CBRE CLARION SECURITIES

MARKET UPDATE NOVEMBER 2016

U.S. PRESIDENTIAL ELECTION RESULTS AND THE IMPLICATIONS FOR REAL ASSETS

In January 2017, Donald Trump will be sworn in as the 45th president of the United States presiding alongside a Republican-controlled Congress. This result is in stark contrast to the consensus view leading up to Election Day. We believe Trump's policies will be positive for real assets, but risks remain and some regions, sectors, and stocks will benefit more than others. The following provides our house view on how the election results will impact real assets, including both real estate and infrastructure.

We believe a Trump administration's focus on tax cuts, fiscal spending, and deregulation should have a net-positive effect on U.S. economic growth over the longer-term. However, the impact of a Trump presidency on global economic growth should be minimal as the positive impact on U.S. growth may be offset by slower growth in foreign economies due to more restrictive U.S. trade policies.

ECONOMIC AND REGULATORY IMPACT SUMMARY

FISCAL IMPACT

We expect higher fiscal spending including greater infrastructure spending, more defense spending, and tax cuts. Tax cuts could be across the board (corporate and individual) and include an incentive for repatriation of offshore profits via a low tax rate. Combined, these fiscal policies should have a positive impact on U.S. economic growth.

MONETARY IMPACT

Although the Fed Funds futures market has reduced the probability of an interest rate rise in December the Fed likely sticks with its communicated intention thus far and raises rates by 25 bps. Beyond that, the Fed is likely to remain on a path of slow and gradual interest rate increases. Central banks elsewhere are likely to remain more accommodative given the increased uncertainty, including the ECB which will abandon any notion of tapering quantitative easing for the time being, which should result in longer-term interest rate remaining relatively low. This implies a moderate rise in cost of capital for U.S. companies.

TRADE IMPACT

Global trade takes a marginal hit as existing treaties (e.g., NAFTA) are revisited and proposed treaties (e.g., TPP) lose support from a Trump administration. Frictional costs of trade increase globally, acting as a modest drag on prospective global growth, and U.S. exports slow.

REGULATORY IMPACT

The Affordable Healthcare Act ("Obamacare") will be revisited and revised, although this will take time. A more relaxed energy policy is likely with regards to coal, oil, and other forms of fossil fuels. Deregulation of the banking industry is less clear given Mr. Trump's campaign rhetoric about Wall Street. Mr. Trump will have a significant influence on government appointments, including Cabinet and Supreme Court, which will turn directionally to the right.

KEY VIEWS

The improved outlook for longer-term economic growth in the U.S. is likely to put upward pressure on bond yields in the U.S. and lead to a stronger U.S. dollar versus most major currencies.

Bond yields elsewhere in the world are expected to remain relatively low given a more subdued growth outlook and highly accommodative Central Banks in those markets.

Real asset securities should perform well in this environment by capturing any indirect impact of marginal inflationary pressures and by providing attractive risk-adjusted cash flows relative to competing asset classes. Dividend yields are also likely to rise.

Initially, the upward pressure on bond yields may weigh down on real asset securities, especially in the U.S.

History suggests that this would present an attractive entry point for longer-term investors as the benefits of an improved growth outlook will ultimately more than offset the impact of higher bond yields.

ASSET CLASS IMPLICATIONS

GLOBAL REAL ESTATE

U.S. REITs will be a marginal beneficiary relative to rest of world as improved economic growth prospects and a strong U.S. dollar will ultimately outweigh pressure from modestly rising bond yields. Overall, any pull-back on U.S. interest rate fears should be viewed as a buying opportunity.

While we are positive on the total return prospects for U.S. REITs, going forward we expect a continued disparity of returns across property sectors. For example, the retail sector is a potential beneficiary of individual tax cuts, improved economic growth, and a modest pick-up in inflation via increased consumer spending. Conversely, the Healthcare sectors' bond-like growth makes it most susceptible to rising bond yields; plus, Obamacare reform is likely to impact hospitals negatively. The Industrial sector could face headwinds from increased global trade friction, but this will be more than offset by continued strong demand via the growth in on-line retailing.

In Europe, we expected property shares may continue to be impacted by political headline risk from multiple elections in the coming year. We believe a continued cautious approach to European markets is warranted despite attractive valuations in isolation.

In the Asia-Pacific region, Hong Kong and Singapore will be negatively impacted by potentially lower trade volumes putting further downward pressure on already-soft property fundamentals. Australian REITs continue to offer an attractive combination of yield and stable growth and may receive safe-haven capital flows from generalist investors concerned about slower economic growth in China. Japanese equities, including JREOCs, should benefit from a weaker yen, modestly rising inflation expectations and bond yields, and attractive valuations.

GLOBAL LISTED INFRASTRUCTURE

Infrastructure spending was a key element of Trump's platform for restoring economic prosperity and was reiterated in his victory speech. The key sectors to benefit are transportation, water, electricity and communication networks. In addition, Trump highlighted the potential for public-private partnerships (PPP) to alleviate some of the financial burdens on the public finances and opens up opportunities for private investors, and listed companies, to invest in infrastructure assets with contractual or regulated cash flows. Overall, listed infrastructure companies in the U.S. should see an increased opportunity for investment and likely face less regulatory pressure.

Midstream infrastructure investment is a key beneficiary as Trump has been pro-fossil fuel energy. Energy policy is likely to be more flexible in relation to securing a diverse range of energy production, with potentially fewer subsidies in the medium to long term for renewables. In addition, the recent environmental and Federal protests regarding pipeline development should abate.

As we expect economic growth to pick up, we should also see an improvement in freight volumes for railroads in the transportation sector. Railroad volumes have been weak the past 18 months and the prospect of both an inflection in coal volumes due to less restrictive energy policy and rising industrial and consumer led consumption should lead to a rebound in 2017 and beyond.

Finally, while Trump's energy policies at the Federal level are likely to be less favorable for renewable generation than under Obama, much of the renewable demand is driven at the State level. State-level renewable portfolio standards are in place in 29 states and drive approximately 100GW of renewable power deployment thru 2030. Moreover, the existing tax credit scheme has several more years to go while wind and solar generation have become increasingly cost competitive. We continue to be positive on the outlook for renewable investment as it is a key focus of infrastructure investment.

IMPORTANT DISCLOSURES

Past performance of various investment strategies, sectors, vehicles and indices are not indicative of future results. Investing in real estate securities involves risk including to potential loss of principal. Real estate equities are subject to risks similar to those associated with the direct ownership of real estate. Portfolios concentrated in real estate securities may experience price volatility and other risks associated with non-diversification. While equities may offer the potential for greater long-term growth than some debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. There is no guarantee that risk can be managed successfully. There are no assurances performance will match or outperform any particular benchmark. Indices are unmanaged and not available for direct investment. PA11102016