## Q2 2025 Market Overview

The dominant macro news of Q2 2025 was the evolving landscape of tariffs; from the initial announcement of "Liberation Day" tariffs to the escalation and de-escalation of Chinese tariffs, concluding with some deals reached (Vietnam), and others imposed (South Korea and Japan). The legal authority for the Trump administration to impose tariffs needs to be determined. On July 31, 2025, the US Court of Appeals is scheduled to hear oral arguments regarding the tariffs imposed that are based on the International Emergency Economic Powers Act of 1977 (IEEPA) and which were overturned by the US Court of International Trade. President Trump announced in early July that August 1, 2025 is the date when imposed tariffs go into effect.

Evolving Trump administration policy changes have yet to fully impact the US economy

The US Federal Reserve (the "Fed") continued its pause at the June 2025 Federal Open Market Committee ("FOMC") meeting and is expected to do so again at the July 2025 meeting. At the FOMC press conference on June 18, Fed Chair Powell noted that the economy remains solid with a low unemployment rate and lower inflation which is "somewhat above" the 2.0% goal despite higher uncertainty. The policy changes of the Trump administration relating to trade/tariffs, immigration, fiscal policy, and regulation "continue to evolve" and have yet to fully impact the US economy. It is also unknown whether the effects of the announced tariffs will be a one-time bump in inflation or a more persistent increase in inflation with the goal to keep long-term inflation expectations "well-anchored."

In economic releases, the employment scenario showed moderate challenges with a slight increase in the unemployment rate from 4.1% to 4.2% during Q2 2025. Job growth remained positive but slowed, with payroll additions averaging around 150,000 jobs per month. The labor market remained tight, evidenced by ongoing robust job openings despite a slight uptick in the unemployment rate.

Consumer spending appears to be slowing. Personal consumption expenditures in May 2025 increased 4.5% year-over-year and declined 0.1% month-over-month compared with an increase of 5.2% year-over-year and 0.2% month-over-month in April 2025. Spending on services continues to outpace goods on a year-over-year basis, rising 5.3% and 3.0%, respectively. Retail sales (ex. auto) in May 2025 increased 3.5% year-over-year and declined (0.3%) month-over-month compared with an increase of 4.1% year-over-year and flat month-over-month in April 2025. Finally, inflation as measured by the Consumer Price Index ("CPI") report (excluding food and energy) further stabilized; month-over-month rates settled in the 0.1% to 0.2% range over the quarter and the year-over-year rate remained below 3%.

The Japanese economy, in our opinion, remains healthy overall with a tight labor market and wage growth accelerating while inflation remains at elevated levels compared to its Central Bank's target. The Bank of Japan ("BoJ") has remained steady after its January 2025 interest hike, maintaining its policy rate at 50 basis points ("bps") at its June monetary policy meeting, in line with market consensus. Additionally, the Policy Board has voted to reduce its monthly Japanese government bond purchases beginning April 2026. May 2025 all-Japan core CPI inflation was 3.7% year-over-year, up from 3.5% in April, and above market consensus of 3.6% year-over-year. The BoJ's core-core CPI inflation was 3.3%, up from 3.0% in April, and also above market consensus of 3.2% year-over-year. The Japanese labor market softened marginally in May 2025, with the unemployment rate at 2.5%, unchanged month-over-month; the new job openings-to-applicant ratio edged down to 2.14x, from 2.24x in the prior month. At the same time, wage growth from this year's Spring wage negotiation continues to accelerate, including seniority-based pay wage increases of 5.46%, compared to 5.28% in 2024.

Australia continues to witness an improving macro environment that is supportive to the overall real estate market, in our opinion. Specifically, inflationary pressure has continued to ease with the Reserve Bank of Australia ("RBA") cutting policy rates for the first time in this economic cycle. The labor market remains strong, albeit showing some softening signs. After holding rates in April 2025, the RBA cut the policy rate by an additional 25 bps to 3.85% in its latest May meeting, flagging downside risks to growth given the global macro uncertainties, as widely expected by the market. The Q1 2025 headline CPI was 0.9% quarter-over-quarter, above consensus of 0.7% quarter-over-quarter, and more importantly for the RBA, trimmed mean CPI eased to 2.9% year-over-year from 3.2% year-over-year, falling into RBA's official target of 2% to 3%. More recently, the underlying May 2025 CPI fell to 2.4% year-over-year, down from 2.8% year-over-year in April, which potentially bodes well for further rate cuts by the RBA in coming months, in our opinion. In May 2025, the Australian labor market undershot market expectation, with the latest unemployment rate remaining at 4.1%, unchanged month-over-month, while total employment fell by 2,500, well below consensus growth of 21,000.

