REAL ESTATE SECURITIES
Market Commentary Q3 2019

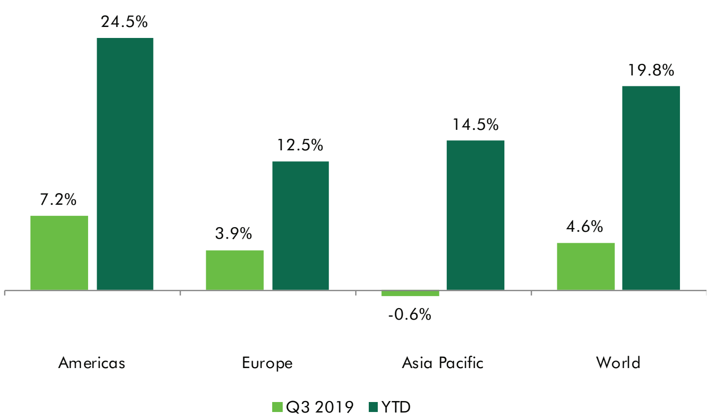
MARKET PERFORMANCE REVIEW

Real estate stocks moved higher in Q3 2019 and are now up nearly 20% YTD (Exhibit 1). Performance has been good across most sectors, led by the North American companies. Real estate companies are benefitting from defensive characteristics of well-covered dividend yield supported by growing contractual cash flows against an uncertain macro-economic and geopolitical backdrop.

Performance has been catalyzed by a combination of positive property company earnings reports, which show that real estate fundamentals continue to improve, a desire by investors for safety via above average dividend yield, and accommodative central bank monetary policy. The U.S. Federal Reserve Bank cut policy rates twice during Q3 2019 clearly signaling that it is willing to ease interest rates should weak economic data warrant it. Other major central banks have followed suit in being accommodative this year including The European Central Bank, Reserve Bank of Australia and Bank of Japan. As interest rates and the yield curve move lower, investors have shown renewed interest in buying real estate stocks, an asset class characterized by above-average dividend yields. Bond yields were significantly lower as of September 30, 2019 versus the beginning of the year, as the yield on the U.S. 10-year Treasury bond finished at 1.68% versus 2.68% nine months earlier.

Outperformance in 2019 has been spread across most geographies and property types, led by U.S. REIT performance. Outperforming property types in the U.S. include some which lagged last year, such as office and shopping centers, but also includes sectors which performed well in 2018, including health care, net lease, residential, industrial and self-storage – all of which continue to attract investment because of high dividend yield and/or superior earnings growth. The technology sector (cell towers and data centers) has also outperformed due to the continued strong secular trend of growth in data usage.

EXHIBIT 1: GLOBAL REAL ESTATE SECURITIES PERFORMANCE AS OF SEPTEMBER 30, 2019



Source: FTSE EPRA/NAREIT Developed Index in USD (Net of Withholding Tax) as of 09/30/2019. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

CBRE CLARION SECURITIES

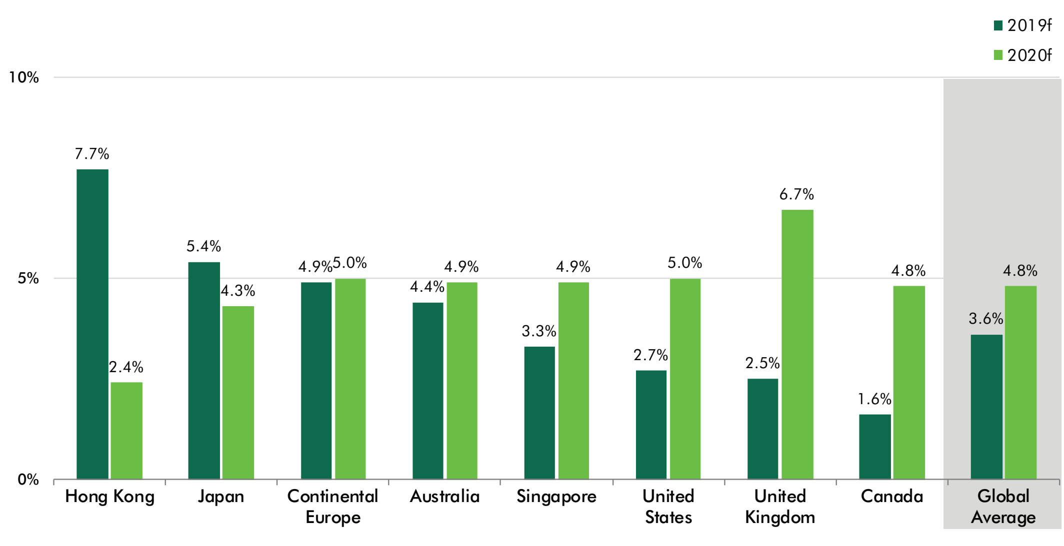
Outside the U.S., performance has been particularly strong among the Japanese REITs and Singapore REITs, which are benefitting from a relative flight to safety given attractive dividend yields and stable earnings growth. Australian property companies have also performed satisfactorily as the result of stable fundamentals and attractive yield. Hong Kong performance is an exception in the Asia-Pacific region as total return is now modestly negative year-to-date. Ongoing citizen protests are negatively impacting consumer spending, transaction activity and investor sentiment. Trade tariff negotiations between the U.S. and China are also weighing on investor sentiment in Hong Kong. European property companies are up double digits year-to-date despite concerns surrounding Brexit and a slowing pace of economic growth in the euro zone.

