CenterSquare
INVESTMENT MANAGEMENT

White Paper | First Quarter 2018

Exiting the Plateau:

REIT Investment Strategy

By

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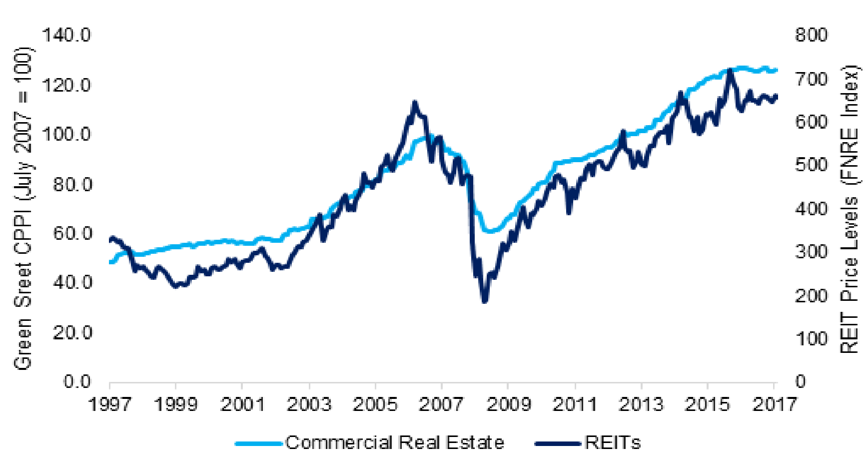
In anticipation of a plateau for underlying commercial real estate markets, REIT returns began to moderate beginning in 2015, delivering mid-single digit total returns and range-bound pricing over the last few years. The fundamental factors moderating private real estate markets have been an increase in supply in some sectors and gateway markets, a dissipating tailwind of cap rate compression as interest rates bottomed and a mid-cycle pause in economic growth. We see good reason to be more optimistic going forward, with the recent increase in bond yields creating a compelling entry point into an oversold REIT market, as attractive valuations coincide with an improving fundamental picture. Better economic growth, the tapering of the post-Financial Crisis supply hump, M&A setting a floor in retail pricing and secular demand drivers for many sectors continuing to drive strong cash flow growth, provide an improving fundamental picture. Further, the dramatic underperformance of REITs in 2017 and into this year provides a backdrop of valuation upside relative to equities. Cap rate spreads at historical highs should prevent higher interest causing material cap rate expansion. Rates are moving higher due to expectations of higher growth and inflation, both of which have historically proven beneficial for real estate owners. We do, however, believe investors should continue to pay attention to the risks posed by secular shift-driven obsolescence and an aging cycle.

Figure 1: Commercial Real Estate and REIT Prices



Source: GreenStreet Advisors CPPI (Commercial Real Estate), Bloomberg, as of 12/31/17

An Extended Cycle

Abundant predictions of the end of the economic cycle mean its eventuality would represent one of the most anticipated recessions in history. We believe the current cycle will likely surprise in terms of length. A hesitancy from the Fed to flatten the yield curve given its obvious consequences and the near-death experience of early 2016, coupled with a late-cycle boost of fiscal stimulus, lead us to estimate that this cycle pushes on into the 2020s with only a mild recession at the end. While we believe we are now in a late cycle real estate investment environment, we expect higher levels of economic growth to drive job growth, higher rents and occupancy over the next few years. Further, real estate should not be the epicenter of the next inevitable downturn and instead prove resilient. Today, real estate has the benefit of emerging from the last cycle with much more attention to risk. Also, the end of an "economic cycle" has often less affected real estate markets, which tend to follow much longer 20 year cycles. A useful example would be the recession of 2000/2001 in between the commercial real estate downturns of the early 1990s and 2008. We believe investors would be better to pay attention this cycle to risks from other investment areas including the valuation of technology stocks, compressed yields in high-yield and corporate debt markets, the unresolved issues of Chinese debt levels and European political instability.

Retail in the New Economy

The value of retail real estate will be defined by its ability to meet the needs of retailers' omni-channel sales strategy. Some real estate will face obsolescence risk but the best assets will benefit from extremely high demand, especially as physical real estate availability rationalizes. Winners include assets that are either a destination or offer extreme convenience.

Retail Price Discovery Puts In Valuation Floor

2017 REIT returns were significantly weighed down by retail repricing in public markets. In fact, excluding the retail sector, U.S. REIT total returns would have been 2.78% higher, totalling 8.00% for the 2017 year[1]. While we expect private real estate markets will reflect the new pricing regime

Figure 2: Current versus Last Cycle

REIT Metrics	2007	2018
Debt (Debt/GAV)	36%	32%
Dividend Yield	3.6%	4.4%
Implied Cap Rate Spread*	1.1%	3.3%
Development (as % of GAV)	7%	6%
1-Yr Fwd FFO Multiple	16.5x	14.6x
NAV Disc/Prem	4.8%	(6.9%)
Implied Cap Rate	5.7%	6.0%

Source: Citi, theHUNTER Express (03/07, 01/18)
** vs. 10-yr Treasuries*

Figure 3: Retail Valuation Floor Realized in 4Q17

Source: CenterSquare Investment Management, January 2018

Figure 4: Recent Retail REIT M & A

Company	Announcement Date	Post-Announcement 4Q17 Return	Implied Cap Rate Today	Implied in CRE Value
GGP Inc	11/12/2017	6.35%	5.69%	(9.74%)
INTU Properties PLC	12/6/2017	2.34%	4.53%	(29.20%)
Westfield Corp	12/11/2017	11.78%	4.17%	1.92%
Average		6.82%	4.80%	(12.25%)

Source: Bloomberg, CenterSquare Investment Management, December 2017

[1] *According to the FTSE NAREIT Equity REITs Index*

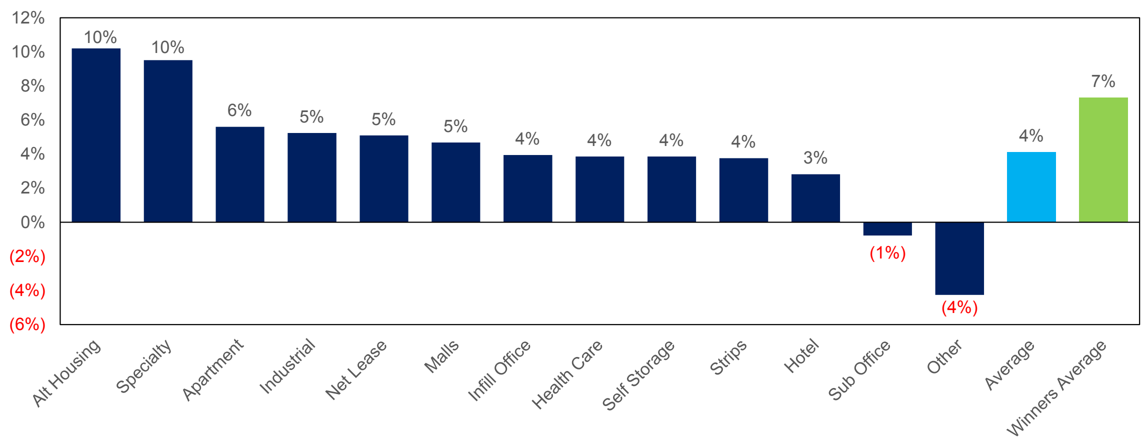
for retail assets in time, we believe the worst is already priced in for REIT markets, setting the stage for the retail sector to, at the very least, not burden REIT prospects for 2018. This has been evidenced by recent price discovery in public markets reflected in a number of corporate actions, including the take-over offer of General Growth Properties, Westfield and INTU (see Figure 4). Other corporate actions have included activist shareholders appearing on the register of Macerich Co and Taubman Properties. While we agree that retail is undergoing a permanent repricing, this recent activity has demonstrated the overshoot of public market pricing.

