

## Q4 2025 Market Overview

The trajectory of inflation, labor markets, and monetary policy continues to set the tone for the global economy. Beginning with the US, the economy delivered a mixed but broadly moderate performance in the fourth quarter of 2025, with key indicators—monetary policy, labor markets, inflation trends, and government operations—shaping the overall economic narrative. In its December 9–10 meeting, the Federal Open Market Committee (FOMC) opted to reduce the federal funds rate by 25 basis points (bps), lowering their target range to 3.50–3.75%. The decision came after reviewing a backdrop of “moderate” economic activity, stalling job growth, and persistent inflation above the Committee’s 2% target. While acknowledging elevated uncertainties, FOMC members highlighted downside risks to employment, and the rate cut represented a calibrated shift in policy stance. The Committee also signaled openness to additional adjustments based on incoming data and committed to ongoing purchases of short-term Treasuries to ensure sufficient reserve balances.

Labor market data through November offered further nuance. According to the Bureau of Labor Statistics (BLS), total nonfarm payrolls showed modest increases: after a sharp one-month drop in government employment (–157,000), total nonfarm payrolls rebounded in November with a revised gain of 56,000 jobs, including 50,000 in private sector positions. Notably, goods-producing sectors fluctuated—manufacturing trimmed 2,000 jobs, while construction added 22,000—while private service industries remained resilient, driven largely by gains in health care and social assistance (+58,100). Reading across the quarter, the three-month average for private sector payrolls rose by roughly 52,000 per month. Average hourly earnings climbed steadily, and average weekly hours hovered around 34.3.

Inflation trends in Q4 also revealed subtle moderation. The headline Consumer Price Index (CPI) rose 0.2% over the two months from September to November, with a December 18 release noting a 2.7% year-over-year increase. Core inflation (excluding food and energy) similarly gained 0.2% in that period and stood at 2.6% annually. Energy prices—volatile but trending up—rose 1.1% over the two months and 4.2% year-over-year; food costs were up 2.6% compared to the prior year.

The quarter’s economic releases were notably affected by a US government shutdown. BLS CPI data collection halted throughout October due to the lapse in appropriations. While analysts used non-survey sources, and data collection restarted mid-November, the interruption introduced unavoidable gaps in monthly CPI figures. The shutdown also delayed or reduced data flow across other statistical releases, including employment and producer prices, complicating real-time economic assessment during the quarter.

In aggregate, Q4 painted a picture of an economy in modest transition: labor markets remained relatively firm, though momentum eased; inflation hovered above the Federal Reserve’s long-run goal but showed signs of stabilization; and the Fed responded proactively by instituting a rate cut and pledging balance sheet support to underpin its dual mandate. Nonetheless, the temporary disruption from the government shutdown dampened data transparency and complicated policymaking signals. As 2025 closed, the Federal Reserve underscored its data dependency and readiness to adjust policy in response to the evolving economic landscape.

Moving into Asia-Pacific, the Japanese economy, in our opinion, remains healthy, with a tight labor market supporting private consumption. While inflation stays at somewhat elevated levels compared to its Central Bank’s target, recent trends show initial signs of slowing down. The overall macroeconomic environment continues to benefit the real estate market, particularly those asset classes that can benefit from inflation through rental growth. The Bank of Japan hiked its policy rate to 75 bps from 50 bps at its December Monetary Policy Meeting unanimously, in line with market consensus. Meanwhile, in our view, real interest rates remain very accommodative. November 2025 all-Japan core CPI inflation was 3.0% year-over-year, versus 3.0% year-over-year last month, in line with market consensus. The BOJ’s core-core CPI inflation was 3.0% year-over-year as well, versus 3.1% year-over-year last month, also in line with

---

The quarter’s economic releases were notably affected by a US government shutdown

---

market consensus. More recently, Tokyo December 2025 core CPI inflation and core-core CPI inflation came in at 2.3% year-over-year, versus 2.8% last month, and 2.6% year-over-year, versus 2.8% last month, respectively, both well below market consensus. These trends indicate that overall inflationary pressure may have started to decelerate, in our opinion. The Japanese labor market remained tight in November 2025, with unemployment rate flat month-over-month at 2.6%; the new job openings-to-applicant ratio remained largely flat at 2.14x compared to 2.12x the prior month. Currently, wage growth for next year's Spring Wage Negotiation is likely to remain at a similar level as in 2025.