Hong Kong and Mainland China's economy has, in our opinion, started to witness some early signs of stabilization, after the emergence of DeepSeek and renewed government support for private enterprises as well as consumption. However, the recent trade war between the US and China has cast meaningful uncertainties over the path forward, in our opinion. In Hong Kong, the S&P Global Hong Kong Purchasing Manager's Index ("PMI") improved to 49.0 in May 2025 from 48.3 in April, still below 50 and the threshold between economic expansion and contraction. Since September 2024, the prime rate has been lowered by a total of 62.5 bps, reducing effective mortgage rates from 4.125% to 3.5%. In the 2025 February Budget Speech, stamp duty on homes valued up to HK$4 million has been lowered to HK$100, a reduction of 99% as the Hong Kong government tries to improve affordability for the housing market. Most recently, Hong Kong has witnessed a meaningful drop of the Hong Kong Interbank Offered Rate ("HIBOR") to below 1%, the lowest level in nearly three years. This helps to lower effective mortgage rates for home buyers, and in our opinion, boosts buyers' sentiment in the housing market.

Inflationary pressure is easing in Australia with the RBA cutting policy rates for the first time this economic cycle

Mainland China reported the National Bureau of Statistics manufacturing PMI at 49.7 in June, up from 49.5 month-over-month, and above consensus of 49.6; the non-manufacturing PMI also improved to 50.5 from 50.3 month-over-month, also above consensus of 50.3. China's external trade softened sequentially in May 2025, with export growth at +4.8% year-over-year from +8.1% year-over-year in April, below consensus of +6.0% year-over-year, and import at -3.4% year-over-year versus -0.2% in April, also below consensus of -0.8% year-over-year. Meanwhile, deflationary pressure continues in the mainland with May 2025 headline CPI inflation at -0.1% year-over-year, unchanged from April, and Producer Price Index at -3.3% versus -2.7% in April.

Heitman views Q2 2025 in Europe and the UK as a period shaped by dynamic inflation trends and a labor market that, while demonstrating resilience, continues to bear the weight of ongoing economic recalibration. These conditions underscore the broader macroeconomic challenges facing both the UK and Eurozone economies. The UK's inflation rate as measured by the CPI eased to 3.4% in May 2025 from 3.5% in April, following an increase from 2.6% in March. This decline in May was primarily triggered by a slowdown in services and core inflation, though food, housing, and utilities prices continued to be significant contributors. In response to these trends, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate to 4.25% at its May 2025 meeting and maintained it at this level in June, reflecting continued disinflationary progress but also ongoing risks to inflation, particularly from services prices and wage growth.

The UK labor market showed mixed conditions throughout Q2 2025. By April 2025, the unemployment rate had increased to 4.6% in the period from February to April, up from 4.5% in the prior three-month period, marking its highest rate since August 2021. Employment levels, however, showed continued strength with 34.01 million employed persons in the same February to April period. The Claimant Count data for May 2025 revealed a significant increase of 33,100 claimants, signaling ongoing pressures alongside a drop in job vacancies to 736,000 in the March to May period Heitman believes rising employment costs and subdued economic conditions are likely to dampen hiring appetite, potentially leading to headcount reductions.

In the Eurozone area, inflation displayed a modest downward trend in Q2 2025. The headline inflation rate decreased to 1.9% in May 2025 from 2.2% in April, aligning with market expectations. Core inflation eased to 2.3% in May 2025 from 2.7% in April, an increase from 2.4% in March.