MARKET OUTLOOK

Economic growth is decelerating at this later stage in the economic cycle. We believe this moderating global economic growth environment, however, is good for real estate stocks. The economic expansion will continue this year but is slowing, potentially exacerbated by geopolitical risk including Brexit, U.S. trade policy uncertainty, and a slowing China. Inflationary pressures are easing, and monetary policy globally is accommodative. Despite a decelerating pace of growth, labor markets remain tight at this late stage of the economic cycle and the capital markets remain receptive to companies that need to raise or refinance attractively priced debt.

Real estate companies will generate earnings growth in the 3-5% range in 2019 and 2020 (Exhibit 2). Earnings growth remains steady in 2019 versus decelerating earnings growth in broad equities. Earnings of real estate companies are generated by contractual leases, as such the quality and consistency of earnings is high. This contrasts with broad equities which are seeing sharply decelerating earnings growth. The growth in S&P 500 earnings alone has decelerated from 22% in 2018 to a low single-digit range in 2019 versus real estate company earnings which remain in the 3-5% range. Additionally, real estate dividend yield remains attractive at nearly 4% and is expected to grow again in 2020. Dividends will grow at least in-line with earnings, as real estate companies will pay out nearly half of their total return as cash payouts to shareholders. Real estate dividend yield remains attractive relative to subdued interest rates and a low yield curve. Current income generated by listed property's dividend yield remains a defining investment characteristic of the sector. Listed property companies' dividend yield currently averages just under 4% globally and is growing at a very healthy clip. Increasing dividends are indicative of healthy companies in improving markets.

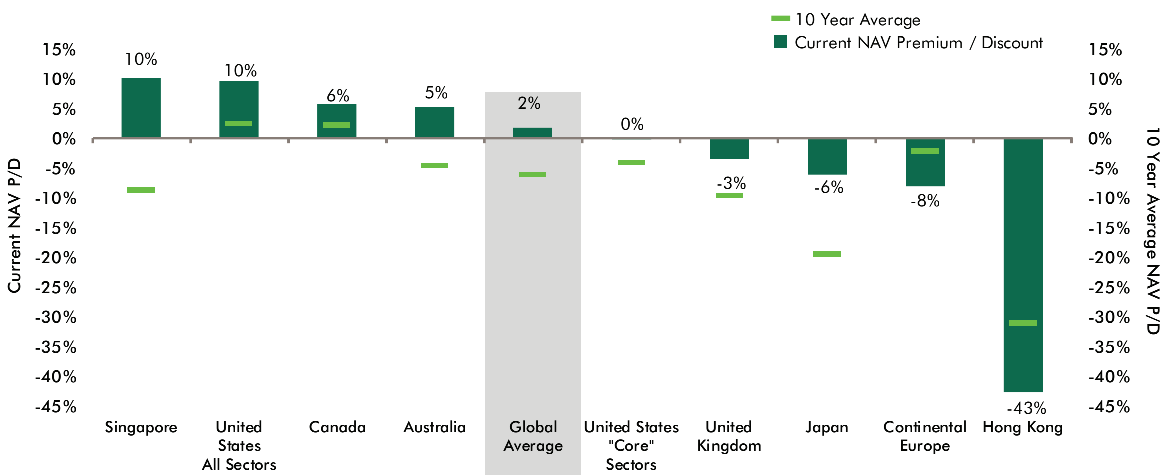
EXHIBIT 2: REGIONAL EARNINGS GROWTH



Source: CBRE Clarion as of 09/30/2019.
"f" refers to forecasts. Forecasts are the opinion of CBRE Clarion, which is subject to change and is not intended to be a guarantee of future results or investment advice. Forecasts are not indicative of future investment performance.

Merger and acquisition (M&A) activity will continue to support listed property companies as the gap between private real estate and public company valuation remains too wide. This will keep cap rates relatively low. Real estate companies are trading in-line with our estimate of inherent real estate value of net asset value (NAV), or an implied unleveraged cash flow yield of 5.3% (Exhibit 3). As such, we believe real estate stocks remain reasonably priced relative to private real estate and competing asset classes. This is particularly true given the significant private capital which has been raised by private equity funds, which real estate firm Preqin estimates to be $295 billion as of the end of December 2018. Adding on leverage, this capital easily implies more than $500 billion of potential buying power from private market buyers. If history is any guide, it is highly likely that some of this capital finds its way into the listed real estate market via further M&A.

