Perspectives

CBRE Investment Management

The Case for U.S. Listed Real Estate

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Listed real estate has a particular set of attributes, a set of attributes demonstrated over decades, that has taken the asset class into portfolios and is driving increased allocations. When we review, we find:

A best-in-class combination of income and inflation protection:

— Real estate dividends are compelling relative to other options and REITs offer protection against rising inflation.

A portfolio enhancement and a complement:

— REITs have provided superior returns over the long-term; they can further provide diversification to traditional portfolios.

— Listed real estate can complement private equity allocations; it can augment exposure to fast-growing sectors and scaled businesses with potentially superior risk-adjusted returns.

Timely characteristics for modern markets:

— REITs can fight inflation, outperform during moderating economic growth and handle rate hikes.

— REITs demonstrate a consistency of earnings that is accelerating while global markets are slowing.

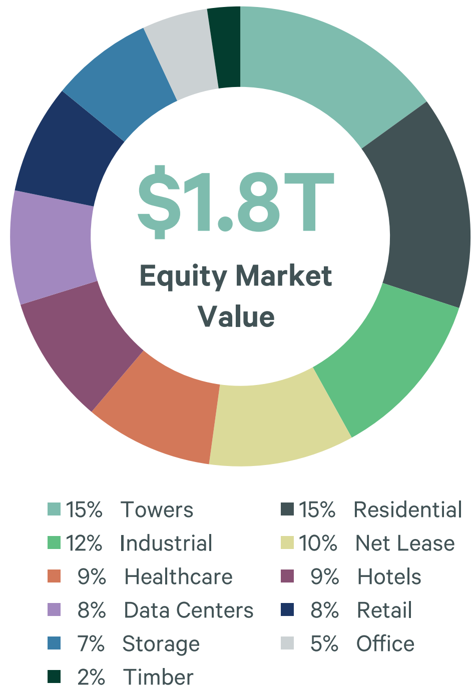
The real estate opportunity

Globally, the real estate market represents a $36 trillion opportunity, with U.S. listed real estate comprising $1.8 trillion in market cap. Real estate is an essential, physical embodiment of the economy, touching nearly every facet of modern life. The U.S. market represents the largest and most liquid opportunity, with exposure to a diverse range of property sectors.

From a business perspective, the majority of REITs often focus on distinct property types, with different drivers affecting rent collection; they also tend to have different durations for their contracts.

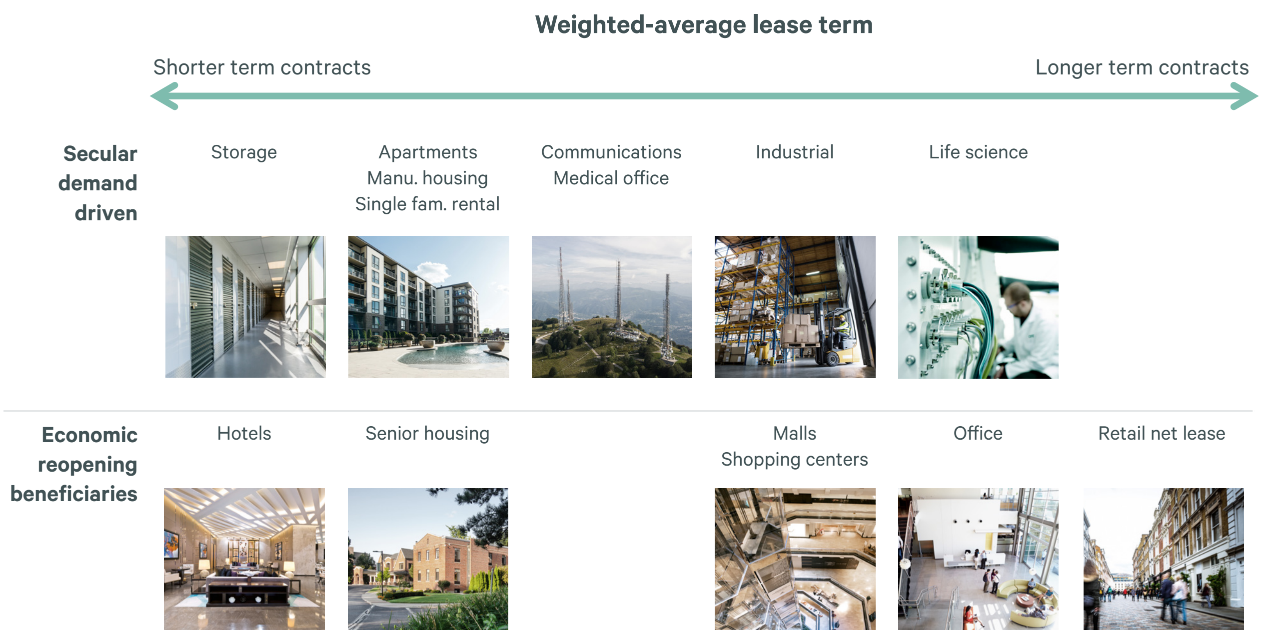
With different drivers and different contract duration, REITs offer an attractive combination of resiliency (with assets that benefit from either secular tailwinds or long-term contracts) and economic reopening (those that benefit more directly from economic growth or have shorter-term contracts to reprice in robust markets).

