

Real Estate Investment Trusts

REITs are tax-advantaged vehicles that develop, own, and manage real estate.

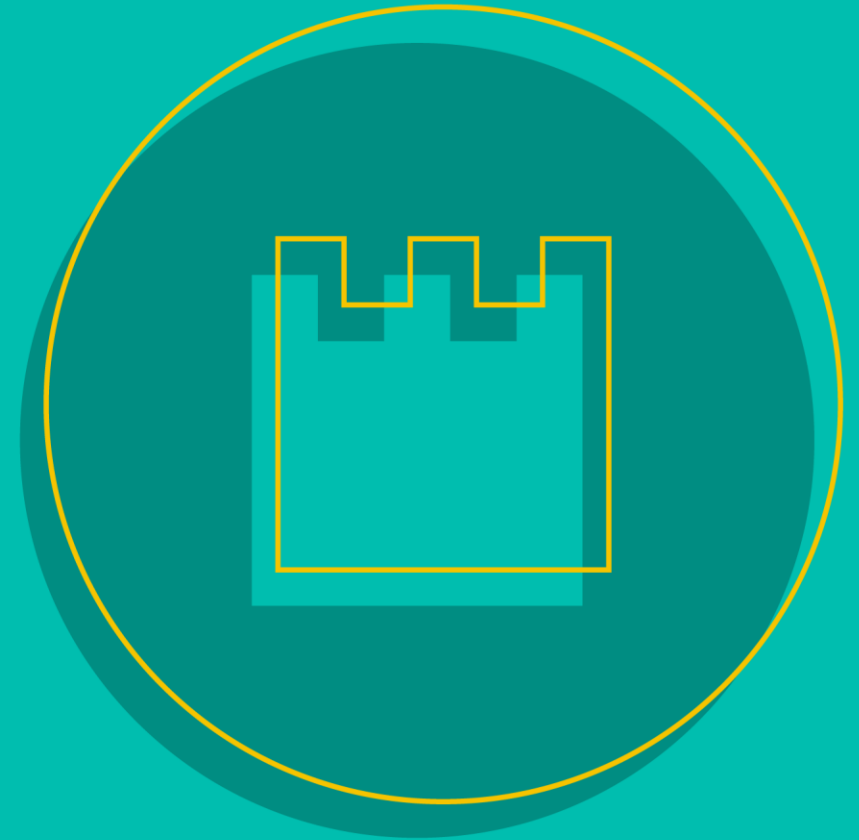


Table of Contents

Executive Summary	3
Economic Moat: Core US REITs Do Not Have Moats	10
Industry Basics: Collecting Rent From Tenants Drives NOI and FFO	16
Healthcare: Senior Housing Recovery Driving Strong Growth	34
Hotels: Growth Has Stagnated as Inflation Reduces Budget Available for Travel	38
Industrial: Industrial Demand Has Cooled Off, but Mark to Market Should Still Lead to Robust Growth	42

Office: Extremely Challenging Outlook, but Valuation Remains Attractive for Select Names	48
Residential: Fundamentals All Stabilizing Near Historical Average for Sector	53
Retail and Malls: Brick-and-Mortar Retail Sales Growth Remains Solid	56
Self-Storage: Demand for Self-Storage Has Slowed Sharply, but the Long-Term Story Is Intact	59
ESG Snapshot: REITs Have Materially Lower Risks Than Most Other Sectors	63

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Important Disclosure

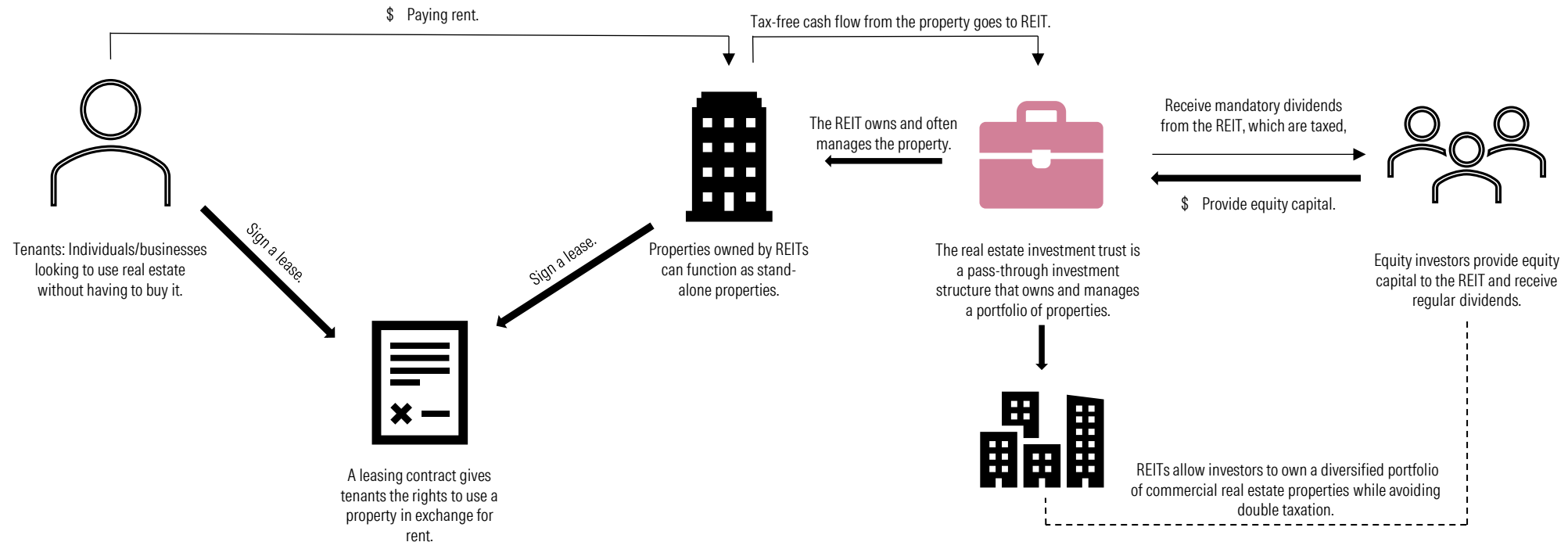
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Executive Summary

Industry Map

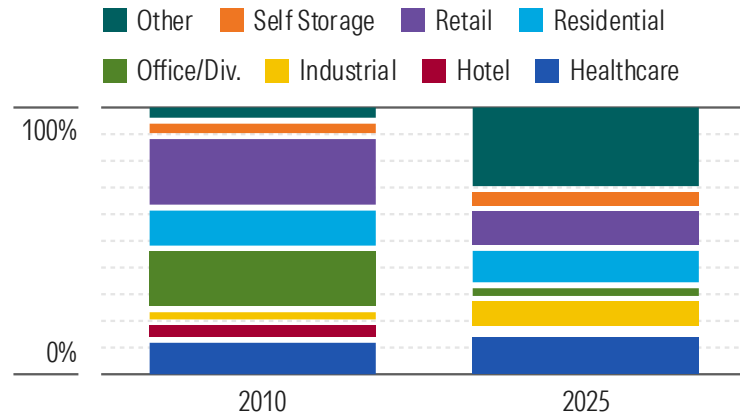
Real estate investment trusts are tax-advantaged vehicles that develop, own, and manage real estate properties. REITs can be thought of as pass-through vehicles that allow investors to own a diversified portfolio of commercial real estate properties while avoiding double taxation.

The Real Estate Investment Trust Industry Map



Key Industry Themes

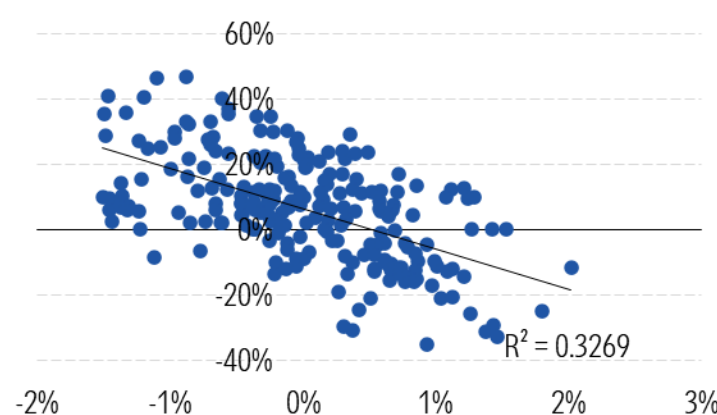
REIT Compositions Have Changed Dramatically



The composition of real estate investment trusts has changed dramatically over the past 15 years.

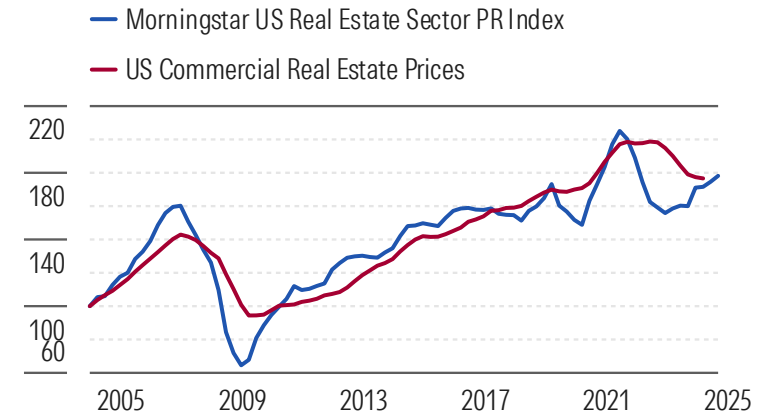
- The “other” category rose to 32% from 6% because of the inclusion of tower REITs and data center REITs.
- The share of office REITs fell to around 5% in 2025 from 23% in 2010.
- Retail REITs shrank to 15% of total REIT market capitalization in 2025 from 27% in 2010.
- Industrial REITs accounted for just 5% of total REIT market cap in 2010 compared with 11% in 2025, partly due to the rapid adoption of e-commerce.

Performance Negatively Correlated With Interest Rates



Since 2000, REITs’ relative performance has been negatively correlated with interest rate movements. REITs are required to pay dividends to shareholders, so many investors seek them for high dividend yields. However, as the risk-free rate increases, those investors rotate out of the sector. Additionally, higher interest rates reduce the value that management teams can create for shareholders through external growth. Rising interest rates in 2022 and 2023 led to the sector underperforming the broader US equity market.

Public Real Estate Prices React Faster Than Private



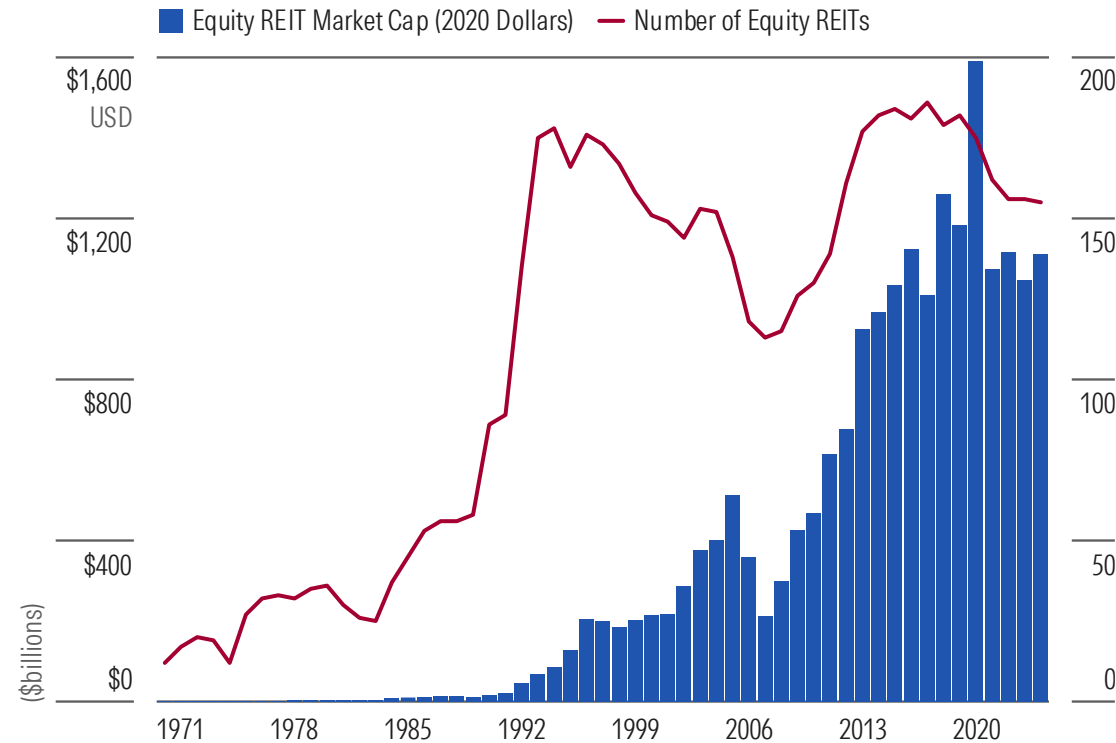
The performance of the Morningstar US Real Estate Index has mirrored the price performance of private commercial real estate transactions across the growth portion of economic cycles. However, the public REITs saw larger price declines in the global financial crisis in 2008 and 2009, during the pandemic in 2020, and during the rapid rise of interest rates in 2022 and 2023. While private real estate also falls for several quarters following these periods, the public market’s decline tends to be an overreaction and recovers to match the private market over time.

Market Share and Concentration

The REIT sector has grown significantly over the past 50 years, from only around 20 companies in the 1970s to 155 companies in 2025. The ownership of commercial real estate is highly fragmented in the US, with REITs owning approximately 10% of properties. Most REITs are focused on owning higher-quality real estate that tends to have less operational risk. We estimate that REITs have a market share of around 18% for these properties in the US as of 2021.

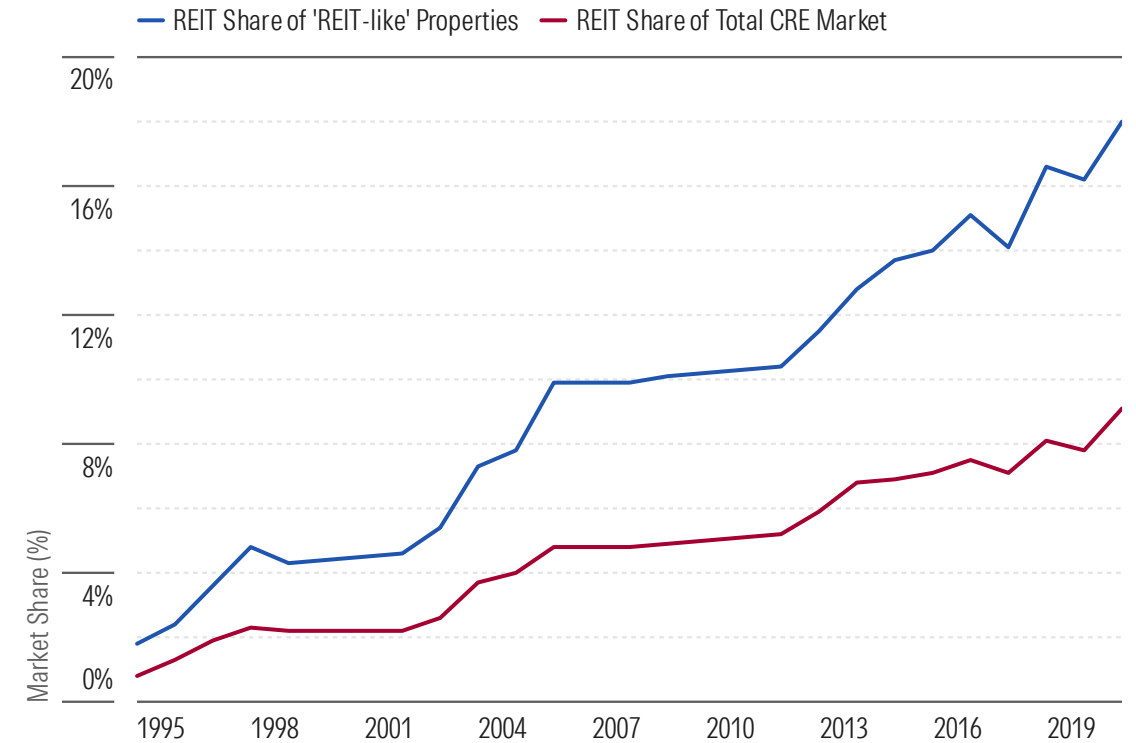
The Number and the Market Cap of REITs Have Grown Rapidly Since the 1990s

The Tax Reform Act of 1986 allowed REITs to operate and manage real estate.



This Is leading to REITs Having a 10% Share of Total US CRE Market as of 2021

US REITs' market share for "REIT-like" CRE properties is estimated at 18% as of 2021.



Source: Morningstar estimates, Nareit. Data as of Aug. 29, 2025.

See Important Disclosures at the end of this report.

Industry Value Drivers

Simplified Financial Statement: Kilroy Realty Illustrative Example

Pro forma income statement (\$ millions).

Rental Income ¹	Property-related revenue	1,086
Other Property Income ²		11
Total Property Revenue		1,097
Property Expenses ³	Property-related expenses	210
Real Estate Taxes ⁴		106
General and administrative expenses ⁵		99
Depreciation & Amortization ⁶		358
Total Expenses		772
Interest Expense (Income)		83
(Gain)/Loss on sale of properties ⁷		(17)
Earnings Before Tax		259
Income Tax Expense ⁸		-
Net Income		259
Net Income		259
Depreciation & Amortization		358
(Gain)/Loss on sale of properties		(17)
Funds From Operations (FFO) ⁹		600

(1) Rental Income: Recurring rental payments made by tenants.

(2) Other Property Income: Other sources of income related to property (like parking).

(3) Property Expenses: Expenses for maintaining the property, such as utilities and security.

(4) Real Estate Taxes: Taxes paid by the property owner (REIT) to the government.

Net Operating Income: Property-related revenue minus property-related expenses.

(5) G&A Expenses: Company-level administrative and leasing expenses.

(6) Depreciation and Amortization: D&A expense for properties under ownership as per accounting rules. For real estate, this number often overstates true depreciation.

(7) (Gain)/Loss on Sale of Properties: Price at which a property is sold minus book value of the property on the company's balance sheet.

(8) Income Tax Expense: REITs are tax-advantaged and do not pay income taxes.

(9) Funds From Operations: Most commonly used net earnings proxy for REITs.

