2021 OUTLOOK

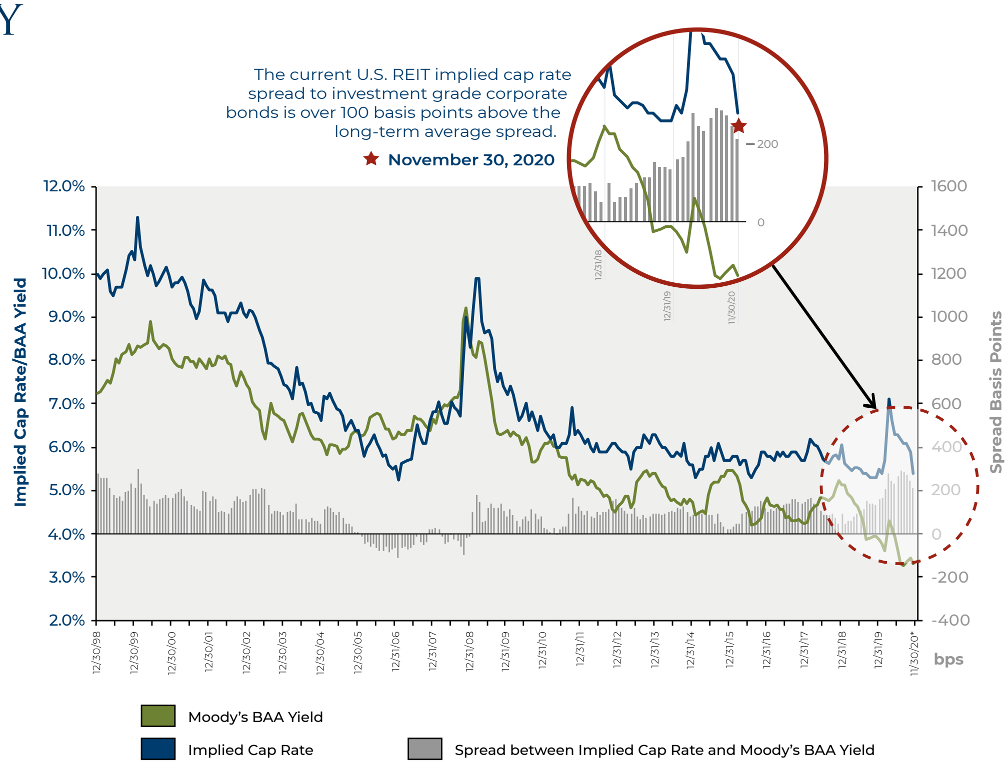
GLOBAL LISTED REAL ESTATE

December 2020

Following out-performance in 2019, global real estate equities lagged global equities during 2020. However, global real estate equities have staged a meaningful rebound from their intra-year lows and have seen a further boost as the data on the efficacy of COVID-19 vaccinations has been released. We believe a continued rebound of REIT stock prices is likely in the year to come. This is partially evidenced by the historically wide spread of U.S. listed real estate's implied cap rates to investment grade bond yields, and rising share prices are associated with compressing implied cap rates.

> "We believe a continued rebound of REIT stock prices is likely in the year to come..."

Implied Cap Rate and Moody's BAA Yield Spread



Source: Bloomberg Finance L.P. and Citigroup Investment Research

2021 OUTLOOK

GLOBAL LISTED REAL ESTATE

Looking to the year ahead, we expect variance in global economic growth. Regional and property sector fundamentals in real estate will be more pronounced, due to the lingering impacts of COVID-19. How far the markets will pull forward the expected global economic recovery is a key consideration. We expect the variance in global growth trajectories to create opportunities for active managers, such as ourselves, who are focused on high quality owner-operators of enduring commercial real estate, with solid balance sheets and proven management teams.

LOOKING FORWARD

THE PACE OF GLOBAL ECONOMIC GROWTH WILL START THE YEAR OFF WITH CONTINUED ACCELERATION...

The pace of global economic growth will start the year off with continued acceleration. However, tough year-over-year comparisons will not ease until we enter the second quarter of 2021. Global real estate cash flow and dividend growth should rebound to positive territory in 2021, although underlying trends by property sector will continue to be highly uneven. Themes we are focusing on include:

- Fiscal and monetary support: Governments and central banks are providing meaningful fiscal and monetary support to help reduce the negative shock to the global economy from the Global Pandemic Crisis (GPC), COVID-19.
- New supply: Construction activity will continue to slow, and new real estate supply should moderate over the next couple of years.
- Balance sheet health: U.S. balance sheets are better positioned than they were prior to the GFC, making discounted equity offerings less likely. International balance sheets are generally not as well prepared; additional equity or assets sales will be needed.
- M&A tailwind: M&A activity has picked up into year-end and could continue to accelerate if the meaningful discounts-to-NAV in public real estate security markets remain in place. Private buyers may find it easier to deploy capital in the listed market.

Our base case total return drivers for global real estate in 2021 include:

- 2021E global cash flow growth will accelerate as economic activity rebounds.
- Attractive dividend yields of ~4.0% will benefit from dividend growth from increased cash flow.
- Balance sheets are better positioned in the U.S. than ex-U.S. Relative to the GFC, we see a decreased need for equity offerings and dispositions—a strong attribute.
- Secular growth drivers will continue to benefit Data Centers, Cell Towers, and Logistics, although they will face tougher comparisons; Office, Retail, and Lodging recoveries will vary by quality, market, mix, and duration.

CONCLUSIONS

THERE ARE SEVERAL POTENTIAL UPSIDE CATALYSTS TO OUR BASE CASE...

There are several potential upside catalysts to our base case. A key macro consideration is greater-than-expected recovery in 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 that provide diversification benefits alongside traditional allocations. An increased potential for M&A and privatizations continues to exist, given the listed discounts to private real estate market prices and the ongoing desire for high quality, core real estate among institutional investors.

We note certain downside risks to our base case assumptions. A key risk is the continued uncertainty surrounding the depth and duration of the GPC. It is possible that government directives will temporarily impact select property sectors and markets. Furthermore, a delay in the rollout of effective vaccines will delay a return to normalcy.

The optimism being expressed through the healthy rebound in the global equities markets has received an added boost from the positive vaccine developments and efficacy. While high marks should be given to global central banks and governments stimulus measures to support the global economy, more may be needed. Assuming our optimism is not misplaced, the global economy, and by extension the global real estate markets, should remain on a path to recovery that has now been strengthened by the positive vaccine developments.

Article written by: Geoffrey Dybas, CFA and Frank Haggerty, Jr., CFA

Geoffrey Dybas, CFA

Geoffrey Dybas is an Executive Managing Director and Head of the Duff & Phelps Real Estate Securities Group. He is a Senior Portfolio Manager and co-founder of all dedicated REIT strategies managed by Duff & Phelps. Mr. Dybas joined the firm in 1995 and has 30 years of investment experience.

Frank Haggerty, Jr., CFA

Frank Haggerty, Jr. is a Senior Managing Director and serves as Senior Portfolio Manager for all Real Estate Securities Strategies at Duff & Phelps. Mr. Haggerty joined the firm in 2005 and has 24 years of investment experience.