Figure 1: The U.S. listed real estate universe



Source: CBRE Investment Management investable universe as of 12/31/2021.

Figure 2: Diversified business drivers with diversified contract duration



Source: CBRE Investment Management.

Best-in-class income and inflation protection

Compelling current income

Relative to traditional options, REITS provide outsized dividends—and returns are reliable. In total, REIT income has provided a ~5% baseline return to investors over the last twenty years (about half the overall return).

Inflation-protected income

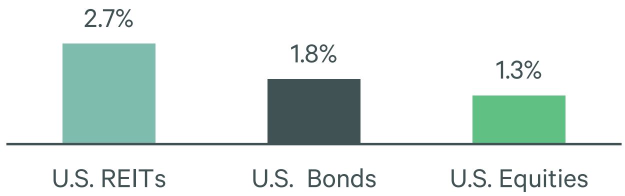
With persistent pricing power and exposure to economic growth, REITs should continue to grow their dividends above the rates of inflation.

Inflation-protected performance

With businesses hallmarked by pricing power and exposure to economic growth, REITs have outperformed equities during periods of above average inflation.

Figure 3: REITs comparative dividend yield and comparative dividend growth

Dividend yield comparison[1]



U.S. REIT dividend growth per share vs. consumer price index[2]

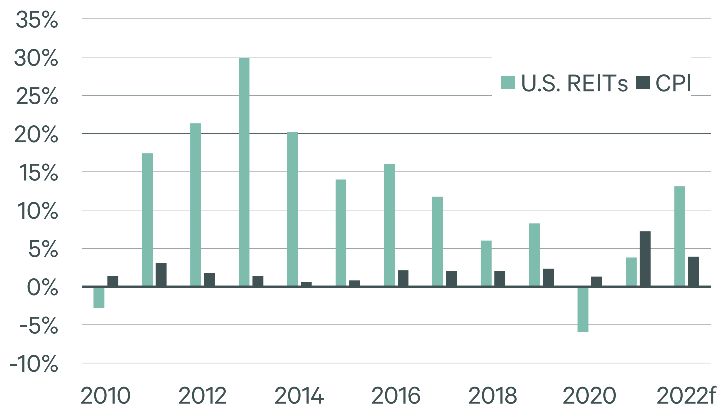
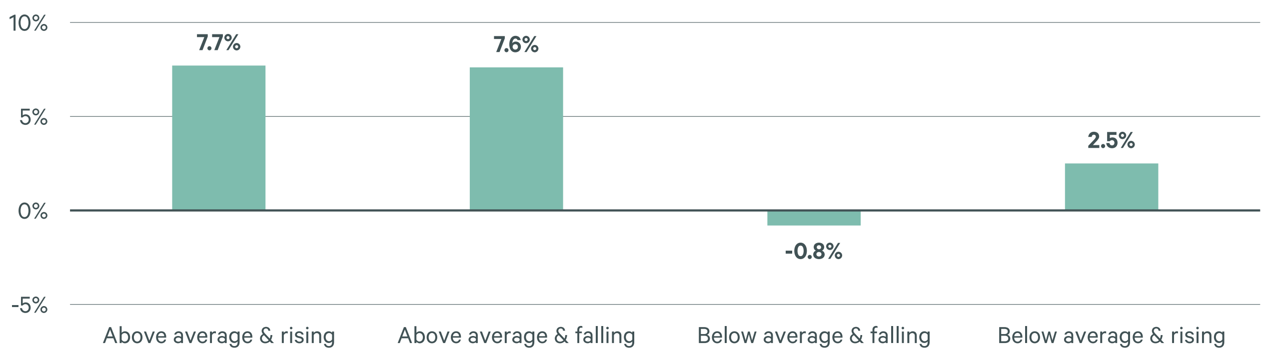