US REIT Coverage List and Ratings

US Real Estate Investment Trust Coverage Statistics

Company (Ticker)	Industry	Market Cap (Billions)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	EV/EBITDA	Yield	1-Year Return
Boston Properties (BXP)	REIT - Office	11 USD	None	High	72.40	91.00	★★★★	0.80	15.6x	5.4%	+2.7%
SL Green Realty (SLG)	REIT - Office	4 USD	None	Very High	56.47	50.00	★★★	1.13	23.8x	5.4%	-9.7%
Vornado Realty Trust (VNO)	REIT - Office	7 USD	None	Very High	37.92	31.00	★★★	1.22	30.0x	1.9%	+14.1%
Empire State Realty Trust (ESRT)	REIT - Diversified	1 USD	None	High	7.55	9.50	★★★★	0.79	12.0x	1.8%	-26.9%
Kilroy Realty (KRC)	REIT - Office	5 USD	None	High	40.98	55.00	★★★★	0.75	15.3x	5.2%	+20.6%
US Office REIT Coverage								0.80	19.7	5.2%	2.7%
Public Storage (PSA)	REIT - Industrial	51 USD	None	Medium	288.18	318.00	★★★★	0.91	19.3x	4.1%	-10.3%
Extra Space Storage (EXR)	REIT - Industrial	30 USD	None	Medium	140.86	165.00	★★★★	0.85	18.7x	4.5%	-14.5%
US Self-Storage REIT Coverage								0.88	19.0	4.3%	-12.4%
AvalonBay Communities (AVB)	REIT - Residential	27 USD	None	Medium	189.02	232.00	★★★★	0.81	19.4x	3.6%	-9.1%
Equity Residential (EQR)	REIT - Residential	24 USD	None	Medium	64.01	80.00	★★★★	0.80	18.2x	4.2%	-7.0%
Essex Property Trust (ESS)	REIT - Residential	17 USD	None	Medium	260.60	311.00	★★★★	0.84	19.2x	3.8%	-6.0%
Invitation Homes (INVH)	REIT - Residential	19 USD	None	Medium	30.33	41.00	★★★★	0.74	17.4x	3.7%	-10.4%
Sun Communities (SUI)	REIT - Residential	16 USD	None	Medium	124.96	155.00	★★★★	0.81	18.4x	3.3%	+1.4%
Equity Lifestyle Properties (NYS:ELS)	REIT - Residential	12 USD	None	Medium	59.53	78.00	★★★★	0.76	20.3x	3.4%	-13.4%
US Residential REIT Coverage								0.80	18.8	3.6%	-8.1%

US REIT Coverage List and Ratings (Continued)

US Real Estate Investment Trust Coverage Statistics

Company (Ticker)	Industry	Market Cap (Billions)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	EV/EBITDA	Yield	1-Year Return
Realty Income (O)	REIT - Retail	53 USD	None	Low	57.74	75.00	★★★★★	0.77	16.1x	5.5%	+0.9%
Regency Centers (REG)	Medical Care Facilities	2 AUD	None	High	5.08	7.90	★★★	0.97	15.1x	2.1%	+50.1%
Federal Realty Investment Trust (FRT)	REIT - Retail	9 USD	None	Medium	99.14	137.00	★★★★	0.72	16.7x	4.5%	-8.3%
Kimco Realty (KIM)	REIT - Retail	15 USD	None	Medium	22.25	26.50	★★★★	0.84	16.2x	4.4%	+2.0%
Macerich (MAC)	REIT - Retail	5 USD	None	High	18.12	23.00	★★★★	0.79	14.2x	3.7%	+21.0%
Simon Property Group (SPG)	REIT - Retail	58 USD	None	Medium	178.87	174.00	★★★	1.03	19.0x	4.8%	+14.2%
US Retail & Mall REIT Coverage								0.81	16.2	4.5%	8.1%
Prologis (PLD)	REIT - Industrial	103 USD	None	Medium	111.30	125.00	★★★★	0.89	22.3x	3.6%	-6.1%
AmeriCold Logistics (COLD)	REIT - Industrial	4 USD	None	Medium	14.09	27.00	★★★★★	0.52	13.2x	6.4%	-46.7%
US Industrial REIT Coverage								0.71	17.8	5.0%	-26.4%
Ventas (VTR)	REIT - Healthcare Facilities	31 USD	None	Medium	67.92	77.00	★★★★	0.88	19.9x	2.8%	+14.4%
Welltower (NYS:WELL)	REIT - Healthcare Facilities	112 USD	None	Medium	167.74	146.00	★★	1.15	32.6x	1.8%	+41.9%
Healthpeak Properties (NYS:DOC)	REIT - Healthcare Facilities	12 USD	None	Medium	17.95	27.50	★★★★★	0.65	14.0x	6.8%	-13.9%
US Healthcare REIT Coverage								0.88	19.9	2.8%	14.4%
Host Hotels & Resorts (HST)	REIT - Hotel & Motel	12 USD	None	High	17.07	21.00	★★★★	0.81	10.1x	4.6%	+2.6%
Park Hotels & Resorts (PK)	REIT - Hotel & Motel	2 USD	None	High	11.63	21.00	★★★★★	0.55	11.0x	8.5%	-12.8%
Pebblebrook Hotel Trust (PEB)	REIT - Hotel & Motel	1 USD	None	High	11.01	20.00	★★★★★	0.55	11.0x	0.4%	-14.1%
US Hotels REIT Coverage								0.55	11.0	4.6%	-12.8%

Economic Moat

Core US REITs do not have moats.

Summary of Moat Ratings and Sources

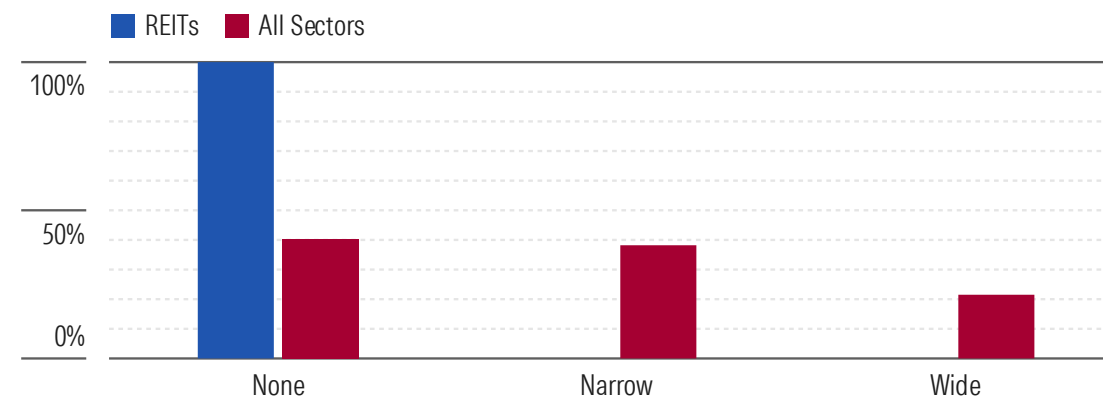
REIT Moat Distribution

- None of the companies in our Morningstar REIT coverage has an economic moat, compared with 60% of companies covered by Morningstar (39% narrow, 21% wide).
- Core REIT sectors like office, industrial, apartment, self-storage, hotel, and retail are highly capital-intensive, and most companies do not materially outearn their cost of capital on a consistent basis.

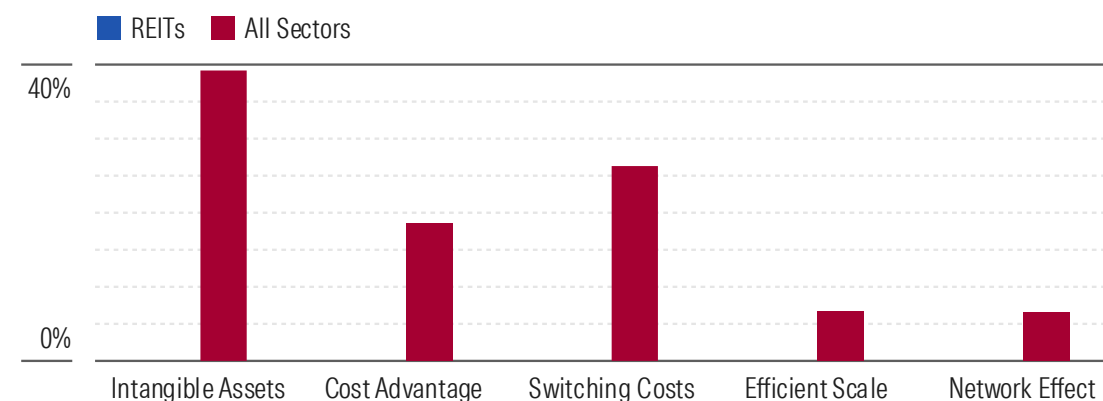
REIT Moat Source Distribution

- Morningstar’s core US real estate investment trust coverage does not have any moat sources, given that 100% of our coverage is no-moat-rated.
- Having said that, we think that efficient scale is the most relevant moat source for the core US REIT sector.
- Owning commercial real estate properties in space-constrained markets with structural demand drivers could lead to durable fundamental outperformance for a CRE portfolio.

Distribution of Moat Ratings Compared With Cross-Sector Average



Distribution of Moat Sources Compared With Cross-Sector Average



Morningstar Calculates Adjusted Returns on Invested Capital for REITs to Determine Moats

ROIC Calculation: AvalonBay Illustrative Example (\$ Thousands)

Depreciation is used for calculating EBI, and net PP&E is used for invested capital.

EBITDA	1,649,961
Depreciation	(827,842)
Taxes	-
Earnings Before Interest (EBI)	822,119
Working Capital	(151,236)
Net Property Plant & Equipment	19,025,339
Intangibles + Goodwill	14,737
Net Other Assets	698,180
Invested Capital	19,587,020

Return on Invested Capital (ROIC): 4.2%

Accounting depreciation does not reflect the true depreciation associated with maintaining commercial real estate. Therefore, we replace depreciation with maintenance capital expenditure to reflect a REIT's true cash flows.

Adjusted ROIC: AvalonBay Illustrative Example (\$ Thousands)

Maintenance capital expenditure and gross PP&E replace depreciation and net PP&E.

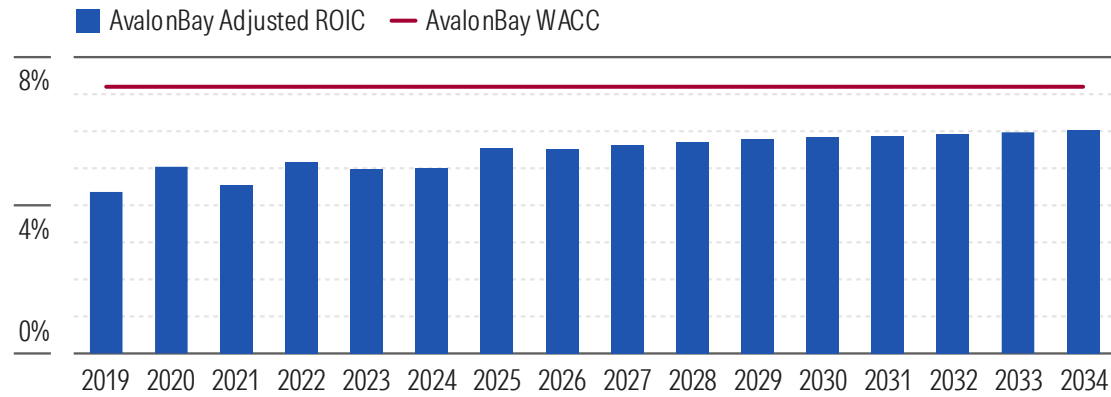
EBITDA	1,649,961
Maintenance Capital Expenditure	(366,759)
Taxes	-
Earnings Before Interest (EBI)	1,283,202
Working Capital	(151,236)
Gross Property Plant & Equipment	25,903,895
Intangibles + Goodwill	14,737
Net Other Assets	698,180
Invested Capital	26,465,576

Adjusted ROIC: 4.8%

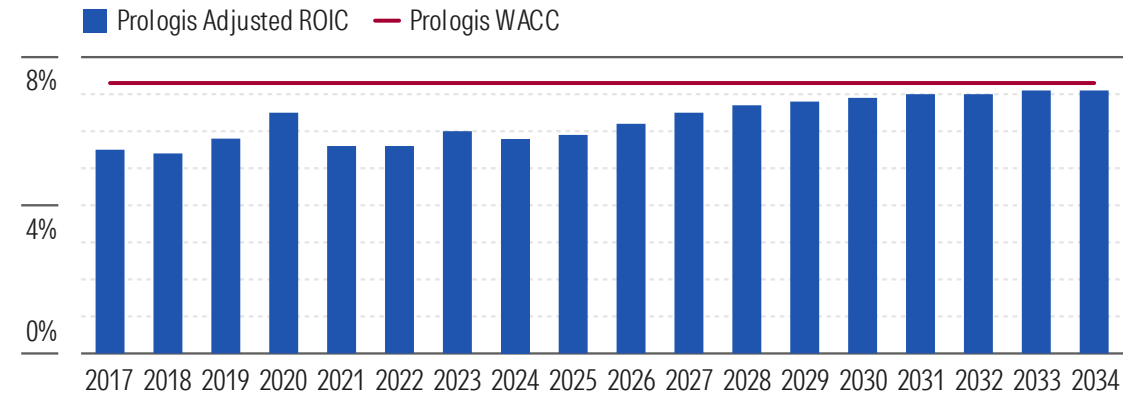
Net property, plant, and equipment can often be very low for old real estate, thereby overestimating the ROIC calculation. We use gross PP&E instead of net PP&E while calculating adjusted ROIC to adjust the denominator in line with the numerator.

Comparing Adj. ROICs to Weighted Average Cost of Capital for Representative Companies in Different Sectors

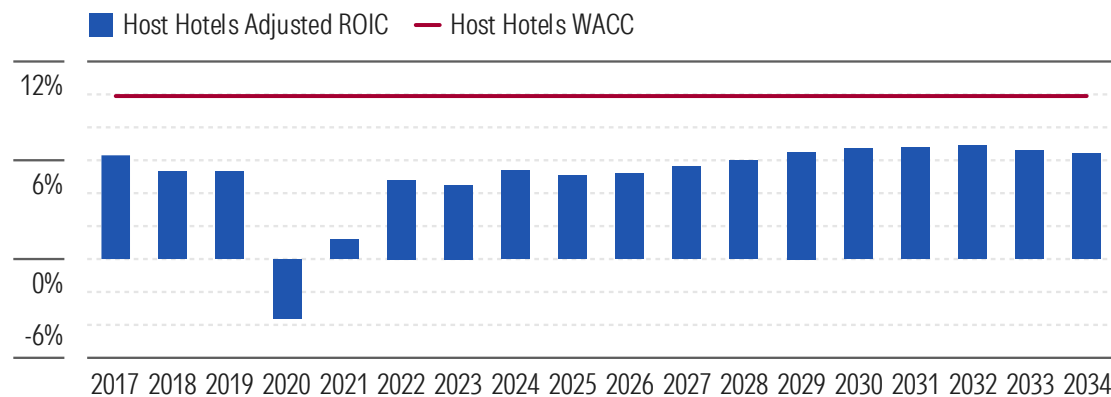
Comparing AvalonBay (Apartment REIT) Adjusted ROIC With WACC



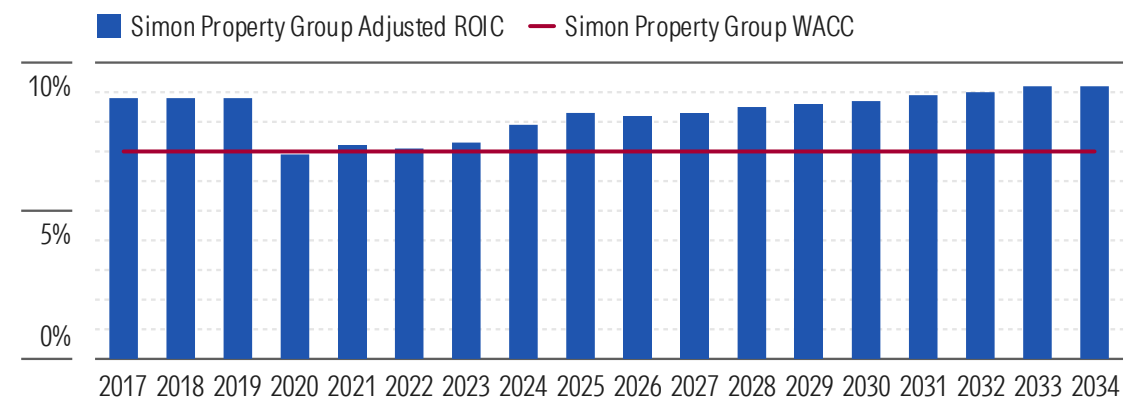
Comparing Prologis (Industrial REIT) Adjusted ROIC With WACC



Comparing Host Hotels (Hotel REIT) Adjusted ROIC With WACC



Comparing Simon Property Group (Mall REIT) Adjusted ROIC With WACC

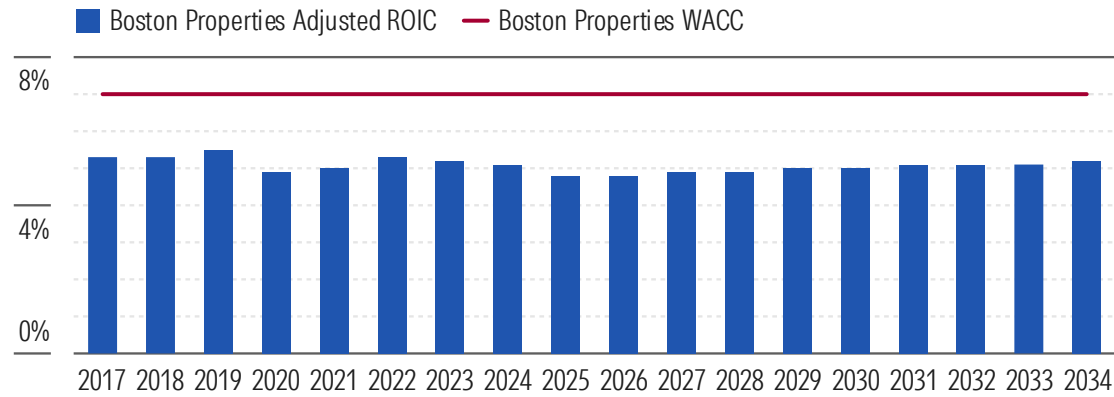


Source: Morningstar estimates, company filings. Data as of Sept. 5, 2025. Note: Adjusted ROICs until 2024 are derived using reported data, and those after 2024 are calculated using Morningstar projections.

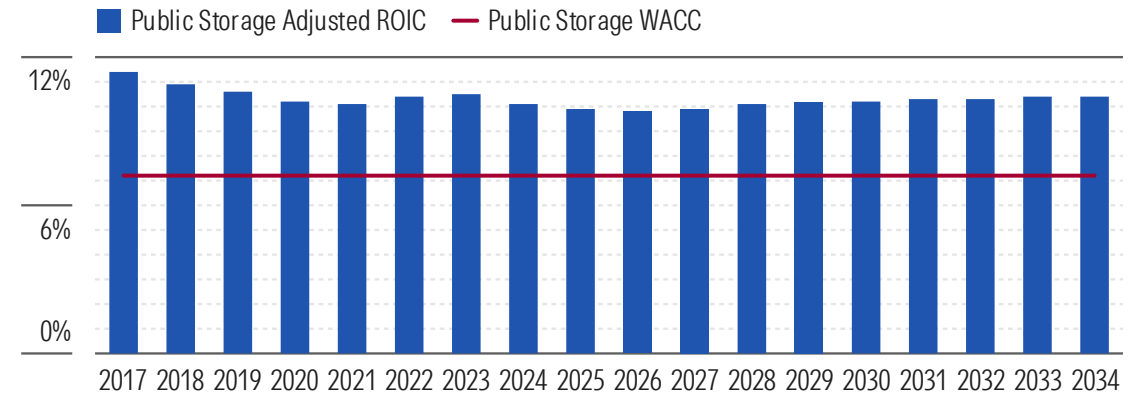
See Important Disclosures at the end of this report.

