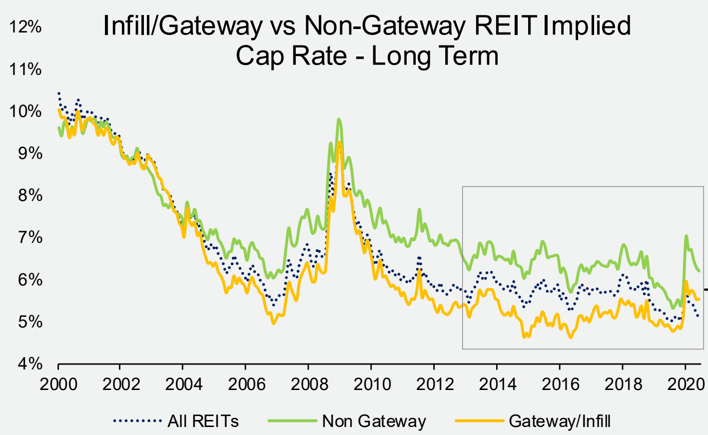
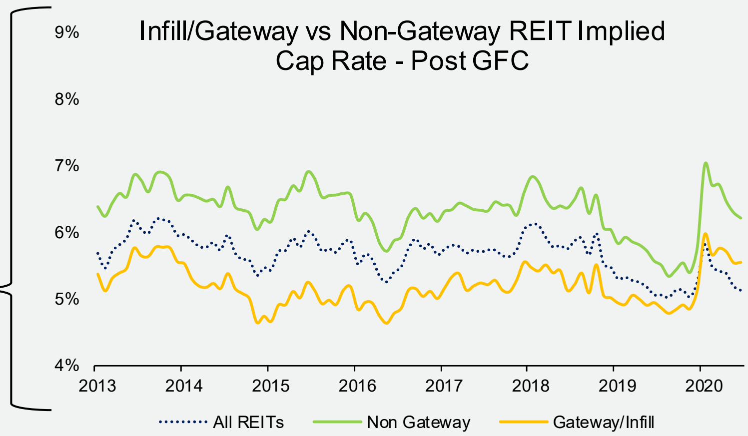
The Data:









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	5.6%	14	121	5.0%	4.6%	(18.7%)
Industrial	3.7%	(36)	(46)	4.8%	3.6%	(2.4%)
Office	6.4%	(23)	79	5.6%	5.0%	(22.2%)
Retail	8.8%	(16)	243	6.2%	6.9%	(21.7%)
Hotel	4.9%	(464)	(231)	7.5%	6.0%	24.1%
Gateway/Infill	5.5%	(21)	60	5.2%	4.7%	(16.0%)
Non Gateway	6.2%	(51)	65	6.2%	5.4%	(13.1%)
REIT (Major Sectors)	**5.8%**	**(108)**	**66**	**5.4%**	**4.9%**	**(15.6%)**
REIT ODCE Proxy	**6.0%**	**(15)**	**102**	**5.1%**	**4.8%**	**(19.3%)**

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 September 2020. All periods presented are ending September 2020 (i.e. 3 month change represents the change from financials reported in June 2020 to September 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 3Q20 earnings reported in September 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.

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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.

A direct investment in an index is not possible.

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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:

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