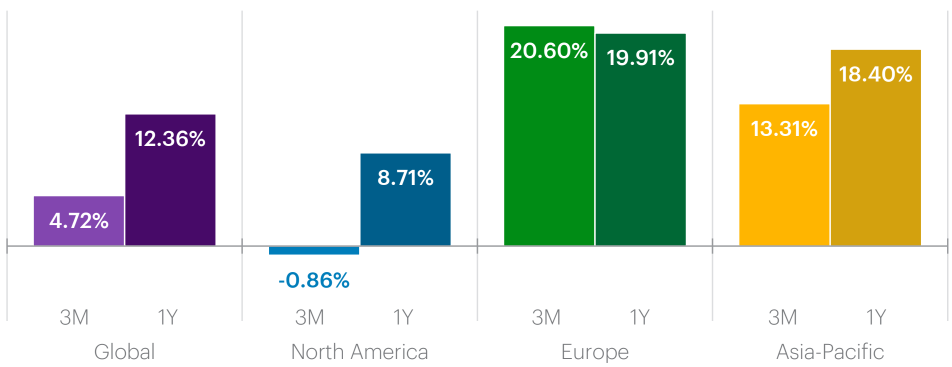
The Eurozone's unemployment rate remained steady at a record low of 6.2% in April 2025, after a revised 6.3% in March, with the number of unemployed individuals decreasing to 10.7 million, indicating a slight tightening of the labor market.

Economic growth trajectories diverged between the two regions in Q2 2025. The UK's Gross Domestic Product ("GDP") growth for Q1 2025 was confirmed at 0.7%, matching the preliminary estimate and marking the highest growth in a year, largely driven by the services sector. In contrast, the Eurozone saw GDP growth reach 0.6% in Q1 2025, a stronger performance than initially anticipated and following 0.3% growth in the previous quarter. Overall, Q2 2025 underscored persistent inflationary pressures and labor market resilience in both the UK and Eurozone, as policymakers and economies navigate a complex landscape of subdued growth and cautious monetary adjustments.

## REIT Market Review – Q2 2025

In Q2 2025, the FTSE EPRA/NAREIT Developed Index gained 4.72%. Europe and Asia generating positive returns of 20.59% and 13.30%, respectively, while North America returned negative 0.86%.

**FTSE EPRA/NAREIT DEVELOPED RETURNS IN USD AS OF 6/30/25**




### NORTH AMERICA

In our view and similar to the previous quarter, Q2 2025 was comprised of two very different market regimes. Early April was dominated by the April 2, 2025 "Liberation Day" tariff announcement, causing a drastic market sell-off. Shortly thereafter, the Trump administration announced a 90-day pause in the tariff implementation, which provided a strong lift to the market, along with steady job numbers and retail sales that ran contrary to late Q1 2025 recession fears. Regardless of the macroeconomic-driven volatility, fundamentals of REITs remain resilient, in our view, with sell-side consensus estimating 4.5% earnings growth in 2025. Additionally, according to Bank of America research, during the most previous earnings season, only 3% of REITs lowered in 2025 versus an historical average of 6%.

> Regardless of macroeconomic-driven volatility, we believe REITs have a capital access advantage for offensive and defensive uses

REITs equity issuance was healthy during Q2 2025 with the strategical rationale varying dramatically. On one end of the spectrum, Raymond Hospitality Properties, Inc. issued $275 million of common shares to partially fund the JW Marriott Phoenix Desert Ridge Resort & Spa, which we believe will be an accretive and value-add acquisition over the short and long term. In contrast, Hudson Pacific Properties, Inc. issued $600 million in common stock and warrants, approximately twice the value of the current market cap, with proceeds used for debt paydown given the potential balance sheet distress. We believe these equity proceeds will buy the REITs time while the West Coast office fundamentals improve. We also believe the corporate unsecured bond market remains wide open for issuance at attractive credit spreads versus the risk-free rate. During Q2 2025, Welltower Inc., the senior housing healthcare REIT, issued $1.25 billion in bonds at sub-100 bps over the risk-free rate. In summary, we believe REITs maintain a capital access advantage for both offensive and defensive uses.

