

Interest Rates Rise and REITs Outperform

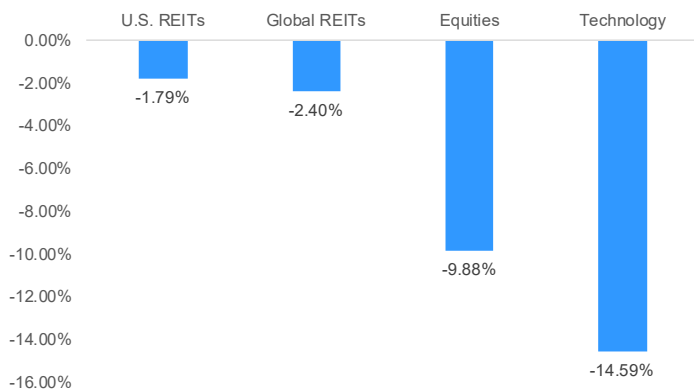
Scott Crowe, Chief Investment Strategist

Uma Pattarkine, CFA, Investment Strategy Analyst

Although the primary catalyst for the recent sell-off in the broader market has been higher interest rates, REITs have delivered strong outperformance relative to equities. We make two points about this counter intuitive phenomena. First, given persistent investor caution regarding REITs and interest rates since the Global Financial Crisis, we believe interest rate risk has already been baked into current REIT valuations. In fact, we believe the interest rate risk blind spot for investor portfolios is in technology stocks, with easy money having led to an overvaluation in public tech companies feeding through to a classic over-investment cycle by the private tech industry. Second, as demonstrated by recent performance, REITs remain a very strong late cycle hedge in investor portfolios. Even with the recent outperformance, REITs are trading at valuations versus equities that have not been seen since the Global Financial Crisis. While the REIT market is already pricing in a 40bps cap rate expansion in the private real estate market, commercial real estate fundamentals look strong with healthy demand as demonstrated by high occupancies and rising rents.

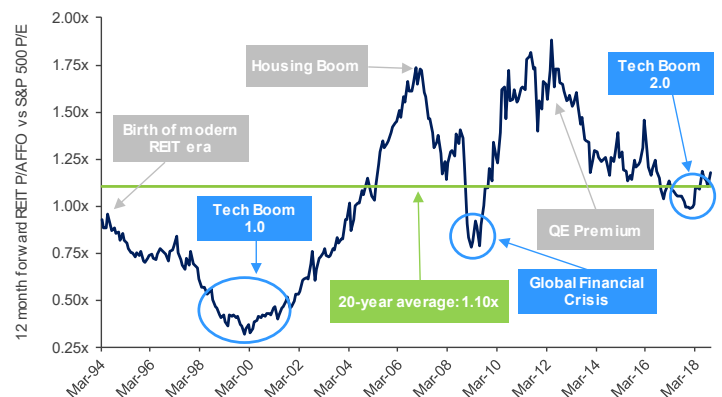
Recent Rise in Interest Rates Have Led to Increased Market Volatility and REIT Outperformance

Figure 1: Total Return Since Equity Market Peak (September 20, 2018)¹



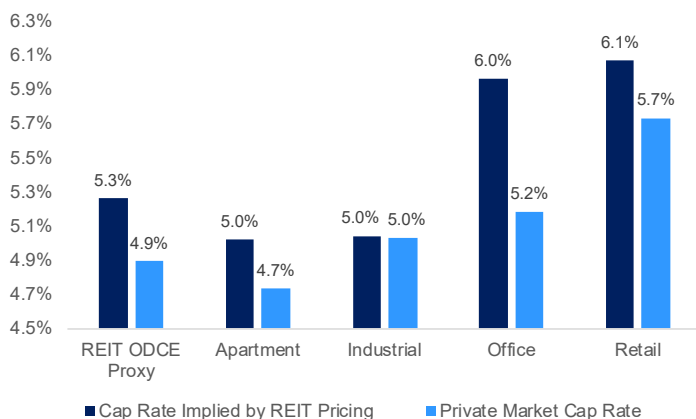
Relative to the Broader Equity Market, Reits Have Not Traded at Such Attractive Valuations Since the Global Financial Crisis

