Perspectives

CBRE Investment Management

Ready to Rise: The Listed Real Estate Opportunity

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When we review listed real estate, we see an unappreciated opportunity for investors. Despite a superior fundamental outlook, listed real estate has lagged broad equities in 2022. Despite superior exposures with secular growth, listed real estate trades at a generational disconnect compared to the private market. As we look to the year ahead, we see listed real estate as offering investors:

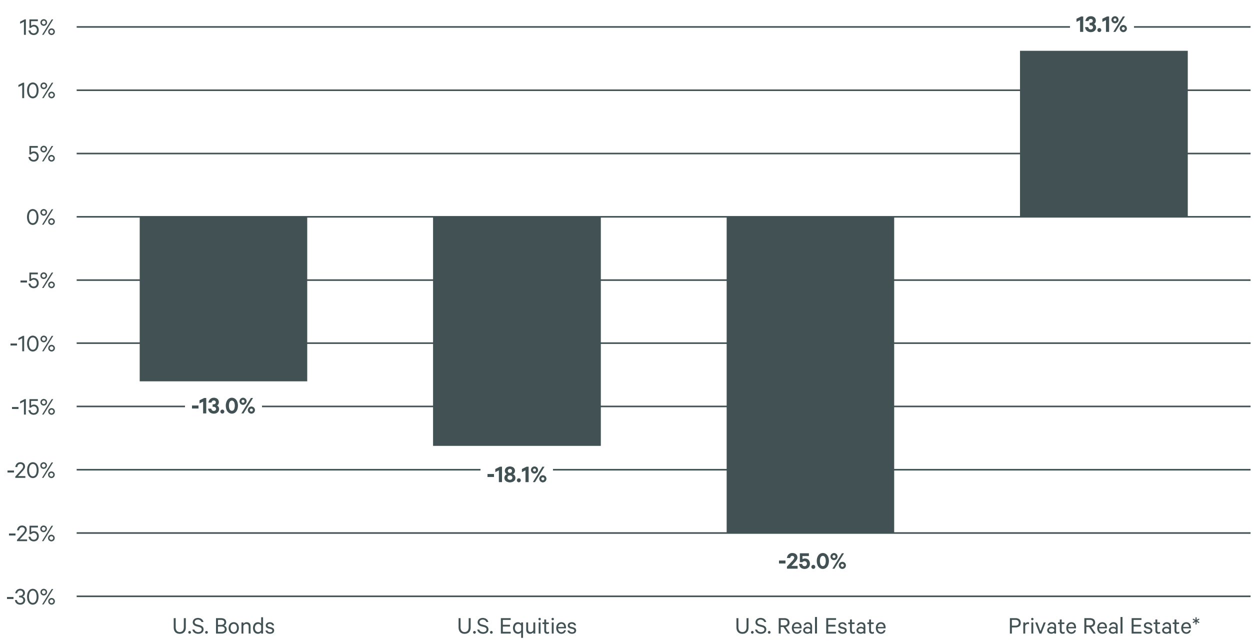
- A valuation disconnect that has resulted in historical outperformance to broad equities and private markets.
- Differentiated fundamentals compared to broad equities and to private real estate.
- The opportunity for durable alpha from a niche asset class and an integrated public-private research platform such as CBRE Investment Management.

The listed real estate setup for 2023

With 2022 in the rear view, listed real estate presents an opportunity for investors. In the past year, listed real estate returned -25%, underperforming by ~7%, ~12% and ~38% compared to equities, bonds and private real estate, respectively. In a year of higher interest rates and lower economic growth, the underperformance is striking considering that REITs have resilient earnings compared to equities, growing dividends compared to bonds and similar assets as private real estate.

> REIT underperformance is striking considering resilient earnings versus equities, growing dividends versus bonds and similar assets compared to private real estate.

