CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

AROUND THE WORLD IN TEN TRENDS

2024 Global REIT Outlook

Around the world in ten trends

Uncertainty is still the global watchword. The confluence of peaking rate cycles, recession concerns, and artificial intelligence-related excitement have created an intricate landscape across the global real estate asset class. Understanding the dynamics at play remains as essential as ever. To navigate this continuously evolving market, we have identified ten themes shaping global listed real estate in the coming year.

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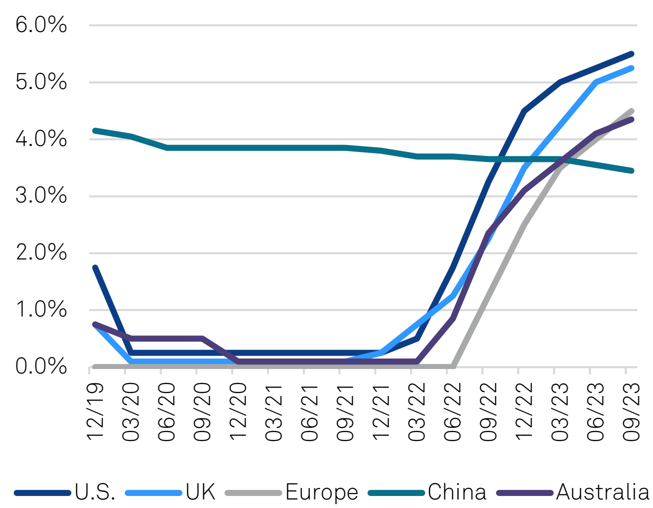
The end of global monetary tightening should be a significant tailwind for REITs.

The COVID-19 pandemic ushered in historically low global rates and elevated fiscal stimulus, which unsurprisingly segued into mounting inflationary pressures, and, in turn, a painful cycle of monetary tightening in its aftermath. These rising interest rates had predictably negative consequences for many asset prices, particularly across rate sensitive sectors like real estate. However, inflation has been cooling, and with it, expectations of a rate plateau – or even outright cuts – have recently been in vogue (Figure 1). China, the outlier line in Figure 1, is already undergoing measures to stimulate its domestic economy. There is a chance that the rest of the world follows suit in the upcoming year. If central banks have truly turned more dovish, the setup for REITs is favorable. History shows us REITs tend to outperform other asset classes following the end of rate hiking cycles (Figure 2). Though we have seen what seems to be the early innings of that play out recently, we believe REITs will demonstrate positive momentum this year on the back of depressed valuations going into peak 10-year yields, and the end of monetary tightening globally.

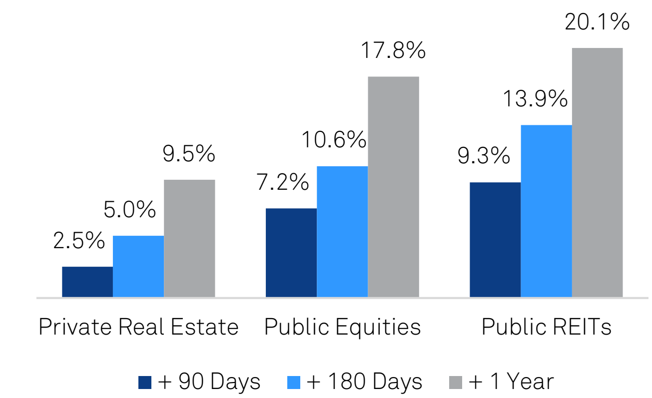
Of course, even if you believe we are entering a period of a rising tide lifting the REIT boat, there are always ways to play a sector with more nuance and intelligence. The rest of this outlook is dedicated to ideas on our convictions within the global REIT universe for 2024.

Figure 1: Global central bank policy rates



Source: Bloomberg, as of November 30, 2023.

Figure 2: Historical performance across U.S. asset classes following the end of Federal Reserve rate hiking cycles.