Comparing Adj. ROICs to Weighted Average Cost of Capital for Representative Companies (Continued)

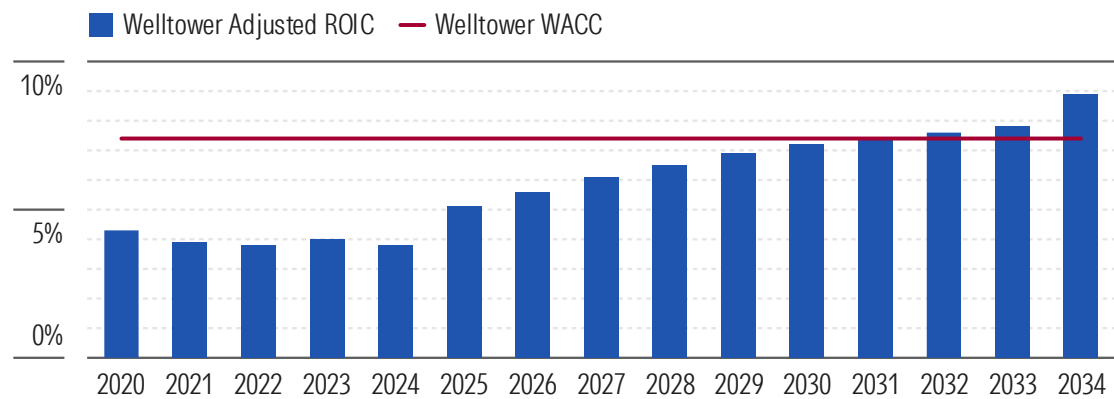
Comparing Boston Properties (Office REIT) Adjusted ROIC With WACC



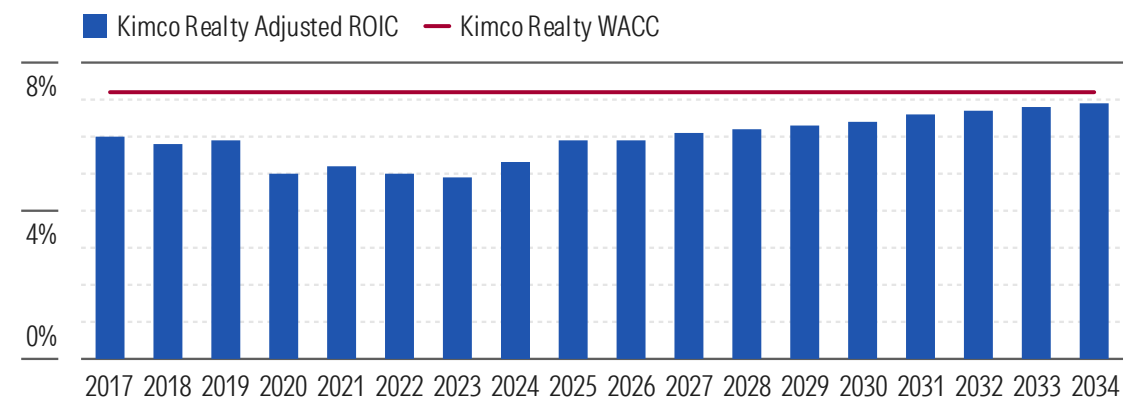
Comparing Public Storage (Self-Storage REIT) Adjusted ROIC With WACC



Comparing Welltower (Healthcare REIT) Adjusted ROIC With WACC



Comparing Kimco Realty (Shopping Center REIT) Adjusted ROIC With WACC



Source: Morningstar estimates, company filings. Data as of Sept. 5, 2025. Note: Adjusted ROICs until 2024 are derived using reported data, and those after 2024 are calculated using Morningstar projections.

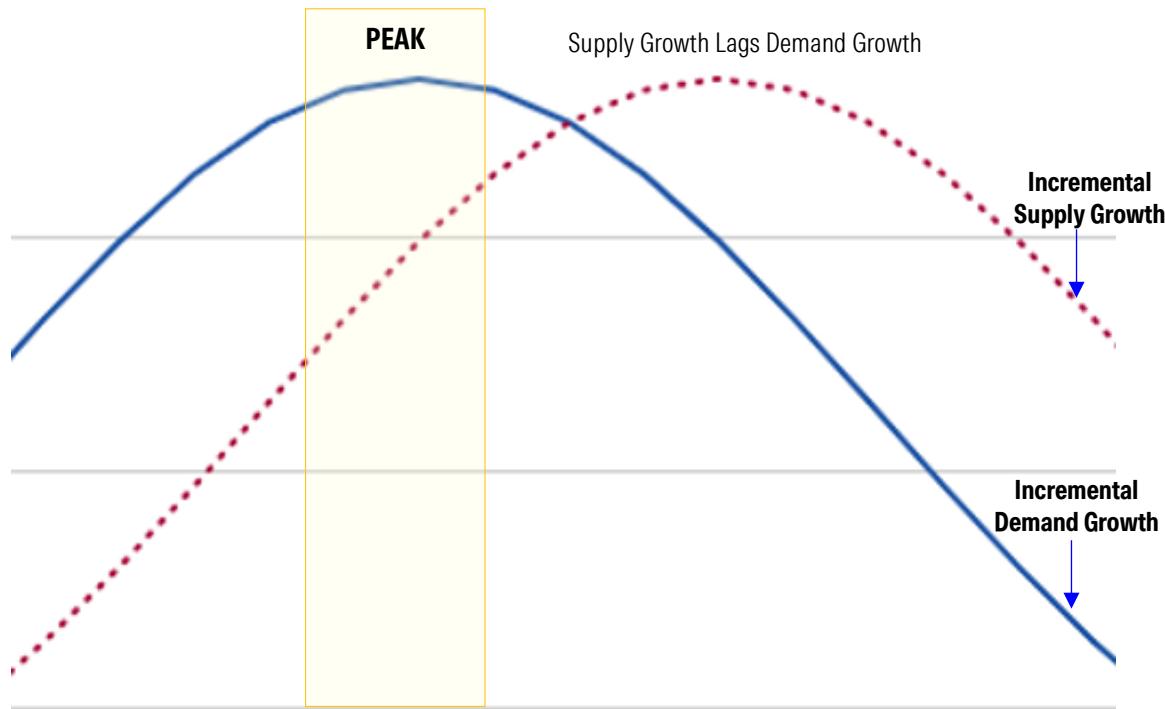
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Supply Growth Is Often Able to Catch Up With Demand Growth, Thereby Precluding Moats for the REITs

Owning real estate is highly capital-intensive, and there are limited benefits to owning a large portfolio of commercial real estate properties compared with a single CRE property. Most US core sector REITs are unable to outearn their cost of capital. The biggest impediment to moats for the REIT sector is that, over time, supply can catch up with growing demand in most regions. Strong demand often leads to robust fundamental performance in the short run, but supply eventually catches up to meet rising demand, thereby limiting return upside.

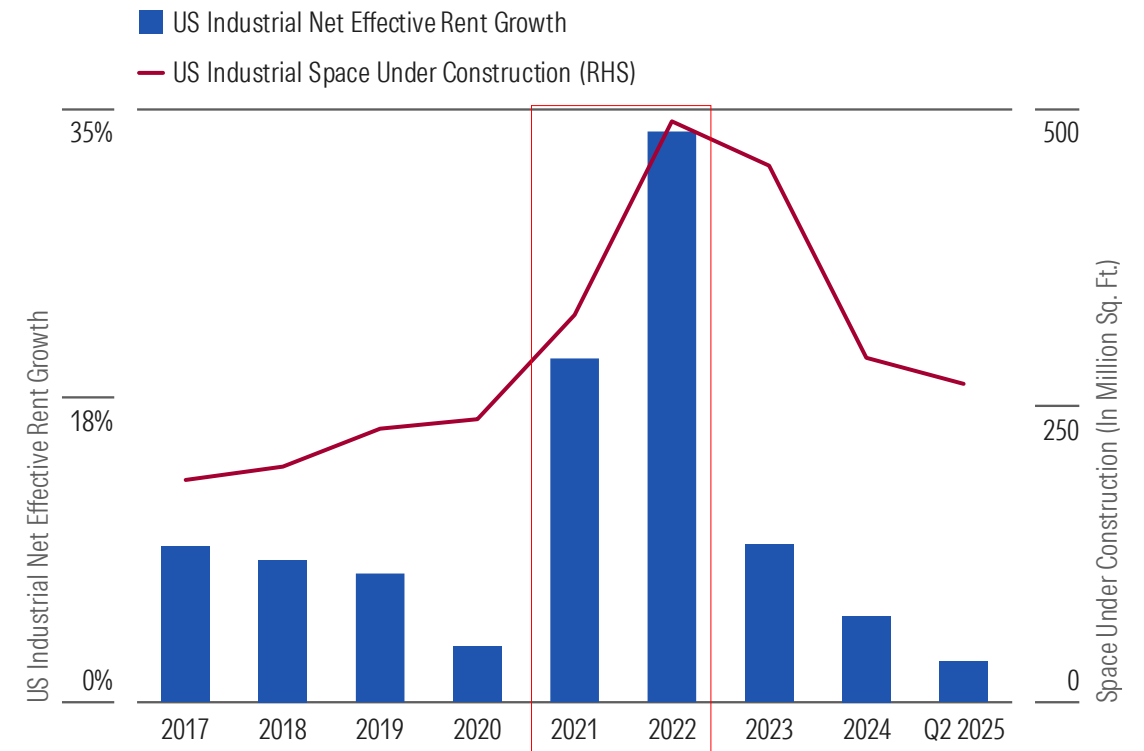
Supply Growth Often Trails Demand Growth in Commercial Real Estate

This creates troughs and peaks in a cycle, but supply/demand balances in the long run.



For Instance, the US Industrial Sector Saw Strong Demand Growth After 2020

This led to robust fundamentals in 2021-22, but supply eventually caught up.



Sources: Morningstar. Data as of Aug. 28, 2025 (left). Morningstar, company filings, Prologis Research, Cushman & Wakefield. Data as of Aug. 28, 2025 (right) Note: Industrial rent growth from 2017-22 is from Prologis Research, and the 2023 rent growth number is from Cushman & Wakefield.

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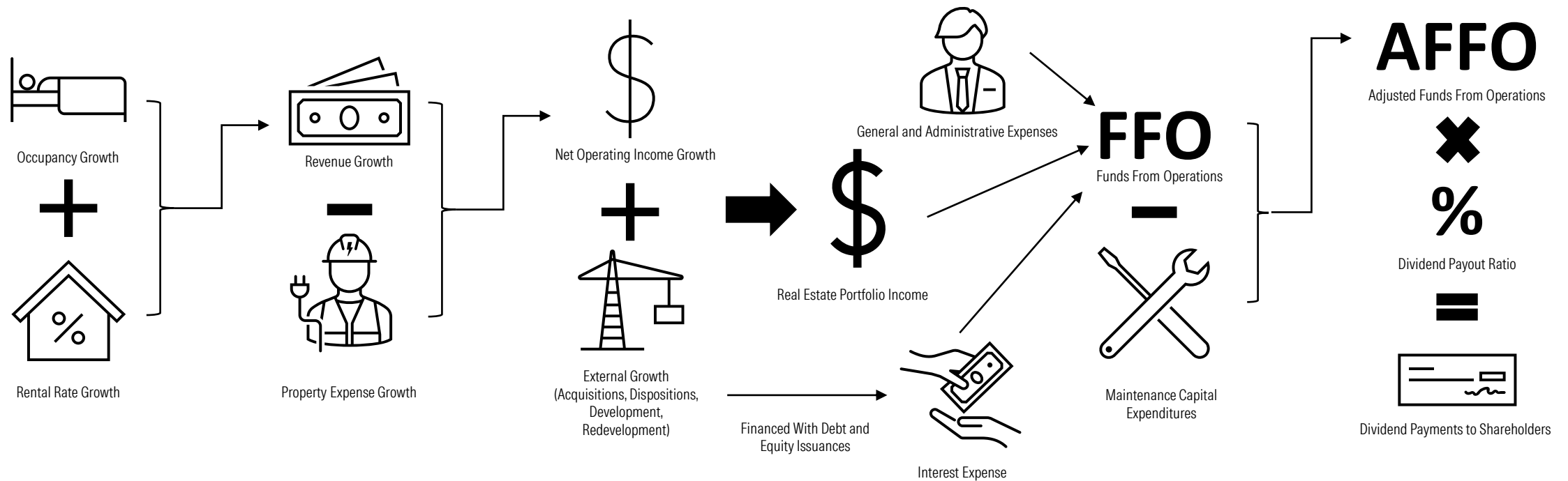
Industry Basics

Collecting rent from tenants drives net operating income and company funds from operations.

REIT Income Statement Flowchart

All REITs derive most of their revenue from charging tenants rent, so to grow internal portfolio revenue, they must do so through a combination of occupancy and rent growth. Most then pay the operating expenses to run the building. Property revenue minus operating expenses is referred to as net operating income. REITs then grow their portfolio through acquisitions and development. After deducting general and administrative and interest expenses, REITs report their funds from operations, the industry-standard metric for cash flow.

The Real Estate Investment Trust Income Statement Flowchart



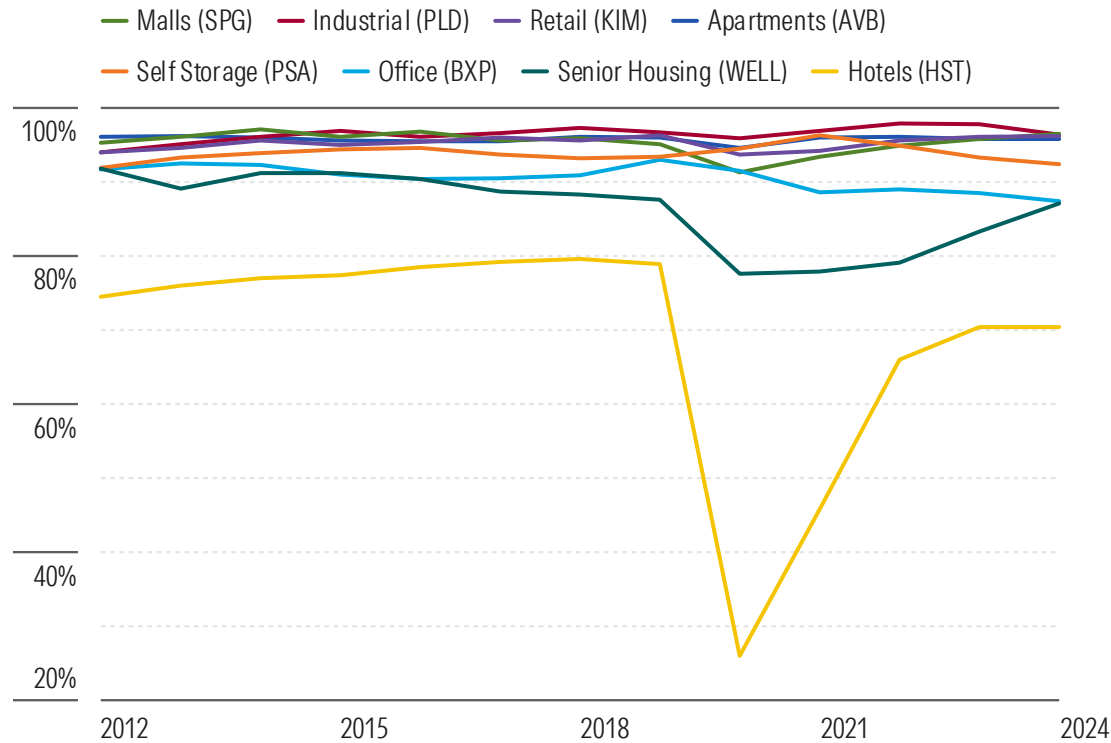
Occupancy Is Stable Through Most of an Economic Cycle, Though Some Sectors Decline During Recessions

Most real estate sectors have occupancies near 95% and saw little to no decline during the pandemic. Occupancy for the office (90%), senior housing (90%), and hotel (80%) sectors have lower stabilized occupancy levels and were the most hurt by the pandemic.

The hotel and office sectors are still recovering from the pandemic, while other REIT sectors are back to 2019 levels. Senior housing, hotels, and retail have improved over the past two years, while self-storage, office, and industrial have fallen.

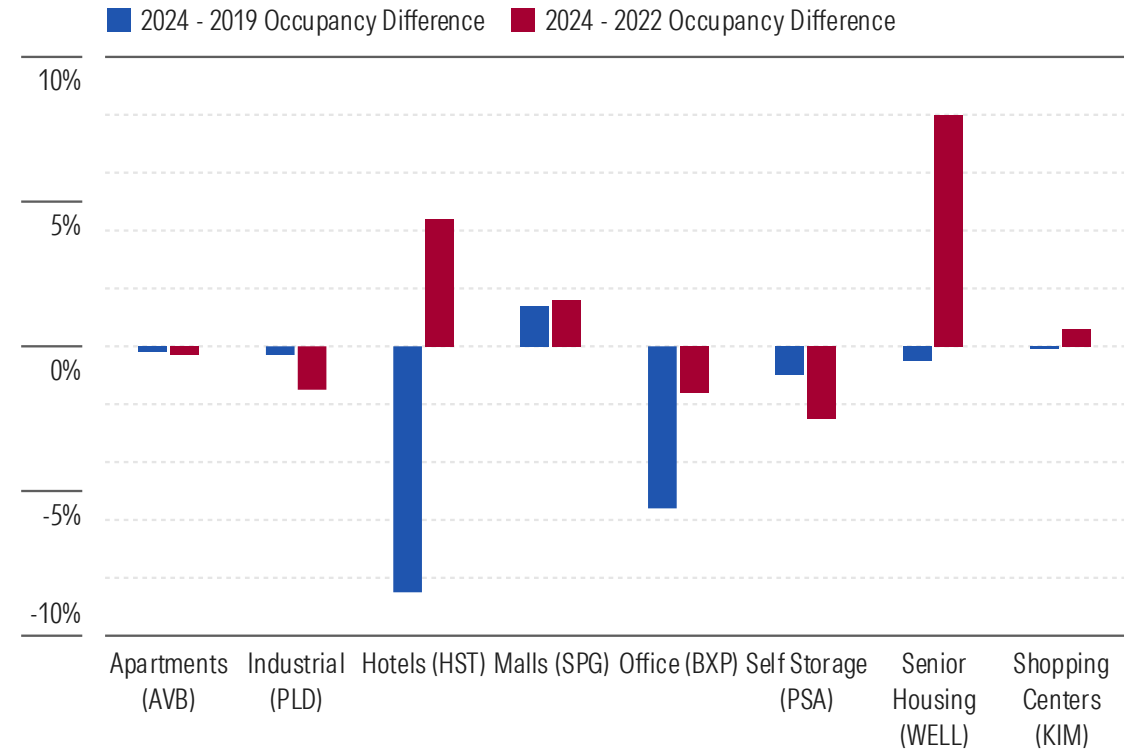
Most Real Estate Sectors Have Stabilized Occupancies Around 95%

Most sectors also saw little impact from the pandemic.



Most REIT Sectors Are Back to Prepandemic Occupancy Levels

Occupancy trends over past two years have varied by real estate sector.



Source: Morningstar, company filings. Data as of Aug. 29, 2025.

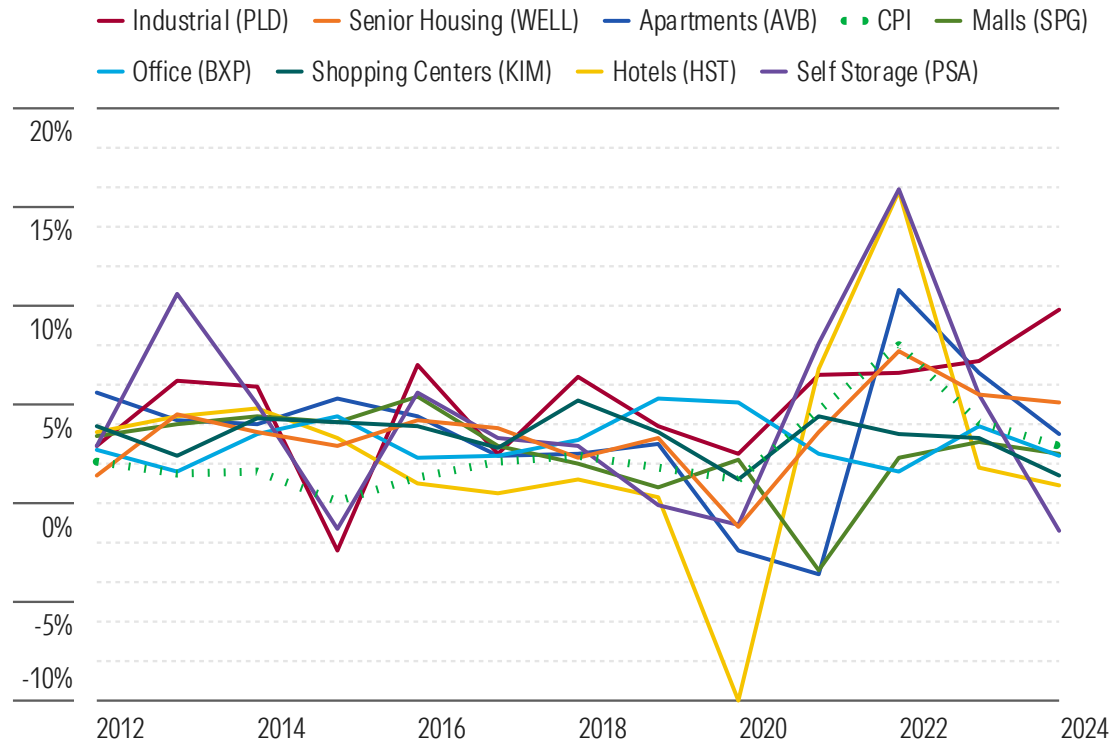
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Rental Rates Typically Grow at a Slight Premium to Inflation

Rental rates generally grow between 3% and 6% for most REIT sectors. Only hotels saw a significant decline in 2020, and most sectors saw higher growth in 2021 and 2022 due to rising inflation levels. Rate growth mostly decelerated in 2023 and 2024.