Secular Growth Winners Continue To Win

Technological innovation is one of the most important drivers of societal change and, in response, the built environment continues to evolve to facilitate changing demand patterns. Technological disruption is providing opportunities for real estate investors to benefit, including the accelerating use of data, which is driving demand for new sectors such as cell towers and data centers. E-commerce is necessitating the development of a whole new supply chain, driving demand for sophisticated distribution warehouse assets. New, creative employment opportunities have arisen in the TAMI industries, leading to the development of office assets to facilitate the collaborative culture of these firms, often in traditionally "fringe" locations.

Demographic trends are also powerful forces. Urbanization, a trend at the intersection of demographics and technological innovation, is creating opportunities in the multifamily industry to meet the evolving pattern of housing demand. Single family housing is also a beneficiary of increased propensity to rent, aging millennials' movement to the suburbs, and a lack of affordable housing options.

Figure 5: 2018 FFO Growth



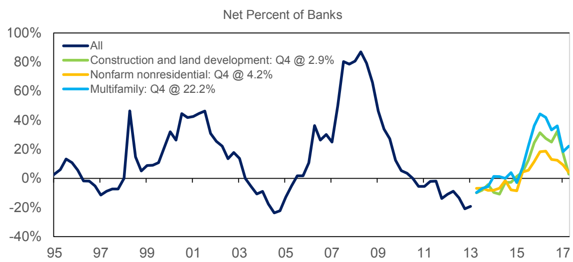
Sources: Bloomberg, CenterSquare Investment Management, as of December 2017.
Winners: Alt Housing, Specialty, Apartment, Industrial

Real estate types that have benefitted from these secular demand drivers have broadly outperformed in the post-Global Financial Crisis real estate market and we believe will continue to benefit over 2018.

Peaking Supply Growth May See Rents Re-accelerate

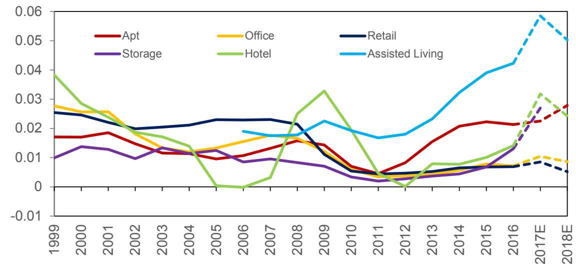
Despite a sub-par economic recovery, real estate landlords were boosted during the first part of this cycle by a muted supply response owing to the echoes of risk aversion following the Financial Crisis. However, the last few years saw values and debt availability (especially in gateway markets)

Figure 6: Banks Tightening Standards for CRE Loans



Sources: The Federal Reserve (Senior Loan Officer Opinion Survey on Bank Lending Practices) as of 12/31/17

Figure 7: Completion as a % of stock by REIT subsector



Sources: Goldman Sachs, CoStar as of 9/30/17

return to levels that prompted the delayed but inevitable supply response. In turn, this has acted to moderate underlying cash flow growth from rents and occupancy for real estate. Somewhat surprisingly, the market's response has been quite rational relative to past cycles – beginning about 18 months ago, lenders began tightening loan availability in response to new construction, which is now feeding through to a peak in supply. We believe this will support an extension of the real estate cycle.

REITs and Interest Rates

Fed rate hikes have little direct impact on real estate values. Long-term total debt costs inclusive of spread yields are more important. Fed rate hiking cycles have usually coincided with positive real estate value growth as higher rates have accompanied an improving economy, rent growth, and lower spreads.

A Backdrop of Attractive Relative Valuation

An advantage for REIT investors is that valuations position the sector as a compelling investment option. The dramatic underperformance of REITs in 2017 and into this year has positioned the sector as relatively cheap versus equities. Further, yield spreads relative to bond yields remain at their long-term average, even with the run-up in 10-year yields. Additionally, REITs trade at a modest discount to NAV, where we also expect to see higher real estate values.

Figure 8: 12-Month Fwd REIT P/AFFO vs S&P P/E

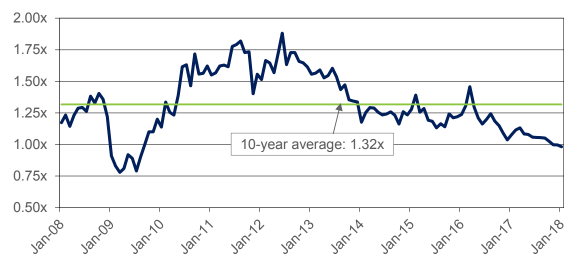


Figure 9: NAREIT Equity Yield Spread over 10- Year U.S. Trasury Yield

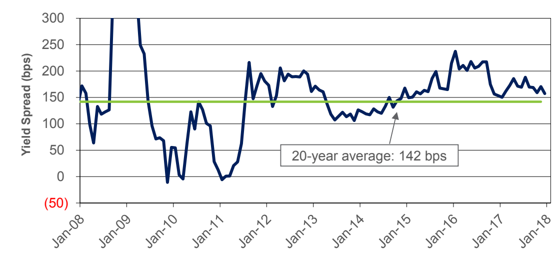


Figure 10: NAV Premium/Discount

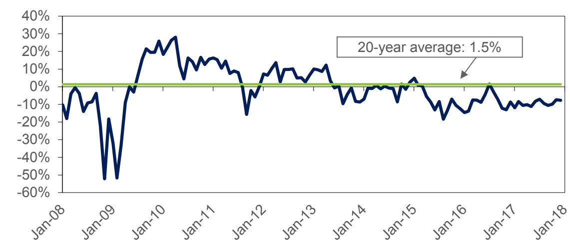
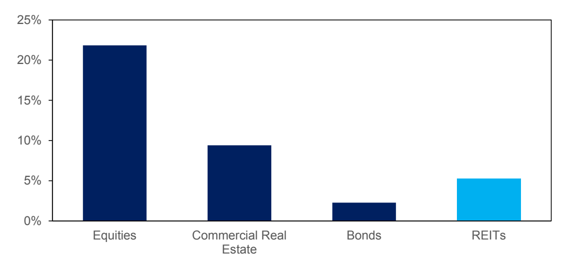


Figure 11: 2017 Total Returns



Sources: Bloomberg, NAREIT, GreenStreet Advisors, CenterSquare Investment Management, Equities = S&P 500; Commercial Real Estate = Green Street Advisors CPPI; Bonds = Citi USBIG Treasury / Govt Sponsored Index; REITs = FTSE NAREIT Equity REITs Index as of 1/31/18.

Regional Market Outlook

United States

Low unemployment, low inflation, and high consumer confidence were the drivers of slow but steady growth in the U.S. economy, providing stability for the markets throughout 2017 as stocks continuously reached historic highs. Employment and growth provided enough support for the Fed to raise rates three times in 2017. However, there is room for caution as inflation continues to remain low and wage growth is essentially non-existent despite historically low unemployment. The Fed's actions were largely expected by the market, which also anxiously awaited regulatory reform from the Trump administration. While healthcare reform failed to get enough support on the first attempt in 2017, its prospect was cemented in the tax reform that was successfully passed at the end of 2017. Most notably, this tax reform brings lower corporate and individual tax rates but also eliminates state and local income tax deductions for individuals, which makes living in states with high income taxes (such as New York, New Jersey, and California) even more expensive.

Heading into 2018, the market is expecting economic growth to continue with additional fuel from tax cuts putting more cash in the hands of corporations and (most) consumers. With this growth, the Fed is expected to raise rates three more times with the hopes of reaching its target inflation level of 2% toward the end of the year. While the economy is set up for solid growth in 2018, regulatory and geopolitical risks as well as a potential downturn of the market raise caution.