Figure 4: Average annualized performance of U.S. REITs vs. U.S. equities during inflation regimes[3]



[1] Sources: U.S. Real Estate: FTSE Nareit Equity REIT Index, U.S. Equity: S&P 500 Index, U.S. Bonds: Bloomberg Barclay's U.S. Aggregate Bond Index as of 12/31/2021. An index is unmanaged and not available for direct investment. Performance over 1-year is annualized. Past performance is no guarantee of future results.

[2] Sources: CBRE Investment Management as of 12/31/2021. U.S. Real Estate: FTSE Nareit Equity REIT Index and CBRE Investment Management, Consumer Price Index. "f" represents forecasts. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

[3] Source: CBRE Investment Management, FTSE Nareit All Equity REIT Index and S&P 500 Index as of 12/31/2021. Trailing 20-years based on average monthly total returns during inflation regimes, annualized. Inflation Regimes calculated using the year-on-year change in the U.S. CPI, normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Inflation Regime is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new regime. 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. Forecasts and any factors discussed are not a guarantee of future results.

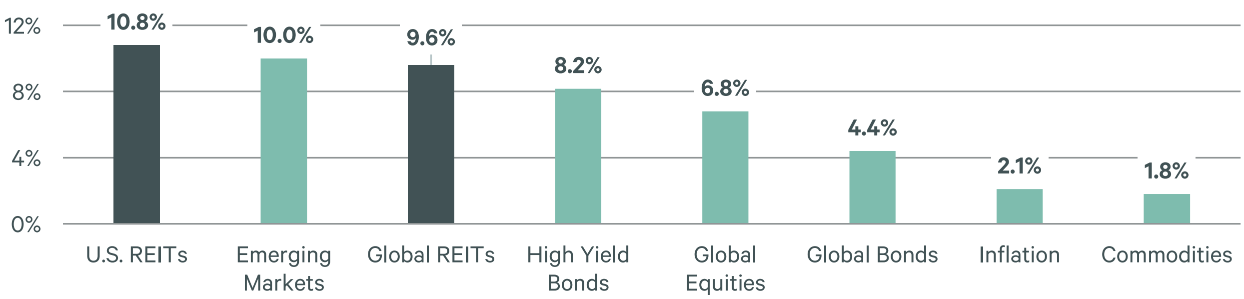
A portfolio enhancement and a complement

Leading total returns

A strategic allocation to REITs has served investors well in the long-term. US and global real estate have led asset classes over the last twenty years. They have significantly outperformed the rate of inflation.

Figure 5: REITs outperform other assets

REIT performance relative to other asset classes
20-year annualized total returns



Source: CBRE Investment Management as of 12/31/2021. Global REITs: FTSE EPRA Nareit Developed Index; U.S. Equities: S&P 500 Index; Global Equities: MSCI EAFE Index; U.S. Bonds: Bloomberg U.S. Aggregate Index; Commodities: Bloomberg Commodity Index; High Yield: Bloomberg Global High Yield; Emerging Markets: MSCI Emerging Markets Index; Inflation: CPI is as of 11/30/2021. 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. Forecasts and any factors discussed are not a guarantee of future results.

Diversification benefits

Inclusion of REITs into a traditional portfolio can provide a benefit for investors, as the asset class has low correlations to other assets.

Contrary to common perception, REITs are not bond proxies: with strong, growing dividends and a tendency to benefit from inflation, they can perform well during a period of rising rates.