The US data center, US specialty, and US office sectors were the greatest contributors to the index during Q2 2025. Regarding data centers, we believe the outperformance during the quarter recaptured a large majority of the relative underperformance since the release of DeepSeek, which immediately brought fears of lower data center leases due to the potential increased computing and power efficiencies. However, various cloud and AI providers have since announced expansive capital expenditure plans around data centers. Specifically, on their most recent earnings call, Meta Platforms, Inc. increased their prior data center expenditures outlook by approximately $5.5 billion. Oracle Corporation also declared their ambition to be the "number one" builder and operator of cloud infrastructure data centers on their most recent earnings call. The specialty sector outperformance was driven by Iron Mountain Inc. due to their data center exposure that will also benefit from these positive trends, in our view. Regarding the office sector, the outperformance was broad-based with the East Coast, West Coast, and Sunbelt regions outperforming. While conditions generally remain challenging, most REITs portfolios continue to increase occupancy as a result of their high-quality assets and access to capital, which tenants increasingly prefer, in our view. Additionally, the Canadian market outperformance versus the US is worthy of mention, which in our view was driven by the Canadian market's more defensive qualities in such areas as healthcare and grocery anchored retail that investors deemed attractive amid the macroeconomic uncertainty.

The US residential, US industrial, and US healthcare sectors were the most negative contributors to the index with negative returns of 5.83%, 6.34%, and 3.22%, respectively. We believe the residential underperformance was caused by a disappointing pace in year-to-date market rent growth with early strength failing to carry through to the typical Spring rental busy season, as reflected in management team commentaries during an industry-wide conference in early June 2025. Regarding the industrial sector, the underperformance that began in March was exacerbated by the April 2025 tariff announcements. While certain pockets of the industrial market, such as the Sunbelt, continue to benefit from population growth and on/near-shoring, the coastal market has borne the brunt of leasing weakness from the disrupted trade given the exposure to port activity and bulk consumer goods inventory storage, in our view. Within healthcare, the life science sub-sector drove the underperformance. We believe this sub-sector continues to experience negative pressures from a variety of areas including Food & Drug Administration layoffs, increasing drug development in China, oversupply, and biotech venture capital flows, which while improved from 2023 levels, remain below prior peaks.

**ASIA-PACIFIC**

The Asia-Pacific market delivered a strong quarterly return in Q2 2025 with the FTSE EPRA/NAREIT Developed Asia-Pacific Index rising by 13.30% in USD terms.

Australia delivered the highest return during the quarter, generating a USD return of 19.92%, partially boosted by the appreciation of the Australian Dollar. Data center related names, including NEXTDC Ltd, as well as fund managers, such as Goodman Group and Charter Hall Group, generated solid returns at 34.83%, 27.22%, and 26.32%, respectively. Residential developer Stockland also delivered a return of 18.71%. According to Cotality, national house prices rose 0.6% month-over-month in June 2025, recording a fifth straight month of growth, with sentiments boosted from the latest RBA rate cut and expected future cuts, in our opinion.

Hong Kong delivered the second-highest return, generating a USD return of 18.92% for the quarter. The returns are led by Hongkong Land Holdings Limited, Sun Hung Kai Properties, and Wharf Real Estate Investment, which delivered returns of 33.56%, 20.77%, and 19.87%, respectively. After a five-year downturn, the Hong Kong real estate market is finally seeing some mild recovery, in our opinion. Hong Kong retail sales grew by 2.4% year-over-year in May 2025, compared to negative 2.3% year-over-year in April, reversing a 14-month contraction,

After a five-year downturn, the Hong Kong real estate market is finally seeing some mild recovery, in our opinion

partially boosted by a recovery of tourists during the "Golden Week." We are also starting to see some increasing demand for prime office space in Central, with Hedge Fund Point72 reportedly taking 55,000 square feet ("sf") of office space at the Henderson for HK$120 per sf per month and the trading firm, Jane Street, taking 223,000 sf of office space, also from the developer Henderson Land in Central.

Japan and Singapore delivered benchmark returns of 9.45% and 7.75% in USD terms for the quarter. In Japan, top-performing names included AEON Mall (21.84%), Hoshino Resorts (25.72%), and Global One Real Estate (23.99%). AEON Mall has been privatized by its parent company, AEON Co., which contributed to the strong performance, while Global One Real Estate implemented a meaningful asset reshuffle to improve shareholder return policies through a sizable unit buyback program. The Japanese real estate market remains robust for almost all sectors in our opinion. The Tokyo office market has continued to tighten, with the latest May 2025 Miki Shoji data showing vacancy in Tokyo's central five wards at 3.56%, down by 0.17% from 3.73% month-over-month; the average asking rent per tsubo rose +4.2% year-over-year to JPY20,776. Improvements in corporate governance and shareholder return policies have continued, in our view, particularly with increasing activities from activist investors.