Australia continues to witness an improving macro environment that is supportive to the overall real estate market despite the warranted attention towards the near-term direction of inflation, in our opinion. After cutting the policy rate by 25 bps to 3.60% in its August meeting unanimously, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 3.60% in its November and December monetary policy meetings, in line with market expectation. This decision to hold the rate unchanged is in response to higher-than-expected inflation outcomes. The Q3 2025 headline CPI came in at 1.3% quarter-over-quarter, pushing annual inflation up to 3.2% year-over-year from 2.1% year-over-year in Q2 2025. More importantly for the Reserve Bank of Australia, trimmed mean CPI came in at 3.0% year-over-year from 2.7% year-over-year in Q2 2025, touching the high-end of the RBA's target range. More recently, the October 2025 CPI rose to 3.8% year-over-year and the trimmed mean version of CPI rose to 3.3% year-over-year. In November, the Australian labor market surprised to the downside with employment detracting by 21,300, despite the latest unemployment rate remaining flat at 4.3% due to a decline in labor force participation.

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. We believe the improving equities market in mainland China and Hong Kong have started to improve consumer sentiment through wealth effect. Meanwhile, the real estate market in the mainland continues to weaken, in our opinion, which will take a few more years to stabilize. In Hong Kong, the S&P Global Hong Kong PMI edged up further to 52.9 in November 2025 from 51.2 in October, staying above the 50 threshold between economic expansion and contraction. Being one of the most important economic pillars, we have found that the Hong Kong residential market has seen meaningful improvements over the past 12 months. Since September 2024, the prime rate has been lowered by a total of 87.5 bps, reducing effective mortgage rates from 4.125% to now 3.25%. Most recently, the Financial Secretary Paul Chan announced that the Hong Kong Special Administrative Region (HKSAR) government is working with mainland China to explore easing cross-border fund transfer to facilitate property purchases by mainland immigrants. 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 50.1 in December, from 49.2 month-over-month, above consensus at 49.2; the non-manufacturing PMI also improved to 50.2 from 49.5 month-over-month, above consensus at 49.6. Meanwhile, deflationary pressure continues in the mainland with November headline CPI inflation at 0.7% year-over-year from 0.2% year-over-year last month and PPI at negative 2.2% year-over-year from negative 2.1% year-over-year last month.

Turning to the UK and Eurozone, the fourth quarter of 2025 has been marked by shifting inflation rates and a resilient yet strained labor market, reflecting ongoing economic adjustments and challenges. As of December 2025, the UK's inflation rate, measured by the CPI, fell to 3.2% in November from 3.6% in October, down from a peak of 3.8% earlier in the previous quarter. This decline was primarily triggered by a slowdown in food and non-alcoholic beverages, alcohol and tobacco, and clothing prices, though services inflation remained a persistent pressure at 4.4%. In response to these trends, the Bank of England reduced the Bank Rate by 25 bps to 3.75% during its December meeting, reflecting established disinflationary progress and mounting signs of economic strain, following a period where the rate was maintained at 4.00% through November.

---

Australia continues to witness an improving macro environment that is supportive to the overall real estate market

---

The UK labor market showed mixed conditions throughout Q4 2025. By October, the unemployment rate rose to 5.1%, marking a four-and-a-half-year high according to Trading Economics, while employment levels showed a slight decline to 34.226 million. November's Claimant Count data revealed a significant increase of 20,100 claimants, signaling emerging pressures alongside a continued downward trend in job vacancies to an estimated 729,000 in the September to November period, hinting at cooling demand for new hires as the labor market begins to show signs of strain amidst ongoing economic adjustments.

In the Euro area, inflation displayed a modest downward trend or stabilization in Q4 2025. The headline inflation rate steadied at 2.1% in November, remaining unchanged from October and close to the ECB's target, driven by persistent price pressures in services. Core inflation remained stable at 2.4% in November, maintaining this level for the third consecutive month. The Eurozone's unemployment rate stood at 6.4% in October 2025, with approximately 11.033 million individuals unemployed, reflecting a resilient but stabilizing labor market as it held steady from a revised 6.4% in September.