Figure 6 : REIT correlations with other assets

10-year correlation of asset classes

	U.S. bonds	U.S. high yield bonds	MLPs	Commodities	International equity	U.S. equity	REITs
REITs	0.39	0.62	0.55	0.28	0.57	0.65	1.00
U.S. Equity	-0.02	0.74	0.70	0.51	0.85	1.00	
International Equity	0.05	0.80	0.66	0.60	1.00		
Commodities	-0.19	0.65	0.52	1.00			
MLPs	0.06	0.74	1.00				
U.S. High Yield Bonds	0.24	1.00					
U.S. Bonds	1.00						

Source: REITs: MSCI U.S. REIT Index, U.S. Bonds: Barclays Bloomberg U.S. Bond Aggregate Index; U.S. High Yield Bonds: Bloomberg Barclays U.S. Aggregate Credit Index; MLPs: Alerian MLP Index; Commodities: S&P GSCI Index; International Equity: MSCI AC World ex-U.S. Index; U.S. Equity: S&P 500 Index as of 12/31/2021. Correlation coefficient is the degree to which movements of two variables are related. 1.00 is perfect correlation. Past performance is no guarantee of future results.

A vital complement to private equity real estate

The merging of listed and private real estate introduces valuable diversification, allows immediate access to the asset class and reduces overall fees for investors. In addition, the introduction of listed active management allows investors to capitalize on performance dispersion and benefit during market volatility.

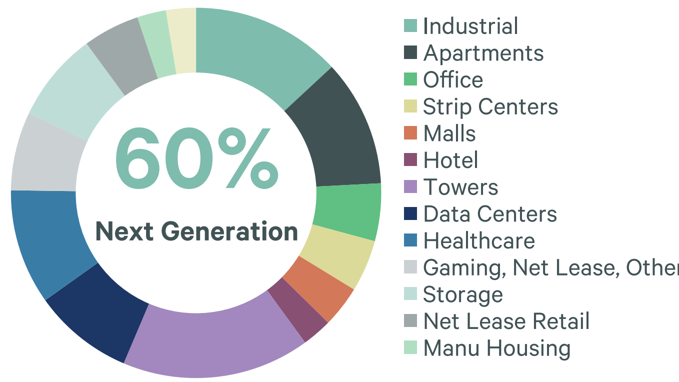
Amplifying exposure to next generation real estate

From a diversification perspective, public real estate introduces private investors to valuable next generation assets in housing, storage, communications and other sectors. These sectors can have secular growth, prized operating platforms and scaled businesses that are difficult to replicate at the private level. Alternatives comprise over 60% of the listed universe, but only 12% of the private market.

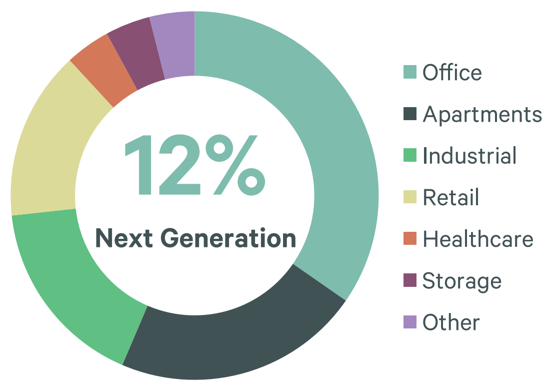
Over the long-term, these next generation sectors have demonstrated superior risk-adjusted returns to traditional REIT sectors. This implies that their inclusion to a predominantly private real estate allocation could similarly improve risk adjusted returns.

Figure 7: Comparing listed and private exposures and traditional and next generation sharpe ratios

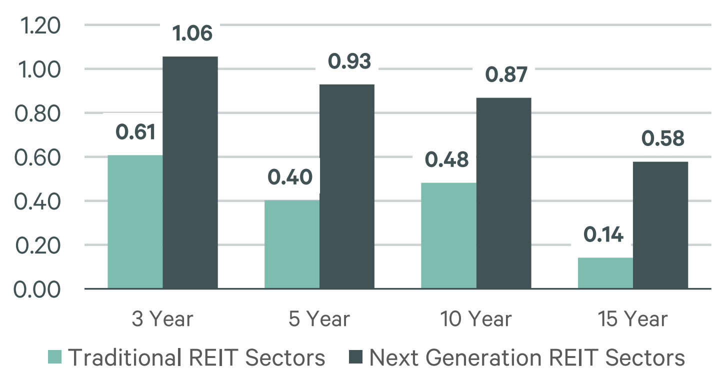
U.S. listed real estate sectors



U.S. private real estate sectors



Next generation REITs superior sharpe ratios to traditional REITs



Source: FTSE Nareit All Equity REIT Index as of 12/31/2021, NCREIF as of Q3 2021. 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. Alternative REIT sectors comprise billboards, gaming operators, net lease, manufactured housing, self storage properties, data centers, towers, and timber assets.

