Q3 2025 Market Overview

The direction of inflation, labor markets, and monetary policy continues to dominate the global economic narrative. Beginning with the US, the third quarter of 2025 presented a nuanced picture, characterized by moderating growth, labor market softness, persistent inflation, and evolving trade dynamics. Real Gross Domestic Product ("GDP") growth in Q2 2025 was revised upward to 3.8%, providing momentum into Q3. However, projections for Q3 were more cautious, with estimates ranging from 1.3% to 3.3%, reflecting uncertainty around consumer demand and trade policy. Consumer spending remained a key driver, supported by household wealth and discretionary demand.

Labor market conditions weakened notably during Q3 2025. August non-farm payrolls (reported in September) rose by just 22,000, well below expectations, and the unemployment rate increased to 4.3%. Revisions to prior months revealed a net loss of 13,000 jobs in June and a downward adjustment of 911,000 jobs over the past year, highlighting underlying fragility in employment trends. The slowdown was concentrated in cyclical sectors such as manufacturing and construction.

Inflation remained elevated during the quarter but showed signs of stabilization. The core Personal Consumption Expenditures ("PCE") index rose 2.9% year-over-year in August 2025(reported in September), unchanged from July and in line with expectations. Headline PCE inflation ticked up to 2.7%, while consumer spending rose 0.6% month-over-month, reflecting continued strength in discretionary categories.

In response to labor market weakness and persistent inflation, the Federal Reserve (the "Fed") implemented its first rate cut of 2025 in September, lowering the federal funds rate by 25 basis points ("bps") to a range of 4.00%–4.25%. The decision was supported by 11 of 12 Federal Open Market Committee ("FOMC") members, with one dissent favoring a larger cut. Chair Jerome Powell described the move as "risk management," emphasizing elevated uncertainty and downside risks to employment.

Trade policy remained a key source of uncertainty throughout the quarter. The US administration extended a 90-day pause on country-specific tariffs, leading to bilateral agreements with several partners. However, tariffs on imports from Brazil, India, and Canada rose sharply, and new duties were imposed on pharmaceuticals and heavy trucks. The effective US tariff rate reached mid-teens by August, the highest since the 1930s, and is expected to reach the high teens with sectoral tariffs. While the immediate inflationary impact was muted, analysts warned of delayed pass-through effects.

The Japanese economy, in our opinion, remains healthy with the labor market remaining tight; inflation stands at somewhat elevated levels compared to its Central Bank's target despite showing initial signs of slowing down. The overall macroeconomic setup continues to benefit the overall real estate market. The Bank of Japan ("BoJ") has remained steady after its January 2025 interest hike, keeping its policy rate unchanged at 50 bps at its September monetary policy meeting, in line with market consensus. Meanwhile, the BoJ has announced its decision to sell down its holdings of ETFs and J-REITs, which is estimated to take more than 100 years for the Central Bank to fully exit its holdings. August 2025 all-Japan core Consumer Price Index ("CPI") inflation was +2.7% year-over-year (versus +3.1% year-over-year in July), in line with market consensus, and the BOJ's core-core CPI inflation was +3.3% (vs +3.4% year-over-year in July), also in line with market consensus. More recently, Tokyo's September 2025 core CPI inflation and core-core CPI inflation came in at +2.5% year-over-year (versus +2.5% in August) and +2.5% year-over-year (down from +3.0% in August), respectively, all below consensus. This seems to indicate that inflationary pressure has been easing in Japan, in our opinion. The Japanese labor market somewhat softened in August 2025, with the unemployment rate increasing to 2.6% (from 2.3% in July); the new job openings-to-applicant ratio remained largely flat at 2.15X, from 2.17X from the prior month. At the same time, wage growth from this year's Spring wage negotiation continues to accelerate, with agreed wage increases (including seniority-based pay increases) at 5.46%, compared to +5.28% in 2024.

The Fed implemented its first rate cut of 2025, lowering the federal funds rate by 25 bps to a range of 4.00%–4.25%

Australia continues to witness an improving macro environment that is supportive to the overall real estate market, in our opinion. After unanimously cutting the policy rate by 25 bps to +3.60% in its August 2025 meeting, the Reserve Bank of Australia ("RBA") kept the cash rate unchanged at 3.60% in September, in line with market expectation; the press conference held after the rate decision, however, delivered a more hawkish tone with comments that inflation could be higher than expected in Q3 2025. The Q2 2025 headline CPI came in at +0.7% quarter-over-quarter, below consensus of 0.8% quarter-over-quarter, and more importantly for the RBA, trimmed mean CPI continued to ease to +2.7% year-over-year from +2.9% year-over-year in Q1 2025, within RBA's official target of between 2% and 3%. In August 2025, the Australian labor market remained relatively healthy, with the latest unemployment rate decreasing to 4.239% (from 4.243% month-over-month).

