The Opportunity in Listed Commercial Real Estate

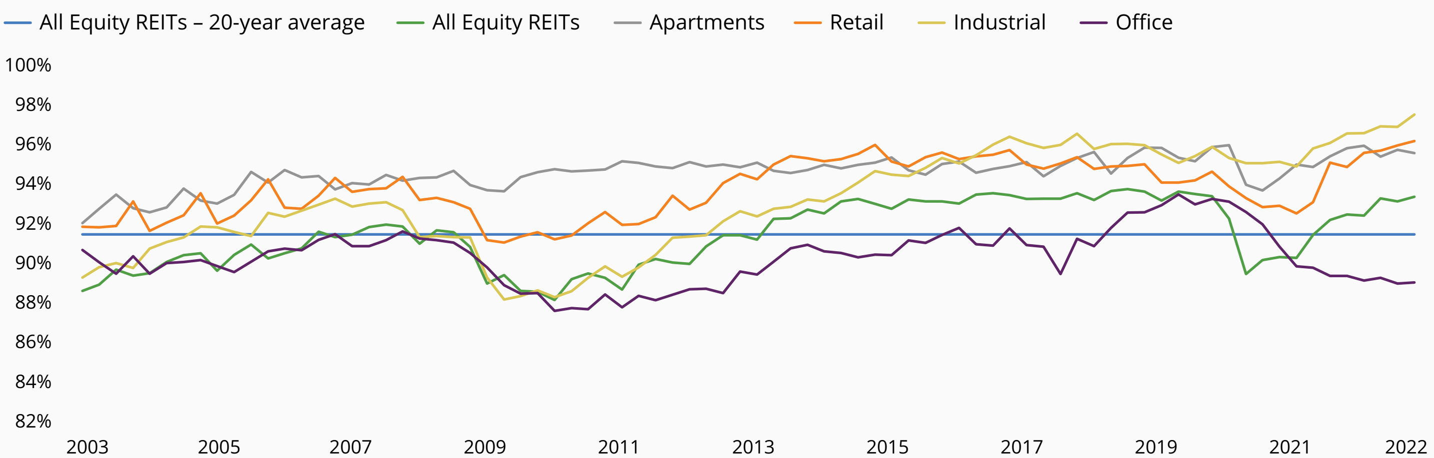
It's hard to look at the news lately without seeing a negative headline about U.S. commercial real estate. According to many of the headlines, U.S. commercial real estate is poised for a wave of defaults and valuation resets, and is likely to be a canary in the coal mine signaling potential danger ahead for financial markets.

Is the situation as dire as headlines suggest? We do not believe so. We do think that defaults are likely to occur, but we do not expect them to be broad-based. In our view, the defaults will primarily be in challenged property sectors, such as office, or among properties experiencing asset-specific issues such as demand and cash flow challenges. Outside of sectors or assets facing these specific challenges, we expect any defaults that arise will be due to asset-level financing issues, such as high leverage levels and interest rate resets. However, we find the vast majority of publicly traded real estate investment trusts (REITs) are much better positioned, with strong fundamentals, low default risk and compelling valuations presenting an attractive opportunity for investors.

Many U.S. property types have strong fundamentals. According to data from Nareit, many property types continue to exhibit growing cash flows, stable operating results, and occupancy rates above long-term averages. Such strong fundamentals have helped same-store net operating income growth outpace inflation. And while rent growth is normalizing from historically elevated levels due to near-term uncertainty, we think long-term demand drivers are supportive for several essential property types. In our view, sectors like residential, industrial and health care remain supported by good supply and demand trends, while low-quality office assets are likely to remain challenged.