Rental Rates Generally Grow at Low to Midsingle Digits for All REIT Sectors

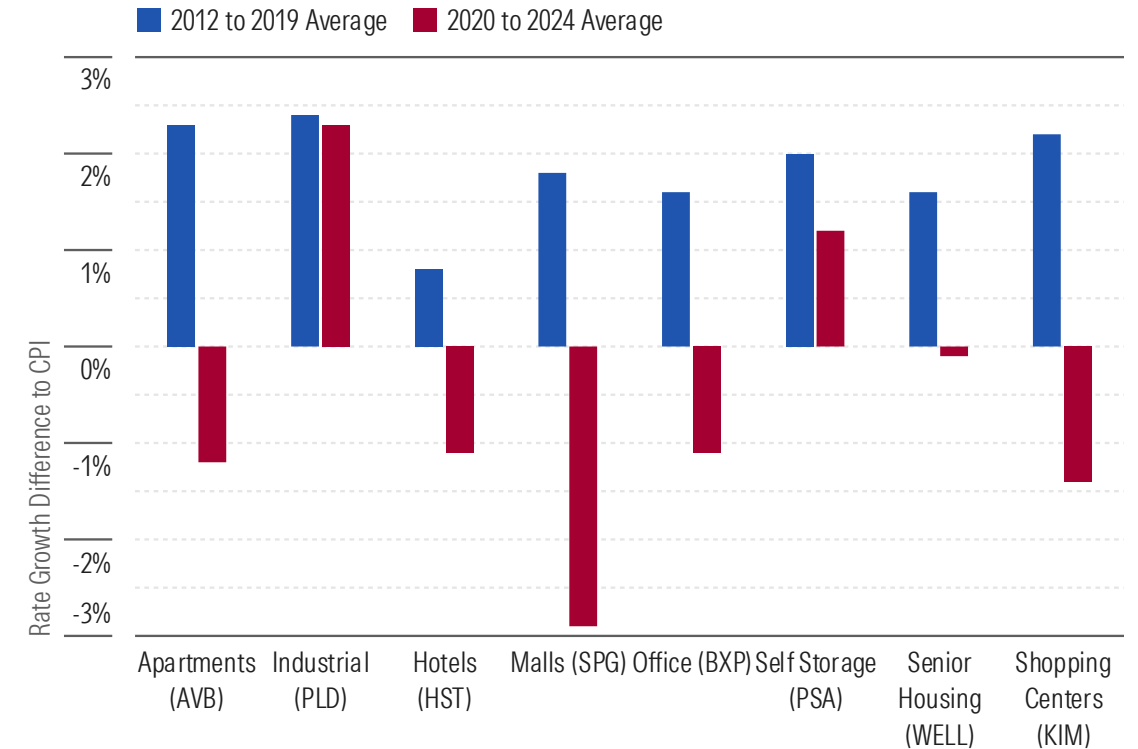
High inflation drove double-digit rental rate growth in 2022.



All REIT sectors averaged rate growth above inflation in the prior economic cycle. Rate growth remained at or above inflation in 2020 for many due to long-term leases, but industrial and self-storage remained above inflation in 2020-24 due to high demand.

All REIT Sectors Saw Rental Rates Grow Above Inflation Prior to the Pandemic

Difference between rental rates and CPI remains steady if demand remains steady.



Source: Morningstar, company filings, US Bureau of Labor Statistics. Data as of Aug. 29, 2025.

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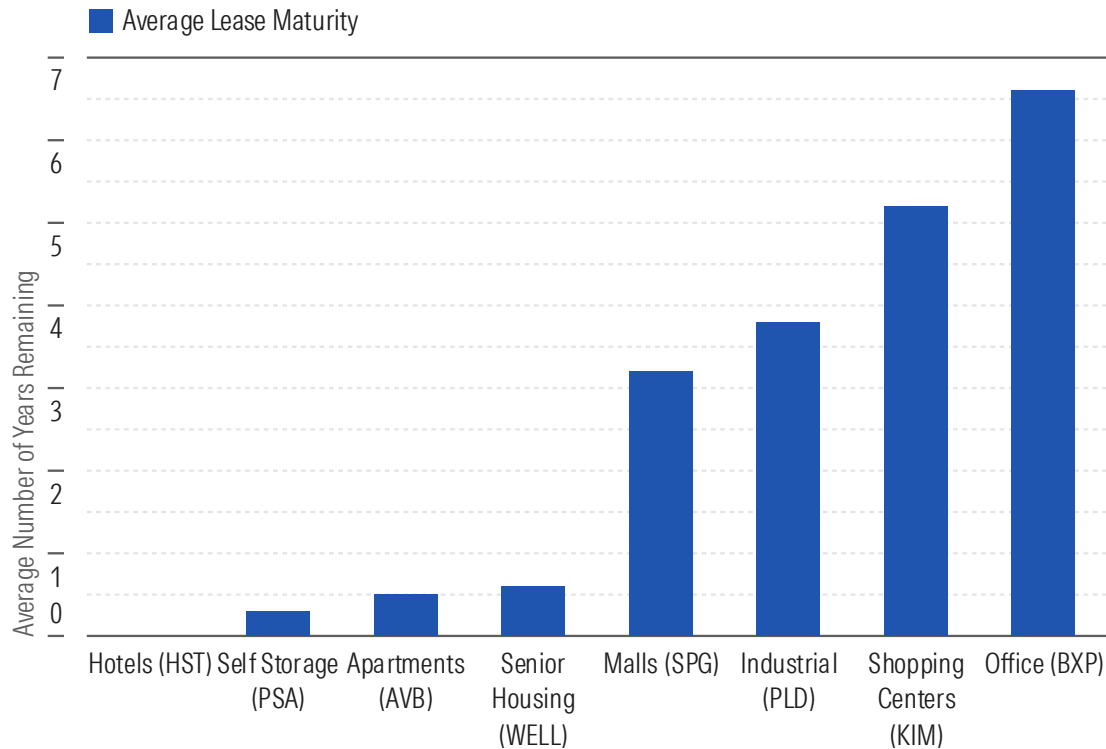
Length of Leases Determines How Quickly Changes to Market Rent Affect REIT Rental Rates

REIT sectors with leases of one year or less see rates respond quickly to changes in demand. Leases longer than a year have annual escalators that average 2.5%-3.5% over the course of the lease and then reset to the market level when the lease matures.

Re-leasing spreads show the difference between the rent signed on a new lease over the expiring rent terms. However, since only 10%-15% of leases mature each year, the rental rate average for the REIT portfolio is much closer to the annual escalators.

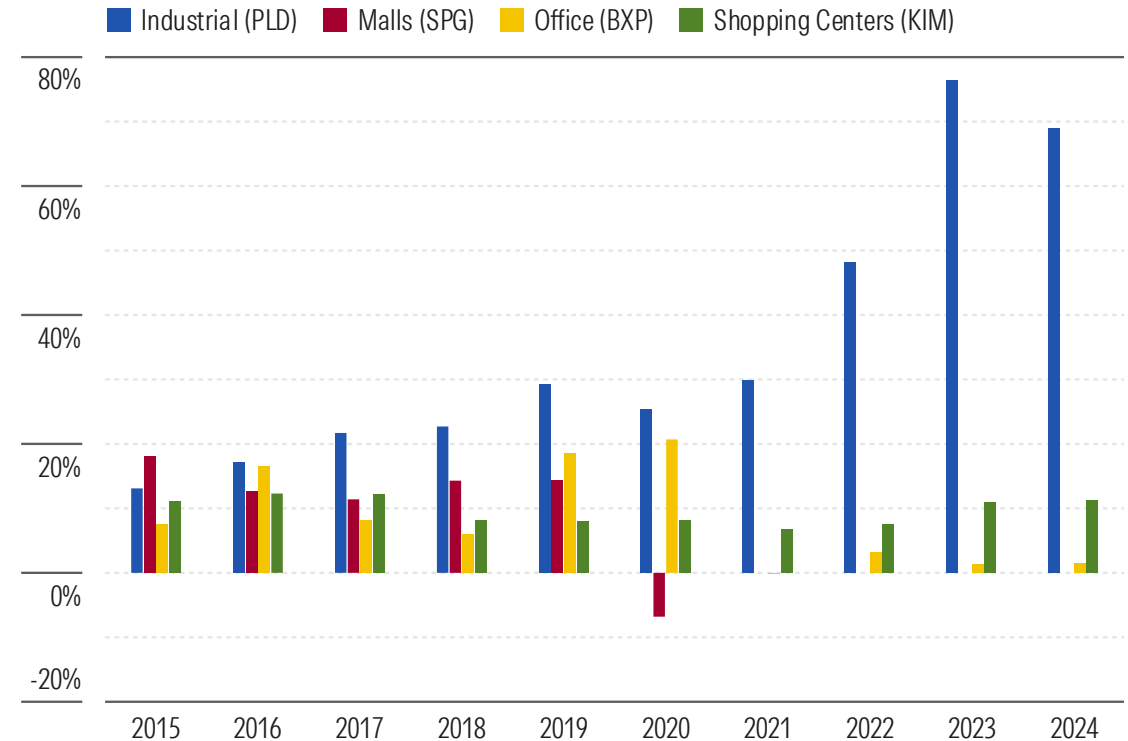
REIT Sectors Either Have Short Leases (1 Year or Less) or Long Leases (5+ Years)

Below is the average remaining, so typical lease signed is twice the length shown.



Re-Leasing Spreads Have Been Positive, Even for Retail/Office

This implies that market rent has grown faster than annual rent escalators over time.

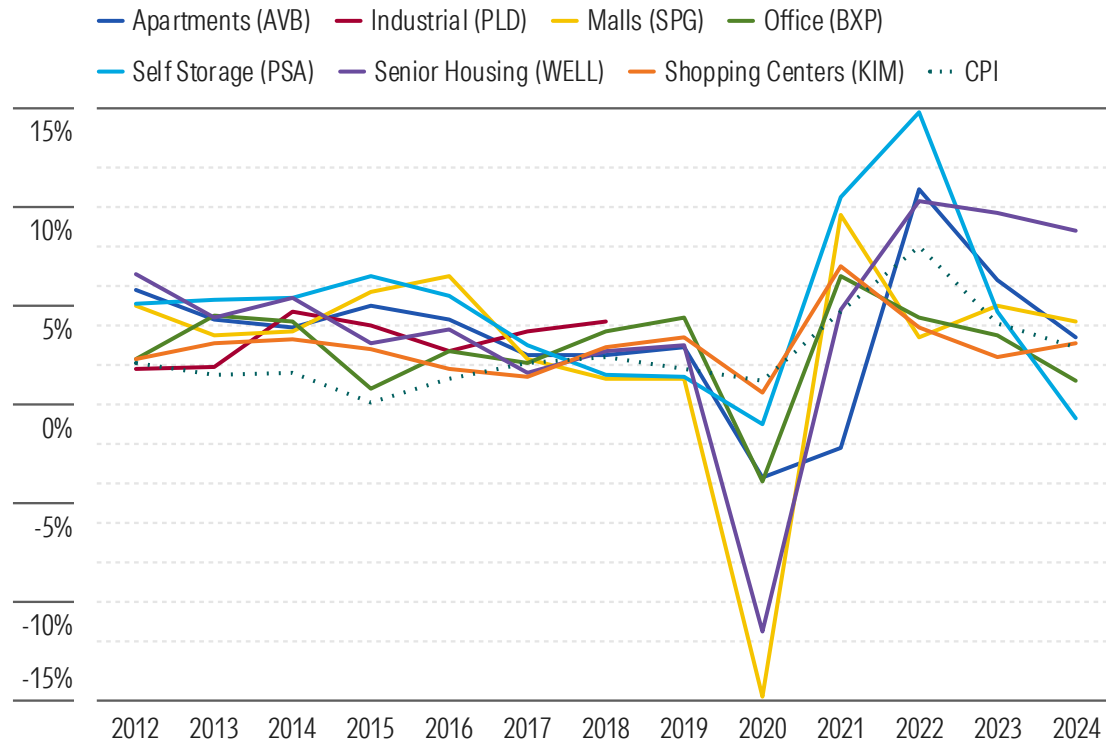


Revenue Growth Is a Combination of Occupancy Growth and Rental Rate Growth

With flat occupancies, revenue growth generally matched rate growth from 2012-19. Revenue growth fell in 2020 for most sectors due to falling occupancies, but occupancy recovery plus inflation driving rate growth led to high revenue growth in 2021-24.

Revenue Growth Ranged Between 3% and 6% Over Prior Economic Cycle

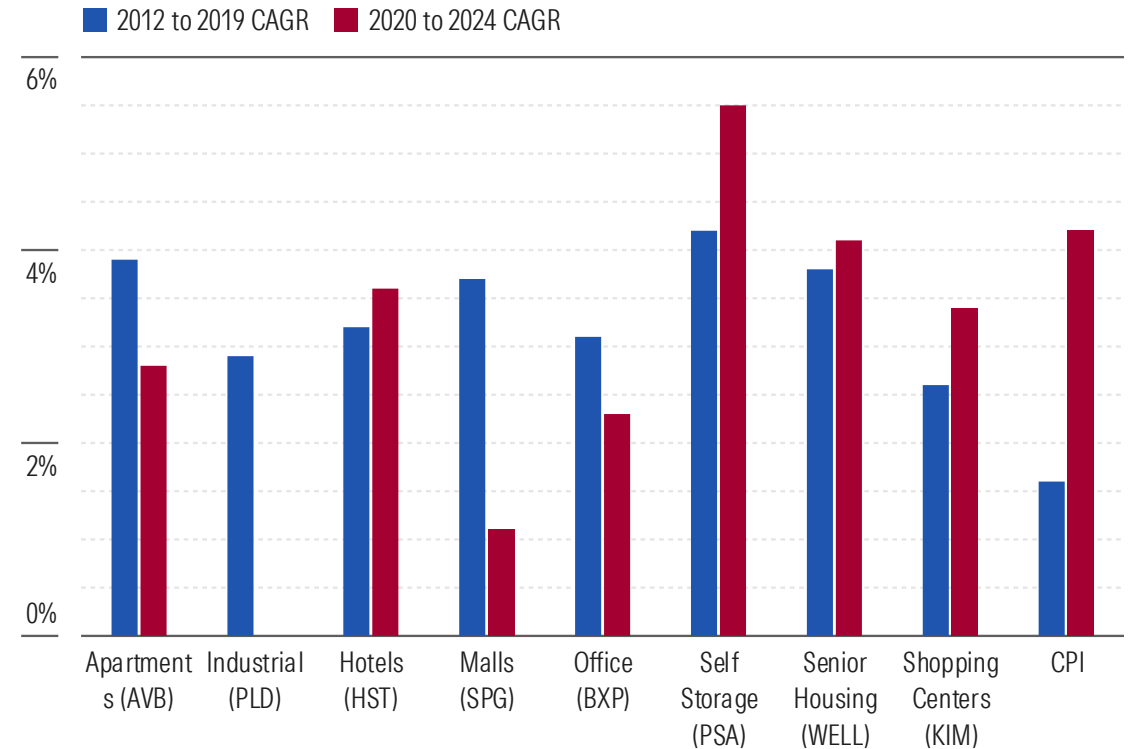
The pandemic caused a decline, followed by a recovery of revenue.



Revenue growth over the prior economic cycle exceeded the Consumer Price Index for every sector. However, only industrial (not shown as the company stopped reporting) and self-storage saw revenue growth above CPI since the start of the pandemic.

REIT Revenue Growth Exceeded CPI Before 2020 but Has Generally Lagged Since

Most REIT sectors saw revenue growth decelerate during the pandemic.



Source: Morningstar, company filings, Bureau of Labor Statistics. Data as of Aug. 29, 2025. Note: Hotels removed from left chart due to extreme growth rates in 2020 through 2022.

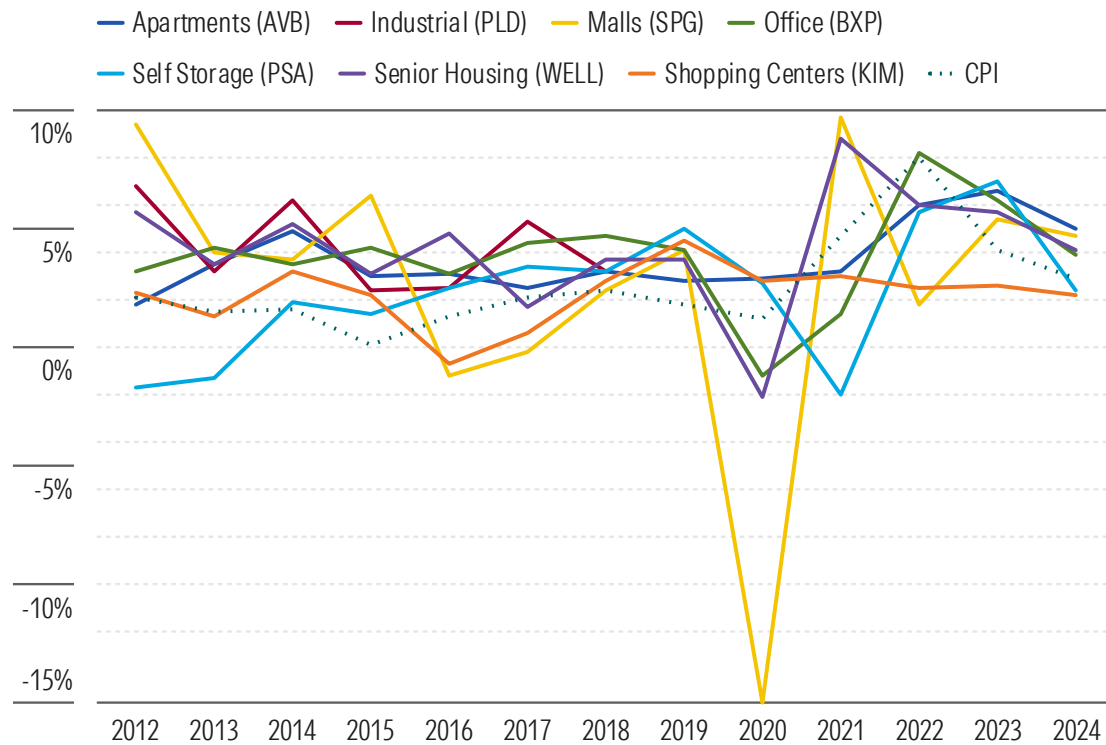
See Important Disclosures at the end of this report.