Figure 2: Relative P/E Valuations (REITs & Equities)²



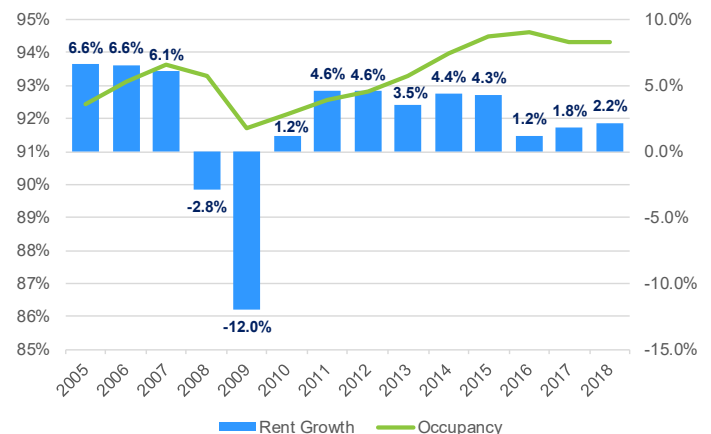
REITs Are Already Pricing in Approximately 40bps of Private Real Estate Cap Rate Expansion

Figure 3: Private vs REIT Implied Cap Rates³



Real Estate Fundamentals Remain on Firm Footing With Steady Occupancy And Rising Rents

Figure 4: REIT Major Sector Occupancy and Rent Growth⁴



Note: Refer to footnote references on Page 2. Also refer to important disclosures on Page 3.

The statements and conclusions made in this presentation are not guarantees and are merely the opinion of CenterSquare and its employees. Any statements and opinions expressed are as of the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of CenterSquare.

¹ U.S. REITs = FTSE Nareit Equity REITs Index, Global REITs = FTSE EPRA/NAREIT Developed Index, U.S. Equities = S&P 500, Technology = S&P Technology Index. Source: Bloomberg, September 20, 2018 - November 23, 2018.

² Equities based on S&P 500, REITs based on the FTSE Nareit Equity REITs Index. Source: Bloomberg, as of March 29, 2018. Average covers 20 years ending May 31, 2018.

³ Source: CenterSquare implied cap rate research, as of September 30, 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 the full CenterSquare REIT Cap Rate Perspective report at www.centersquare.com for more information.

⁴ Sectors: Apartment, Industrial, Retail, and Office. Source: Green Street Advisors, as of December 31, 2018 (projected).

Disclosures

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.

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.

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 authorised 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.

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.

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.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Real Estate Index Series covers both the FTSE EPRA/NAREIT Equity REITs Index and the FTSE EPRA/NAREIT Developed ex-U.S. Index. Designed to track the performance of listed real estate companies and REITs worldwide, the series acts as a performance measure of the overall market. The Gross benchmark presented is based on total return calculations which add the income a stock's dividend provides to the performance of the index. The Gross benchmark is presented is gross of withholding taxes and investment management fees. The Net benchmark presented is calculated as a total return net of foreign withholding taxes on dividends from an U.S. investor perspective, and gross of investment management fees. The index changed names on March 23, 2009 and was formerly known as the FTSE EPRA/NAREIT Global Real Estate Index.

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 these indices and may have material differences from the performance of any of the referenced indices. Unlike these benchmarks, actual portfolios are actively managed. Furthermore, actual portfolios may 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 actual 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.

FTSE Data disclosure: Source: FTSE International Limited ("FTSE") © FTSE 2018. 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.

"FTSE®" is a trade mark of the London Stock Exchange Group companies, "NAREIT®" is a trade mark of the National Association of Real Estate Investment Trusts ("NAREIT") and "EPRA®" is a trade mark of the European Public Real Estate Association ("EPRA") and all are used by FTSE International Limited ("FTSE") under licence).

About the Author



Scott Crowe, Chief Investment Strategist

Mr. Scott 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 his capacity as Chief Investment Strategist, Scott 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.



Uma Pattarkine, Investment Strategy Analyst

Ms. Pattarkine is an Investment Strategy Analyst for CenterSquare Investment Management. She joined the team in 2017 and focuses primarily on top down analysis, research and product development, and is an active member of the public side research effort. Prior to joining CenterSquare, Ms. Pattarkine spent three years in corporate finance and strategic planning at ExxonMobil in Houston. Ms. Pattarkine graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a BS in Finance with a minor in International Business, BS in Accounting, and Master of Accountancy.

About CenterSquare

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

For More Information, Please Contact:

CenterSquare Investment Management
630 West Germantown Pike
Suite 300
Plymouth Meeting, PA 19462
(610) 834-9500
ContactUs@centersquare.com

www.centersquare.com



CenterSquare
REAL ASSET INVESTMENT LEADERSHIP