Hong Kong and Mainland China's economy has, in our opinion, continued to stabilize, after renewed government support for private enterprises as well as consumption. The top-down focus on technological advancement in AI related companies, and an improving equities market in mainland China and Hong Kong, in our view, have started to improve consumer sentiment through wealth effect.

In Hong Kong, the S&P Global Hong Kong Purchasing Manager's Index ("PMI") rose significantly to 50.7 in August 2025 from 49.2 in July, exceeding the level 50 threshold between economic expansion and contraction. Being one of the most economic pillars, the Hong Kong residential market has seen improvements over the past 12 months, in our view. Since September 2024, the prime rate has been lowered by a total of 75 bps, reducing effective mortgage rates from 4.125% to 3.375%. In the February 2025 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, Financial Secretary Paul Chan announced that the Hong Kong government is working with mainland China to explore easing cross-border fund transfers to facilitate property purchases by mainland immigrates. Additionally, the IPO market has recovered meaningfully as Hong Kong regains its top Global IPO market in the first half of 2025.

Mainland China reported the latest NBS manufacturing PMI at 49.8 in September 2025, up from 49.4 month-over-month, and above consensus at 49.6; the non-manufacturing PMI slipped to 50.0 from 50.3 month-over-month, below consensus of 50.2. China's external trade continued to grow in August 2025, with export growth at +4.4% year-over-year (from +7.2% year-over-year in July), below consensus of +5.5% year-over-year, and import growth at +1.3% year-over-year (from +4.1% in July), also below consensus of +3.4% year-over-year. Meanwhile, deflationary pressure continues in the mainland with August 2025 headline CPI inflation at -0.40% year-over-year (from +0.0% year-over-year in July) and PPI at -2.9% year-over-year (from -3.6% year-over-year in July).

Q3 2025 has been marked by shifting inflation rates and a resilient yet strained labor market in both the UK and Eurozone, highlighting ongoing economic navigation of price pressures and growth dynamics. By September 2025, the UK's inflation rate, measured by the CPI, is estimated to edge up to 4.0% after reaching 3.8% in August, up significantly from the 1.7% recorded in September 2024. This upward trajectory reflected persistent pressures from food and administered prices, with services inflation remaining elevated at 4.7%. In response to these "sticky" inflation levels and subdued growth, the Bank of England's Monetary Policy Committee ("MPC") maintained the bank rate at 4.00% in its September 2025 meeting with a 7-2 vote to hold, signaling a cautious, data-dependent stance on any future cuts. The UK labor market presented a nuanced picture throughout Q3 2025. The unemployment rate saw an increase to 4.7% in the period from May to July 2025, up from the prior three-month period and marking its highest rate since 2021. Employment levels, however, showed continued strength with 34.24 million employed persons in the same period. The Claimant Count Change indicated an increase of 17,400 more claimants in August, and job vacancies also saw an increase, rising by 8,000 to 728,000 in the June to July 2025 period, suggesting a labor market that is still struggling to add jobs while maintaining a slightly rising unemployment rate.

The overall Japanese macroeconomic setup continues to benefit the overall real estate market

In the Eurozone, the headline inflation rate moved higher to 2.2% in September 2025, compared to the figures from June, July, and August of 2.0% and slightly above market expectations of 2.1%. Core inflation, which excludes food and energy, also held steady at 2.3% throughout the quarter. The Eurozone's labor market maintained its record-low unemployment rate of 6.2% in July 2025, which remained unchanged through the quarter. The number of unemployed individuals stood at approximately 10.8 million, indicating continued tightness in the labor market, with projections suggesting the jobless rate will remain near these historic lows through the year-end.

Economic growth momentum slowed across both the UK and Eurozone in Q2 2025 (data released during Q3). The UK's GDP grew by 0.3% in the second quarter (final estimate), a moderation from the strong 0.7% growth in Q1 2025 but still above expectations, driven mainly by the services and construction sectors. In contrast, the Eurozone saw GDP growth slow significantly to 0.1% quarter-over-quarter in Q2 2025, following a stronger 0.6% expansion in the prior quarter. For the full year 2025, the Eurozone's GDP growth is anticipated to be around 1.1%. Overall, Q3 2025 was defined by persistent UK inflation and a general subdued growth trajectory for both the UK and the Eurozone, even as the Eurozone's labor market remained exceptionally resilient.