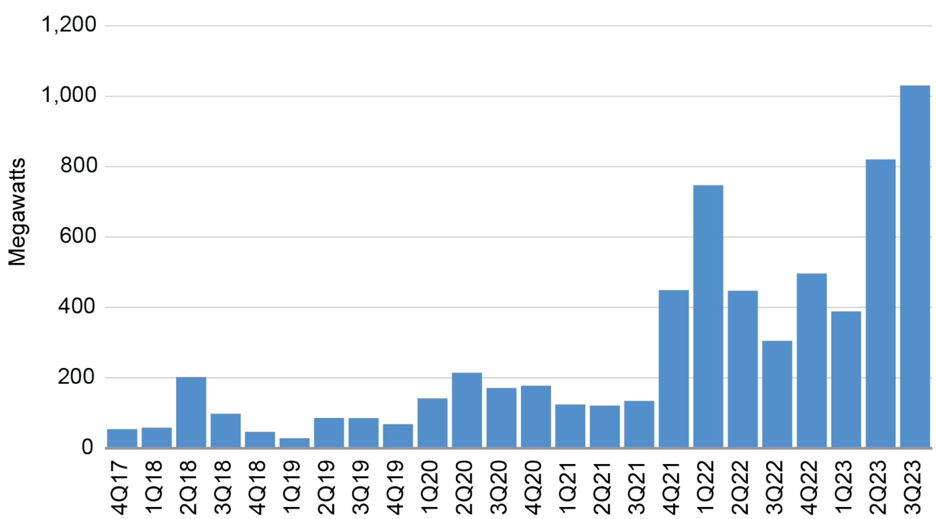


Average of returns beginning 3/31/1995, 6/30/2000, 6/30/2006, and 12/31/2018. Private real estate = NFI-ODCE Index; Public equities = S&P 500 Index; REITs = FTSE Nareit All Equity REITs (FNER). Source: Bloomberg, NCREIF, as of May 5, 2023.
Source: Bloomberg, as of November 30, 2023.

Data center demand will benefit from artificial intelligence and global digitization.

Demand for data centers is booming as data creation, consumption, and usage continue to proliferate (Figure 3). Simultaneously, new data center supply remains restricted in major markets, primarily driven by power supply. Consequently, data centers are experiencing low availability and strong pricing power unlike anything the industry has experienced in the last few decades. Added to this is a new demand driver in the form of artificial intelligence where data center demand will unfold in two stages: training and inferencing. The training phase requires incredible amounts of power and computing provided by large enterprise data centers. We anticipate enterprise hyperscale data centers will experience strong fundamentals in 2024 driven by elevated demand associated with this training phase of AI, especially in non-traditional markets where power is available, cheap, and the overall environment is business-friendly (i.e., with lower taxes).

Figure 3: Quarterly new leasing activity for largest U.S. data center markets



Source: GreenStreet, as of November 20, 2023.

Note: Top U.S. Markets: Atlanta, Chicago, Dallas/Fort-Worth, Northern CA, Northern NJ, Northern VA, Phoenix, Portland

Retail real estate will benefit from low supply.

Investor expectations for e-commerce to lead to the death of all retail real estate drove capital away from the retail sector, resulting in effectively no new supply of retail product in over a decade. At the same time, population growth has continued, reducing the retail square footage per capita most prominently in markets across the sunbelt region that have experienced the greatest level of population growth. We anticipate retail, especially shopping centers in the southeast and southwest markets with continued population growth, will experience strengthened fundamentals in 2024 despite our expectation for an economic slowdown.

Sunbelt multifamily will underperform on heightened supply risks.

Migration trends have driven demand and capital for rental housing into sunbelt markets, elevating the new supply pipeline. While demand has historically managed to keep pace with supply, the elevated development pipeline today is on pace to deliver a deluge of new supply into the market over the next several quarters. Presently, there are nine markets, including Miami, Austin, and Charlotte, with development pipelines representing over 10% of the inventory in the market. Coupled with our expectation for an economic recession in 2024, which is likely to hamper job growth, we foresee a notably weak year of fundamentals for Sunbelt multifamily in 2024.