Figure 1: Undeserved 2022 underperformance in REITs

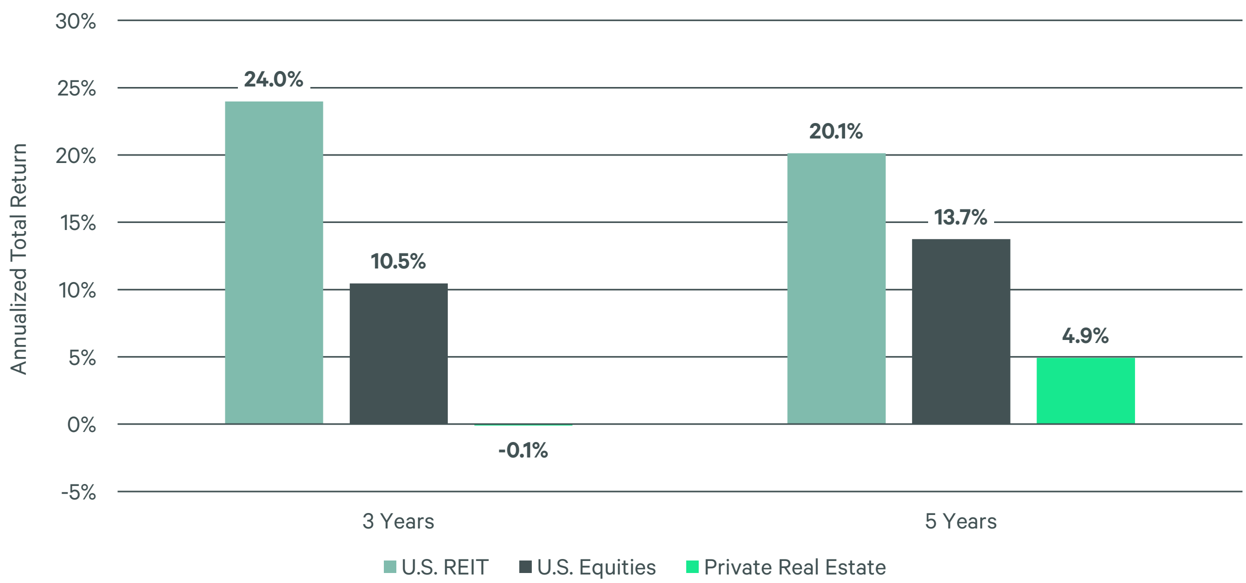


Source: CBRE Investment Management, U.S. Real Estate: FTSE Nareit All Equity REITs Index.; U.S. Equities: S&P 500 Index; U.S. Bonds: Bloomberg Barclays U.S. Aggregate as of 12/31/2022. *Private real estate refers to the NCREIF NFI-ODCE Index which is reported on a quarterly basis and lagged relative to public markets. Last three months and YTD as of June 2022. An index is unmanaged and not available for direct investment. Information is the opinion of CBRE Investment Management which is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance. Past performance is no guarantee of future results.

The historic opportunity in REITs

The underperformance of REITs in 2022 has created an opportunity for investors. As of December, U.S. REITs trade at a ~20% discount to estimates of NAV or intrinsic value—estimates that we have already lowered by ~15% to reflect market conditions and the likelihood of a U.S. recession. Historically, when REIT valuations have hit this discount, investors have benefitted from buying the space. Below, we showcase the returns that real estate has generated following such discounts compared to broad equities and private markets; U.S. REITs have handily outperformed following such periods. Furthermore, active managers in REITs have the opportunity to position amidst such dislocations and augment returns for their investors.

Figure 2: The REIT entry point: Comparative asset class returns following 20% discounts to NAV