Expense Growth Is Similar to Revenue Growth in That It Tends to Be Slightly Above Inflation

Expense growth followed a similar trajectory to revenue growth over the past decade—slightly above inflation from 2012 through 2019, declining slightly in 2020 due to falling occupancies reducing variable costs, but rising in 2021-24 due to rising inflation.

Expense Growth Has Historically Followed a Similar Pattern to Revenue Growth

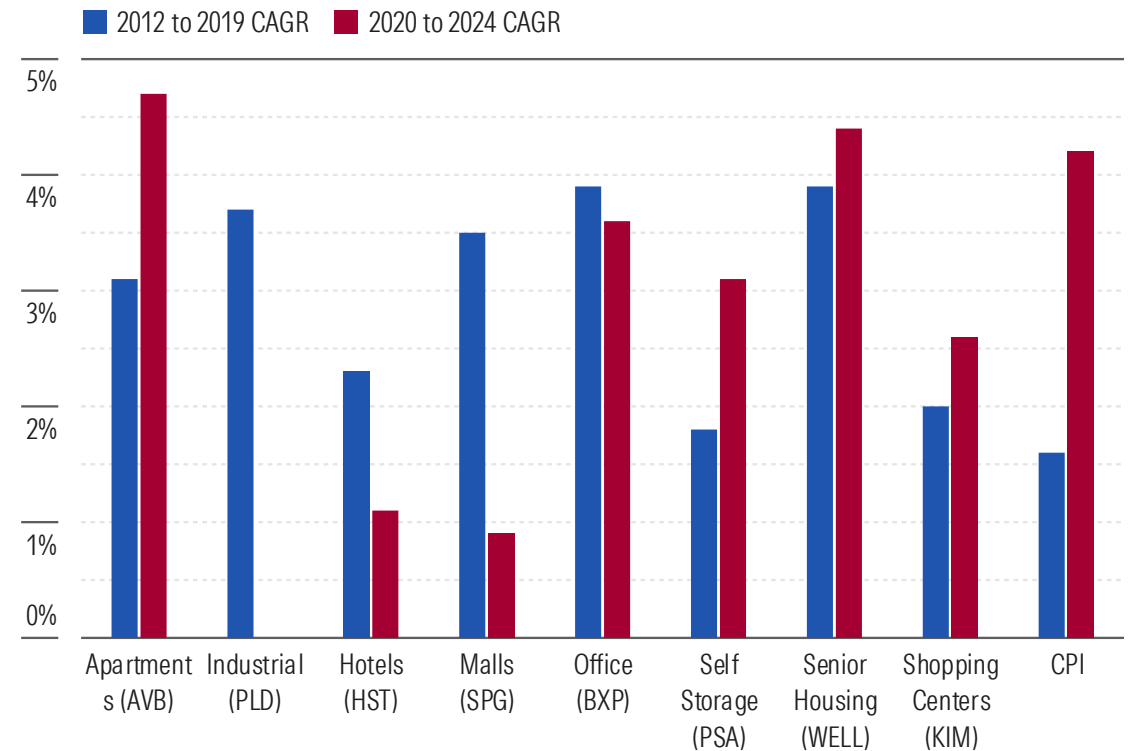
Changes to occupancy hit both revenue and variable expenses.



The pandemic's impact on expense growth varied by sector, with some seeing little difference and others experiencing lower expenses as occupancies fell. Expense growth for all sectors has remained at or below inflation since the start of the pandemic.

Expense Growth Fell Significantly for Some Sectors During Pandemic

Expenses remained at or below CPI for 2020-24 due to some fixed costs (like taxes).



Source: Morningstar, company filings, Bureau of Labor Statistics. Data as of Aug. 29, 2025. Note: Hotels removed from left chart due to extreme growth rates in 2020 through 2022.

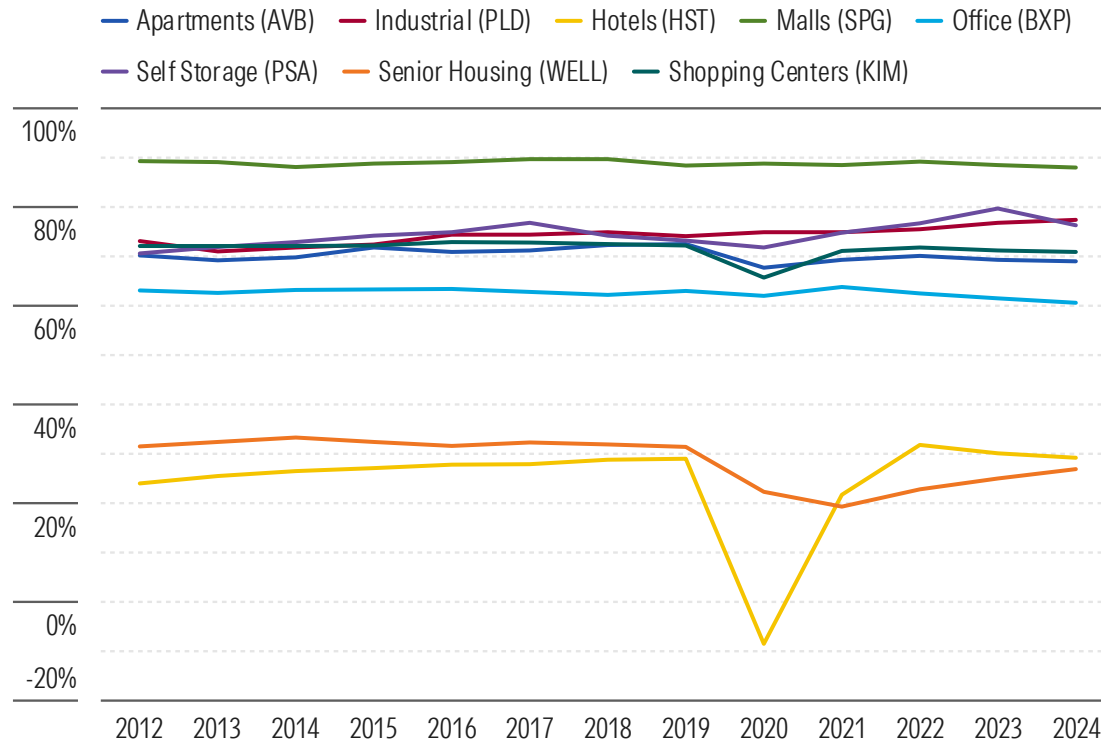
See Important Disclosures at the end of this report.

Net Operating Margins Vary Significantly by REIT Sector

Net operating margins vary significantly by sector, with hotels/senior housing around 30% and retail around 90% as tenants reimburse landlords for expenses. Revenue and expense growth matching one another leads to stable margins over time.

Operating Margins Significantly Different Across Sectors, but Stable Within Sector

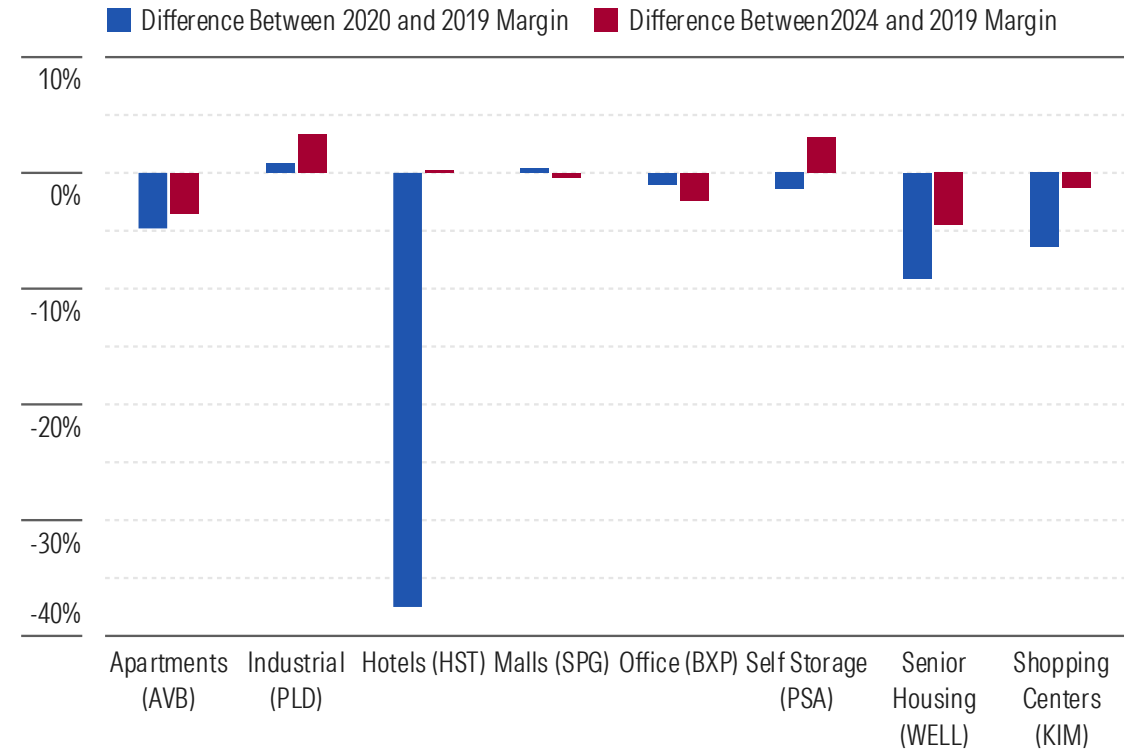
Occupancy decline in 2020 caused decline in margins for some sectors.



The pandemic had a massive impact on operating margins for a few sectors in 2020, but most have recovered to prepandemic levels. Apartments and senior housing have improved since 2020 but are below 2019 levels due to periods of high expense growth.

Occupancy Decline Due to the Pandemic Caused a Short-Term Decline in Margins

As occupancies returned close to prepandemic levels, most margins returned as well.



Source: Morningstar, company filings. Data as of Aug. 29, 2025.

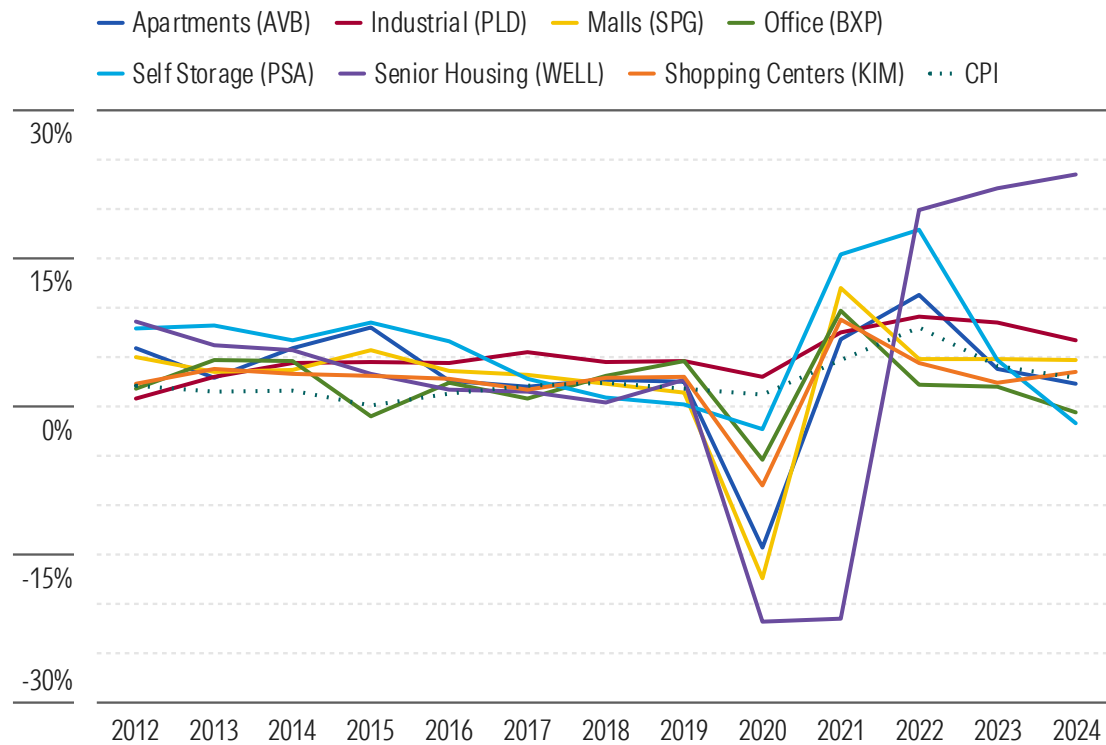
See Important Disclosures at the end of this report.

Net Operating Income Growth Is the Combination of Revenue Growth and Expense Growth

Since revenue growth and expense growth tend to have similar trajectories, net operating income growth does as well. NOI growth for most sectors has decelerated from 2022 highs to be in line with each sector's historical average.

NOI Growth Averaged Midsingle Digits in Prior Decade Before Pandemic's Impact

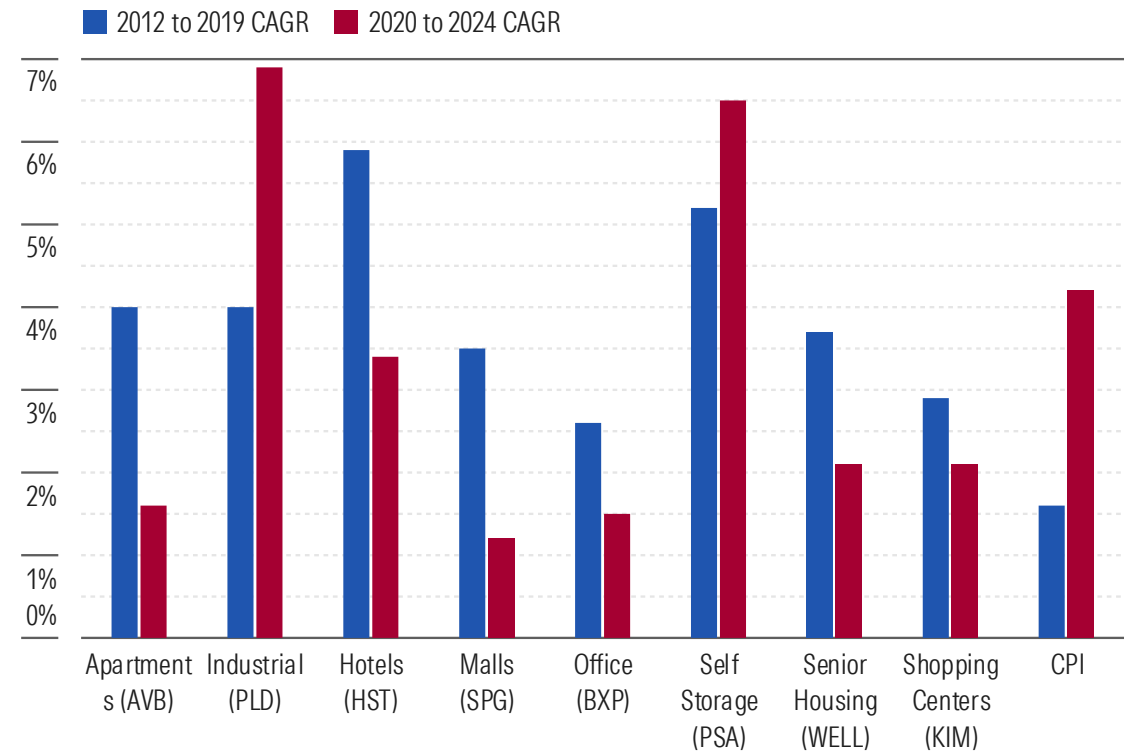
The pandemic caused NOI to fall in 2020, but most sectors saw double-digit recovery.



All REIT sectors produced NOI growth above inflation before the pandemic. However, only industrial and self-storage have produced NOI growth above inflation since the pandemic, as those sectors have seen increased demand while others had to recover.

REIT Sectors Consistently Produced NOI Growth Higher Than CPI From 2012-19

Sectors hurt by the pandemic have since had NOI growth below CPI.



Source: Morningstar, company filings, Bureau of Labor Statistics. Data as of Aug. 29, 2025. Note: Hotels removed from left chart due to extreme growth rates in 2020 through 2022.

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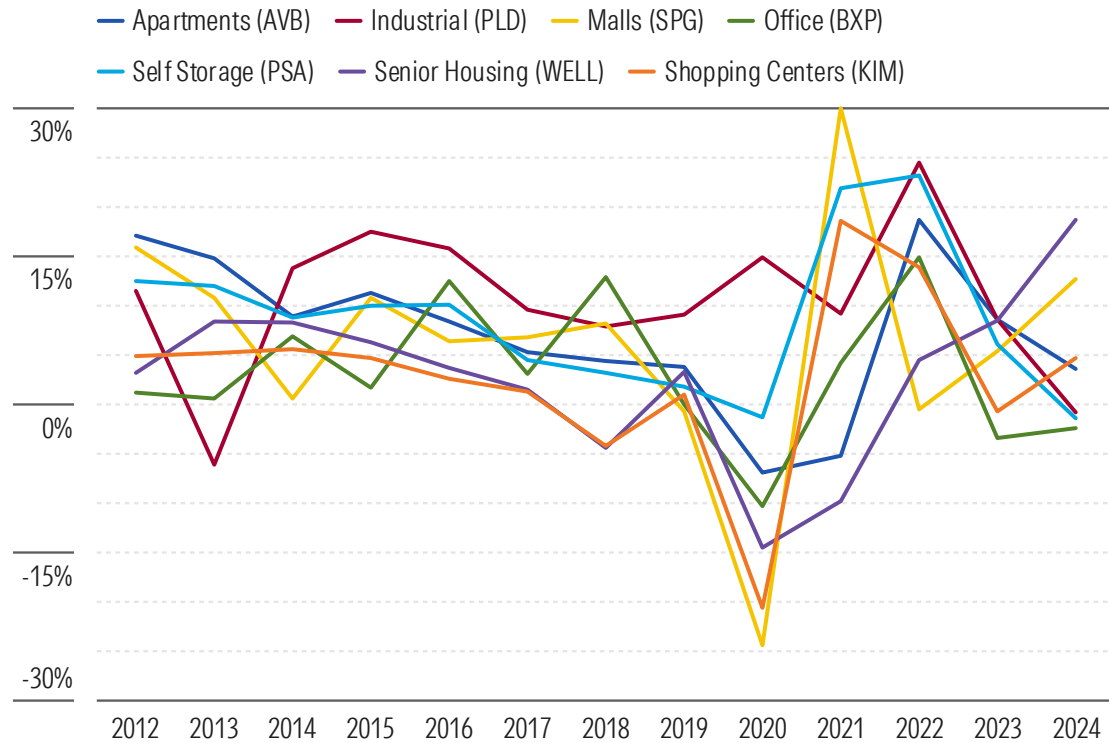
Funds From Operations Combines NOI Growth, External Growth, and Corporate Leverage

Between 2012 and 2019, REITs generally saw FFO growth in the high single digits to low double digits. This was greater than NOI growth, as it included acquisitions and development, but the impact of corporate expenses makes it more volatile.

REITs have generally seen average FFO growth exceed NOI growth in both the prepandemic period and following the pandemic. Thus, NOI growth sets the floor, with REIT management teams able to supplement with opportunistic external growth.