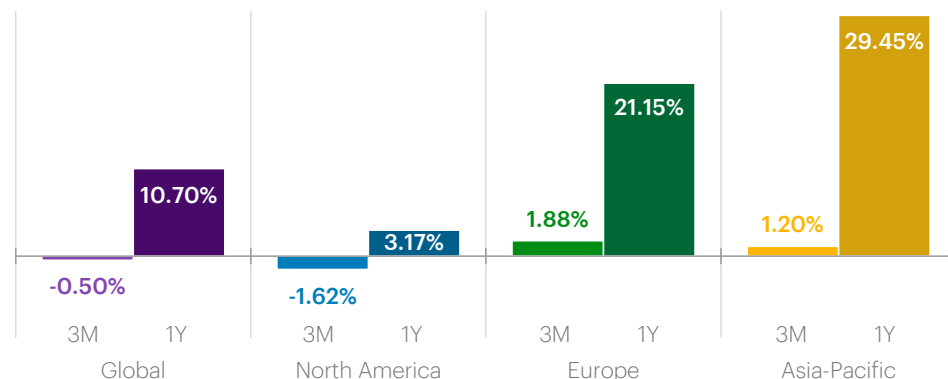
Economic growth trajectories showed modest resilience in both regions during Q4 2025 based on third-quarter data. The UK's GDP growth for Q3 2025 was confirmed at 0.1%, a slowdown from the 0.3% recorded in Q2, with full-year growth reaching 1.3%, impacted by a contraction in production. In contrast, the Eurozone saw GDP growth reach 0.3% in Q3 2025, up from 0.1% in the previous quarter, as the region demonstrated a more resilient performance despite concerns regarding global trade tensions. Overall, Q4 2025 underscored persistent core inflationary pressures and emerging labor market strain in both the UK and Eurozone, as policymakers navigate a landscape of tepid growth and cautious monetary easing.

The Eurozone saw GDP growth reach 0.3% in Q3 2025, up from 0.1% in the previous quarter

## REIT Market Review – Q4 2025

In Q4 2025 the FTSE EPRA/NAREIT Developed index returned a negative 0.50%. The negativity was concentrated in North America with that index portion down 1.62% while Asia and European were positive at 1.20% and 1.88%, respectively.

### FTSE EPRA/NAREIT DEVELOPED RETURNS IN USD AS OF 12/31/25



### NORTH AMERICA

The North American portion of the index remained range-bound during Q4 2025 at approximately positive 2% and negative 3%. In our view, periods of positive return were driven by Fed rate cuts expectations and investors diversifying away from AI, while periods of negative return were from the Fed's "hawkish rate cuts" and AI dominating investor interest. We characterize "hawkish rate cuts" as inflation remaining above Fed target and the Fed forecasting less rate cuts than the market desired. Regardless of the macro volatility impacting

REIT share prices, fundamentals remain strong as evidenced by the most recent earnings season. According to Bank of America research, 68% of REITs beat earnings expectations versus an historical average of only 55%. Additionally, only 14% missed earnings expectations compared to an historical average of 16%.

Activism was present during the quarter, which we believe is a testament to the attractive valuation opportunities across the REIT universe. In December, Ancora Group Holdings LLC (Ancora) took a position in Americold Realty Trust, Inc. and shortly announced an agreement that included two Ancora board seats in formation of a committee to enhance shareholder value. Additionally, Land & Buildings Investment Management, LLC issued a presentation on First Industrial Realty Trust, highlighting the discount to intrinsic value and the potential need to pursue strategic alternatives.

Equity issuance was limited during the quarter, which we believe is attributed to the current debt “dry power” capacity on the balance sheet and to the discounted valuation that persists across various REIT sectors. However, we believe the corporate unsecured bond market remains highly accommodative, as evidenced by the continued issuance during the quarter and full-year 2025. For example, Prologis, Inc. issued \$400 million of 5-year notes at 4.25% and \$600 million of 10-year notes at 4.75%. Furthermore, Mid-America Apartment Communities, Inc., an apartment REIT, issued \$400 million of 7-year notes at 4.65%.