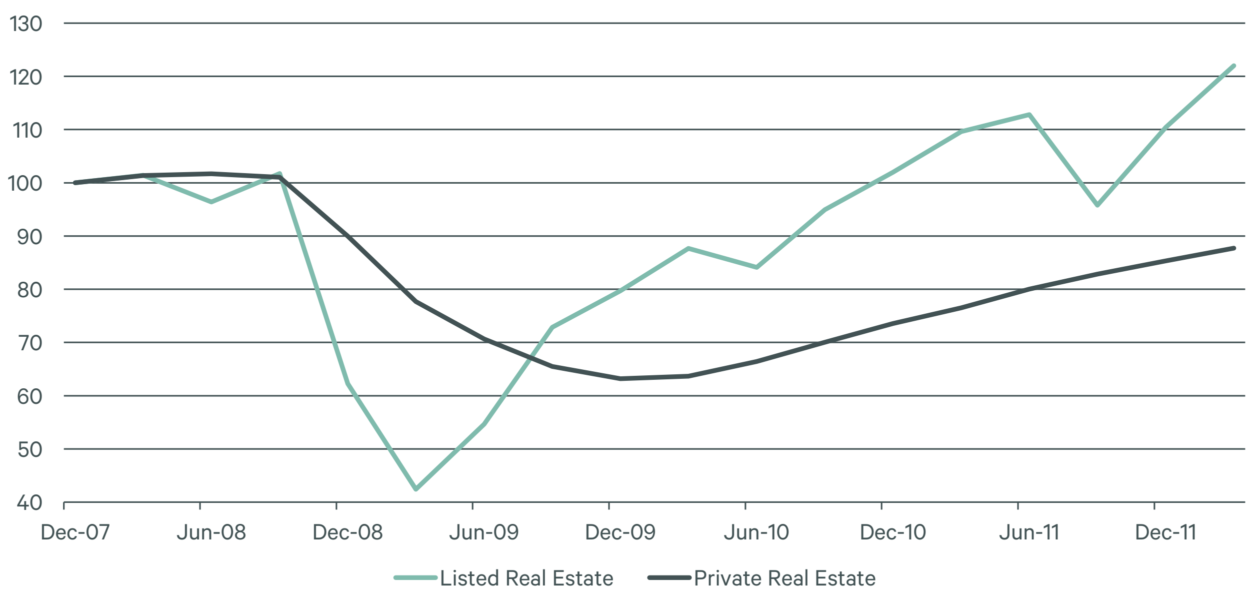


Source: FTSE Nareit All Equity REIT Index , S&P 500 Index, NFI-ODCE Value Weighted Index and CBRE Investment Management as of 12/31/2022. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Past performance is no guarantee of future results, which will vary. An index is unmanaged and not available for direct investment. Forecasts and any factors discussed are not a guarantee of future results. Returns are shown for the periods shown from 01/31/1997-12/31/2020.

The case study of listed and private during the GFC

Relative to private real estate, we believe that listed has overshot and presents a superior prospect for total return. As we've seen historically, listed can lead private markets both into and out of uncertainty. The setup is reminiscent of that during the Global Financial Crisis. As the GFC unfolded, listed initially underperformed, as companies re-capitalized and private valuation assessments lagged. After Q2 2009, listed went on to outperform significantly for the next several years. With public real estate having underperformed private by ~40% in 2022, we see the opportunity on the side of listed today. That opportunity is only bolstered by the stronger fiscal position that REITs themselves hold compared to 2008, with balance sheets repaired and dividends well-covered.

Figure 3: The GFC case study: Volatility is opportunity in listed real estate



Source: CBRE Investment Management, FTSE Nareit All Equity REIT Index, NFI-ODCE Value Weighted Index, S&P 500 Index as of 12/31/2022. Information is the opinion of CBRE Investment Management and is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

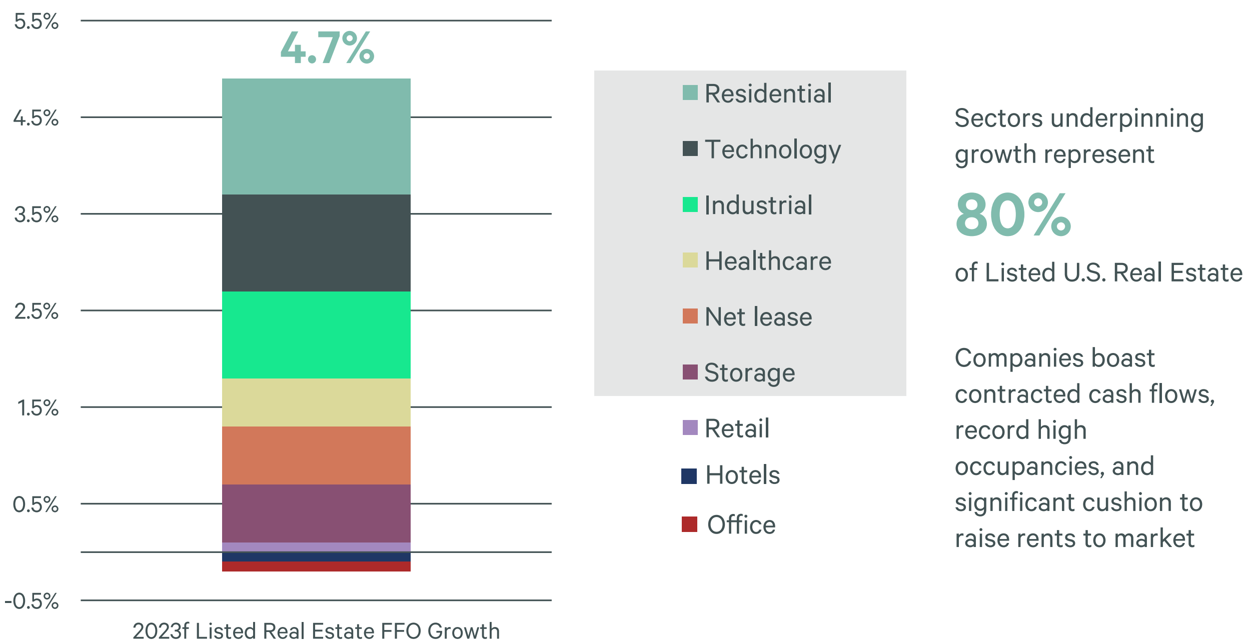
The NFI-ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity, is an index of investment returns of 38 open-end commingled funds reporting since its inception in 1978 on both a historical and current basis (with 24 funds active in the index today).