REIT Market Review - Q3 2025

In Q3 2025, the FTSE EPRA/NAREIT Developed index gained 4.31%. North America and Asia generated positive returns of 4.68% and 8.55%, respectively, while Europe returned a negative 4.56%.

FTSE EPRA/NAREIT DEVELOPED RETURNS IN USD AS OF 9/30/25



NORTH AMERICA

Similar to the previous quarter, Q3 2025 was comprised of two different market regimes with the Index generating a negative return through mid-August, followed by a rally, which we believe is attributed to a tone shift from the Fed regarding the direction of interest rates and an eventual rate cut by late September. In early August, certain Fed governors struck a more dovish tone, followed by Chairman Powell stating at the Jackson Hole symposium that, "The time has come for policy to adjust." Soon thereafter, non-farm payrolls were revised downward by 911,000. This more modest labor market suggestive of a lower but non-recessionary level of economic growth accompanied by lower interest rates created a more positive environment for Real Estate Investment Trusts ("REITs"), in our view. Despite the fluctuating economic data and monetary policy, REITs fundamentals remain resilient, with sell-side consensus estimating 4.5% earnings growth in 2025. Additionally, according to BMO equity research, during the most previous earnings season, 77% of REITs raised 2025 guidance versus only 66% during the prior year earnings season, which further evidences the durability of REITs fundamentals.

REITs equity issuance remained healthy during Q3 2025, with the majority of the activity dominated by at-the-money offerings, as opposed to "overnight" deals, and by externally growing larger cap REITs, such as Welltower, Inc. Digital Realty Trust, Inc. and Realty Income, in our view. Triple net sector REITs continue to be the most active "overnight" equity issues to accretively fund acquisition pipelines. For example, both Agree Realty and Netstreit Corp. issued approximately \$400 million and \$220 million, respectively, during the quarter. We believe the corporate unsecured bond market remains strong for REITs issuers, with Welltower continuing to lead, as evidenced by their \$400 million 10-year notes re-issue at a 105 bps spread over the treasury yield. This market strength is persistent across the REITS market as evidenced by retail REIT Brixmor Property Group Inc. and self-storage REIT CubeSmart each issuing \$400 million in 10-year notes at a 130 bps and 135 bps spread over the treasury yield, respectively. In summary, we believe REITs maintain a capital access advantage for both offensive and defensive uses.

Mergers and acquisitions were fairly active during Q3 2025. Rithm Capital Corp. agreed to take Paramount Group, Inc. a predominately New York City office REIT, private at 40% premium to the unaffected price, which implied a low 7% cape rate. However, various deal costs are uncertain in our view. Additionally, Plymouth Industrial REIT, Inc. received an unsolicited offer by Sixth Street Partners at a 65% premium to the unaffected share price. In summary, we believe these potential transactions further highlight the valuation opportunity across the REITs market.

The US healthcare, US retail, and US industrial sectors were the greatest contributors to the Index for the quarter. Senior housing REIT Welltower continues to shine after reporting positive earnings results that included increasing their senior housing operating same-store growth guidance to a range of 18.5% to 21.5% during the last reported earnings. Senior housing growth fundamentals remain driven by age demographics amid a low supply environment, in our view. The positive retail sector returns were concentrated in Simon Properties, which reported an earnings beat and guidance raise reflective of tariffs having minimal impact on leasing activity and customer traffic to date. More broadly, the higher-end income consumer remains resilient in contrast to the lower income segment, which benefits retail REITs portfolios in general, in our view. The industrial sector outperformance was concentrated in coastal market REITs portfolios, which we believe is attributed to Prologis raising full-year 2025 earnings guidance versus the negative expectations over tariff concerns. However, Prologis lowered their forecast for 2025 market demand, suggesting that conditions, while improving, are not yet expected to return to normal in the near term. A well-known activist fund also reported a position in Rexford Industrial, which we believe offered a further vote of confidence on the industrial market recovery.

The US residential and US self-storage sectors were the most negative contributors to the index during Q3 2025. Within residential, the single-family rental sub-sector generated the most negative return, likely due to the prospects of lower mortgage rates following Fed rate cuts, which has the potential to convert REITs rental customers into home buyers, in our view. The apartment sub-sector also underperformed within residential, which we believe is attributed to the weaker, albeit positive, job growth in year-to-date in 2025. Regarding the self-storage sector, while we believe fundamentals have bottomed with demand showing positive year-over-year growth, a more robust housing market is required for a strong recovery.

ASIA-PACIFIC

The Asia-Pacific market delivered a solid quarterly return in Q3 2025 with the FTSE EPRA/ NAREIT Developed Asia-Pacific index rising by 8.55% in US Dollar ("USD") terms.