Real Estate and the Tax Act

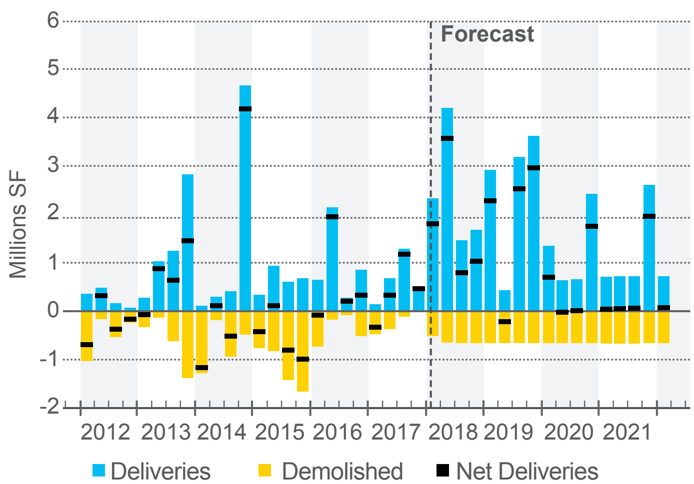
The Tax Act was very positive for real estate. Not only was the 1031 exchange provision retained, the depreciation period of multifamily was reduced and REITs are now treated as business income and hence 20% of the ordinary dividends are deductible (even though REITS pay no corporate tax). The biggest positive from the tax bill is that real estate becomes one of the only investments still able to enjoy full deductibility of interest.

OFFICE: Follow the Sun

Strong employment, steady GDP growth, and slowing supply were tailwinds to the office sector in 2017. However, changes percolated in the second half of 2017, and in 2018 there will be markets that see the balance shift in favor of the tenant as job growth slows and supply picks up. In an interesting contrast to previous economic cycles, the supply in office has appeared disproportionately in gateway markets, in particular New York City and Washington DC. Cities in the Sunbelt have seen relatively subdued supply dynamics, and at the same time have continued to experience above average job growth. Exacerbating this dynamic, the repeal of state and local tax deductions make high tax states like New York, New Jersey, and California even more expensive relative to states with no income taxes like Washington, Texas, and Florida. The result is a preference for well-located Seattle and Sunbelt assets over traditional Midtown Manhattan office space.

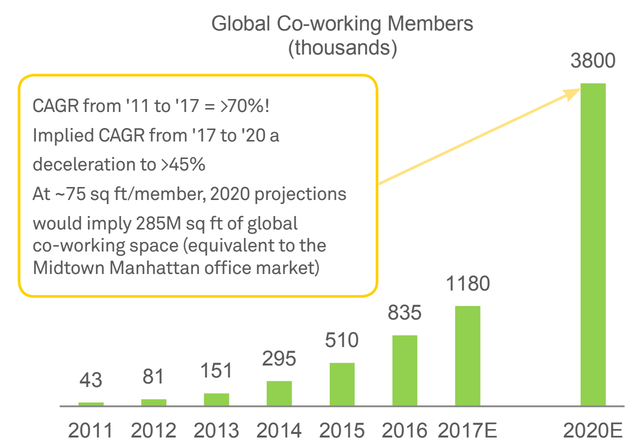
Beyond fundamentals, co-working is trending in the office space; some estimate 30% of all office space will be co-working space over the next decade. Co-working effectively changes an office lease from an expensive, long-term, capital-intensive bond to a hotel-style lease. Traditional office landlords are beginning to update leases into the mold of co-working, bringing higher capital costs, shorter leases, and potentially more frictional vacancy. While this trend, if it fully materializes, could hurt office fundamentals overall, forward-thinking landlords with the ability to embrace this trend will thrive. Additionally, we expect an uptick in suburban living as aging Millennials start families, but primarily in suburbs that offer a sense of place. Landlords offering well-connected, urbanized suburban nodes of mixed-use space will be able to capitalize on this trend. Given the environment going into 2018, we prefer companies with pre-leased development and build-to-suit opportunities that can create value.

Demand & Supply in Midtown Manhattan



Source: CoStar, 2017

The Growth in Co-Working

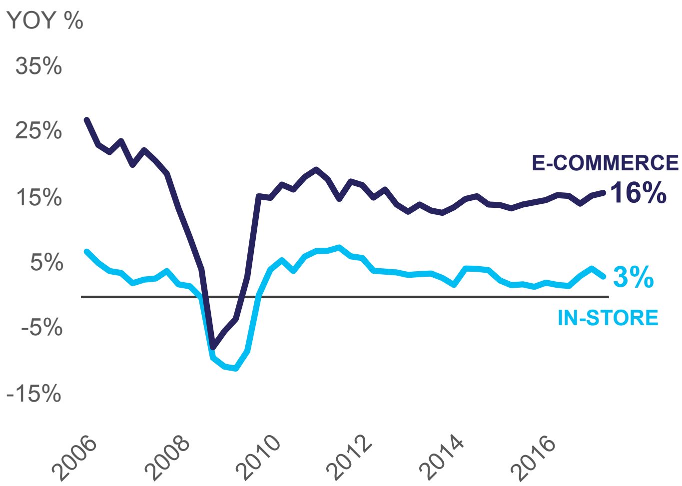


Source: Green Street Advisors, 2017

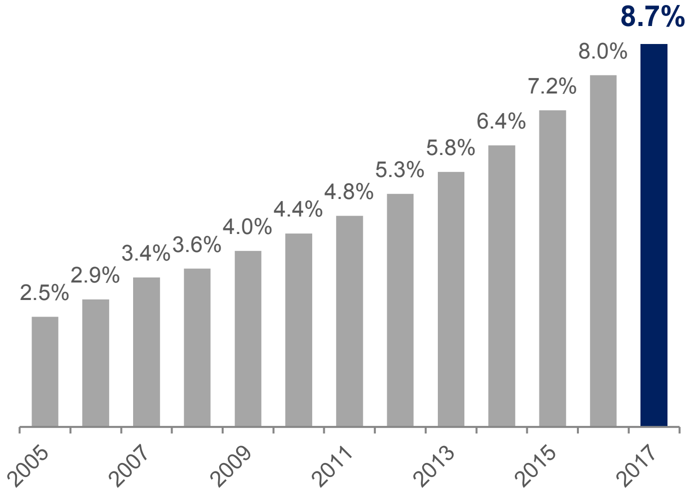
INDUSTRIAL: Cautiously Optimistic

Strong fundamental performance along with increasing e-commerce demand, which accounts for 25%-30% of new industrial leasing, has driven the outperformance of this sector. Robust demand for infill facilities in densely populated centers, particularly coastal gateway markets, have supported healthy rental growth, extremely short lease-up periods, and historically low vacancies. Strong GDP, lower corporate tax rates, and the growth of e-commerce trends have this sector poised for strong operating results in 2018; however, we remain cautiously optimistic on slightly elevated valuations relative to historical norms. Capitalization rates are expected to stay low as private market interest in the sector remains high, though supply is expected to slightly outpace demand in mid-2018. Organic growth will have to come through strong rental rates as historically low vacancies do not leave much upside for occupancy growth. Our primary caution within the sector resides in a potential small overvaluation, but that is not enough to diminish the overall optimism we hold towards the sector.