**EUROPE**

European listed real estate widely outperformed the broader market in Q2 2025, with the FTSE EPRA Developed Europe Index posting total returns of 20.60% in USD terms during the period. The best-performing sectors were UK hotels and Continental European healthcare, posting positive returns of 44.4% and 32.8% in USD terms, respectively. This outperformance was mostly driven by heightened merger and acquisition activity with takeover bids in Dalata Hotel Group PLC (hotels) and the merger between Aedifica SA and Cofinimmo SA (healthcare). The UK industrial and Continental European hotel sectors were the bottom performers, posting returns of 10.7% and 4.1%, respectively. This was attributed to tariff fears in the UK industrial space as well as Continental European hotels underperforming as Swedish-listed Pandox AB made an offer to buy Dalata, thus triggering investor concerns of a potential dilutive deal.

Defensive sectors like Continental European residential, retail, and healthcare are proving resilient in the face of tariff-related uncertainty

The second quarter of 2025 highlighted strength in the more defensive sectors (i.e. Continental European residential, retail, and healthcare) which proved resilient in the face of rising tariff-related uncertainty. These sectors benefited from domestic demand growth drivers and long-duration income streams, offering safe heaven characteristics relative to global trade frictions. In the residential sector, TAG stood out following its capital markets day in Gdansk, where it reiterated FY25 guidance, supported by strong Polish housing fundamentals and Eurobond credit market access. Vonovia also gained from policy tailwinds, including Germany's Bau-Turbo initiative aimed at accelerating housing development. In healthcare, the proposed merger between Aedifica and Cofinimmo advanced with a mutually agreed exchange ratio of 1.185x, positioning the combined entity for improved capital efficiency and broader investor reach. Retail names such as Mercialys (acquiring Saint-Genis II at a 7.5% yield as per Heitman estimates) and Wereldhave (a joint venture with Sofidy for Stadshart Zoetermeer), as we believe, demonstrated renewed investor confidence in necessity-driven retail formats, further underscoring the sector's defensive appeal in a protectionist environment.

Conversely, industrial properties in both the UK and Central Europe underperformed, reflecting their greater exposure to global trade flows and vulnerability to tariff-related disruptions. Warehouses De Pauw SA saw muted performance despite announcing a €40 million pre-let development in Romania and acquiring five Belgian food distribution sites, as weak like-for-like rental growth and prior vacancy impacts weighed on sentiment. Segro also lagged, as we believe investors become concerned around slowing leasing momentum and macro headwinds overshadowing its strategic land acquisitions and refinancing activity. In our opinion, the industrial market struggled to gain momentum as trade talks and geopolitical uncertainty disrupted global demand and investor sentiment.

Capital market activity remains healthy, as illustrated by the sustained high level of debt and equity issuances, especially as compared to Q2 2024. Investors were willing to provide close to $19 billion in funding to European real estate, of which c. $1 billion was in equity, with capital raising surging roughly 1.3x compared to Q2 2024. On the equity side, Neinor Homes was the biggest issuer, raising approximately $270 million to fund the acquisition of Spanish listed peer Aedas Homes.

Credit market activity was also strong, with approximately $18.3 billion in new issuances. The Nordics saw the highest level of activity, with new issuances reaching close to $4.36 billion at an average coupon of 3.93%, down 47 bps from the previous quarter's average of 4.40%. The top three issuances in the Nordics were made by Heimstaden, Publi Property Invest, and Vasakronan, raising approximately $1.1 billion.

Lastly and in our view, take-private activity continued strongly into Q2 2025 as investors became more confident in the fundamental outlook with asset valuations bottoming out and a significant private/public valuation gap to capitalize on. During the period, Aedas Homes, Urban Logistics REIT PLC, PRS REIT PLC, and Empiric Student Property PLC received takeover bids while Warehouse REIT and Cofinimmo received merger offers from listed peers Tritax Big Box and Aedifica.