Japan delivered the best return during the quarter, generating a USD return of 11.50%, despite the slight depreciation of the Japanese Yen. Office-exposed developers rallied the most, with Mitsubishi Estate Co., Ltd. and Sumitomo Realty & Development Co. Ltd. generating returns of +23.97% and 15.49%, respectively. The Tokyo office market has continued to tighten with

Despite the fluctuating economic data and monetary policy, US REITs fundamentals remain resilient

the latest August 2025 Miki Shoji data showing vacancy in Tokyo's central five wards at 2.85%, down by 0.31% month-over-month; the average asking rent per tsubo rose +4.6% year-over-year to JPY21,027. The overall Tokyo office market remains brisk, with continued demand from companies looking to improve office environments to attract talents in a tight labor market, in our opinion.

Singapore had the second-best return during Q3 2025, with a total USD return of 8.72%. Topperforming names are predominantly residential developers, including City Development Ltd and UOL Group Ltd, with returns of +25.85% and +32.33%, respectively, which in our view, is supported by expected rate cuts from the Fed.

Australia generated a USD return of 6.52% for the quarter, partially boosted by the appreciation of the Australian Dollar. Charter Hall Group, Scentre Group Limited, and Stockland Corporation Limited delivered strong returns, at +19.89%, +18.61%, and 15.47%, respectively. According to Cotality, national house prices rose 0.8% month-over-month in September 2025, recording an eighth-straight month of growth, with sentiments boosted from the latest RBA rate cut and expected future cuts, in our opinion; over the September quarter, home values edged up by 2.2%.

Hong Kong generated a USD return of +5.67 for Q3 2025. The returns are led by New World Development Limited and Sino Land Co., Ltd which delivered returns of +38.42% and 19.02%, respectively. New World Development's share price rally is likely driven by short covering, in our opinion. After a five-year downturn, the Hong Kong real estate market is finally witnessing recovery, alongside the macroeconomic improvement in the mainland, in our opinion. Hong Kong retail sales grew by 3.8% year-over-year in August 2025, accelerating from the 1.8% year-over-year growth in July; in particular, luxury sales, including watches and jewellery, grew by 16.4% year-over-year. According to JLL, Hong Kong Grade A office rent fell 0.8% quarter-over-quarter in Q3 2025, narrowing from the -1.3% quarter-over-quarter decline in Q2; for sub-markets, Central, Hong Kong East, and Kowloon East fell 0.3% quarter-over-quarter, 3.2% quarter-over-quarter, and 1.2% quarter-over-quarter, respectively. Most recently, it has been reported that Alibaba Group is interested in purchasing 13 floors of One Causeway Bay from the Mandarin Oriental Hotel Group for HK\$7 billion or US\$900 million.

With a USD return of 11.50%, Japan delivered the best return in the Asia-Pacific market during Q3

EUROPE

European listed real estate widely underperformed the broader market during Q3 2025, with the FTSE EPRA Developed Europe Index posting total returns of -4.56% in USD terms during the period. The third quarter of 2025 showed a bifurcated performance across UK and Continental European ("CE") listed real estate, with CE hotels and retail leading gains (+9.7% and +4.51%, respectively), while UK residential and CE self-storage underperformed (-12.0% and -11.2%, respectively).

In hotels, Pandox AB delivered resilient results, supported by stable occupancy and H1 cash EPS of SEK 4.55, despite a 3% RevPAR decline. Retail names such as Wereldhave and Unibail Rodamco Westfield ("URW") delivered strong H1 2025 results: Wereldhave upgraded its 2025 guidance following €52 million in disposals, while URW gained as the company reported +7% rental uplifts, +4% LfL NRI growth, and guided AREPS at the top end of €9.3–€9.5 guidance range. Underlying fundamentals remain resilient and further growth is expected from active capital recycling and operational improvements.

Conversely, UK residential and CE self-storage lagged. Unite Group PLC fell sharply in the summer months of July and August, despite achieving 94% pre-let levels and progressing on its £390 million Manchester redevelopment and the Empiric Student Property acquisition. Grainger PLC also underperformed, despite achieving 60% letting on its Oxford build-to-rent scheme, announcing its conversion into a REIT, and targeting +25% EPRA EPS growth by FY26. Empiric Student Property PLC remained under pressure amid CMA scrutiny of the potential merger with Unite Group. Regarding self-storage, Shurgard Self Storage Ltd's share price declined in Q3 2025, despite reporting +4.7% same-store revenue growth and +6.2%

European capital market activity remains healthy

net operating income growth, as its premium valuation and slowing momentum versus UK peers weighed on sentiment. Recent acquisitions in Amsterdam (€5.4 million) and Eindhoven (€10.4 million) and a UK pipeline (Lambeth £18.2 million) did little to offset concerns over capex intensity and narrowing growth differentials.