Growth Rate: E-Commerce vs. In-Store Sales



E-Commerce as a % of Total Retail Sales

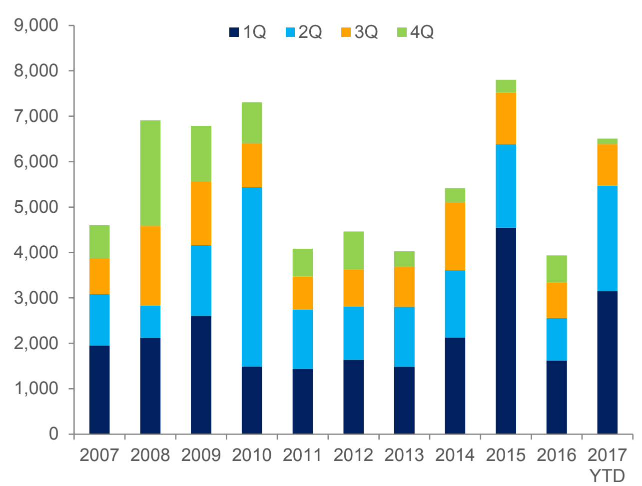


Source: DRE 3Q17 Investor Presentation, Retail sales and Ecommerce sales as of Q217 per Census Bureau

RETAIL: Bifurcated by the Consumer

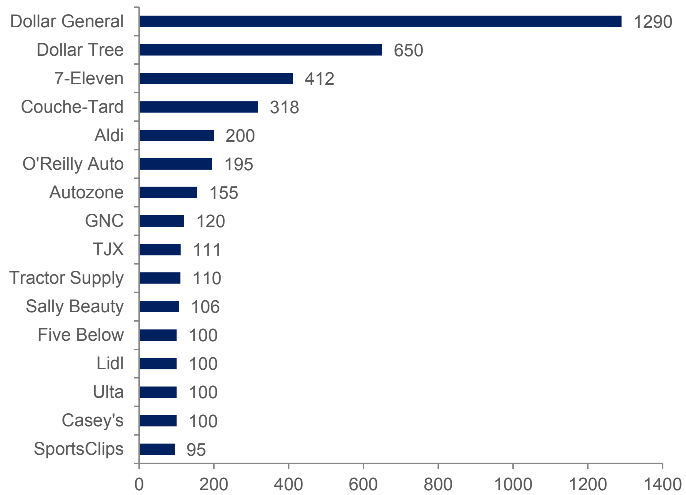
Low unemployment, higher disposable incomes, low inflation, and high consumer confidence created a positive consumer environment in 2017. However, an evolution from the purchasing of things to experiences translated into lower performance and valuations for retailers and retail REITs, with department stores and apparel-focused stores hurting the most. A distinct divergence in performance appeared as higher-quality assets persevered in spite of the tough climate, while lower-quality assets struggled. Additionally, private-versus-public values widened considerably, increasing merger and acquisition potential. While no new supply is slated for the next few years, we remain concerned about shadow supply from vacating tenants and department stores as historic numbers of closures and bankruptcies are announced. This poses a looming threat to sales productivity and store rationalization, which will remain a theme and highlight the bifurcation between high- and low-quality assets. On the other hand, online retailers (e.g. Apple, Bonobos, Warby Parker) have benefitted from adding physical space to flagship assets, further complicating this landscape. In addition to quality, location and tenants will become increasingly crucial. Assets in densely populated, well-connected, and mixed-used developments with tenants like discount retailers (e.g. T.J. Maxx), service tenants, and grocery anchors will be valuable. An emerging trend to monitor will be retailers' omni-channel strategies translating physical assets into distribution nodes. Heading into 2018, we are most favorable on landlords with high quality retail that is either a destination or has convenience value.

Announced Store Closings



Source: Bank of America Merrill Lynch Global Research, as of October 2017

4,162 New Stores from These 16 Banners



Source: IHL Group, Company Reports, as of August 2017

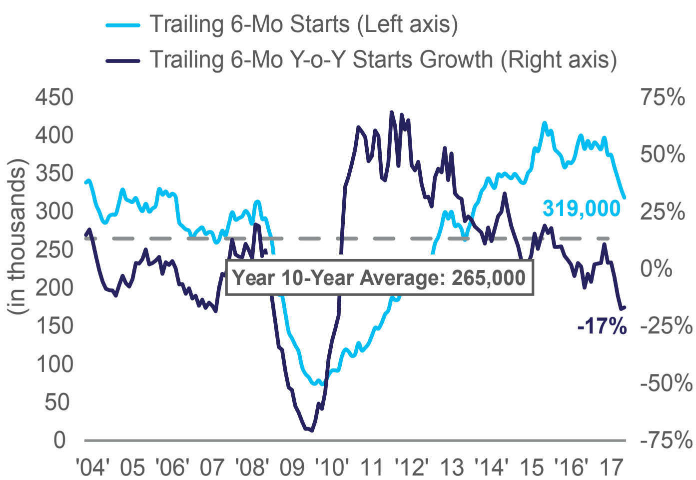
NET LEASE RETAIL: Stepping Away From Safety

Although industrially focused net-lease assets continue to benefit from secular tailwinds, retail-related assets experienced a downdraft from the sector's shifting consumer dynamics, a trend expected to continue into 2018. We expect longer-term pressure to remain on net-lease assets due to expectations of an interest rate increase in 2018, and owners will likely divert attention to more economically sensitive and shorter-lease assets in attempts to capture a portion of that growth. We continue to favor net lease names that have very attractive financing cost of capital and are purchased at an attractive spread, but generally prefer sectors with greater exposure to economic growth and less exposure to interest rate risk.

RESIDENTIAL: Not Urban, More Suburban

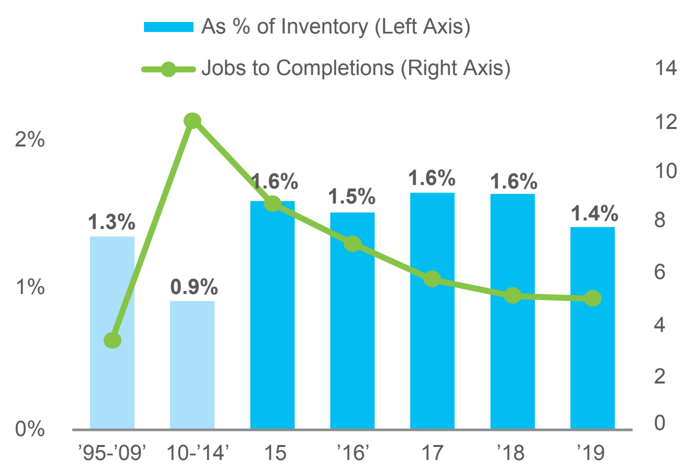
Elevated supply, specifically luxury, urban, highly-amenitized apartments in gateway markets, persisted throughout 2017 causing net operating income and revenue to decelerate sharply. However, the deceleration has stalled as apartment starts materially decreased over the year and construction delays caused deliveries to slip into 1H18. We believe this will translate into improved rental growth in 2019. From the demand side, we expect slowing job growth to materialize into slightly lower rent growth in 2018. Favorable tailwinds have hit the single-family residential market as aging Millennials look for quality schools, space, and locations near transportation nodes or thoroughfares instead of urban spaces. In lieu of buying, Millennials are renting single-family assets due to lifestyle preferences, lack of down payment funds, or deficient mortgage qualifications. Moreover, supply remains below historic averages and at higher price points. Although the single-family rental market is still immature, owners continue to realize efficiencies as they build-to-scale in individual markets and reduce operating costs, allowing for greater advantages in the near-term relative to more mature sectors. Manufactured housing is also favorable, with drivers similar to single-family homes. As Baby Boomers age into retirement and seek to downsize, they are increasingly moving into manufactured housing communities, which provide amenities, events, and activities. In addition, manufactured housing supply is virtually non-existent due to low land availability, producing little competition for existing product.

