DUFF & PHELPS
INVESTMENT MANAGEMENT CO.

P: 312.263.2610
T: 800.338.8214
F: 312.876.1028

January 8, 2019

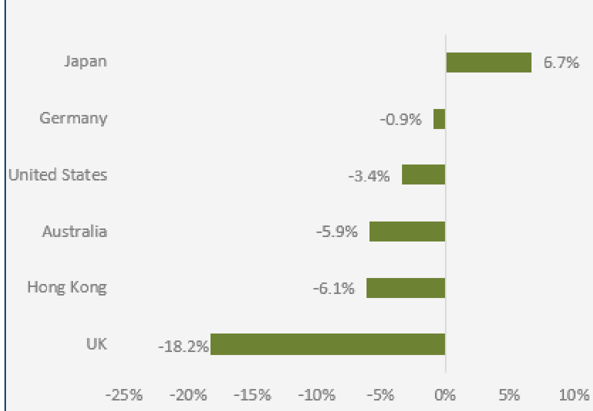
REITs: 2018 Review and 2019 Outlook

Cash flow & dividend growth remain positive drivers; while the impact of monetary & fiscal policies remains uncertain.

2018 Review

U.S. REITs (-4.6%)[1] finished 2018 relatively in line with the broader U.S. equity market (-4.4%).[2] The benefit of lower correlation was visible in all quarters of the year, especially in the fourth quarter with REITs outperforming U.S. equities by 6.8%.

REIT Performance – Major Countries
(Through December 31, 2018)



Source: FTSE EPRA Nareit Developed Index (net)
Past performance is not indicative of future results. Returns are expressed in U.S. dollars and include the reinvestment of dividends. Indices are gross of fees and are not available for direct investment.

U.S. REIT returns were anchored by their attractive dividend yield, steady cash flows and dividend growth, a strong private market bid and selective M&A, and attractive valuations in the face of increased economic uncertainty. U.S. tax law changes lifted the economy in the first half to higher rates of growth than the market felt could be sustained. Trade concerns, a modest number of Fed rate increases and the Fed balance sheet unwind were top of mind. Global macro-political volatility added to broader market defensiveness and helped more defensive sectors within U.S. REITs outperform, including the less cyclical freestanding, manufactured homes, and healthcare property sectors.

International real estate securities underperformed U.S. REITs, hurt by a stronger U.S. dollar. With the exception of Japan, Sweden and Germany, all of the major international real estate markets underperformed the U.S. on a U.S. dollar basis. A stronger dollar and geopolitical trade and growth concerns were negative drivers of international total return performance.

2019 Outlook

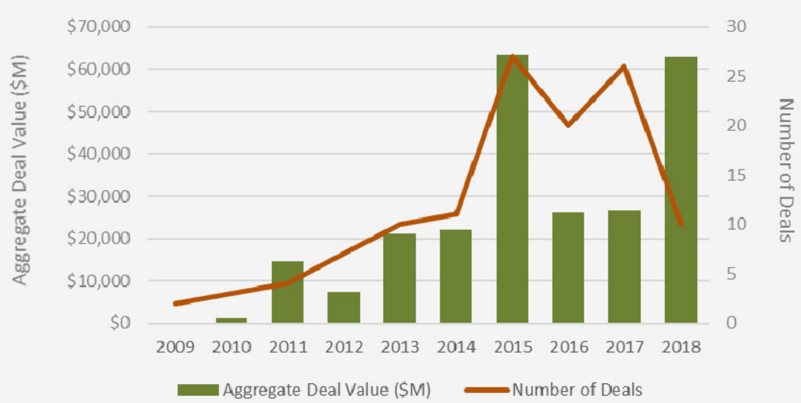
Looking ahead, we expect continued variance in the global economic growth picture and regional real estate fundamentals. Regionally, we are looking to Ireland, Australia, and the U.S. for economic growth leadership. We expect the variance in global growth trajectories to create opportunities for active managers such as ourselves, who are focused on owner-operators of high quality real estate, with solid balance sheets and proven management teams, to deliver outperformance versus the broader REIT market. Overall, we expect cash flow and dividend growth for global real estate securities to be solid once again in 2019. Key themes we are focusing on include:

- *Rents, not rates*: While there is likely to be upward pressure on interest rates in many markets, rental rate growth – particularly for high quality real estate, will continue to support further cash flow and dividend growth.
- *New supply*: While new supply levels are generally catching up to years of undersupply, selective geographic markets and property sectors will remain impacted by new development.