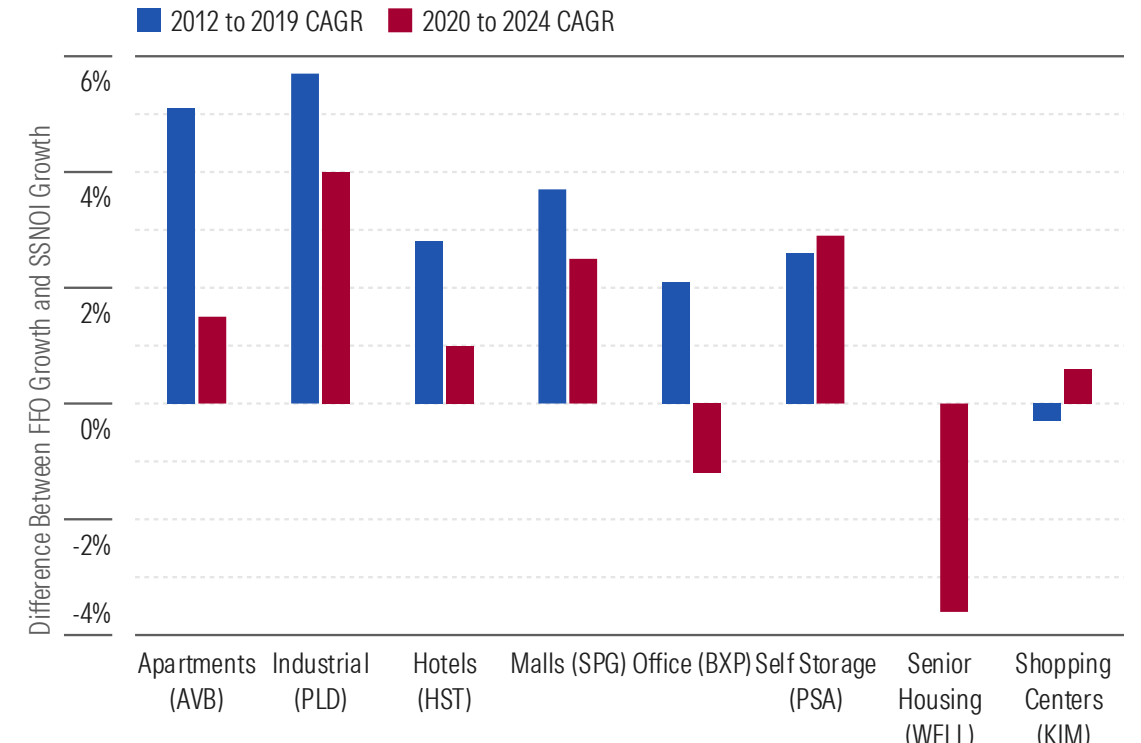
FFO Growth Is Generally Higher but More Volatile Than NOI Growth

External growth can be volatile depending on the volume of deals executed each year.



Difference Between FFO Growth and NOI Growth Is Flat to Positive for Most REITs

Welltower FFO less than senior housing NOI because it also owns lower-growth sectors.



Source: Morningstar, company filings. Data as of Aug. 29, 2025. Note: Hotels removed from left chart due to extreme growth rates in 2020 through 2022.

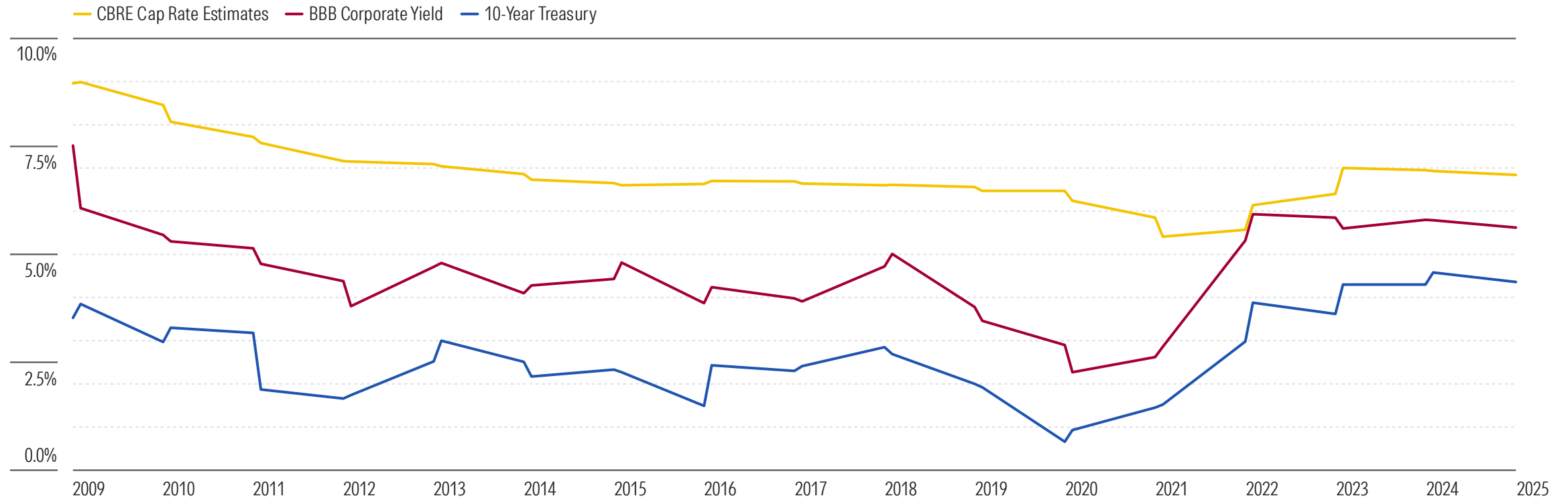
See Important Disclosures at the end of this report.

Capitalization Rates Are Determined by Projected NOI Growth and Current Interest Rates

The cap rate is the price an investor would pay for a building's NOI (NOI/price paid). Investors would pay more (a lower cap rate) for higher-quality assets that produce higher and more stable growth, but cap rates are also hit by interest rates, as investors care about the spread between NOI received and cost of financing paid. Stable NOI growth for most REITs and relatively stable interest rates from 2012 to 2019 led to stable cap rates. However, interest rate movements in recent years have had a lagging effect on cap rates for real estate.

Commercial Real Estate Cap Rates (NOI/Value) Were Steady for Many Years, but Have Recently Been Materially Affected by Interest Rate Movements

Higher interest rates and yields lead to cap rate expansion, thereby lowering valuation.



Net Asset Value Is an Estimate of a REIT's Value If the Real Estate Portfolio Were Sold to Other Investors

The cap rate for a REIT can be considered the weighted average cap rate of the individual properties. Recent transactions for various geographies across the quality spectrum determine private valuations of a REIT's real estate portfolio.

Company Cap Rate Determined by Quality of Real Estate Assets

Simon's exposure to mostly A-quality malls implies its portfolio should trade at 6.4%.

Grade	Average Sales Per Sq. Ft.	SPG % of NOI	Cap Rate	Est Value From Each Grade
A++	1000	17.2%	4.5%	22.4%
A+	800	23.4%	5.0%	27.5%
A	650	24.0%	5.8%	24.5%
A-	500	12.9%	6.8%	11.2%
B+	425	11.8%	8.0%	8.7%
B	385	7.2%	10.0%	4.2%
B-	350	2.9%	13.5%	1.3%
C+	320	0.4%	19.0%	0.1%
C	250	0.2%	25.0%	0.0%
C-	185	0.0%	32.0%	0.0%
D	130	0.0%	40.0%	0.0%
SPG Total/Average		100.0%	6.38%	

A REIT trading below its net asset value suggests the private market values the company more than the public market and that it is a potential takeover target. The difference between NAV and fair value is the value management adds to the portfolio.

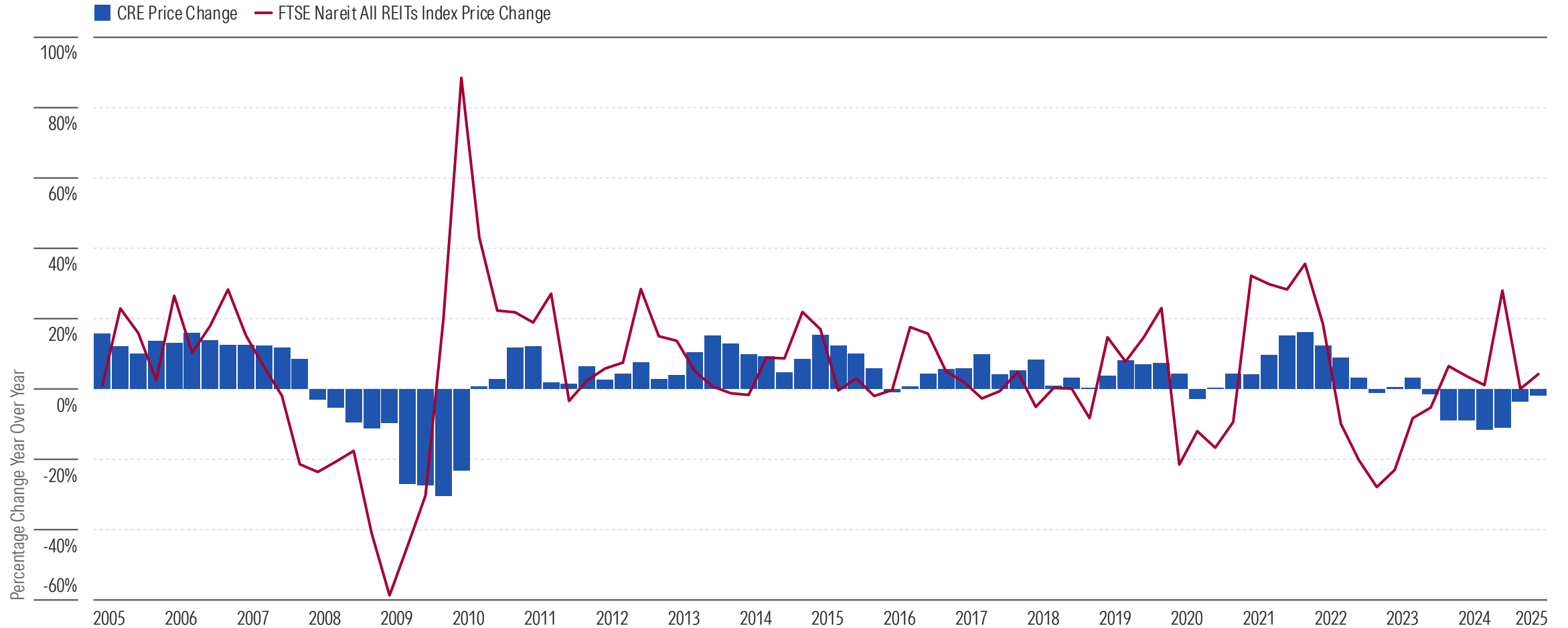
Simon Property Group's Price Is Currently Above the Company's NAV

This suggests that the market believes the management team will add value.

	NAV	Current Price	FVE
Property NOI	4,125,169	4,125,169	4,125,169
Nominal Cap Rate	6.38%	5.58%	5.70%
Gross Asset Value - Operating Real Estate	64,695,842	73,981,317	72,343,020
Value of Management Fee & Other	5,536,529	5,536,529	5,536,529
PV of Unconsolidated Properties	16,783,793	16,783,793	16,783,793
Cash and Other Assets	3,992,284	3,992,284	3,992,284
Gross Asset Value	91,008,448	100,293,923	98,655,626
Debt	24,753,200	24,753,200	24,753,200
JV Debt, PR Share	6,357,696	6,357,696	6,357,696
Accounts Payable & Other Liabilities	1,487,366	1,487,366	1,487,366
Preferred Equity	40,696	40,696	40,696
Net Asset Value	58,369,490	67,654,965	66,016,668
Per Share		377,139	\$175.05
Premium / (Discount) to Current Share Price		-13.7%	0.0%

Commercial Real Estate REIT Valuations Have Overcorrected During Previous Recessions

Commercial Real Estate REIT Indexes Tend to Fall More Than CRE Property Prices During Downturns and Also Recover Faster Than Property Prices



Source: Morningstar, Federal Reserve Bank of St. Louis, FTSE Nareit, Green Street. Data as of March 30, 2025.

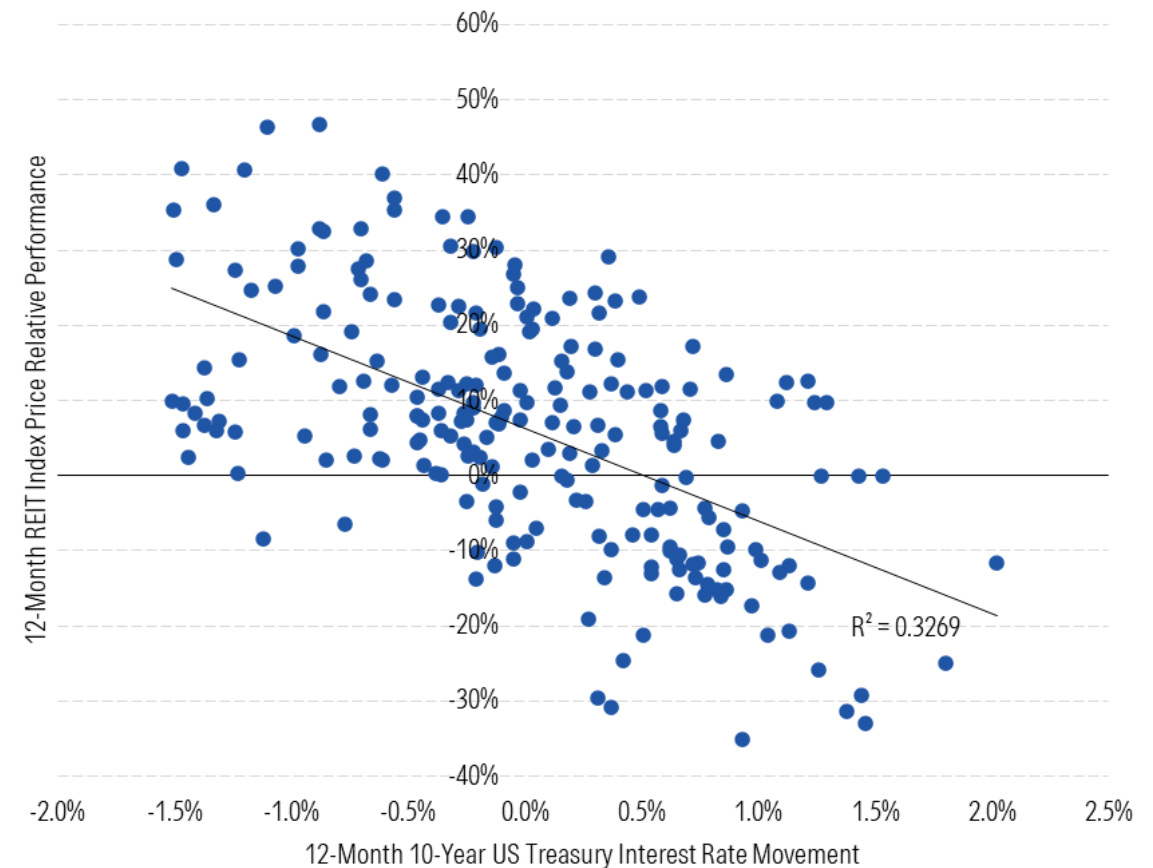
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Relative Performance of REITs Versus All US Equities Is Negatively Correlated With Interest Rate Movements

- Over the past 25 years, there has been a significant negative correlation between interest rate movements and REIT stock prices.
- Interest rates have only a small immediate impact on REIT cash flows, as most REIT debt is fixed and well staggered over 10-plus years.
- However, higher interest rates reduce the spread between acquisition cap rates and the rate on debt used to finance the deals, reducing the potential value management can create through external growth.
- Additionally, many income-oriented investors who invest in REITs for the high dividends rotate out of the sector and into risk-free options when they provide higher yields.
- The exhibit shows a scatterplot of 10-year US Treasury interest rate movements and REIT relative returns compared with the S&P 500 index over 12-month periods.
 - REIT underperformance tends to happen when interest rates are rising, while REITs often outperform the broader equity market when interest rates are falling.

REITs Outperform Broader US Equities When Interest Rates Fall and Vice Versa

Chart shows 12-month REIT sector performance vs. 10-year interest rate movements.

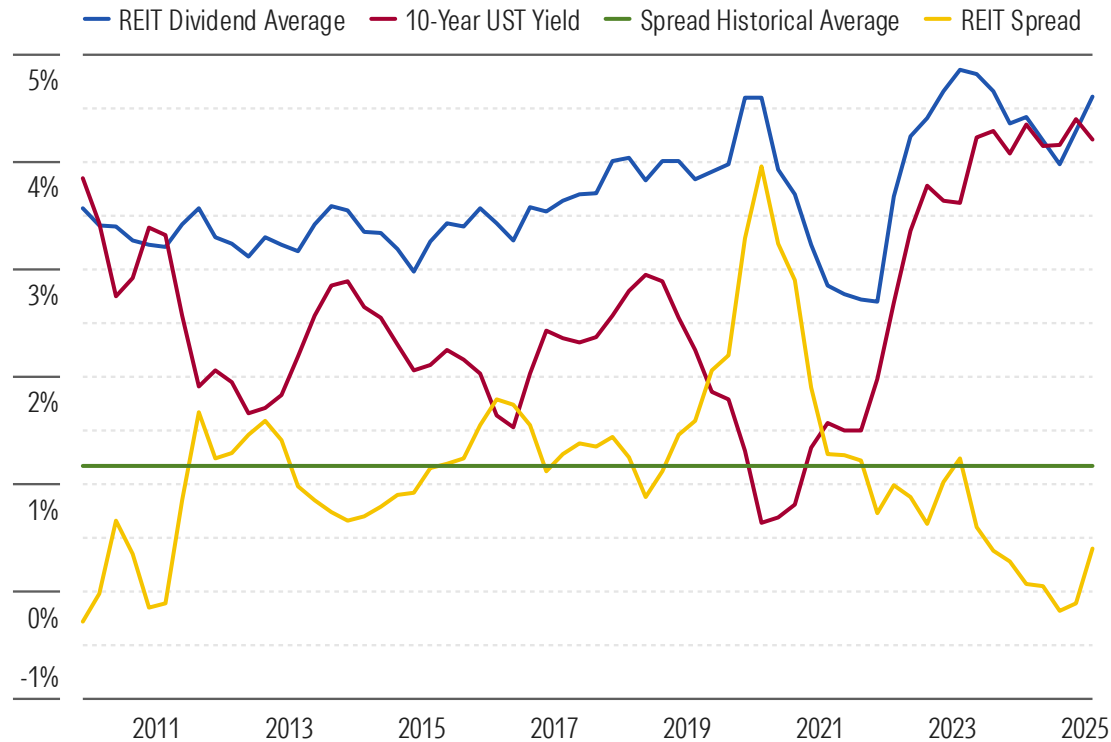


Average REIT Dividend Yields Are Typically 125 Basis Points Above the 10-Year US Treasury Rate

Since 2000, the average REIT we cover has historically paid a dividend yield that is 125 basis points above the 10-year US Treasury interest rate. With the exception of a few periods, this relationship has remained relatively stable, particularly since 2011.