The US specialty, US storage, and US digital infrastructure sectors were the most negative contributors to the North American index in Q4 2025. The negative specialty sector return was concentrated in Iron Mountain Inc. Gotham City Research published a short report on the company during the quarter claiming certain non-GAAP measures overstated the REIT’s profitability, which we believe coincided with heavy short selling. We believe the majority of the claims in the report are unfounded. The storage sector underperformance was broad-based across the constituents. Revenue metrics released during the quarter remain disappointing. We believe these metrics are attributed to the continued sluggish home sales market recovery required to accelerate storage customer demand from population movement. Digital Realty Trust, Inc. drove the negative return in the digital infrastructure sector. While the REIT’s fundamentals and growth levels remain strong, we believe the uncertainty over return on AI invested capital across the industry weighed on the stock’s performance. This concern came into focus with Oracle’s recently quarterly results that revealed disappointing revenue growth.

The US healthcare, US industrial, and US hotels sectors were the greatest contributors to the index for the quarter that partially offset the above-mentioned sector losses. Senior housing REIT, Welltower, Inc., within the healthcare sector continues to report impressive results with same-store growth of 20.3% reported during the quarter. Senior housing growth fundamentals remain driven by the age demographics amid a low supply environment, in our view. The industrial sector outperformance was broad-based across the names, which in our view is a result of several earning guidance increases and a rebound in leasing demand post-tariff Liberation Day, as tenants become more comfortable making decisions amid the interest rate and tariff uncertainty. Regarding the hotel sector, significant news was limited during the quarter. We believe the outperformance is attributed to a myriad of variables including favorable growth in the comparable period from the 2024 election weakness and strong luxury leisure demand amid the “K-shaped” economy.

## **ASIA-PACIFIC**

The Asia-Pacific market delivered a moderate quarterly return in Q4 2025 with the FTSE EPRA/NAREIT Developed Asia-Pacific index rising by 1.20% in US Dollar terms. Singapore delivered the best return during the quarter, generating a US Dollar return of 3.85%. Top performing names are predominantly residential developers, including City Development Ltd and UOL Group Ltd, with respective total returns of 15.89 and 12.18% in US Dollar, which is supported by solid residential sales in Singapore. Additionally, Suntec REIT delivered a total return of 14.27%, which in our view, is likely driven by its recent change of sponsor.

---

Equity issuance was limited during the quarter

---

Japan came in next, generating a US Dollar return of 2.76%, despite the meaningful depreciation of the Japanese Yen. Office exposed developers continued to deliver good returns with Sumitomo Realty & Development Co., Ltd. and Mitsubishi Estate Co., Ltd. generating returns of 13.43% and 5.79%, respectively. The Tokyo office market has continued to tighten with the latest November 2025 Miki Shoji data showing vacancy in Tokyo's central five wards at 2.44%, down by 0.15% month-over-month. The average asking rent per tsubo rose 5.3% year-over-year. The overall Tokyo office market remains brisk with continued demand from companies looking to improve their office environment to attract talents in a tight labor market, in our opinion. Logistics J-REITs also delivered a solid quarter with Mitsui Fudosan Logistics Park generating a total return of 8.2%, which we believe is attributable to its attractive relative valuation.

Hong Kong generated a US Dollar return of 1.27% for the quarter. The returns are led by small cap names including Champion REIT and Hysan Development Company Limited. 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 6.5% year-over-year in November 2025, compared to 6.9% year-over-year growth in October and 6.0% year-over-year growth in September. For the first 11 months of 2025, total retail sales grew by 0.4% year-over-year. Meanwhile, we are starting to see some increasing leasing demand for prime office space in Central, with Hedge Fund Point72 Asset Management, L.P. reportedly taking 55,000 square feet of office space at the Henderson Land Development Company Limited at HK\$120 per square foot per month. The trading firm Jane Street Capital, LLC is also taking 223,000 square feet of office space from the developer Henderson. Transaction volumes have also returned as Alibaba Group Holding and Ant Group have agreed to purchase the top 13 floors of One Causeway Bay from the Mandarin Oriental International for HK\$7.2 billion or US\$925 million. Most recently, JD.com has agreed to purchase a 50% stake of the China Construction Bank Tower for HK\$3.5 billion or US\$450 million.