[1] As measured by the FTSE Nareit Equity REITs Index.
[2] As measured by the S&P 500 Index.

- *Balance sheet health*: Cash flow and dividend growth rates are converging across many global markets, but U.S. balance sheets are benefiting from more active pruning and remain better positioned with less leverage than most international markets.
- *M&A tailwind*: M&A activity picked up in 2018, driven by healthy discounts-to-NAV in public real estate security markets, as well as large pools of private equity real estate capital looking to be put to work. We expect this to continue in the year ahead.

M&A Transaction Activity
As of November 30, 2018



Source: SNL Financial. Completed and pending transaction activity.

Our base case total return drivers for global real estate in 2019 include:

- An attractive estimated cash flow growth of 4-6%.
- Dividend yield of approximately 4%, with above average growth expected in the U.S. given lower payout ratios.
- Healthy demand, increasing rents and manageable new supply driving cash flow and dividend growth.
- From a global perspective, real estate fundamentals remain more attractive for the industrial/logistics and data center property sectors with secular tailwinds from ecommerce and the cloud.

There are several potential upside catalysts to our base case. A key macro consideration would be greater than expected global economic growth, which would drive higher real estate occupancies and rents. Another upside factor would be rotation into real estate securities from bonds and broader equities, as investors embrace asset classes which provide diversification benefits alongside traditional allocations. And an increased potential for M&A and privatizations continues to exist, given the listed discounts to private real estate market prices, robust bids, and the ongoing appetite for high quality, core real estate among institutional investors.

From a balanced perspective, we also note certain downside risks to our base case assumptions. A key risk would be ongoing waves of macro-political shocks, which could lead to broad based economic deceleration or a dislocation in global debt markets. Also, interest rates could increase at a faster pace and magnitude than a lift in net operating income growth and replacement costs could absorb. And an acceleration in the pace of new commercial real estate supply would also be a concern.

We will continue to closely monitor broad global macro drivers such as diverging monetary and fiscal policies, potential central bank pausing, and ongoing geo-political risks. But overall, we believe the global real estate market cycle still has room for further growth against a backdrop of solid catalysts which underpin our base case. Please contact us if you'd like additional commentary on our real estate strategies.

To learn more about the Duff & Phelps REIT strategies visit dpimc.com.

DUFF & PHELPS
INVESTMENT MANAGEMENT CO.

P: 312.263.2610
T: 800.338.8214
F: 312.876.1028

About the Authors:

Geoffrey Dybas, CFA
Senior Portfolio Manager

Geoffrey P. Dybas, Executive Managing Director, heads the Duff & Phelps' Global Real Estate Securities team. He is Senior Portfolio Manager and co-founder of all dedicated REIT strategies managed by Duff & Phelps, including the Virtus Duff & Phelps Real Estate Securities Fund; the Virtus Duff & Phelps International Real Estate Securities Fund; the Virtus Duff & Phelps Global Real Estate Securities Fund; the Virtus Duff & Phelps Real Estate Securities Series, a series of the Virtus Variable Insurance Trust; the REIT portfolio within the DNP Select Income Fund Inc., a closed-end fund; and separate institutional accounts. He joined Duff & Phelps in 1995. Mr. Dybas was a corporate banker for Bank One and began his investment career in 1989. He holds a BS degree, cum laude, from Marquette University and an MBA from the Kellogg School of Management at Northwestern University.

Frank Haggerty Jr., CFA
Portfolio Manager

Frank J. Haggerty serves as Portfolio Manager for all dedicated Global Real Estate Securities managed by Duff & Phelps, including the Virtus Duff & Phelps Real Estate Securities Fund; the Virtus Duff & Phelps International Real Estate Securities Fund; the Virtus Duff & Phelps Global Real Estate Securities Fund; the Virtus Duff & Phelps Real Estate Securities Series, a series of the Virtus Variable Insurance Trust; the REIT portfolio within the DNP Select Income Fund Inc., a closed-end fund; and separate institutional accounts. Mr. Haggerty joined Duff & Phelps in 2005 after having served as a REIT portfolio manager and senior analyst for ABN AMRO Asset Management. He began his investment career in 1996. He holds a BS from Illinois State University and an MBA from the Kellstadt Graduate School of Management at DePaul University.

Opinions represented are subject to change and should not be considered investment advice. Forward-looking statements are necessarily speculative in nature. It can be expected that some or all of the assumptions or beliefs underlying the forward-looking statements will not materialize or will vary significantly from actual results or outcomes. Past performance is not indicative of future results.