REIT Dividend Yields Have Shown a Steady Relationship With the 10-Year Treasury

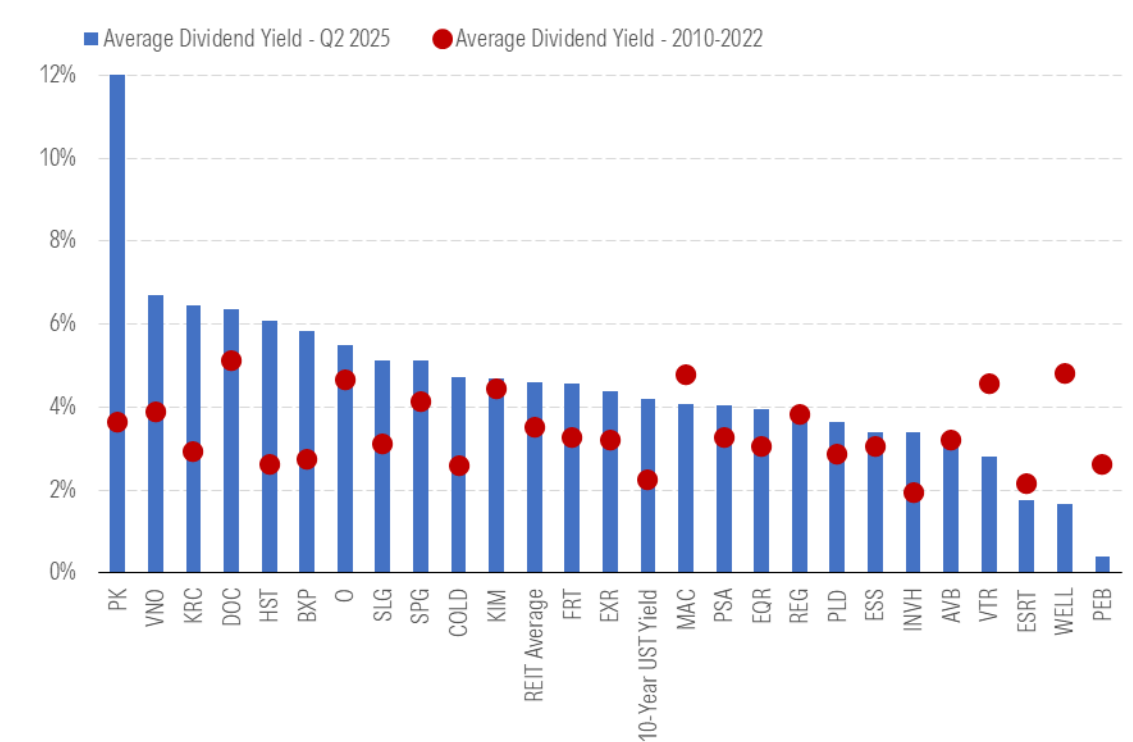
Dividend yields change based on raises/cuts, but also share price movements.



Many REITs are paying a dividend yield today that is higher than their historical average. However, the higher dividend yield is more closely linked to falling share prices than the REITs raising dividend payments.

The Average REIT's Dividend Yield Is 89 Basis Points Above Historical Average

Largely driven by the 10-year's 209-basis-point increase over the same period.



Source: Federal Reserve Bank of St. Louis, Morningstar Direct. Data as of Aug. 29, 2025.

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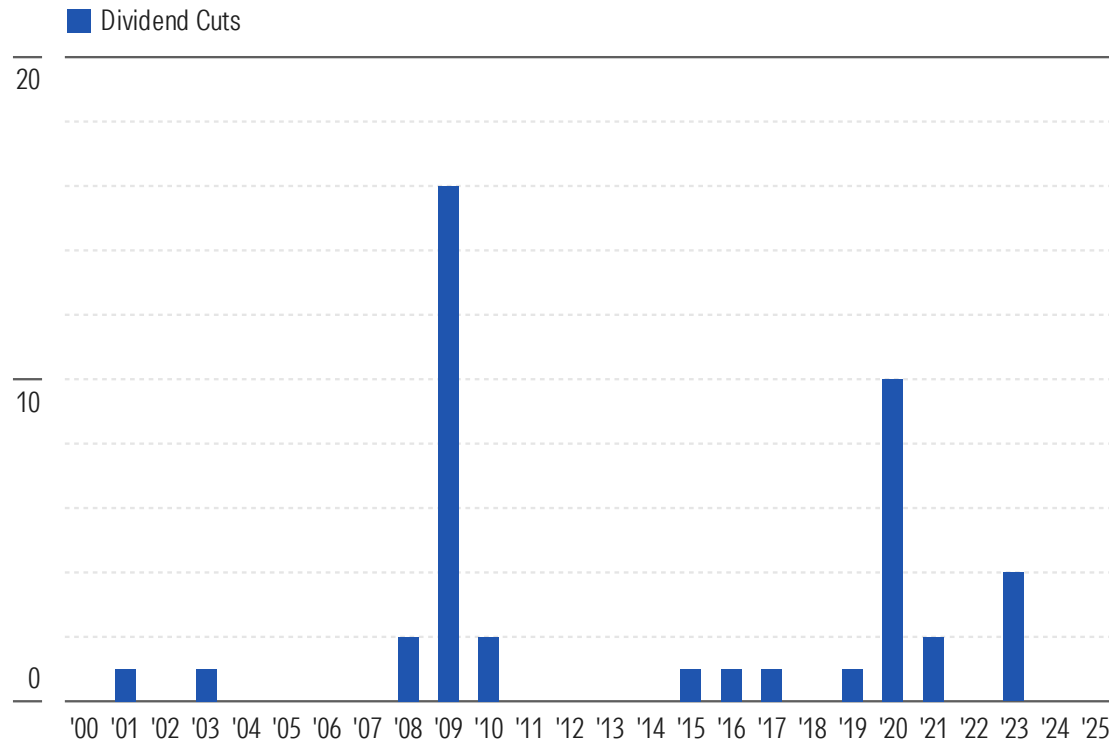
REITs Pay a Consistent Dividend During Normal Economic Conditions, Only Cutting During Recessions

REITs generally avoid cutting their dividends, as it scares off many income-oriented investors who are looking for reliable dividend payments and signals to the market that current cash flows will not be high enough to cover future dividend payments.

REITs try to maintain a stable dividend/AFFO payout ratio, generally between 80% and 95%, depending on external growth opportunities. Outliers are either hotels that pay inconsistent dividends or an IPO that was ramping up dividend payments.

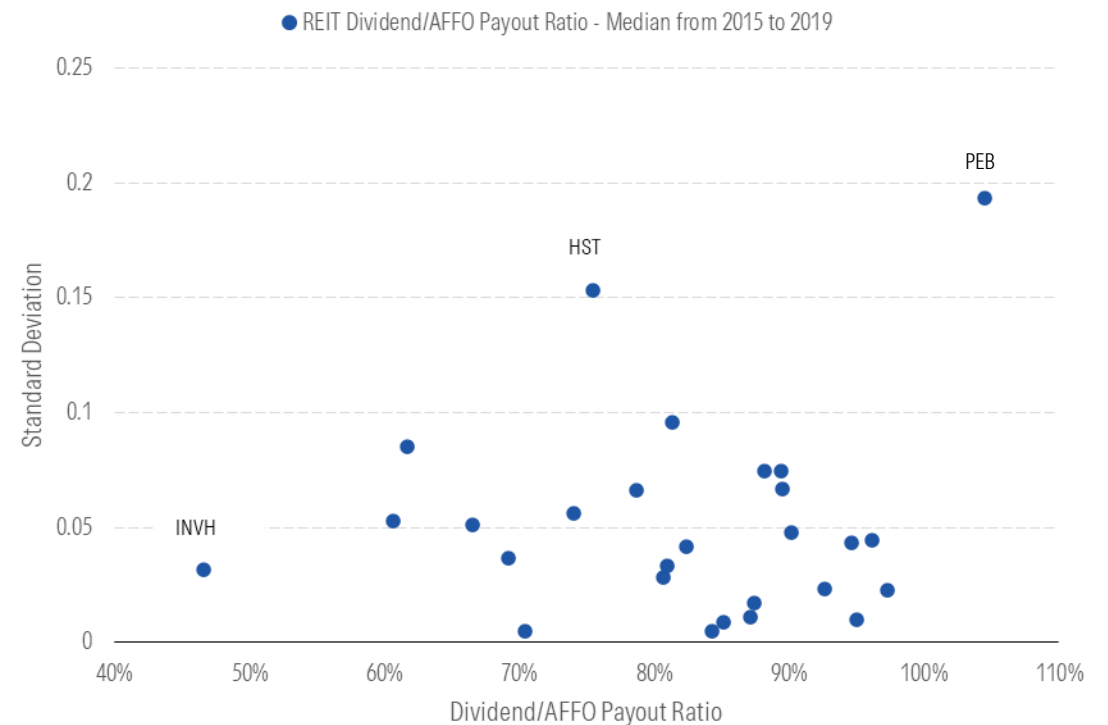
REITs Generally Only Cut Their Dividends During Economic Recessions

Operators prefer to reduce development spending or to sell noncore assets instead.



REIT Management Teams Choose to Pay a Dividend Close to the Company's AFFO

Dividend growth should be very close to AFFO growth over the long term.



Source: Morningstar Direct, company filings. Data as of Aug. 29, 2025.

See Important Disclosures at the end of this report.

Investors Looking at REITs for High, Consistent Dividend Payments Have Many Options

- We have scored the REITs according to several metrics to determine which ones are the most attractive for income-oriented investors.
 - Our methodology includes both a historical component (consistent dividend growth, lack of dividend cuts) and a forecast component (high same-store NOI growth and high AFFO growth, which should translate to high dividend growth).
 - We also consider the Morningstar Rating for stocks and current dividend yield, as acquiring a high current yield for cheap should be considered.
- Top REITs include three companies in the S&P 500 Dividend Aristocrats index (raised every year for at least 25 consecutive years): Federal Realty, Realty Income, and Essex Property Trust.
- Top picks include companies from many different sectors, while the bottom of the list is mostly office REITs and hotel REITs.

REITs That Strategically Focus on Dividend Payments Our Top Recommendations

Top of the list includes companies from several different sectors.

Rank	Company	Historical Dividend Score	Forecast Dividend Score	Morningstar Rating	Current Dividend Score	Weighted Score
1	FRT	4.8	3.4	4	5	4.2
2	O	5.0	2.8	5	5	4.2
3	COLD	3.8	4.2	5	5	4.2
4	ESS	4.3	3.4	4	3	3.8
5	VTR	4.0	3.9	4	2	3.8
6	DOC	3.4	3.6	5	5	3.8
7	AVB	4.2	3.4	4	3	3.7
8	EQR	3.5	3.7	4	4	3.7
9	INVH	3.3	3.8	4	3	3.5
10	REG	3.5	3.3	4	4	3.5
11	PSA	3.5	3.4	3	4	3.4
12	KIM	3.3	2.9	4	5	3.4
13	WELL	3.5	4.3	2	1	3.4
14	PK	2.7	3.4	5	5	3.4
15	PLD	3.0	3.5	4	3	3.3
16	BXP	2.8	3.2	4	5	3.3
17	VNO	2.8	3.4	2	5	3.2
18	MAC	3.3	2.4	4	4	3.1
19	SLG	2.6	3.2	3	5	3.1
20	EXR	2.8	2.9	4	4	3.1
21	KRC	2.8	2.6	4	5	3.1
22	SPG	2.8	2.4	3	5	2.9
23	HST	1.3	3.4	4	5	2.7
24	ESRT	2.2	3.2	4	1	2.6
25	PEB	1.8	3.4	5	1	2.6
	AVERAGE	3.2	3.3	3.9	3.9	3.4

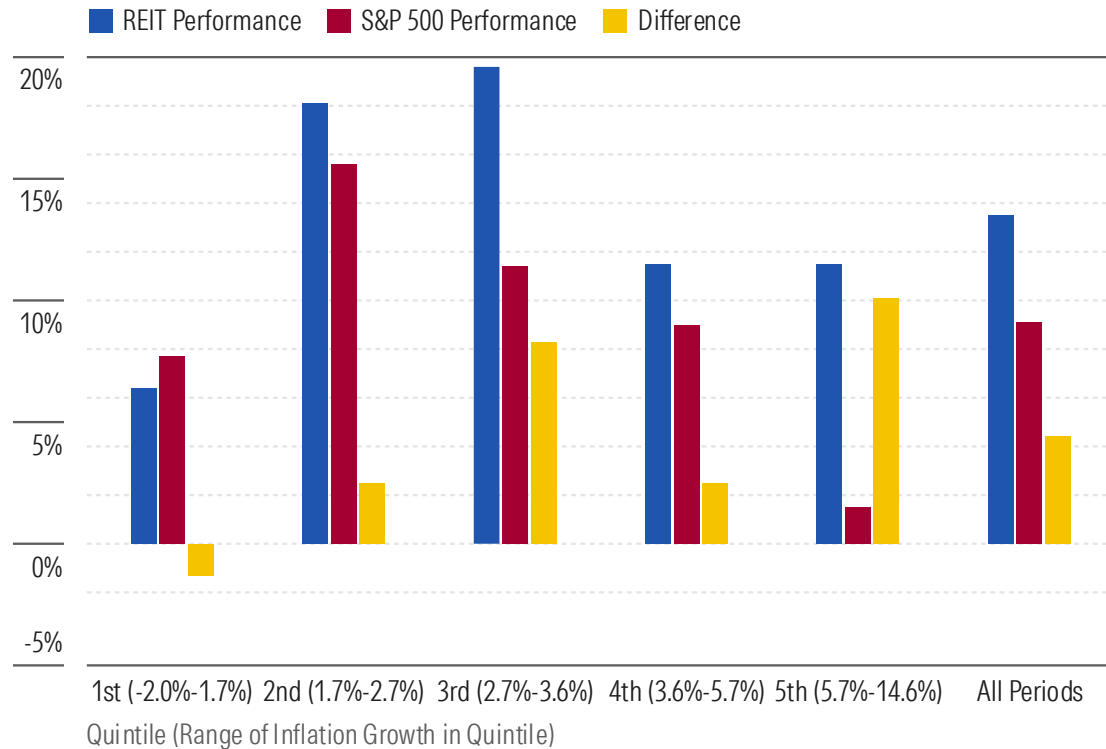
Despite Inflation Driving Revenue Growth Higher, No Indication That REIT Share Prices Benefit From High Inflation

The common wisdom held by the market is that REITs outperform during rising inflation. However, this analysis goes back to the 1970s, so nearly all of the outperformance comes from the late 1970s and early 1980s, when inflation was very high.

Restricting the analysis to just 2000 through the present shows that there is zero relationship between REIT performance and inflation. High inflation leads to higher expense growth, lower development yields, and likely leads to rising interest rates.

REITs Outperforming in the Highest Inflation Quintile Due to 1970s/1980s Analysis

The REIT industry is significantly different today compared with 40-50 years ago.



No Relationship Between Inflation and REIT Relative Performance Since 2000

Periods of rising inflation have been offset by rising interest rates.



Outlook: Healthcare

Senior housing recovery driving strong growth.

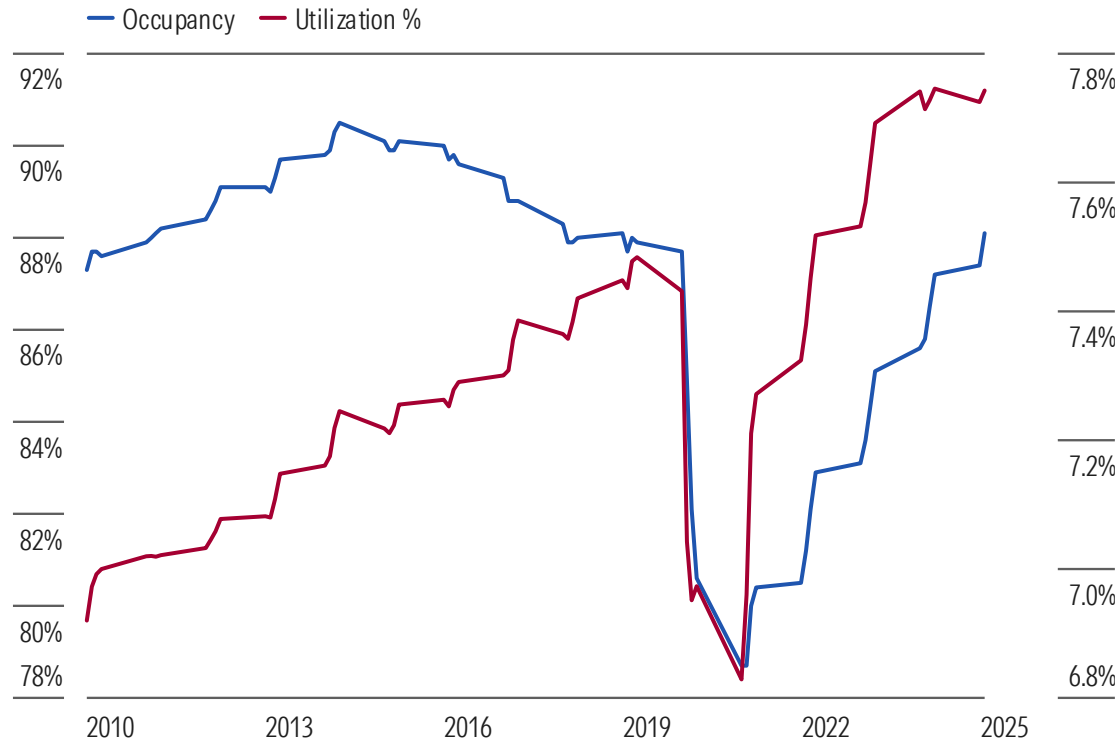
Senior Housing Occupancy, Which Fell During the Pandemic, Has Struggled to Recover Due to Supply Growth

Occupancy was falling before the pandemic because of high supply growth. However, occupancy returned to pre-pandemic levels in 2025 as utilization (percentage of those over 80 in a senior housing facility) has continued its upward trend.

In anticipation of aging baby boomers, construction starts picked up in the second half of the past decade. However, pandemic worries in 2020 and high interest rates in 2022-24 significantly reduced starts, so supply growth should be low for the next few years.

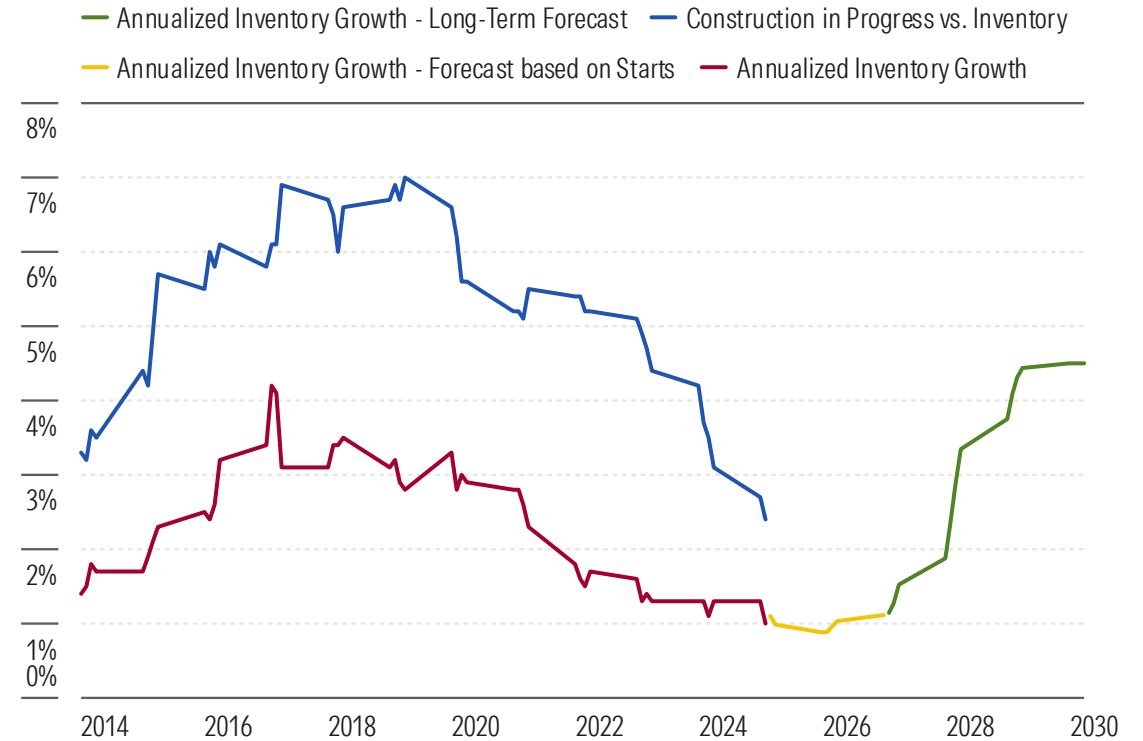
Despite Growing Utilization, Occupancy Remains Below 2015 Peak Due to Supply

Occupancy returned to 2019 levels in 2025 as demand growth has exceeded supply.