Multifamily Starts: Seasonally Adjusted 5+ Units



Source: U.S. Bureau of Labor Statistics, December 2016

Multifamily Completions

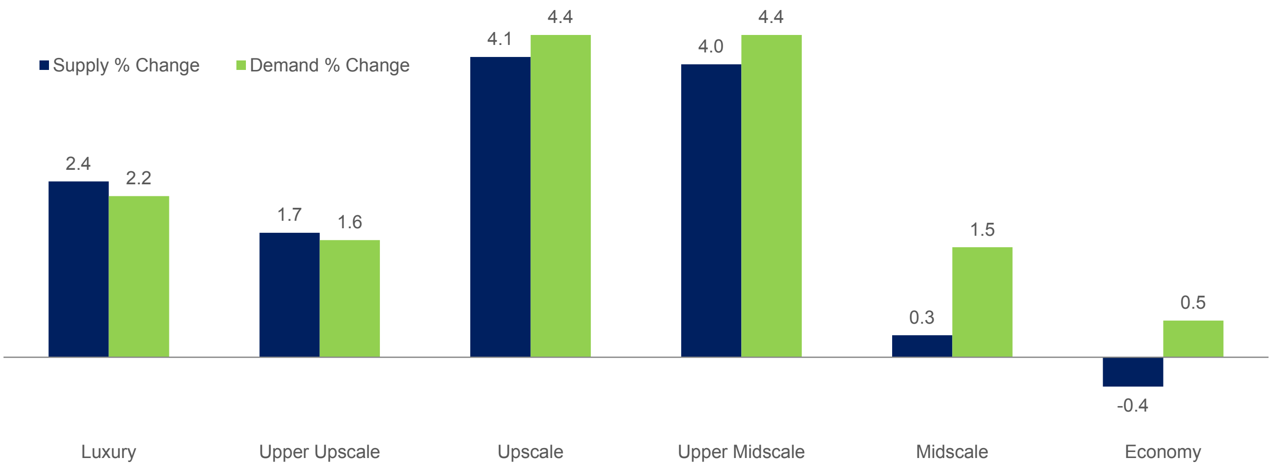


Source: AvalonBay Communities, 2016

HOTELS: Less Business, More Leisure

Exposure to elevated supply, primarily in the top 25 markets and luxury upper upscale assets, forced REIT revenue per available room growth to decelerate in 2017. However, revenue growth stabilized in the low single-digits and hotel REITs slightly outperformed the broader Index. Nevertheless, the fundamental supply-demand backdrop is still unfavorable for hotel owners. Weak growth from corporate transient travelers, which is typically 75% of occupancy, failed to create demand as expected in 2017. While corporate demand may increase after tax reform, we are skeptical as to how corporations will utilize their tax savings. Additionally, we expect supply to spread from top markets to secondary urban and suburban markets, creating a less favorable view of suburban limited service assets moving into 2018. Conversely, leisure travel, the other 25% of hotel demand, performed relatively well in 2017 due to low unemployment and solid consumer sentiment, which was complemented by Millennials' shift from ownership to experience. We expect leisure travel to remain strong in 2018. C-corporation hotels, in our view more favorable than owners, benefitted from increased supply during 2017 and generated material revenue from advantageous branding, franchising, and management of locations. We expect this trend to continue in 2018. Additionally, further negotiations with online travel agencies (OTAs) regarding fees and book-direct marketing campaigns have lessened the OTAs' disruption of this segment.

Class: Demand Growth Outpaces Supply Growth at The Lower End

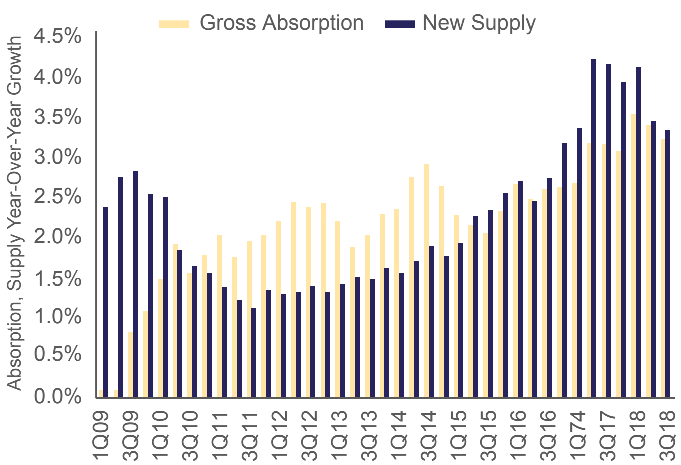


Source: Supply/Demand % Change, by Class, September 2017 YTD

HEALTHCARE: Fundamental Instability

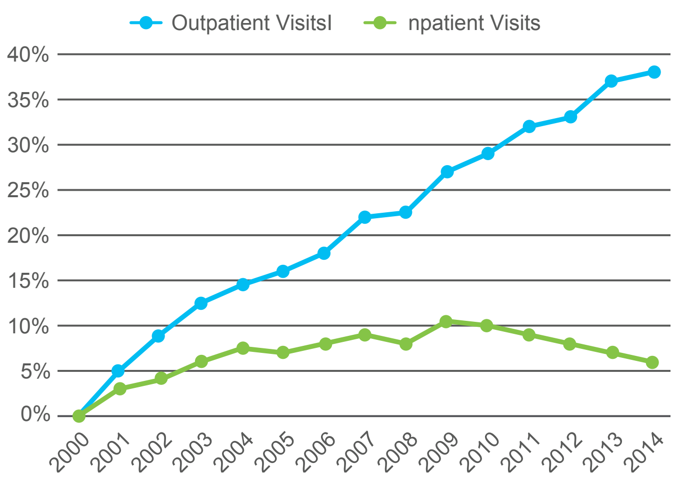
Whether by political, operational, or supply dynamics, healthcare assets were buffeted throughout 2017. Although a flight to safety, interest rate sensitivity, and positive surprises on performance buoyed the sector in 1H17, that support dissolved in 2H17 for senior housing and skilled nursing facilities (SNFs). While hospitals are still the epicenter of healthcare, they are not advantageously positioned moving into 2018 due to an overhang from uncertain regulatory changes and decreasing volumes as patients choose lower-cost outpatient alternatives. However, the best facilities with healthy market share will fare adequately. Senior housing supply peaked in 2017 in anticipation of the Baby Boomer tenancy. Although starts have declined, the oversupply combined with extended lease-ups, expense pressures, and high management turnover rates is likely to cause more pain until the market troughs in late 2018 or 2019. SNFs are seeing additional pressure due to the shift from fee-for-service reimbursements to value-based (bundled) and increased enrollments in Medicare Advantage. Further, operator bankruptcies, falling lengths of stay, and Department of Justice investigations will continue to weigh on performance. Increased interest in the relatively safe sector of medical office buildings, however, has led to cap rate compression as valuations rose to historic highs with minimal tenant issues. If hospital volumes decrease due to lack of insurance caused by healthcare reform, MOBs may follow suit, but the outpatient trend and lower cost nature of treatment may insulate these assets from material declines. Life sciences is an additional positive in the healthcare sector, with growth in R&D and high-quality development pointing to positive performance in 2018 and beyond.