Superior fundamentals in real estate compared to broad equities

When we underwrite the potential for a U.S. recession in 2023, we see REITs' potential of delivering 4.7% earnings growth. (The sector should also be growing its dividends, which yield ~4%, at a double-digit rate). Comparatively speaking, the outlook for broad equities is far less certain; today, analysts estimate 4.9% earnings growth for 2023, but they estimated over 10% a year ago. During past recessions, earnings for broad equities have averaged over a 20% decline.

For 2023, we see real estate earnings as largely locked in and more immune to a U.S. recession. As we demonstrate below, 2023 real estate projected growth is led by assets across the residential, technology, industrial, health care, net lease and storage sectors. Such assets boast record high occupancies, a significant cushion to raise rents to market, long-term or multi-year contracts and substantial pricing power. Sectors driving 2023 growth represent over 80% of the U.S. listed real estate market. These exposures dwarf the ~11% combined weights of the office and retail sectors, where we see more risk to company earnings.

Figure 4: Highly visible: REIT earnings growth stacks up for 2023



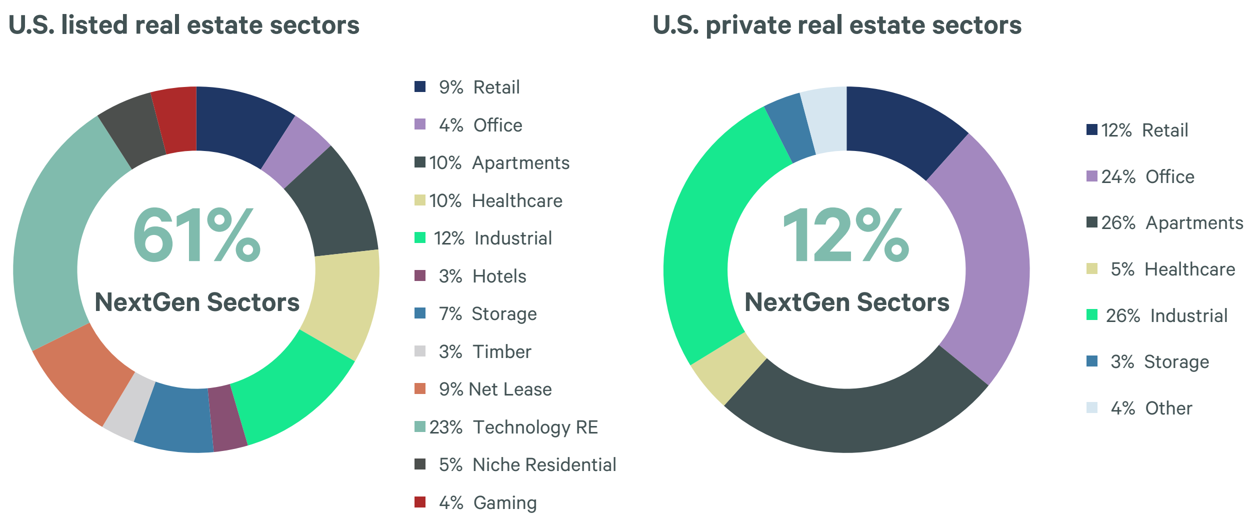
Source: CBRE Investment Management. Demonstrates the weighted earnings growth of listed real estate per CBRE Investment Management. Forecasts and any factors discussed are not a guarantee of future results. Actual results, performance or events may differ materially from those expressed or implied in such statements. There is no guarantee that the investment objective will be attained and there is no guarantee that risk can be managed successfully; results will vary.

Superior exposures and growth compared to private equity

When considering listed and private real estate, we see listed as having both superior total return prospects and superior sector exposures. As we've discussed in our *Case for REITs,* listed real estate emphasizes next generation and new economy assets across the housing, healthcare, communications, storage, net lease and other sectors. These sectors can have secular growth, prized operating platforms and scaled businesses. Next generation real estate comprises 61% of the listed universe, but only 12% of the private market. When considering our 2023 earnings outlook, the superior mix of listed real estate should drive growth above private, which we see as lagging due to its ~37% exposure to the office and retail sectors.

Next generation real estate comprises over ~60% of the listed universe, but only ~12% of the private market.