U.S. REIT OCCUPANCY RATES ARE GENERALLY ABOVE THE HISTORICAL AVERAGE

U.S. REIT occupancy rates for 20-year period ended December 31, 2022

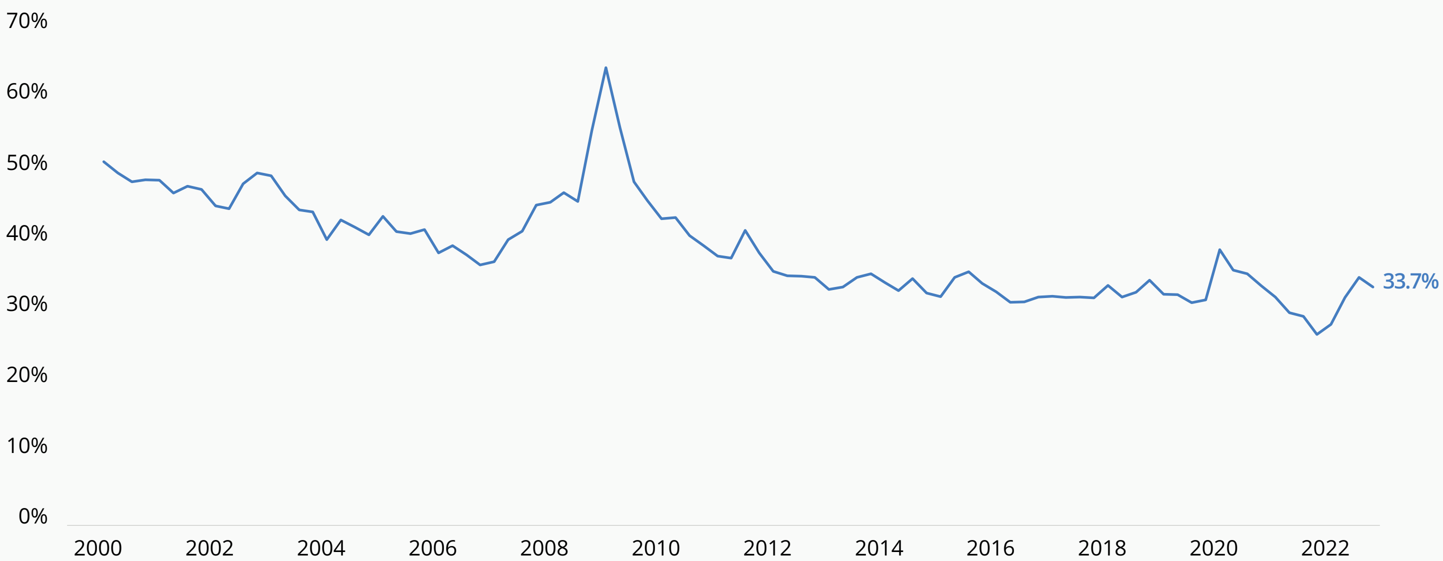


As of December 31, 2022. Source: Nareit. All Equity REITs is defined by the FTSE Nareit All Equity REITs Index, which is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs.

Balance sheets are generally strong across the U.S. REIT universe. U.S. REITs have been significantly reducing leverage since the Global Financial Crisis, and they now have a roughly 34% debt-to-market-asset value, as the chart below shows.

REIT LEVERAGE HAS DECLINED SINCE THE FINANCIAL CRISIS

U.S. REIT Debt-to-Market-Asset Value

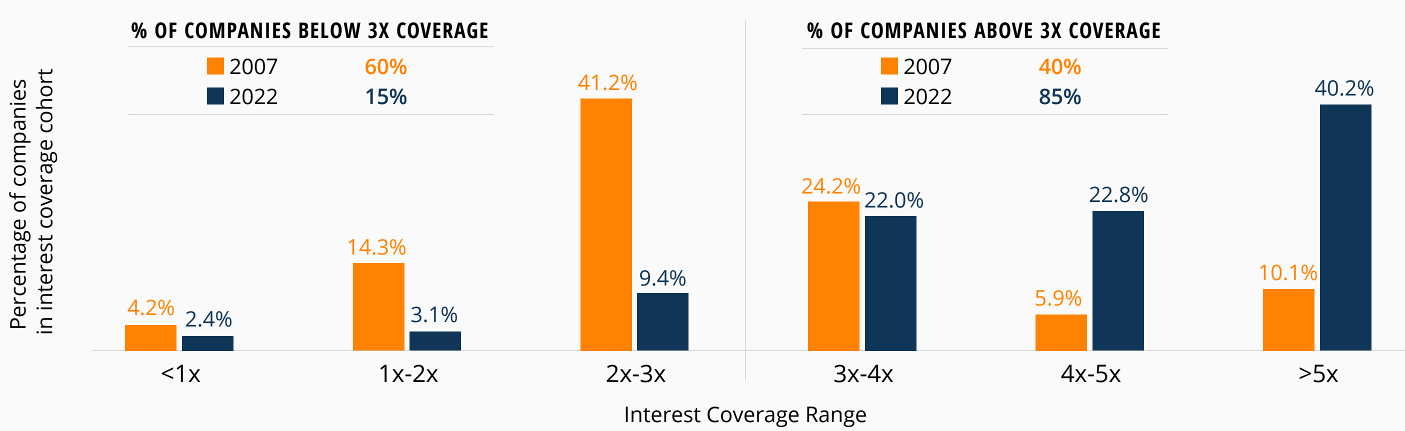


As of December 31, 2022. Source: Nareit. Leverage refers to the percentage of debt to the value of market assets.

As shown below, interest coverage ratios have also improved as leverage levels have fallen. More than 85% of U.S. REITs have interest coverage above 3x, up from roughly 40% in 2007. Additionally, weighted average term to maturity increased to 82 months at the end of 2022 from 69 months at the end of 2006. The high interest coverage and long term to maturity limit the risk of defaults, with interest rate and refinancing risks appearing minimal for the broad asset class.