Furthermore, capital market activity remains healthy despite being slightly softer compared to previous quarters. Investors were willing to provide close to \$17.5 billion in funding to European real estate (of which c. \$0.5 billion was in equity), with capital raising being 15% lower compared to Q3 2024. On the equity side, TAG Immobilien AG ("TAG") was the biggest issuer, raising about \$220 million to fund the acquisition of Resi4Rent, a polish portfolio of c. 5,300 new built units, for €565 million.

Credit market activity was also strong, with about \$17.0 billion in new issuances. The Nordics saw the highest level of activity, with new issuances reaching close to \$6.0 billion at an average coupon of 4.2% (up 25 bps from the Q2 2025 average of 3.95%). The top three issuances were made by Immmobiliaria Colonial, Unibail-Rodamco Westfield, and Merlin Properties, raising about \$2.4 billion.

Finally, merger and acquisition activity continued in Q3 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, Unite Group initiated the first phase of the Empiric Student Property takeover review, with a deadline set for September 30, 2025. Blackstone also announced its cash offer for Warehouse REIT, which is now unconditional after reaching a 51.6% shareholding, securing control and preparing for Board changes.

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 since 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

US 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 increase 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, 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 competitive supply. Open-air retail REITs continue to experience strong leasing given the

US REITs are expected to continue to provide positive returns as real estate fundamentals remain stable to strong for most sectors

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.

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 vacancy remains healthy overall by historical standards but is 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, while urban locations in select markets are starting to make a comeback.

In our view, the self-storage sector appears to have stabilized and is showing signs of modest growth. It is believed that 30-year fixed mortgage rates of 6.0% 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.

Finally, while recovering, the overall US office sector remains weak by historical standards. 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 traditional tech-dominated and West Coast entertainment markets continue to struggle.

EUROPE

The European economy's shift towards greater self-reliance is still 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.

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 imply a return in the low double digits. Substantial fiscal initiatives, such as the discussed €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.

European REITs' relatively healthy leverage will also enable most companies to capitalize on accretive external growth opportunities as asset values are bottoming out, and this further supports our earnings growth outlook. In addition, the significant valuation discount of listed European real estate relative to equities, bonds, and private market comparable 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 shall the market not re-rate organically.

As to the sectors' outlook, CBD office and retail fundamentals continue to be robust across most countries in the 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.

The fundamental backdrop remains supportive for European REITs to perform well in 2025

Further regarding the office sector, a clear polarization between Paris CBD assets and others has been seen as tenants relocate to centrally located, high-quality buildings with strong ESG credentials despite occupational costs increasing. Paris CBD rents have surpassed London's West End on an inflation-adjusted basis and overall vacancy rate is expected to stay 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, Q3 2024 retailers' sales productivity continues 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 suffer from negative investor sentiment as occupiers' demand is slowing down from cycle peak and in the case of industrials, further pressure on demand could stem from the implementation of trade tariffs by the US government on specific goods coming from Europe.

We remain cautious on UK self-storage as the sector's growth is normalizing in the post-pandemic period. The UK's GDP growth prospects remain subdued, which should translate into weaker storage move-ins in the mid-term. In our view, CE 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 ppts by 2029. We also remain cautious on CE 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

The overall Japanese REITs sector offers attractive investment opportunities in our opinion. Logistics JREITs and certain diversified JREITs are trading, in Heitman's opinion, at highly attractive relative valuations after meaningful price correction since early 2022. With increasing pressures from activist investors, we expect continued improvement of shareholder return policies to drive valuation improvement. We also favor certain office-exposed JREITs and developers as we believe that we are in an early inning of a meaningful rental growth cycle which will benefit from strong mark-to-market reversions in the next two to three years.

In Hong Kong, we continue to like the overall retail sector, including both non-discretionary and luxury-oriented segments. A gradually improving retail sales environment, boosted by population inflow from the mainland and the wealth effect from higher equity markets, is expected to lead to better rental reversion numbers. 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, the residential sector, both the traditional housing markets as well as the manufactured homes 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. We have also recently turned incrementally positive on certain data-center names in the Australian listed market, after a substantial underperformance, which makes them attractive on a forward-looking basis, in our opinion.

In our opinion, logistics JREITs and certain diversified JREITs are trading at highly attractive relative valuations

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