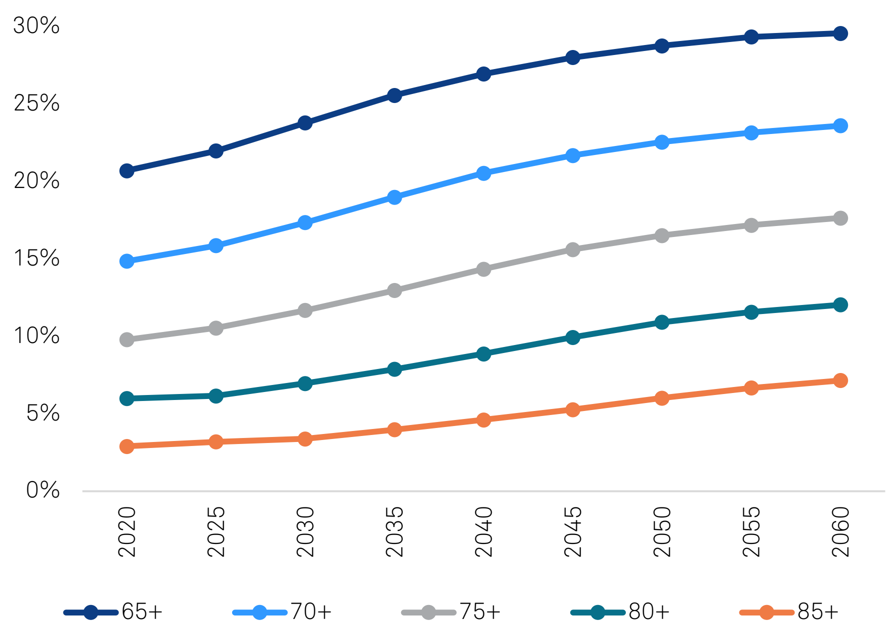
The UK purpose-built student accomodation sector (PBSA) will continue its resilience.

A significant undersupply of purpose-built student accommodation (PBSA) is supportive of strong rental growth throughout the UK and Europe. Smaller landlords in the houses of multiple occupation (HMO) sector have exited the market due to rising interest rates, limiting alternative accommodation options that are no longer cheap due to higher utility costs. While yields have expanded here, that has been broadly offset by strong rental growth, stabilizing values at attractive levels versus the broader UK real estate space with relatively low leverage levels.

Positive demographics will drive further growth in European senior housing.

An aging population is boosting demand for senior housing, and landlords are benefitting from the recent strong indexation pass-through in rents. While high inflation has posed a challenge for operators in the near term with revenues lagging costs, governments are increasing funding levels. The sector underwent modest yield compression over recent years, so values should be more stable, even in a higher interest rate environment. Senior housing has been one of the few sectors to raise fresh equity capital to fund accretive developments and its valuation provides a decent entry point for a longer-term secular growth story (Figure 4).

Figure 4: Aging demographics in the European Union



Source: ONS, as of November 30, 2023.

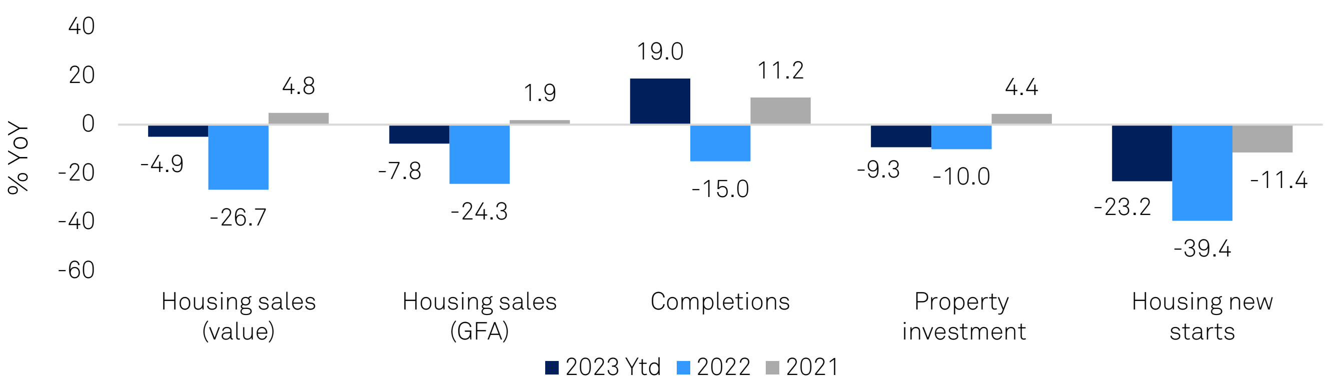
High leverage and unfavorable debt refinancing will continue to pressure Nordic real estate.

Many Nordic real estate companies financed growth with short-dated debt at near zero interest rates, increasing leverage as real estate values were peaking. Now, the cost of refinancing, if available, is often 400-500 bps higher than their asset yields. While interest rates could be close to peaking, financing costs will remain significantly higher than they were just a few years ago, even if central banks were to begin to cut policy interest rates. Over the next year, it seems unlikely all the major refinancing required can be replaced with bank debt while the corporate bond market is effectively shuttered. This will place further pressure on companies to dispose assets that could push values lower, creating a vicious circle of higher leverage and forced equity raises.