INTEREST COVERAGE RATIOS HAVE IMPROVED

Distribution of Interest Rate Coverage Ratios



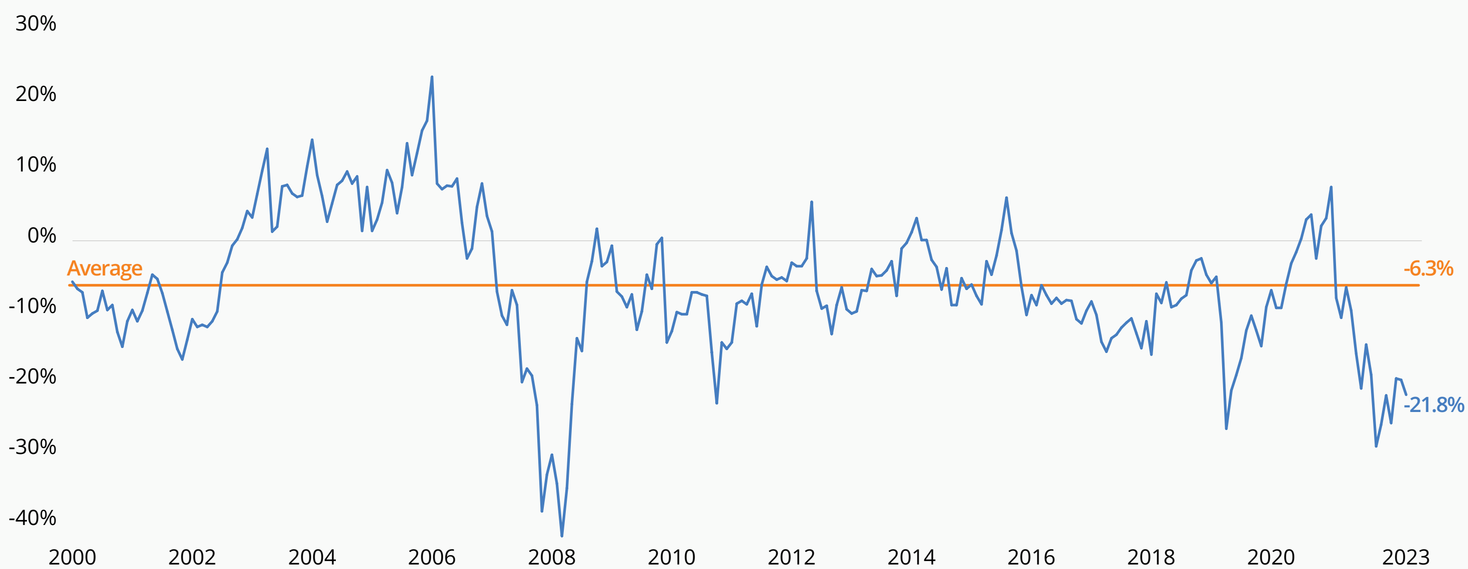
As of December 31, 2022. Source: S&P Capital IQ Pro, Nareit. 2007 is the comparison year, as it was the Global Financial Crisis, the last time there was major stress in the commercial real estate market.

Valuations are very compelling relative to history. While fundamentals remain strong and balance sheets have improved, the unprecedented inflation spike and increasing borrowing costs have exerted tremendous downward pressure on real estate securities in recent quarters. As a result, global listed real estate is trading at discounts well below historical averages.

We believe real estate equity prices have overcorrected to the downside by a wide margin. The current discount relative to real estate net asset values (NAV) is the widest we have seen in some time. History suggests buying real estate equities at such deep discounts can result in potential strong absolute returns potential over the long term.

CURRENTLY, GLOBAL LISTED REAL ESTATE IS TRADING AT DISCOUNTS WELL BELOW HISTORICAL AVERAGES

Global Historical Premium/Discount to NAV (12/31/2000-3/31/2023)



As of March 31, 2023. Source: UBS Global Real Estate Research; Brookfield Public Securities Group research and estimates.

TODAY'S ENVIRONMENT REQUIRES AN ACTIVE APPROACH

Given the reset in valuations, improved balance sheets and strong fundamentals across the asset class, we think global listed real estate potentially offers an attractive entry point into a compelling long-term opportunity. But in our view, an active approach to listed real estate is imperative to effectively navigating the current environment and capturing the opportunity.

Active managers can be selective in terms of property type, asset quality and valuation. We believe they can avoid property types and assets where today's stress and troubled balance sheets are concentrated. Instead, they can focus on the highest-quality assets and management teams, and position portfolios accordingly as the operating environment changes and attractive risk-adjusted opportunities present themselves.

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results. All real estate investments, ranging from equity investments to debt investments, are subject to some degree of risk. Real assets include real estate securities, infrastructure securities and natural resources securities.

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INDEX DEFINITIONS

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

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