Timely for today's markets: durable returns with differentiated earnings growth

When we look into 2022, we see many of the headwinds facing global markets—moderating growth, rising interest rates, higher inflation—as tailwinds for real estate. Investors can also access the asset class at a compelling entry point.

Poised to outperform in today's economy

Periods of moderating economic growth have historically led to real estate stock outperformance. As discussed, they have also outperformed during periods of higher inflation.

Differentiated earnings growth

While broad market earnings are decelerating, REIT growth is accelerating.

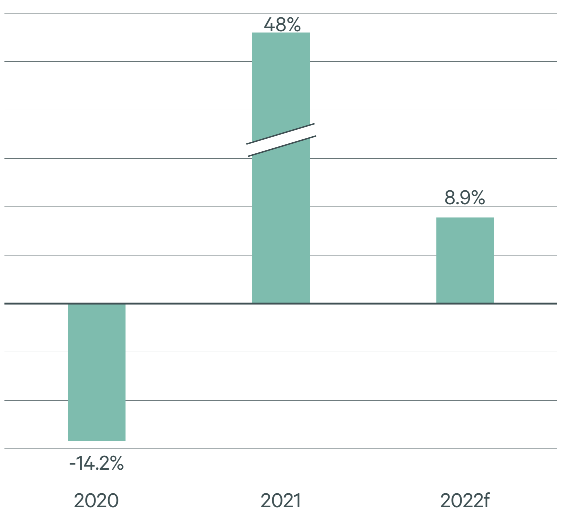
Figure 8: REIT performance during moderating growth

Average total return	Moderating
U.S. REITs	**23.1%**
U.S. Equities	15.1%

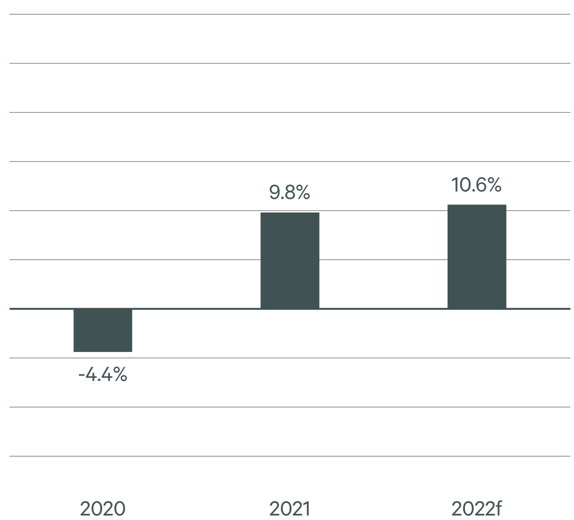
Source : CBRE Investment Management, MSCI U.S. REIT Index, and S&P 500 Index as of 12/31/2021.