Senior Housing Supply Remains Elevated



Source: RBC Capital Markets, NIC Map Data

Outpatient Trend Driving MOB Demand

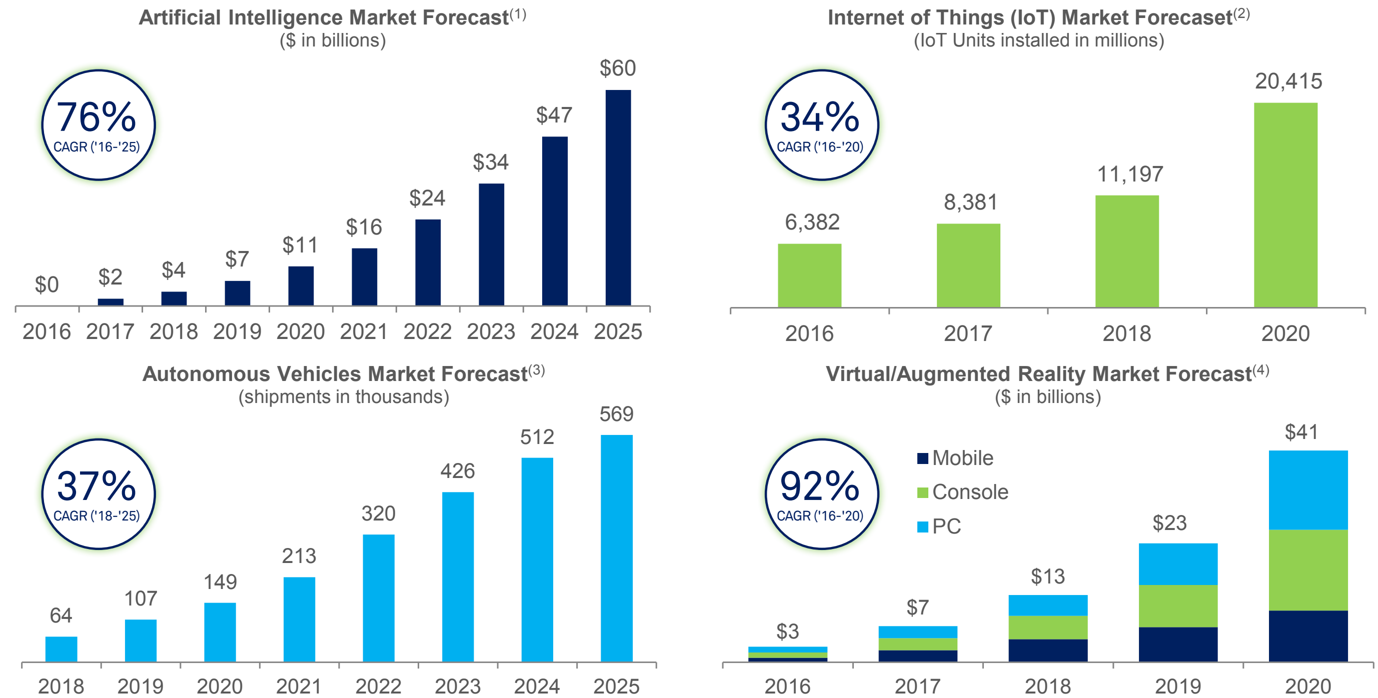


Source: Welltower 3Q17 Corporate Presentation, American Hospital Association

DATA CENTERS: In The Cloud

Healthy leasing, advantageous M&A activity, and a transition toward a global footprint continued through 2017, provided support for stock valuations for this sector. Demand trends persisted as cloud adoption, enterprise outsourcing, digitalization, and the Internet of Things evolved. New technologies such as artificial intelligence, autonomous vehicles, and virtual reality are following close behind, requiring more complex data processing and computing power, further intensifying demand into 2018. Data center operators' employment of just-in-time builds is keeping supply measured and we believe this balance will continue into 2018, supporting pricing particularly for retail co-location. We expect healthy yields, strong leasing, further M&A, and continuing globalization trends to buoy the sector throughout 2018. We prefer dense, highly interconnected, retail-based assets, and operators that are ahead on the technology curve with a strong operation. While data centers have been repriced to be more in-line with the overall REIT market, they have better growth than the broader market, leaving room for outperformance.

Next Generation Drivers

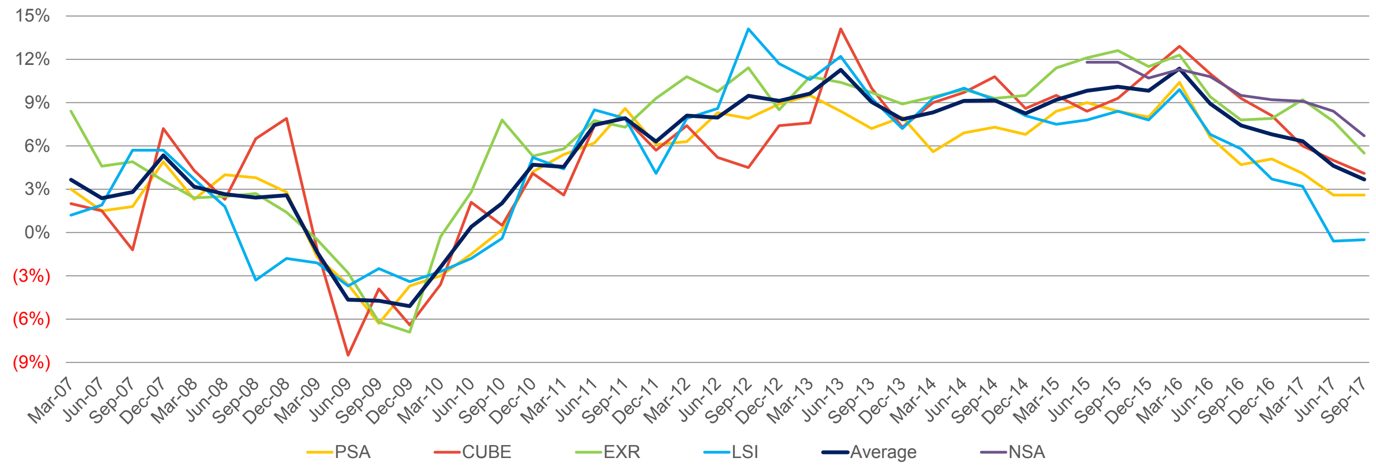


1) Source: Statistica 2017
2) Source: Gartner
3) Source: BI Intelligence
4) Source: Statistica 2016

SELF STORAGE: A Tale of Two Halves

Solid growth in the self-storage sector slowed materially at the end of 2016 and into 2017, with the second derivative negatively affecting sector performance. However, the negative trajectory slowed as hurricanes swelled occupancy rates in 2H17. While oversupply greatly reshaped the sector, low levels of new starts backed by sophisticated marketing and revenue systems led to historically high occupancy and market share among these REITs. However, these historic highs are unlikely to continue as 2018 unfolds and new supply puts pressure on rents and occupancy. Given the typically long absorption period for these assets, oversupply concerns will loom longer. However, we believe the sector is normalizing as supply expectations appear to be already priced into the stocks. Additionally, the occupancy jump caused by hurricanes will likely lead to continued operating income but decelerating growth in 2018. Relative value is the key determinant in our preferred names, as owners with the best operations and revenue management systems will be most likely to succeed.