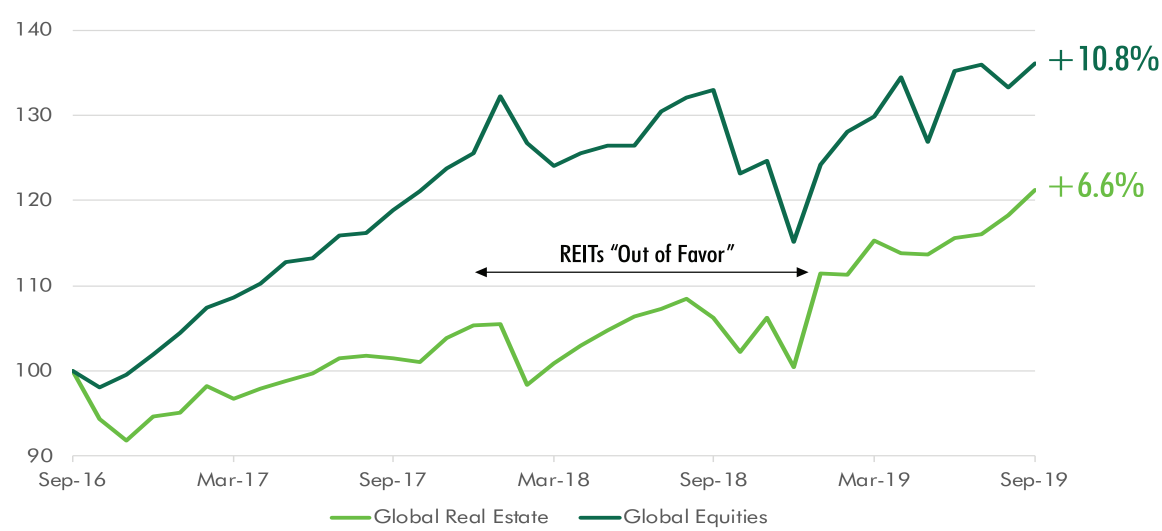
EXHIBIT 3: NAV PREMIUM/DISCOUNT BY REGION



Information is the opinion of CBRE Clarion as of 09/30/2019, 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.

Despite generating attractive returns YTD, we believe real estate stocks remain attractively valued and are still catching up to equities following a period of relative underperformance (Exhibit 4).

EXHIBIT 3: TRAILING 3-YEAR ANNUALIZED TOTAL RETURN COMPARISON BETWEEN GLOBAL REAL ESTATE AND GLOBAL EQUITIES



Source: CBRE Clarion as of 09/30/2019 in USD. Global Real Estate represented by FTSE EPRA/NAREIT Developed Index; Global Equities : MSCI World Equity Index. An index is unmanaged and not available for direct investment. Forecasts and any factors discussed are not indicative of future investment performance.

Current views on property types reflect a valuation framework that can differ from the direct markets given that real estate companies are priced by the investors in the global stock markets versus direct real estate which is priced by appraisal-based methodologies. As such, valuations in the listed markets can be dramatically different from those in the private markets. Taking this into account, in the U.S. listed real estate market, we favor the residential, technology (data centers and cell towers), and net lease sectors. Within residential, we like manufactured housing, single family home-for-rent companies and apartment REITs, which are benefitting from firming demand.

In the Asia-Pacific region, we favor Japan Industrial logistics REITs as well as mid-size office J-REITs. The industrial sector in Japan is benefiting from strong demand driven by continued growth in e-commerce, while new supply is expected to decline looking forward.

In Europe, we favor the U.K. niche sectors of student housing, self-storage and the industrial sector, all of which continue to generate superior earnings growth on strong fundamentals. In Continental Europe, we continue to prefer property companies in markets with superior growth, including the Nordic region and Spain. We have also added deeply discounted names in the retail and office sectors.

Caution is warranted in markets and property types which screen expensive relative to the rate of earnings growth. This includes Singapore, Canada and the U.S. skilled nursing, shopping center, and industrial sectors. This also includes Class B mall/shopping center companies globally. In Europe, we are cautious on the German residential sector given its renewed regulatory risk in Berlin. We also remain cautious on retail despite more attractive valuations. In Australia, our outlook is mixed as fundamentals range from robust industrial market to an uncertain retail market, and a residential market which is finding a bottom. Lastly, we have become cautious in Hong Kong, as the geopolitical uncertainly is beginning to weigh on property fundamentals.

IMPORTANT DISCLOSURES

CBRECLARION.COM