Australia generated a quarterly return of negative 2.201%, primarily due to share price correction of data-center proxies, including NextDC Ltd, which fell 22.58% over the quarter, as investors become wary of its funding capabilities, in our opinion. Meanwhile, self-storage names rallied with National Storage REIT delivering a total return of 19.45%, as it is being privatized by Brookfield and GIC.

## EUROPE

European listed real estate underperformed the broader market in the fourth quarter, with the FTSE EPRA Developed Europe Index posting total returns of 1.9% (in USD terms) during the period. Both UK and Continental European ("CE") listed hotels showed strong performance in Q4 2025 with gains of 31.4% and 14.9%, respectively, while UK residential and CE self-storage underperformed at negative 13.9% and negative 9.2%, respectively.

On the one hand, UK hotels outperformed as PPHE Hotel Group Limited benefited from renewed strategic interest, with major shareholders Eli Papouchado and Boris Ivesha (44% of PPHE's voting rights) confirming that they are exploring a range of potential options including a contribution of growth capital to the company or partially monetizing their stakes, although they are currently not in discussions with any parties and have received no offers. On the other hand, CE hotels outperformed through Pandox AB's resilient operational delivery, as the group reported stable occupancy and H1 cash earning per share (EPS) of SEK 4.55 despite a 3% RevPAR decline. Following the closing of the Dalata Hotel Group Plc acquisition, management guided for c.20% annual boost to cash earnings (SEK 2.3 per share) and SEK 3 billion of value creation (SEK 15 per share) from acquiring assets below book value adjusted for the Scandic disposal.

UK residential and CE self-storage underperformed during the period. Unite Group Plc fell sharply in October after releasing its Q3 trading update. Market expectations for top-line growth were reset due to oversupply in some UK student housing markets, resulting in a 10% cut to 27E funds from operations (FFO) estimate and a lower I-f-I rental growth outlook leading

---

Singapore delivered the best return during the quarter, generating a US Dollar return of 3.85%

---

the stock to fall meaningfully over the month. Regarding self-storage, Shurgard Self Storage Ltd's share price kept underperforming in Q4, despite reporting 4.7% same-store revenue growth and 6.2% NOI growth, as its premium valuation and slowing momentum versus UK peers weighed on sentiment. Recent acquisitions in Amsterdam (€5.4 million), 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 came back strong in Q4, with highest combined equity and debt raises since 2023. Investors were willing to provide close to \$25 billion in funding to European real estate (of which c. \$1 billion was in equity), with capital raising being 1.6x higher compared to Q4 2024. On the equity side, Public Property Invest was the biggest issuer, raising about \$352 million to fund the acquisition of Social properties from the parent Sámhallbyggnadsbolaget i Norden AB (SBBB) consolidating its presence in the space. Credit market activity remained healthy, with about \$24 billion in new issuances. German companies saw the highest level of activity, with new issuances reaching close to \$5 billion at an average coupon of 4.2%. The top three issuances during the quarter were made by Aroundtown SA, Vonovia SE, and Grand City Properties S.A, raising about \$4.4 billion for refinancing activity.

Finally, M&A activity continued in the fourth quarter as investors became more confident in the fundamental outlook with asset valuations bottoming out and a significant private/public valuation gap to capitalize on, in our view. During the period, Big Yellow Group PLC was at the center of investors' attention as rumors regarding a potential bid from Blackstone spread into the market. In early December, Blackstone stepped out of the process, leaving room for other private players to bid for the company. Londonmetric Property ("LMP") also took a 10% stake in Schroder Real Estate Income REIT, potentially indicating further consolidation, especially considering LMP's M&A track record and recent activity.

## Outlook

In 2026, we expect positive earnings growth, and when coupled with the dividend yield, a greater than 8% return is fundamentally implied. We see countries outside the US making investments in their own regions, most notably Europe, that in our view will help drive this fundamental backdrop. In our opinion, Japan continues to present an attractive investment opportunity. Finally, in the United States we expect rate cuts to help support REIT returns.