Same Store Net Operating Income YoY Growth



Source: Company documents and CenterSquare Investment Management, 9/30/17

Regional Market Outlook

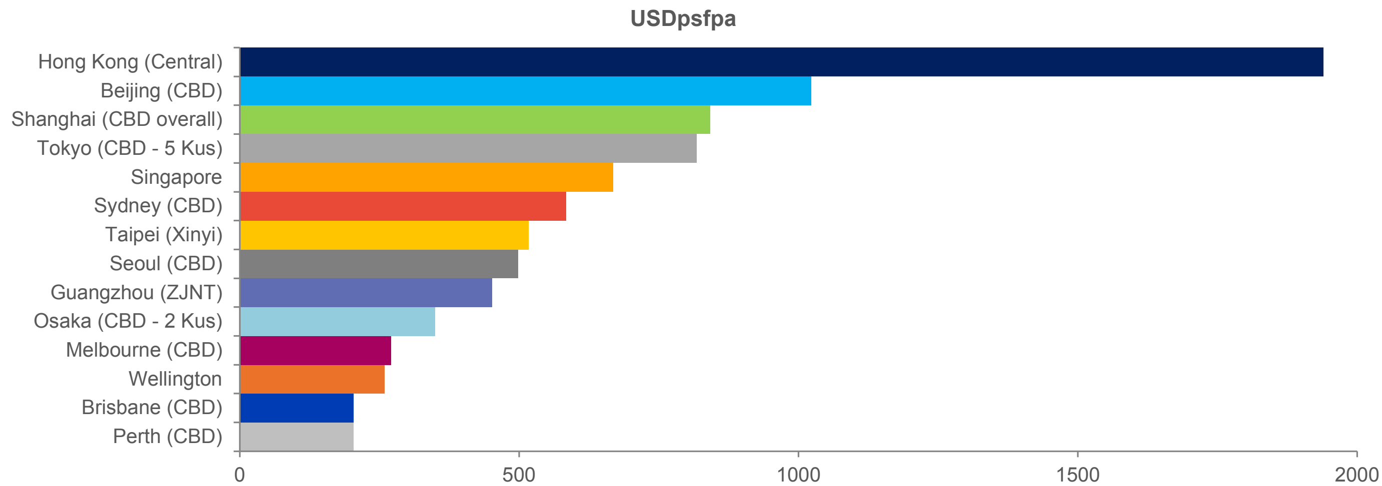
ASIA-PACIFIC:
The Chinese Engine

Asian consumers continued to open their wallets in 2017, driving gross domestic product (GDP) growth and shifting the focus from exports to consumables and services. China outperformed its growth forecasts, supported by services and consumption growing much faster than manufacturing or exports, signalling that China is moving toward a more developed, consumer-dependent economy. Due to its geographic adjacency, Hong Kong economy is highly intertwined with China's and benefitted in 2017 from a material increase in Chinese visitors. Japan began to show signs of life in 2017. Although Japan's population has begun to shrink, the overall employment participation rate has increased as more women have entered the workforce and worker migration into Tokyo continues to swell. Although Singapore's growth in 2017 was not as broad-based, we expect its recovery to be more consistent across sectors in 2018. Conversely, Australia fell flat in 2017. Numerous factors negatively affected the Australian consumer including low wage growth, an increase in energy prices, and a multi-year residential bull market in Sydney and Melbourne slowing towards the end of 2017. The wealth effect that had given Australian owners the ability to reduce their savings rates and have more disposable income has effectively disappeared, forcing the Australian consumer to shore up finances, meaning less disposable income.

OFFICE

Australian office, particularly Sydney and Melbourne, had seen a sharp increase in supply over the past three years, which depressed rents, drove up incentives, and raised vacancies. That supply glut did discourage developers from bringing new assets to market leading to a sharp improvement in office fundamentals in recent years thanks also to numerous office-to-residential conversions. Our expectation is that 2018 will be another good year. Similar to Australia, Singaporean office has seen increased supply come to market over the past few years, not uncommon given the land availability around the CBD. However, starts slowed in 2017, turning rents positive after almost two years of negative growth, and no new material supply in 2018 will open a small window for rents to rise further. Hong Kong's Central office—the most expensive globally by both rent and capital value—continues to thrive as Chinese companies prefer this prestigious address, with rents continuing to grow, albeit at a slower rate than in 2017. Decentralized Hong Kong office in Island East will likely attract tenants unwilling to pay the extravagant rents of Hong Kong Central, easily filling new supply coming online in this submarket. In Tokyo, new office demand is robust on an uptick in employment and migration from regional cities. Tokyo is drastically land-constrained, which effectively means that every new office building must be built on the site of an older, scraped asset, leading to a lower net increase in CBD supply. Vacancy rates are currently 3.1% and rents are increasing, but rental growth has continued to slow and supply is starting to pick up. Our expectation is that premium grade office will perform strongly due to demand from large domestic enterprises and the need for disaster-prevention structures. B-grade office—smaller office buildings catering to small- and medium-sized enterprises (SMEs) that employ nearly 92% of Japanese workers—will also see great demand, particularly for those assets located near subway stations. We believe older A-grade properties will lose tenants to premium grade, and will have a hard time backfilling secondary vacancies with B-grade tenants.

Office Rents Across Asian Cities

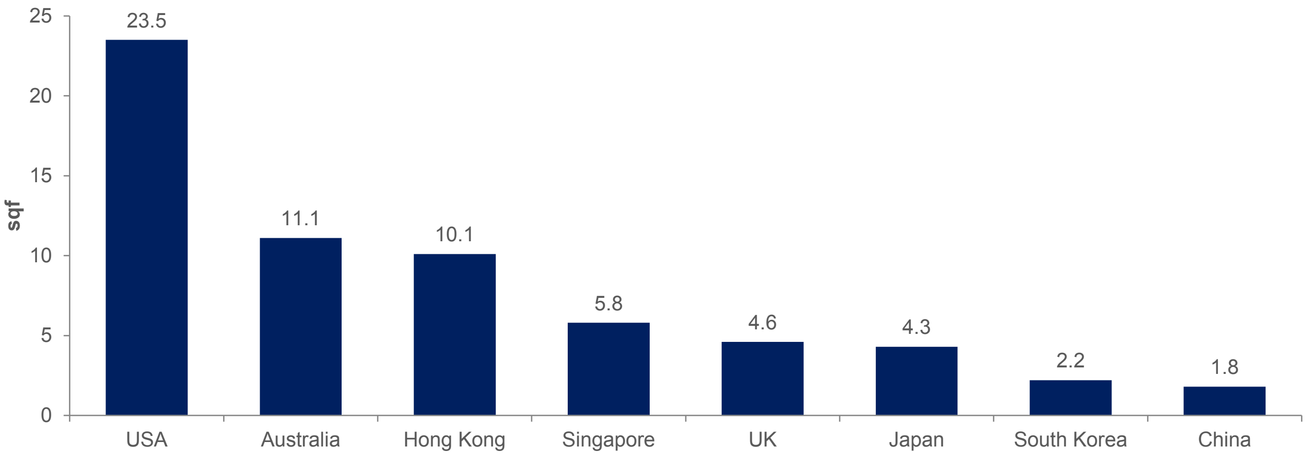


Source: http://www.ap.jll.com/asia-pacific/en-gb/Research/the-office-index-3q-2017.pdf?ccb17652-5595-4b72-a932-f0832bcc04c2

RETAIL

An increasing volume of e-commerce sales and the negative global sentiment surrounding the retail sector bled into Asian markets. We believe that from a property perspective, retail will see bifurcated performance in 2018 Australian retail will likely suffer from a stilted consumer in addition to Amazon's entrance into the Australian retail market during the fourth quarter of 2017. A number of Australian retail properties will become obsolete over time and only the core prime assets will continue to thrive. Similarly, Japanese retail will struggle large suburban and regional assets are in structural decline and will remain so irrespective of what happens in year-over-year retail spending; the best case for urban Japanese retail is flat growth. In spite of the presence of both Amazon and Chinese e-commerce players, Singapore retail should hold up reasonably well due to the country's high number of transport-linked retail assets, which create convenience for Singaporeans reliant on public transportation. Demand should improve relative to 2017 and we expect some rebound in retail sales. One bright light in retail is Hong Kong. China's governmental anti-corruption crackdown weighed heavily on Hong Kong's high-end retail sector over the past few years. However, this movement has largely played itself out and spending in Hong Kong, particularly on discretionary high-end products has increased on the back of a stronger Chinese economy.

Shopping Center Space per Capita



Source: CapitaLand Mall Trust, International Council of Shopping Centres, various statistics agencies and Cistri (2016)

INDUSTRIAL

Logistics had a good year in 2017 across all Asian markets thanks to the continually strong demand for logistics space from e-commerce related industries. 2018 will see more varied performance between countries as supply rises across some markets. Singapore logistics, while a strong equity performer in 2017, already saw rising levels of supply in 2017, which will keep a check on rent growth as vacancies remain elevated. Japan's logistics market has done extremely well the past years but is now also seeing high levels of newly-built logistics facilities enter the market, making rent growth difficult to come by. Australia's logistics market will continue to see varying performance between its two biggest markets, Melbourne and Sydney. Sydney's supply of logistics space will remain constrained due to the conversion of industrial land for residential use, which will keep rents elevated. Melbourne on the other hand has seen a flurry of logistics assets come to market and while supply will slow in 2018, it will take time for vacancies and tenant incentives to fall and normalize.