China's housing market will stabilize with the support of state-owned developers.

China's housing market boom ended abruptly in 2022, when housing sales dropped 27% and once high-flying developers like Evergrande and Sunac defaulted on hundreds of billions of dollars of debt. While a major stimulus package seems remote, the growth in unsold homes has started to fall as developers focus on completing pre-sold stock and reducing new starts. The government has provided financial support to ensure the completion of sold houses. Importantly, an increasing percentage of the housing market is controlled by state-owned developers who still hold the trust of the wider public and hold lower leverage levels than many privately-owned competitors. With this shift continuing, 2024 should see a stabilization in housing sales and construction commencements as the market recovers to a lower, more sustainable equilibrium (Figure 5).

Figure 5: Annual statistics – China's housing market

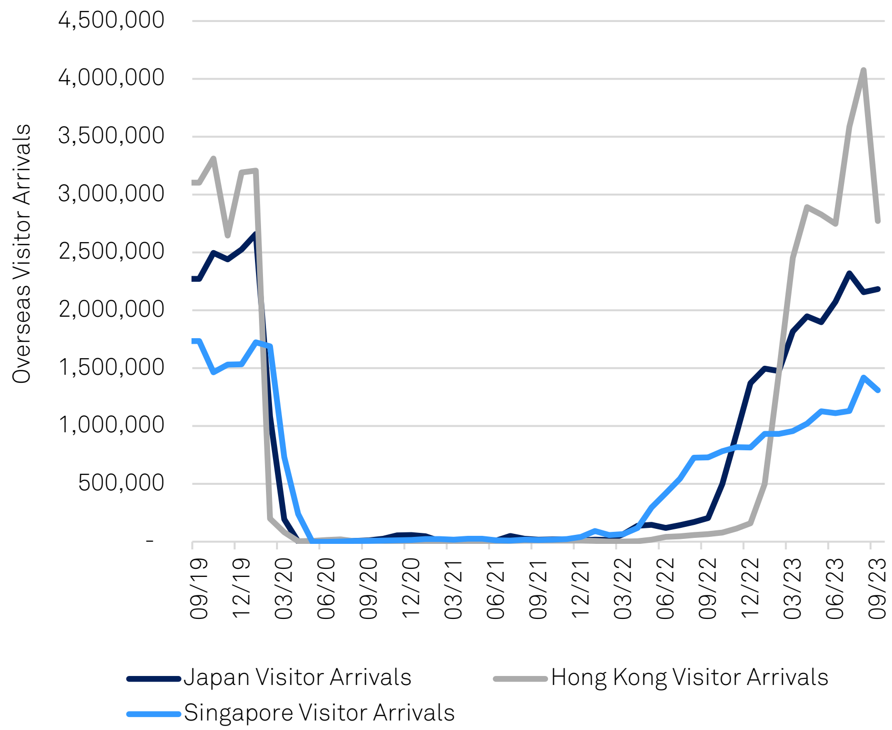


Source: National Bureau of Statistics, as of November 2023

Hotels across Asia will continue to perform, with China leading the charge.

In 2024, as China's residential market stabilizes and airlines rebuild passenger capacities, Chinese tourist numbers, which have decreased due to refrained spending on expensive overseas holidays, should inch back up toward pre-pandemic levels (Figure 6). We could even see tourist numbers surpass those of 2019 as many Chinese consumers sit on large and untapped pandemic-induced savings. The potential upside from these visitors suggests Asian hotels should look forward to at least another year of full occupancies and high room rates in 2024.