Figure 9: U.S. equities and REIT comparative earnings growth

U.S. equities earnings growth



U.S. REITs earnings growth

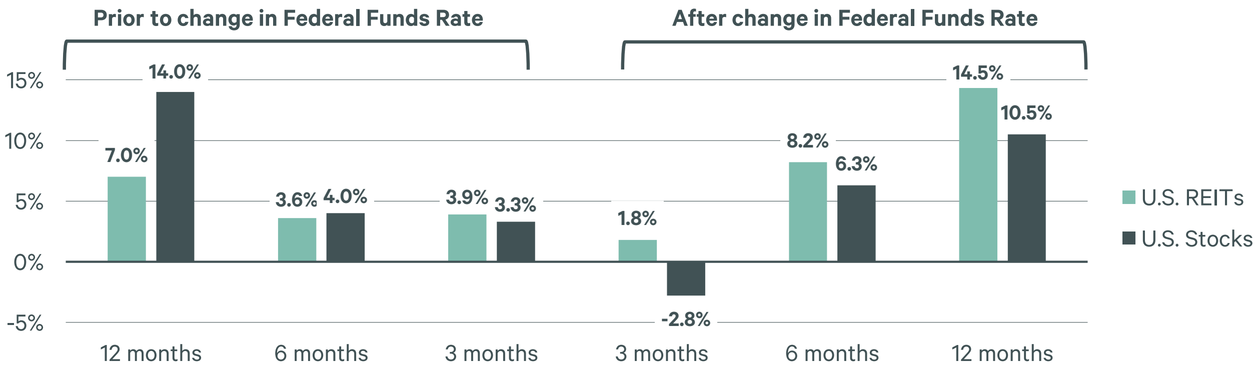


Sources: CBRE Investment Management and S&P 500 Index as of 12/31/2021. "f" represents forecasts. .An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

An ability to fight the Fed

While commonly perceived to underperform with rising interest rates, REITs have actually performed well after hiking cycles kick off.

Figure 10: Average U.S. REIT returns before and after an initial rate hike

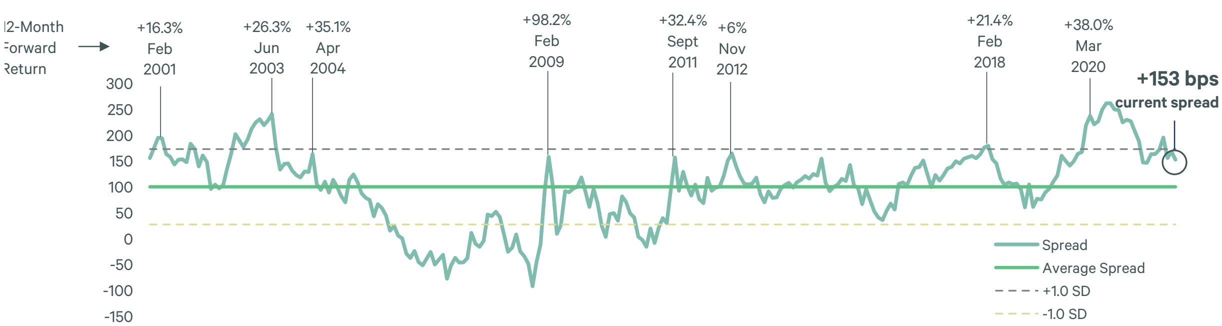


CBRE Investment Management FTSE Nareit Equity REIT Index, S&P 500 Index, U.S. Federal Funds Target rate as of 12/31/2021. Represents an average of returns from the prior four rate hike cycles starting 6 months prior to the first hike. Past performance is no guarantee of future results.

An opportune entry point

Not only have REITs lagged the market over the last five years (they have underperformed the market by 6% on an annualized basis), but they are also trading at an attractive spread to corporate bonds. Traditionally, when REITs have been this cheap to bonds, they provide very attractive forward returns. REITs' discount to bonds can also cushion the asset class against a rise in interest rates.

Figure 11: U.S. REIT implied cap rate spread to BAA corporate bonds



Baa corporate Bond yield	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Dec-21
	8.03	8.05	7.45	6.60	6.15	6.32	6.22	6.65	8.43	6.37	6.10	5.25	4.63	5.38	4.74	5.46	4.83	4.22	5.13	3.88	3.16	3.30

Source: CBRE Investment Management as of 12/31/2021. 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.

An essential asset class for investor portfolios

Whether as a core holding within real assets or as a complement to equities and private equity, listed real estate has an essential role to play for today's investors. The asset class offers compelling current income and inflation protection; it can both enhance and complement traditional and private equity portfolios. In a market of higher inflation, moderating economic growth and decelerating earnings, REITs can help investors meet their return goals. In the coming years, CBRE is excited to see REITs grow within and alongside today's portfolios.

About CBRE Investment Management

CBRE Investment Management is a leading global real assets investment management firm with $141.9 billion in assets under management* as of December 31, 2021, 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.

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If you would like to discuss the contents of this paper with our real estate team, or would like more information about investing in real estate, please contact:

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*Assets under management (AUM) refers to the assets under management, 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.