Regional Market Outlook

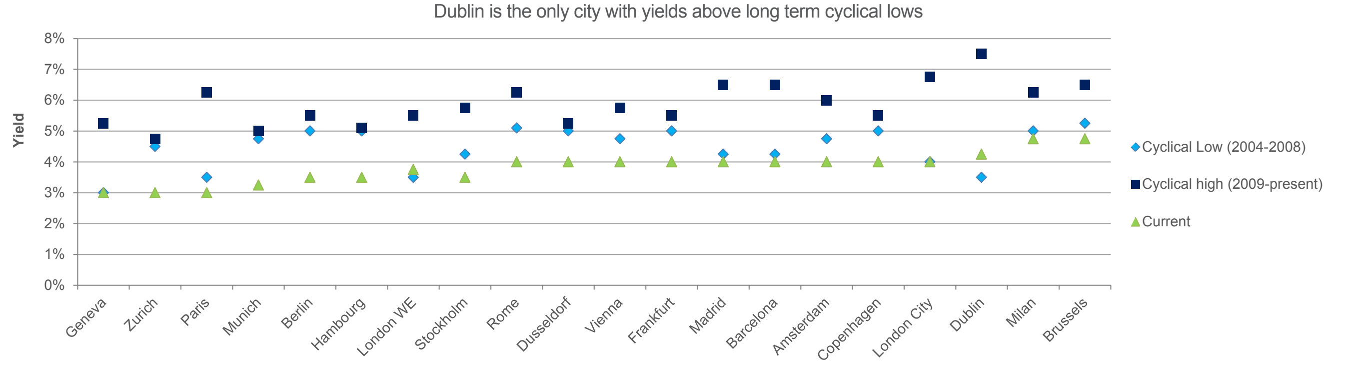
UNITED KINGDOM AND EUROPE: Brexit, the Nordics, and Dublin

Positive signs of economic growth and increasing consumer confidence are emerging from Europe and the United Kingdom. With the electoral cycle largely over, political overhang on the European economy is dissolving, and Europe's overall economic picture paints healthy growth moving forward. Monetary policy will likely remain supportive and become more normalized throughout the region, with no expected rate increases in the near term. Brexit discussions continue to be the main albatross of the U.K. economy and its consumer sentiment.

OFFICE

Dublin office is poised for growth on the back of the Brexit fallout, which will likely disproportionately benefit from its size, advantageous corporate tax system, English language, and English-based governance system, all attractive to American multinationals and British corporations. Likewise, solid GDP growth in Sweden has driven population migration to the major cities, with Stockholm receiving a considerable influx of residents. This has forced a supply-demand office imbalance in the capital as new CBD construction is land-constrained and a number of old office assets had already been converted to residential, pushing office supply into negative territory for 2017. German office appears favorable as well. Opportunistic office players working in a fairly strong economy are finding value-add opportunities. Paris operators will likely benefit from growing CBD and prime rents, and yields should remain fairly stable at this point in the cycle. Madrid office will gain from companies moving to the capital as insurance against an unlikely Catalonian secession, accelerating rental growth and uncovering significant opportunities in that market. Conversely, we are still negative on London office in spite of a healthy investment market for prime and a likely take-up in the city trending above the 10-year average. The aforementioned uncertainty surrounding Brexit negotiations will likely force down rents and capital values will start to decline. However, we believe London's loss will potentially be gains for elsewhere in Europe.

European Prime Office Yield



Source: CBRE Q3-2017

RETAIL

Retail, however, is not as rosy of a picture. Shifting consumer patterns toward online shopping and experiential over accumulation spending has benefited e-commerce and left traditional retailers behind. Although Sweden's spending rate is still healthy, other areas of Europe are not faring as well. Germans prefer spending in value and discount chains, leaving other higher-priced retailers behind. The French retail market, specifically Paris and Marseille, may experience supply issues in the coming year. Political uncertainty surrounding Brexit and its potential economic fallout has Britains spending less in a slowing economic growth landscape. To stay afloat, landlords will have to deploy further defensive capex and technology investment to drive growth and attract tenants. Although not turning negative yet, we expect a sizable correction in capital values as well as downward pressure on lower-quality and secondary retail spaces, causing us to steer clear of these assets because of the anticipated deterioration. We will continue to look for operational excellence in retail landlords in 2018, with more advantageous assets containing experiential or destination components, diversity away from apparel, large food anchors, or locations near high-density transportation nodes or small, local catchment areas.

Other preferred sectors in 2018 are industrial, particularly in the United Kingdom due to its late cyclical nature, growth opportunities via e-commerce, and healthy supply-demand dynamics. Healthcare is poised to benefit from elderly care in both Europe and the United Kingdom, as governmental spending may increase and the sector will draw interest as a safety play as Brexit unfolds. Student accommodation is also mostly immune from the economic environment, with consistent rental growth and some of the best value in residential.

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Definition of Indices

FTSE NAREIT Equity REITs Index
The FTSE NAREIT U.S. Real Estate Index 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. The performance presented is based on total return calculations which adds the income a stock's dividend provides to the performance of the index, and is gross of investment management fees. Effective December 20, 2010 the ticker for the FTSE NAREIT U.S. Real Estate Index changed from FNERTR (total return) to FNRETR (total return). The old ticker (FNERTR) has been reassigned to newly established FTSE NAREIT All Equity REIT Index which is similar to the existing benchmark in all regards except that timber REITS will comprise approximately 7% of the new index and 0% in the FTSE NAREIT Equity Real Estate Index.

S&P 500
The S&P 500 is an index that is considered to be a gauge of the U.S. equities market. The index includes 500 leading companies spread across the major sectors of the U.S. economy. The index focuses on the larger cap segment of the U.S. market and represents approximately 75% of the market capitalization of U.S. securities. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill Companies.

Green Street's Commercial Property Price Index
The Green Street's Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, its emphasis on high-quality properties, and its ability to capture changes in the aggregate value of the commercial property sector.

Citi USBIG Treasury / Govt Sponsored Index
The US Broad Investment-Grade Bond Index (USBIG) tracks the performance of US Dollar-denominated bonds issued in the US investment-grade bond market. Introduced in 1985, the index includes US Treasury, government-sponsored, collateralized, and corporate debt and provides a reliable representation of the US investment-grade bond market.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the portfolios comprise these benchmarks. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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Mr. Crowe is the Chief Investment Strategist at CenterSquare Investment Management and joined the firm in 2015. Scott is a member of CenterSquare's listed real estate, listed infrastructure and private real estate investment committees. In this capacity he works with each team's portfolio managers and investment professionals in the leadership of the investment process, with a particular focus on thought leadership by synthesizing our real asset views across the business. Scott is the portfolio manager of the Global Concentrated real estate securities strategy. Scott also works directly with CenterSquare's clients, providing education and guidance on the market and helping them execute their investment goals. Prior to joining CenterSquare, Scott was CIO of Liquid Alternatives at Resource Real Estate where he built and led a global investment and distribution platform. Prior thereto, Scott was the lead Global Portfolio Manager for Cohen & Steers, where he was responsible for $10B in assets under management and led the investment and research team of over 20 portfolio managers and analysts. Prior to this, Mr. Crowe held the position of Head of Global Real Estate for UBS Equities Research, where he built and managed the U.S. REIT division while leading a global team of more than 40 analysts. Scott began his career at Paladin Property Securities and holds an Honors Finance Degree from the University of Technology Sydney and a Bachelor of Commerce from the University of NSW/ National University of Singapore.

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Mr. Briddell is the founder of CenterSquare's listed real estate securities group, and since joining the firm in 1993 he has held positions in private real estate acquisitions, U.S. and Global REIT research and portfolio management. Mr. Briddell holds a B.S. in Economics from the Wharton School of Business at the University of Pennsylvania with concentrations in Finance and Real Estate. He is a member of NAREIT, the CFA Institute/Society of Philadelphia and PREA, where he was Co-Chair of the Green Building Committee.

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