Figure 6: Overseas visitor arrivals recovery post-COVID

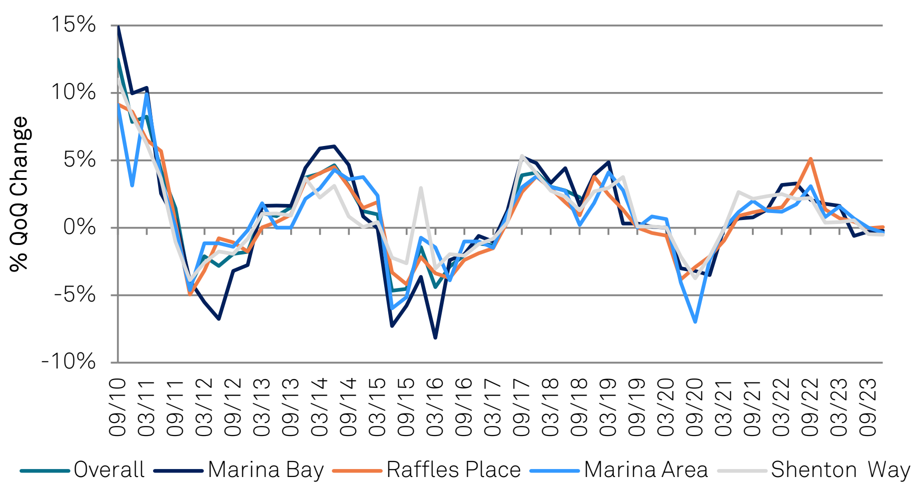


Source: HK Tourism Board, Japan National Tourism Org, Singapore Tourism Board, as of September 30, 2023.

Singapore's office market will deteriorate after its COVID rebound.

New supply in the Singapore office market is expected to increase with the completion of large, centrally located office developments in late 2023 and 2024. Both years will see well over one million square feet of new space come to market, most of it in Singapore's Central Business District, with a large portion still unleased. Simultaneously, weaker growth in the U.S., Europe, and China is leading to a slowdown in economic activity for Singapore. Taken together, office rent growth has slowed and is likely to slow further as vacancies begin to rise, particularly as we enter 2024 and new supply delivers into the market (Figure 7).

Figure 7: Historical rent growth in key Singapore office markets



Source: JLL, as of September 30, 2023

Despite the current uncertainty in the global economy, it is evident secular changes and capital cycles are driving real estate fundamentals across different markets. Our predictions, while rooted in secular trends, emphasize the pivotal role of assessing how capital cycles impact the supply and underlying fundamentals of the real estate sector across different markets. As we look forward into 2024, these shifting dynamics are poised to unlock opportunities for real estate investors who can navigate the evolving global real estate market.

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Matthew Goulding is a Portfolio & Regional Manager in the real estate securities group and joined CenterSquare in 2009. He is an employee of the CenterSquare Investment Management UK branch office. He has primary responsibility for investment research for UK and European real estate securities. Matthew holds a BSc (with First Class Honors) in Basic Medical Sciences with Pharmacology from King's College, London. Prior to joining the firm, Mr. Goulding was a European Equity Analyst with Nikko Asset Management Europe Ltd., and a Pan-European Equity Analyst with M&G Investment Management. He is a CFA charterholder and member of the CFA Institute and the CFA Society of the UK.

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Uma Moriarity is the Senior Investment Strategist and Global ESG Lead for CenterSquare Investment Management. She focuses on investment strategy and leads thought leadership across the Firm's public and private real estate platforms. She is part of the listed real estate investment team and serves on CenterSquare's Private Real Estate Debt Investment Committee. Uma leads the Firm's Environmental, Social, and Governance (ESG) strategy to incorporate ESG into the decision-making and management of listed and private real estate investments to create long-term value, reduce risk, and generate superior risk-adjusted investment returns. Prior to joining CenterSquare, she spent three years in corporate strategy and planning at ExxonMobil in Houston. Uma graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a B.S. in Finance with a minor in International Business, B.S. in Accounting, and Master of Accountancy. She is a CFA charterholder and member of the CFA Institute, a LEED Green Associate, and a member of the ULI San Francisco Sustainability Committee. She currently serves on the Board of Directors for Green Building United, the Penn State Smeal Sustainability Advisory Board, and the FTSE EPRA Nareit Americas Regional Advisory Committee.

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Joachim Kehr is Portfolio & Regional Manager Asia-Pacific in the real estate securities group and joined CenterSquare in 2011. He is based in Singapore. He has pan-Asian portfolio management having previously held primary coverage of real estate in China, Japan and Australia. Joachim brings over a decade of investment management experience to his role. He holds a MSc in Economics from Tilburg University, The Netherlands and Peking University, China. Prior to joining the firm, Joachim was an analyst for listed real estate with BNP Paribas Asset Management in Amsterdam and Singapore.

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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.

S&P 500
The S&P 500 is an equity index made up of 500 of the largest companies traded on either the NYSE, Nasdaq, or CBOE. 2. The S&P 500 is calculated by adding each company's float-adjusted market capitalization.

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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