CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

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REIT on the Money

Critical Facts About Today's Listed Real Estate Market

The Takeaway: REITs ≠ Office

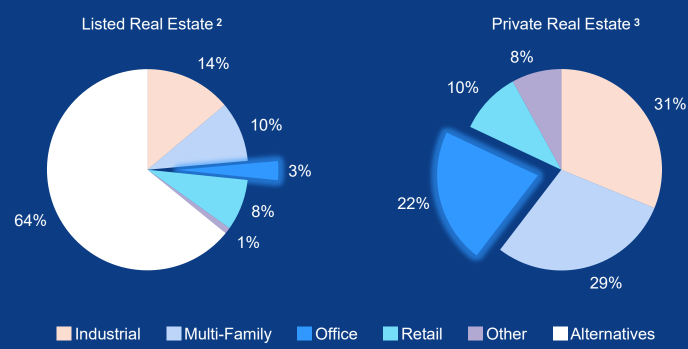
In recent weeks, we increasingly have been subject to a public narrative regarding "troubles" for commercial real estate and REITs. However, many of these assertions are based on investment pundits wrongly conflating the listed real estate market with the Office sector. In reality, the Office sector comprises an extremely small percentage of the U.S. REIT universe.

Investors who are concerned about the Office sector should take heed that the U.S. REIT market is largely insulated from this secular headwind and far better positioned to withstand long-term disruption in the space.

Fact#1: REITs vs. Private Markets

The Office sector makes up just over 3% of market value across the listed real estate investment universe. This exposure differs substantially from the private real estate investment universe where Office accounts for approximately 22% of all investments.

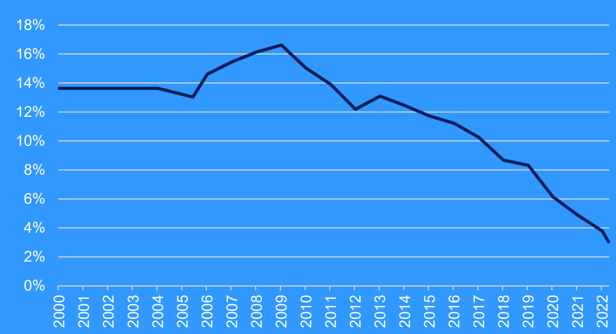
Sector Composition: REITs vs. Private Markets[1]



Fact#2: Historical Office Sector Exposure

REIT market Office sector exposure has drastically diminished over time, being replaced by higher exposures to stronger and more relevant real estate property types.

REIT Market Office Exposure[4]



Fact# 3: Alternative Exposures

There are seven individual REITs and 10 property types that outweigh the Office sector in the U.S. REIT index on a standalone basis. As such, the composition of the REIT market today is more leveraged to secular demand tailwinds that far outweigh the structural headwinds being faced by the Office property type.

Companies

PROLOGIS, EQUINIX, Public Storage, REALTY INCOME, SIMON, welltower, VICI

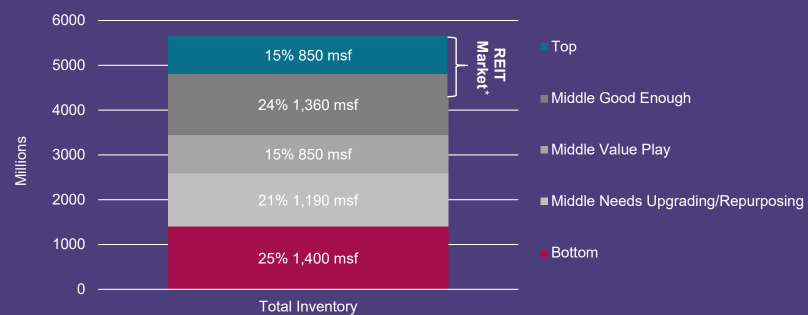
Sectors

- Apartment
- Healthcare
- Industrial
- Mall
- Net Lease
- Towers
- Data Centers
- Gaming
- Storage
- Shopping Centers

Fact #4: Office Inventory

Not all office is created equal. We believe high-quality and relevant office space — which comprises most public Office REIT portfolios — will emerge as relative winners from the rationalization underway. REITs also deploy a more hands-on ownership model that will serve them well as leasing consolidates into higher-quality assets. This reality translates into an ability for most Office REITs to remain insulated from the obsolescence risk that will impact the bottom half of the quality spectrum.

Quality Composition of U.S. Office Sector[5]



* REIT Market Estimate

[1] Source: CenterSquare, Bloomberg, March 31, 2003.
[2] Based on the FTSE/Nareit All Equity REITs Index, March 31, 2023.
[3] As measured by the NFI-ODCE Index, March 31, 2023.
[4] Source: CenterSquare, Bloomberg, March 31, 2023.
[5] Source: Cushman & Wakefield Research, February 23, 2023. Top is defined as a fraction of total inventor garnering a premium over all the rest, Middle Good Enough is commodity space that will continue to compete, Middle Value Play is attractive to cost-conscious occupiers, Middle Needs Upgrading/Repurposing requires some form of upgrade or improvement in the next decade to compete, and Bottom is older, functionally obsolete, high-vacancy, excess space that will require some form of repositioning or repurposing strategy.

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Definition of Indices

FTSE Nareit All Equity REITs Index (FNER)
The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

NFI ODCE: NCREIF Open End Diversified Core Equity (ODCE) Index
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.

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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A direct investment an in index is not possible.