## Outlook

We believe global REITs are poised to continue their growth as we progress through 2025. We expect positive earnings growth and stable dividend payments. The market's perception of the evolving economy, especially around tariffs, will likely be the swing factor as a new administration's policies take effect in the US. Higher-than-expected initial tariffs have led to market volatility but final policies are still in a state of flux as countries are showing signs of negotiating. Additionally, interest rate direction may play a role, but after the Great Financial Crisis ("GFC"), the importance of interest rates has been mixed. For instance, between the GFC and the COVID-19 pandemic (the "pandemic"), global short rates oscillated while REITs share prices trended up.

Real estate is a local business and the ability to draw worldwide conclusions is limited, but there are some themes emerging. In the retail sector, there is clear strength in North America and Europe. Additionally, pockets of office sector strength exist in markets like Paris, Tokyo, and New York. The industrial sector is more mixed across the globe and its outlook is uncertain as the prospect of increased tariffs loom. Overall, property markets remain healthy at the aggregate level, driving the positive growth rate we expect in 2025.

### NORTH AMERICA

REITs are expected to continue to provide positive returns as real estate fundamentals remain stable to strong for most sectors. The interest rate outlook is uncertain, but property sectors like open-air retail, data centers, and senior housing are experiencing some of their best fundamentals in many years. Unfortunately, the higher-than-expected tariffs increases the odds of a US recession. Overall, US REITs are expected to produce positive growth.

Regarding the individual sectors, the outlook remains mixed but positive in aggregate, reminding investors of the importance of active management. We believe data centers, single-family rental, manufactured housing, open-air retail, and senior housing remain fundamental bright spots. Data center space demand is positioned to grow due to the increasing use of AI with continued power availabilities limiting supply. Open-air retail REITs continue to experience strong leasing given the shortage of high-quality infill shopping centers with additional demand from curbside pickup required for omni-channel e-commerce. Senior housing will likely remain the sector with the highest growth due to continued age demographic-driven demand accompanied by low supply.

> We believe sectors like open-air retail, data centers, and senior housing remain fundamental bright spots

A few sectors have mixed results but are overall stable. We believe larger industrial tenants have slowed leasing decisions due to previously overcommitting to space, based on the false anticipation of the pandemic-induced consumer goods expenditures continuing at a torrid pace. However, the market remains strong overall by historical standards but remains bifurcated by market, with the Sunbelt and select interior markets benefitting from population growth and manufacturing on/near-shoring, in our view. The residential sector is mixed with Sunbelt apartment markets facing supply pressure and the impact of weakening age demographics, which in addition to housing affordability, currently favors the single-family rental and manufactured housing sub-sectors.

The slowdown in the self-storage sector is being closely watched as home sales velocity slows and lives normalize post-pandemic. However, in our view demand has stabilized for the REITs portfolio. It is believed that 30-year fixed mortgage rates of 5.5% and below are required for an improvement in the existing home sales market, and to increase population mobility, which would ultimately increase self-storage demand.

The office sector remains the weakest sector, in our view, given the continued increases in market availability due to weak tenant demand and difficult debt financing markets, but comprises less than 5% of the index. However, we believe the office REITs maintain an advantage on asset quality and access to capital, which is increasingly sought after by tenants and becoming apparent through several REITs reporting occupancy gains. Additionally, certain submarkets, such as central Manhattan may begin to experience rent "spikes," but tech-dominated West Coast markets continue to struggle.

**EUROPE**

The European economy's shift towards greater self-reliance remains ongoing amidst prevailing market uncertainties, partly influenced by US policy decisions. While this transition introduces complexities in the short-term, we expect the medium- to long-term impact to be positive. Moreover, the European real estate market shows signs of stabilization, as highlighted by asset valuations bottoming out in most sectors with the prospects of further monetary easing in most countries within our investment universe.

We believe the fundamental backdrop remains supportive for European REITs to perform well in 2025 and Heitman currently forecasts European REITs earnings in excess of 5.8%, which in combination with the current 4.4% dividend yield, fundamentally implies a return in the low double digits. Substantial fiscal initiatives, such as the €500 billion stimulus package in Germany, could provide a foundation for positive GDP growth, potentially underpinning real estate fundamentals. In parallel, Germany's commitment to allocate €800 billion toward defense, raising annual military spending to 3.5% of GDP by 2029, marks a structural shift in fiscal policy, with early estimates suggesting a cumulative GDP uplift of up to 1.5% over the next decade, further reinforcing the macroeconomic tailwinds for real asset performance.