Real estate is a local business and the ability to draw worldwide conclusions is limited, but there are some themes emerging. In retail sector, there continues to be clear strength in North America and Europe. Additionally, pockets of office sector strength exist in markets like Paris, Tokyo, and New York. Residential looks like it will be mixed. Overall, property markets remain healthy at the aggregate level, driving the positive growth we expect in 2026.

## NORTH AMERICA

We believe North American REITs will continue their positive return and fundamental trajectory noted by mid-single digit earnings growth, a well-covered dividend, and strong balance sheets with ample access to capital. The interest rate outlook remains uncertain, but the market expectation is that the Federal Reserve will continue to cut rates in 2026, which may serve as a catalyst for returns beyond that provided by earnings growth and dividend yield, in our opinion.

Regarding the individual sectors, in our opinion the outlook remains mixed but positive in aggregate, reminding investors of the importance of active management. We believe retail and senior housing remain fundamental bright spots. Retail REITs continue to experience strong leasing given the shortage of high-quality locations. For strip centers we see significant occupancy upside as vacancies continue to get filled and demand from retailers remains robust. The strength in leasing until recently has been an open-air strip center phenomena but now the highest quality malls are also showing resiliency and nearing all-time high

---

Capital market activity in Europe came back strong in Q4, with highest combined equity and debt raises since 2023

---

---

In our view, few sectors remain fundamentally challenged

---

occupancies. Senior housing will likely remain the sector with the highest growth due to continued age demographic-driven demand accompanied by low supply. We believe there is still occupancy upside, and we are starting to see rent growth trend above inflation.

After unabashed strength in 2025, the data center outlook has become a little more nuanced. We believe that concerns over “circular financing” and the ultimate return on investment of generative AI will drive an overhang on AI training data centers in 2026. Conversely, we believe that network-dense data centers that are more suited for cloud and AI inference will see accelerating demand and favorable lease rate growth as enterprises accelerate digital budgets. We also believe that investor attention on AI and data centers will drive the tenor of the overall market, as recent ISM reports indicate that associated industries are the only areas of the US economy seeing new order growth. The residential sector is very geography focused. We expect Northern California to remain a top market while we believe certain Sunbelt markets, such as Atlanta and Dallas, will show improvement in rent growth due to easing supply pressure and re-hubbing of employees back to major markets.

In our view, few sectors remain fundamentally challenged. We believe the office sector leasing demand in the majority of geographies now rivals pre-pandemic levels, as return to office takes hold and company executives seek out the highest quality space, such as in REIT portfolio assets, to attract employees. Regarding the industrial sector, leasing is staging a strong recovery following tariff impacts and the excess space tenant space taken during COVID-19, in our view. Lastly, we believe the self-storage sector appears to have stabilized and is showing signs of modest growth. It is our view that 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.

## EUROPE

We believe European real estate enters 2026 under a theme of stabilization. After several years of volatility, the broader Eurozone economy now appears close to equilibrium in both real and nominal growth. The long-delayed capex cycle also shows signs of finally turning, reflected in developments such as Germany’s commitment to allocate €500 billion toward defense and infrastructure. Against this backdrop, we see European real estate moving into the year with a more stable and balanced foundation.

Of the major sectors, we believe retail and logistics are better positioned. Retail parks are delivering around 6% average income returns supported by diversified tenant mixes anchored in essential services, which is drawing renewed liquidity and bringing retail back onto investor wish lists after years of being viewed as a problem child. Brick-and-mortar stores have reasserted their relevance as fulfillment hubs where click-and-collect models strengthen store economics.

Logistics’ fundamentals remain robust driven by an acute shortage of modern space that continues to push rents upward after wider economic and geopolitical pressures now coming to an end. Vacancy rates are expected to fall below 5% in 2026, reaching frictional levels in key corridors, in our opinion. Valuations also appear to have turned a corner, and we anticipate yields to tighten by 50 basis points by 2029.

We expect office and residential to be mixed. The office polarization should continue throughout 2026 with a widening performance gap between prime trophy assets and secondary ones, in our opinion. Rental fundamentals for prime assets remain strong due to acute supply shortages, exemplified by Central London and Central Paris where prime rents have reached new record highs and are expected to rise 4%+ annually. In contrast, valuations for secondary European assets continue to face intense pressure as we expect negative like-for-like growth, with non-prime markets experiencing falling rents.