Figure 5: Listed real estate boasts outsized exposures in next generation property assets

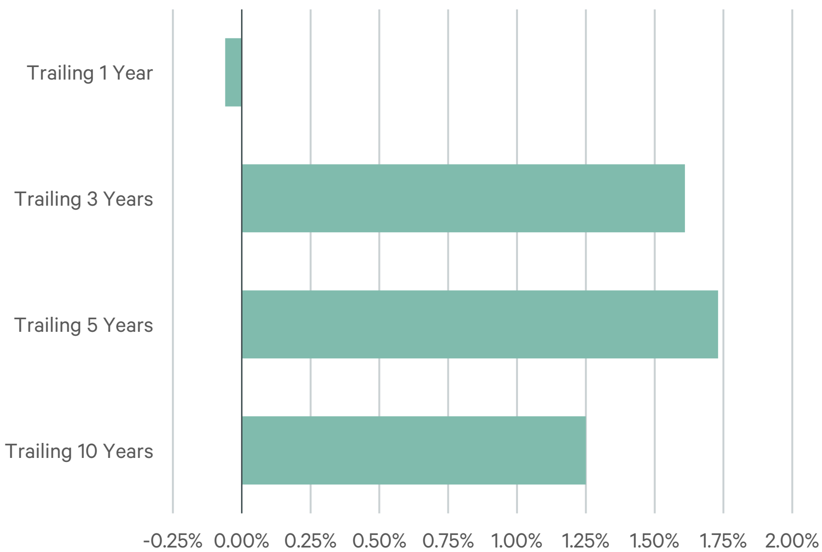


Source: FTSE Nareit All Equity REIT Index as of 12/31/2022, NCREIF NFI ODCE as of Q3 2022. Information is the opinion of CBRE Investment Management which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Enterprise Value and Equity Value determined by CBRE Investment Management based on publicly available information. Forecasts and any factors discussed are not indicative of future investment performance.

The value of active management

For managers, REITs tend to provide multiple keys to durable alpha: they are a niche asset class linked to a vast private market, they offer opportunities to capitalize on dispersion and they give managers the ability to weight portfolios between disparate levels of pricing power, contract duration and business strength. Collectively, these features have enabled REIT managers to outperform their asset class (as represented by their preferred benchmarks) over time.

Figure 6: Median REIT manager annualized alpha over trailing periods



Keys to Potential Outperformance:

Managers with an information edge in assessing future operating fundamentals, transaction trends and pricing can capitalize on public market mispricing and enhance growth potential.

Managers can optimize for duration, relative growth, inflation capture, valuation and other factors.

CBRE Investment Management, eVestment. Median annualized alpha represents the median reported alpha (gross-of-fees) in the eVestment US REIT database for those that have reported data over the trailing 1, 3, 5, and 10 year periods. Alpha is respective to each REIT manager's preferred benchmark. As of September 2022.

Our outlook for listed real estate

As we look ahead to a new year at CBRE Investment Management, we see opportunities to drive excess return for our clients. These returns can come on top of the returns from an asset class that is significantly discounted, with a history of outperformance following such dislocations and with a greater degree of resilience compared to broad markets and to private equity real estate. CBRE Investment Management operates a $144 billion investment leadership platform, with unique insights into private and public markets, a history of managing listed portfolios since 1984 and the proprietary tools needed to generate performance. In both 2023 and in the years ahead, we are excited to assist investors in meeting their objectives.

About CBRE Investment Management

CBRE Investment Management is a leading global real assets investment management firm with $143.9 billion in assets under management* as of September 30, 2022, operating in more than 30 offices and 20 countries around the world. Through its investor-operator culture, the firm seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that its clients, people and communities thrive.

CBRE Investment Management is an independently operated affiliate of CBRE Group, Inc. (NYSE:CBRE), the world's largest commercial real estate services and investment firm (based on 2021 revenue). CBRE has more than 105,000 employees (excluding Turner & Townsend employees) serving clients in more than 100 countries. CBRE Investment Management harnesses CBRE's data and market insights, investment sourcing and other resources for the benefit of its clients. For more information, please visit www.cbreim.com.

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*Assets under management (AUM) refers to the fair market value of real assets-related investments with respect to which CBRE Investment Management provides, on a global basis, oversight, investment management services and other advice and which generally consist of investments in real assets; equity in funds and joint ventures; securities portfolios; operating companies and real assets-related loans. This AUM is intended principally to reflect the extent of CBRE Investment Management's presence in the global real assets market, and its calculation of AUM may differ from the calculations of other asset managers and from its calculation of regulatory assets under management for purposes of certain regulatory filings.