REITS IN A RISING RATE ENVIRONMENT

March 2017

According to conventional wisdom, the specter of rising interest rates foreshadows poor share price performance for U.S. real estate stocks (REITs). But our research shows that's not the case for the investor.

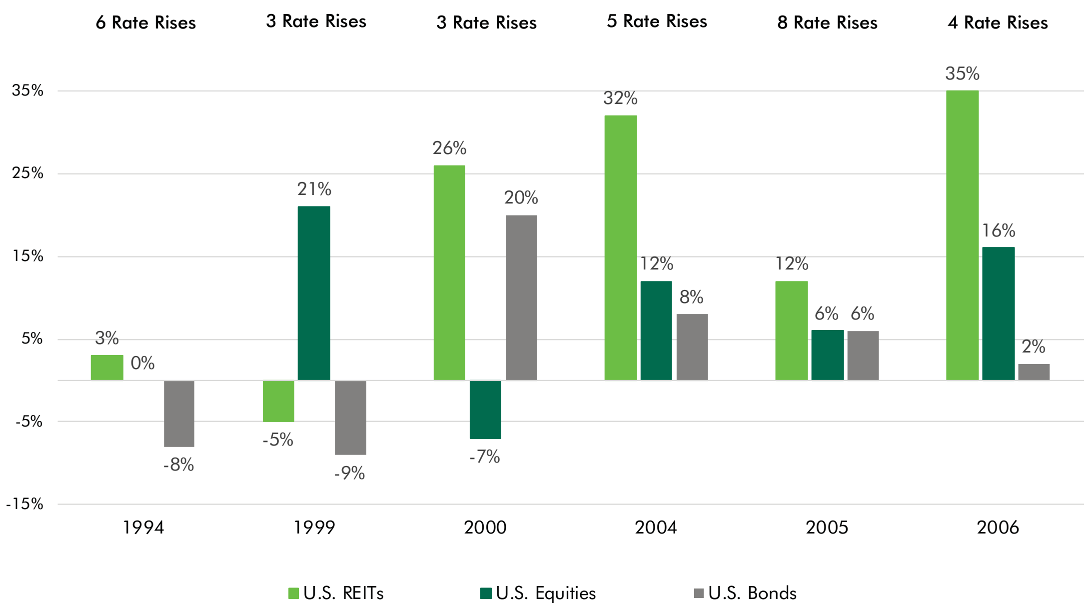
Economic Growth and Inflation are Tailwinds During Periods of Rising Interest Rates

In an environment where interest rates are increasing as a result of improving economic vitality, listed REIT fundamentals may improve due to an increase in demand for commercial real estate. This increased demand level would likely lead to rising revenues, earnings, dividends, and net asset values for owners of commercial real estate.

REIT investors have benefited and outperformed equities and bonds in rising rate environments when REITs' fundamentals and the economy were picking up (Exhibit 1).

EXHIBIT 1: U.S. REIT PERFORMANCE VERSUS U.S. EQUITIES AND U.S. BONDS

REITs Have Demonstrated Positive Performance Through Most Rising Interest Rate Periods



Source: CBRE Clarion as of December 2016. U.S. REITs: FTSE NAREIT Equity REIT Index, U.S. Equities: Russell 3000 Index, U.S. Bonds: Fed Funds Rate. Information is the opinion of CBRE Clarion, is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

CBRE CLARION SECURITIES

REITs Have Presented Buying Opportunities After Periods of Rising Interest Rates

Although REIT stocks can be volatile in the short term when interest-rate risk first becomes more prevalent, they tend to shine in the longer term as the economy grows, despite the higher rates. In fact, a short-term pullback due to rising bond yields usually represents a buying opportunity.

REITs have historically underperformed equities during acute periods of rising interest rate fears. However, post this sell-off period, REITs have generally outperformed equities over the next 12 months (Exhibit 2).

EXHIBIT 2: U.S. REIT RETURNS DURING AND AFTER PERIODS OF RISING INTEREST RATES

REITs Have Historically Outperformed the Broader Equity Market Following Interest Rate Driven Corrections

Sell-Off Period		Days	Rate Rise During Sell-Off	Acute Periods of Interest Rate Fears: REITs Return[1]	S&P 500 Return	REITs vs. S&P	Subsequent REIT Returns Post Sell-Off Period[1]: 180 Days	1 Year	Subsequent S&P 500 Index Returns Post Sell-Off Period: 180 Days	1 Year
Jun-94	Nov-94	159	0.93%	-11.1%	-1.4%	-9.7%	8.8%	24.1%	7.8%	36.5%
May-99	Dec-99	157	0.72%	-18.6%	4.8%	-23.4%	23.8%	33.9%	3.8%	-6.5%
May-04	May-04	26	0.70%	-14.4%	-1.5%	-12.9%	24.4%	33.5%	5.6%	7.0%
Mar-06	May-06	48	0.37%	-10.1%	-3.6%	-6.5%	27.6%	27.1%	11.0%	23.4%
Nov-10	Nov-10	8	0.31%	-9.1%	-3.8%	-5.4%	18.5%	11.2%	13.9%	7.2%
May-13	Aug-13	74	1.11%	-16.0%	1.5%	-17.4%	12.4%	26.3%	12.3%	22.9%
Jan-15	Jun-15	106	0.83%	-12.1%	4.9%	-17.0%	7.3%	25.6%	-0.9%	5.6%
Jul-16	Nov-16	89	0.93%	-12.2%	2.0%	-14.2%	-	-	-	-
Averages		**83**	**0.74%**	**-13.0%**	**0.4%**	**-13.3%**	**17.5%**	**26.0%**	**7.6%**	**13.7%**

[1] FTSE NAREIT Equity REIT Index
Source: FactSet, S&P 500 Index and FTSE NAREIT Equity REIT Index, 10-Year Treasury as of 11/30/2016. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

REITs are Well Positioned for Growth

REIT valuations are attractive versus fixed income as well as relative to the estimated private market value of the underlying real estate. Company earnings are steadily growing globally, supported by the long-term contractual nature of underlying tenant leases. And the level of new commercial real estate supply remains below its long-term average; enhancing landlord pricing power.

Our research shows that the impact of rising revenue and operating profits in times of economic expansion is more important to REITs' value (and stock prices) than the impact of higher rates. Economic growth tends to trump rising rates in relation to the performance of REIT shares.

IMPORTANT DISCLOSURES

Standard & Poor's 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

FTSE NAREIT Equity Index is an unmanaged market cap weighted index comprised of 151 equity REITs. The NAREIT Equity index is available daily. The NAREIT Equity index includes healthcare and net lease REITs, but excludes real estate operating companies. The requirement for inclusion in this index is for a company to be an exchange listed equity REIT. There is no minimum size or liquidity requirement for an equity REIT to be included in this index.

Russell 3000 Index A market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market.

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