European residential real estate is expected to be mixed in 2026. Germany will remain the largest market, but polarization should be seen between Berlin and other markets. We

---

The broader Eurozone economy now appears close to equilibrium in both real and nominal growth

---

expect share price performance to be range bound this year unless the Berlin expropriation risk recedes. The operating backdrop remains very solid as we see like-for-like rental growth of 3/3.5% and vacancy rates below 2/3%, supported by persistent undersupply due to economically unviable constructions. Outside Germany, the Nordics show more balanced supply conditions. Finland should see more of a balanced supply/demand market, we believe a flat to +1/2% occupancy rate improvement in 2026 and stabilizing positive like for like rental growth is achievable. Sweden faces pressure from weak economic growth and exposure to underperforming secondary cities.

## ASIA-PACIFIC

We continue to keep our constructive outlook for the Japanese real estate securities market. In our view, the office market, particularly the Tokyo-centric office assets, are in an early inning of a multi-year strong rental growth cycle with the current vacancy at sub-2.5% level potentially going to below 2.0% in the next 12-18 months. Logistics JREITs and certain diversified JREITs are trading, in Heitman's opinion, at highly attractive valuations compared to replacement costs. With increasing pressures from investment communities, including activist investors, we expect continued improvement of shareholder return policies to drive valuation improvement.

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 potentially partially driven by strong immigration and lack of supply thanks to high construction and labor costs. While we need to pay incremental attention to the near-term inflation prints and interest rate directors, we believe the fundamental supply shortage remains a key driver for the Australian residential market. 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 Hong Kong, we continue to like the overall retail sector, including both non-discretionary and luxury-oriented segments. 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, particularly for high-end malls. 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.

---

We continue to keep  
our constructive  
outlook for the  
Japanese real estate  
securities market

---

## Disclosures

- Past performance is no guarantee of future results.
- The written materials contained herein were prepared from sources and data presumed by Heitman to be reliable. Heitman makes no representation or warranty, express or implied, with respect to their accuracy, timeliness, or completeness. The firm uses Bloomberg as one of its sources for research, economic information and market data.
- Current performance of Heitman Global or Prime strategies may be higher or lower than the performance data quoted. Returns are expressed in US dollars. Any extraordinary performance shown for short periods of time may not be sustainable and is not representative of the performance over longer periods.
- The views and opinions in the preceding Commentary are as of the date of publication and are subject to change. The information provided in this commentary does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security.
- There is no guarantee that any market forecast set forth in this presentation will be realized. Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Composites. Any portfolio holding mentioned does not represent all holdings purchased and sold for the Composites. Any statements contained herein that are “forward-looking statements” or otherwise are not historical facts but rather are based on expectations, estimates, projections, and opinions of Heitman involve known and unknown risks, uncertainties and other factors. Actual events or results may differ materially from those reflected or contemplated in such statements. Accordingly, Heitman expressly disclaims any responsibility or liability for any loss or damage that may be incurred by any party who relies on the written materials contained herein.
- Commentary not to be re-distributed without permission. For Professional Investor use only - Not for distribution to retail investors.
- NASDAQ is a broad-based capitalization index-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The Dow Jones Industrial Average is the measure of the performance of 30 “blue-chip” stocks, considered the leaders of the market. The S&P 500 Index is an unmanaged index generally considered to be representative of the large cap segment of the market. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The Dow Jones Utility is price-weighted average of 15 utility companies that are listed on NYSE and involved in production of electrical energy. The MSCI World Index is free-float weighted equity index which include developed world markets. The FTSE EPRA/NAREIT (Europe Public Real Estate Association/National Association of Real Estate Investment Trusts) Index is a total return performance index of all equity REITs tracked by FTSE EPRA/NAREIT. The Indices are presented for illustrative purposes only and are not intended to imply Heitman’s past or future performance. The performance of the Indices assumes dividend reinvestment, but do not reflect transaction costs, advisory fees, custodian fees, trading costs and other costs of investment. Individuals cannot directly invest in any of the Indices described above.