We believe the fundamental backdrop remains supportive for European REITs to achieve earnings in excess of 5.8% in 2025

European REITs' relatively healthy leverage will also enable most companies to capitalize on accretive external growth opportunities as asset values are bottoming out, further supporting our earnings growth outlook. In addition, Heitman sees a significant valuation discount of listed European real estate relative to equities, bonds, and private market comparables suggest further upside to fundamental returns as outlined above. Lastly, take-out activity has been robust over the past two years as a result of the significant upside the asset class still boasts, and we expect this to continue should the market not re-rate organically.

Central Business District ("CBD") office and retail fundamentals continue to be robust across most countries in the Eurozone region and offer the most significant upside potential in our view. Transactional market activity has picked up with larger deals being transacted, especially in CBD office and retail. Residential deal flow, especially in Germany, also continues to pick up, albeit from very low volumes.

A clear polarization between Paris CBD assets and others has been seen as tenants relocate to centrally located, high-quality buildings with strong sustainability credentials despite occupational costs increasing. Paris CBD rents have surpassed London's West End on an inflation-adjusted basis and the overall vacancy rate is expected to remain below 3.0% in the coming years. Like-for-like rent growth is expected to average 4.5% yearly until 2028.

Following the reset in retail rents since 2020, the tenants' occupancy cost ratio has improved. In addition, retailers' sales productivity has continued to sequentially improve by low- to mid-single digit percentages year-over-year to now exceed pre-pandemic levels. In our opinion, there is strong demand for sub-segments such as health and beauty and food and beverage, which continue to outperform and drive higher footfall. Private equity interest in the sector also started to pick up as illustrated by Unibail-Rodamco-Westfield's recent disposal of a 15% stake in the central Paris shopping center Westfield Forum des Halles to CDC Investissement Immobilier for €235 million on January 6, 2025.

The industrial and storage sectors have suffered from negative investor sentiment as occupiers' demand is slowing down from the cycle peak, and we believe further pressure on industrial demand could stem from the implementation of US tariffs on specific goods coming from Europe.

We remain cautious regarding UK self-storage as the sector's growth is normalizing post-pandemic. The UK's GDP growth prospects remain subdued, which, in our opinion, should translate into weaker self-storage move-ins in the medium term. In our view, Continental European self-storage is showing healthier fundamentals as the level of supply is lower than in the UK, which is still displaying hefty development profit margins of around 50%. UK self-storage occupancy rates should trough in 2025 to grow by around 300% by 2029. We also remain cautious regarding Continental European healthcare, though operators' occupancy rates have improved due to structural cost headwinds, high leverage, and potential distressed selling opportunities in the short term as some large operators still need to bring down leverage by selling parts of their real estate-owned portfolios.

**ASIA-PACIFIC**

In Japan, in our opinion, the overall Japanese REITs sector offers attractive investment opportunities after a prolonged share price correction. In Heitman's opinion, logistics JREITs, diversified JREITs, and residential JREITs are trading at attractive relative valuations after experiencing significant price correction over the past two plus years. With increasing pressures from activist investors, we expect continued improvement of shareholder return policies to drive valuation improvement, in our opinion. Global macro uncertainties, in our opinion, will pause the BoJ's rate hike impulses, which will likely support overall Japanese REITs valuations.

> In our opinion, logistics JREITs, diversified JREITs, and residential JREITs are trading at attractive relative valuations

In Hong Kong, we continue to view the non-discretionary retail sector favorably and expect to see resilient cash flow and earnings growth for companies like Link REIT. Market concerns over retail sales leakage to Shenzhen, in our view, are overblown. Additionally, we expect the inclusion of REITs in the Stock Connect would introduce additional investor demand to Hong Kong listed REITs, supporting a recovery in valuations.

In Australia's residential sector, both the traditional housing and manufactured homes markets continue to see tight demand and supply fundamentals. This is partially driven by strong immigration and lack of supply thanks to high construction and labor costs. As we approach the peak of interest rates in Australia, the residential sector is expected to enjoy tailwinds, in our opinion.

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