High Construction Starts Led to Supply Growth of About 3% From 2017-21

Slowdown in construction starts implies growth of around 1% over the next three years.



Source: Morningstar, National Investment Center, US Census Bureau. Data as of June 30, 2025.

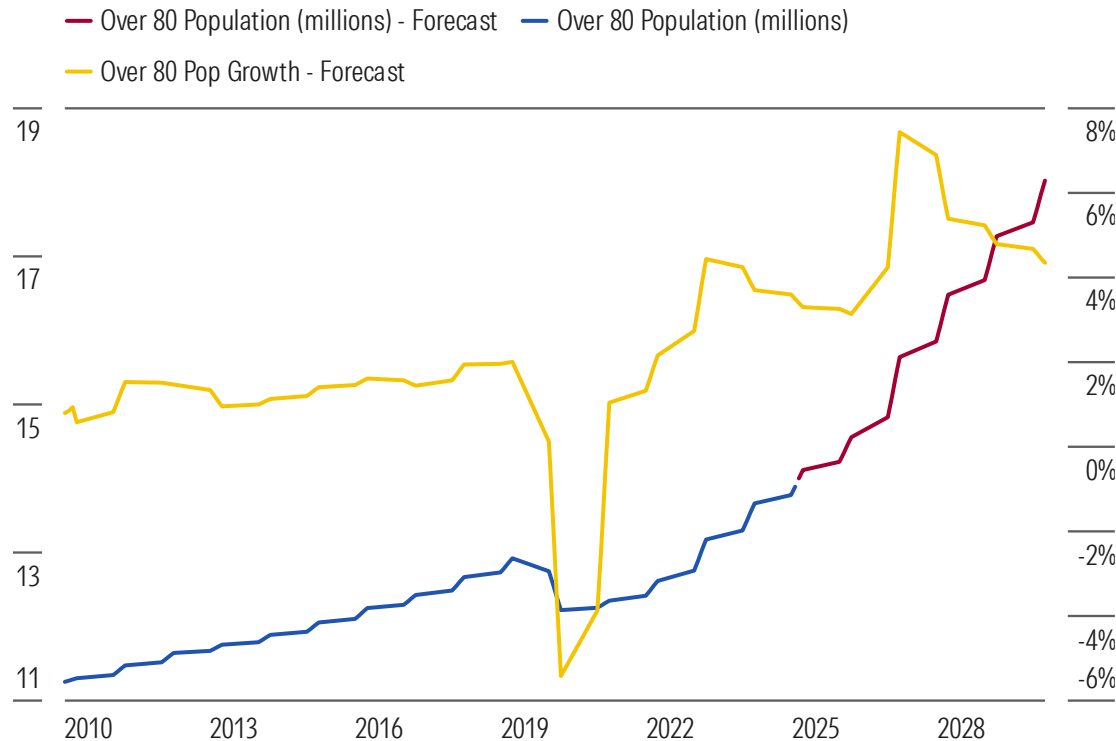
See Important Disclosures at the end of this report.

Accelerating Demand for Senior Housing Should Drive Occupancy Growth

The population of those 80 and older grew around 1.5% before the pandemic, below the sector's supply growth. However, aging baby boomers should generate demand growth of at least 3% each year, which should exceed supply growth most of the next decade.

The 80-Plus Population Should Grow at Least 3% Every Year Over the Next Decade

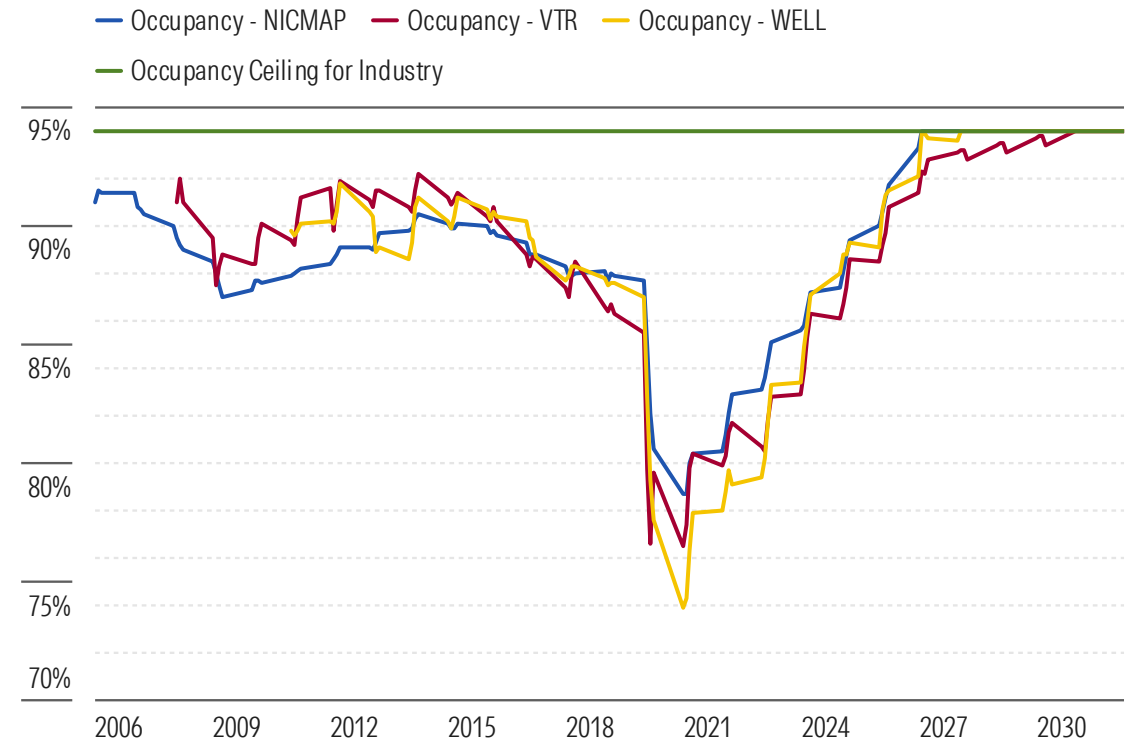
Combined with rising utilization, this should produce significant demand growth.



Demand growth exceeding supply growth allowed occupancies to return to prepandemic levels in 2025. We forecast that occupancies will exceed the sector's prior peak in the back half of the decade as population growth spikes higher.

Senior Housing Occupancy Should Continue to Recover From the Pandemic

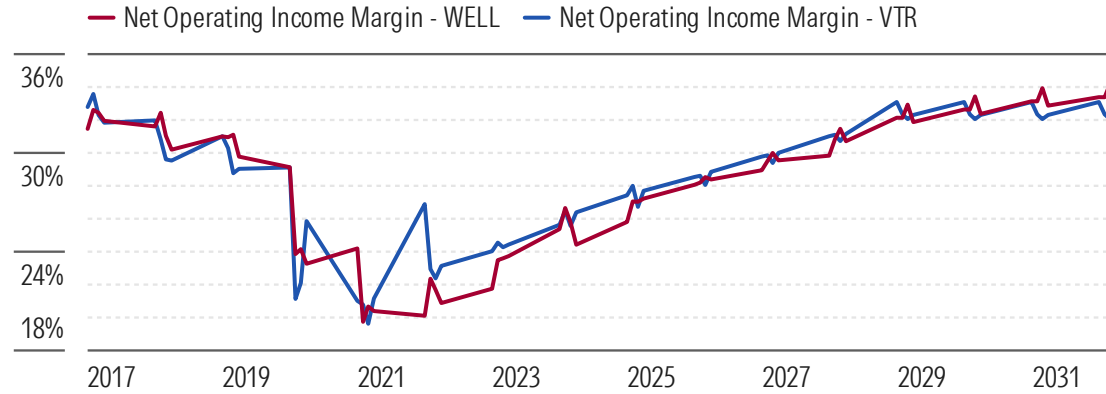
Occupancy will eventually go over 90% as supply struggles to keep up with demand.



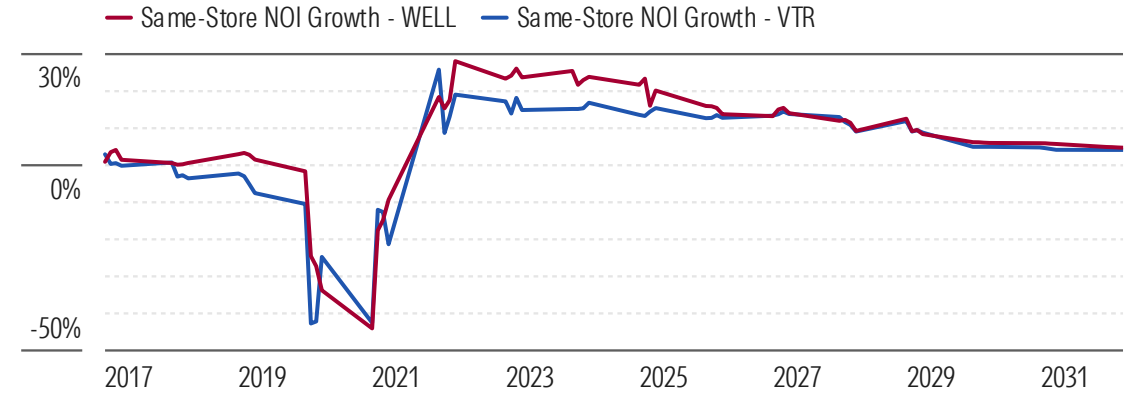
Sources: Morningstar estimates, US Census Bureau. Data as of Dec. 31, 2024 (left). Morningstar estimates, NIC, company filings. Data as of Aug. 29, 2025 (right).

Healthcare REITs Should Benefit From Senior Housing's Recovery Plus Medical Office and Life Science Stability

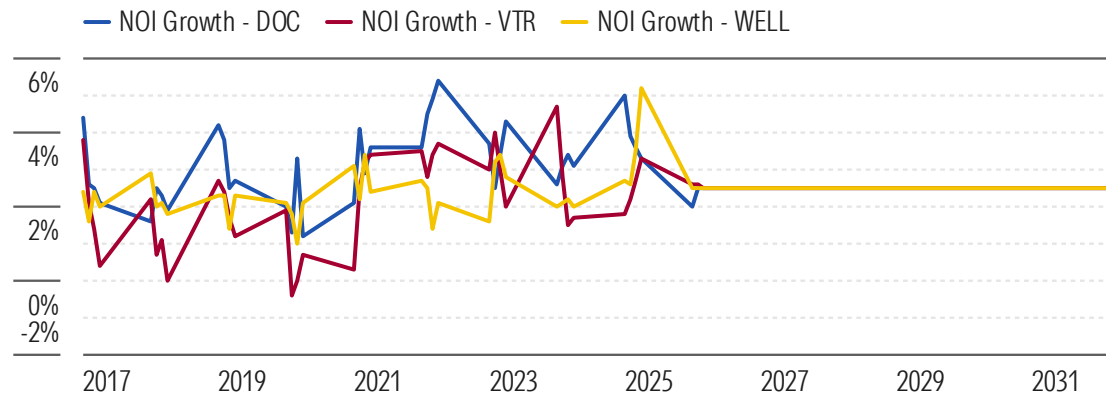
Senior Housing Margins Should Also Recover to Prior Levels Over Next Few Years



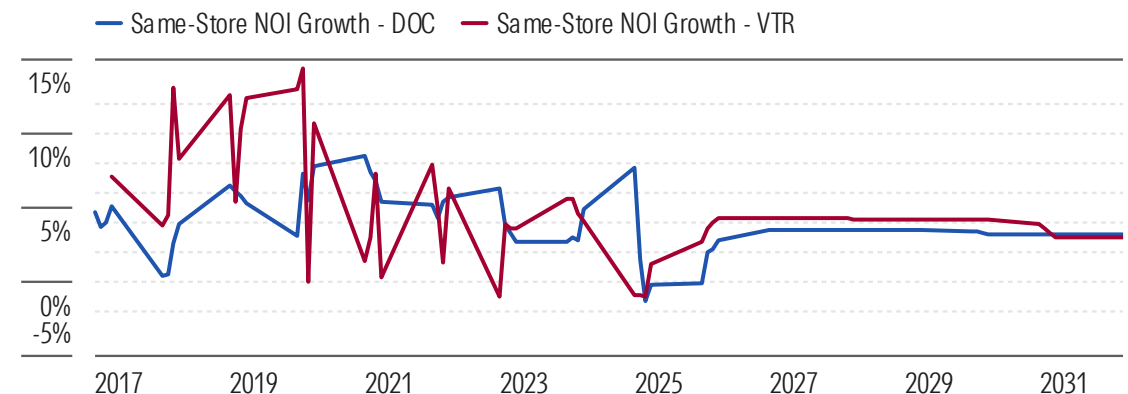
Occupancy and Margins Should Drive Double-Digit Senior Housing NOI Growth



Medical Office Provides Consistent Growth With Around 2.5% Lease Escalators



Life Science Growth Slowing as Sector Matures, but Should Provide Steady Growth



Outlook: Hotels

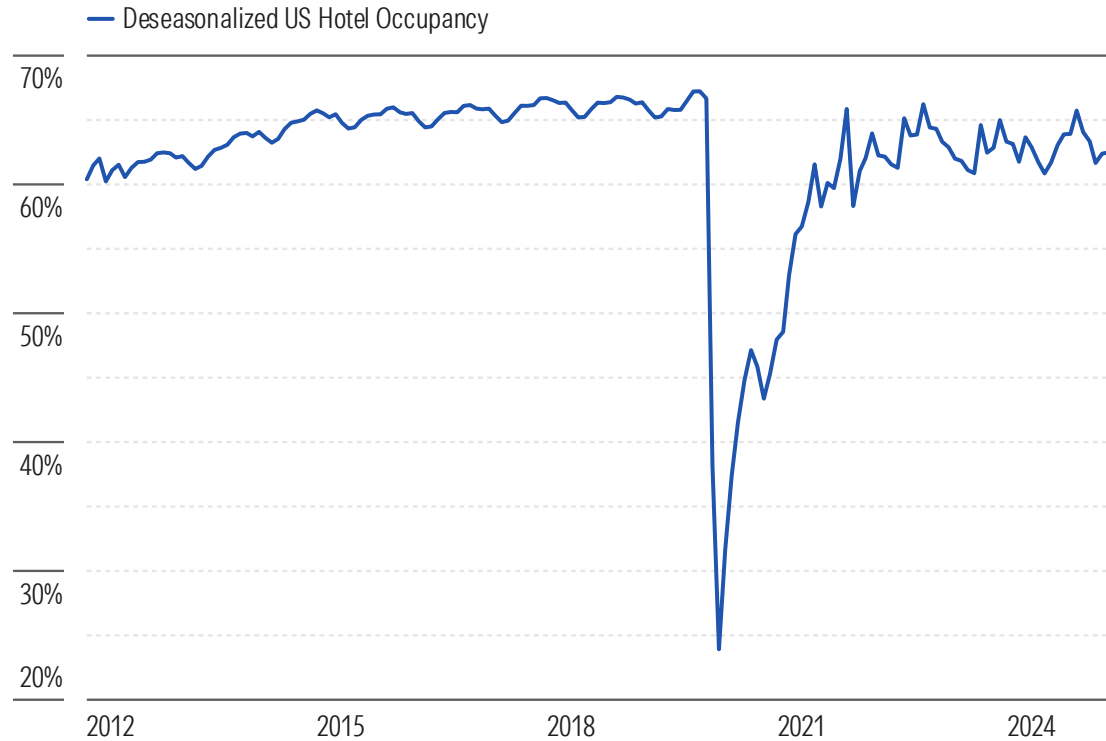
Growth has stagnated as inflation reduces budget available for travel.

Leisure and Group Travel Recover to Prepandemic Levels, Though Business Travel Is Still Below

Occupancy fell significantly at the beginning of the pandemic, with most people and businesses canceling travel plans. Leisure travel returned to prepandemic levels in the summer of 2021, while group bookings returned to 2019 levels in 2023.

The Pandemic Caused a Massive Decline, but Occupancy Has Mostly Recovered

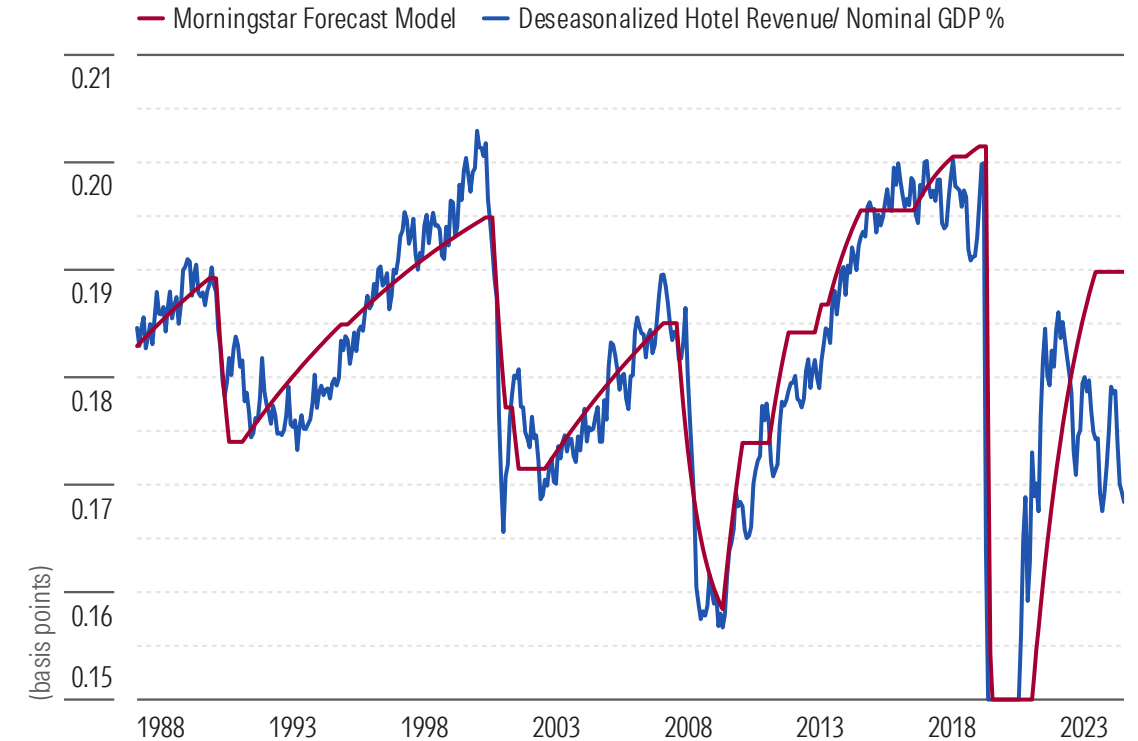
High inflation and increased natural disasters caused volatility over past three years.



Hotel spending as a percentage of GDP typically follows a pattern of falling dramatically during a recession and then slowly recovering until it plateaus. We anticipate that hotel revenue will plateau at a lower level than 2019 due to permanently lost business travel.

Hotel Revenue Falls During Recessions but Then Slowly Recovers

High inflation caused many consumers to shift spending away from luxuries like travel.



Revenue per Available Room Growth for Hotels Should Slow

The hotel industry is still recovering from the pandemic. We believe that spending on hotels as a percentage of GDP will slowly recover to 0.19%, so revenue growth will slightly exceed nominal GDP growth. Hotel supply growth will offset some of the overall revenue growth, leading to revenue per available room growth of around 2.7% per year. The hotel REITs own portfolios in the upscale and luxury segments, which we believe will experience higher revenue growth than the US average, but that will be offset by higher supply growth.

Hotels Saw a Dip in Revenue Growth in 2024 and 2025 but Should Settle Into a Period of Long-Term Low Growth

Upscale and luxury segments are expanding and seeing higher revenue growth, but the higher supply growth leads to revPAR growth near the national average.

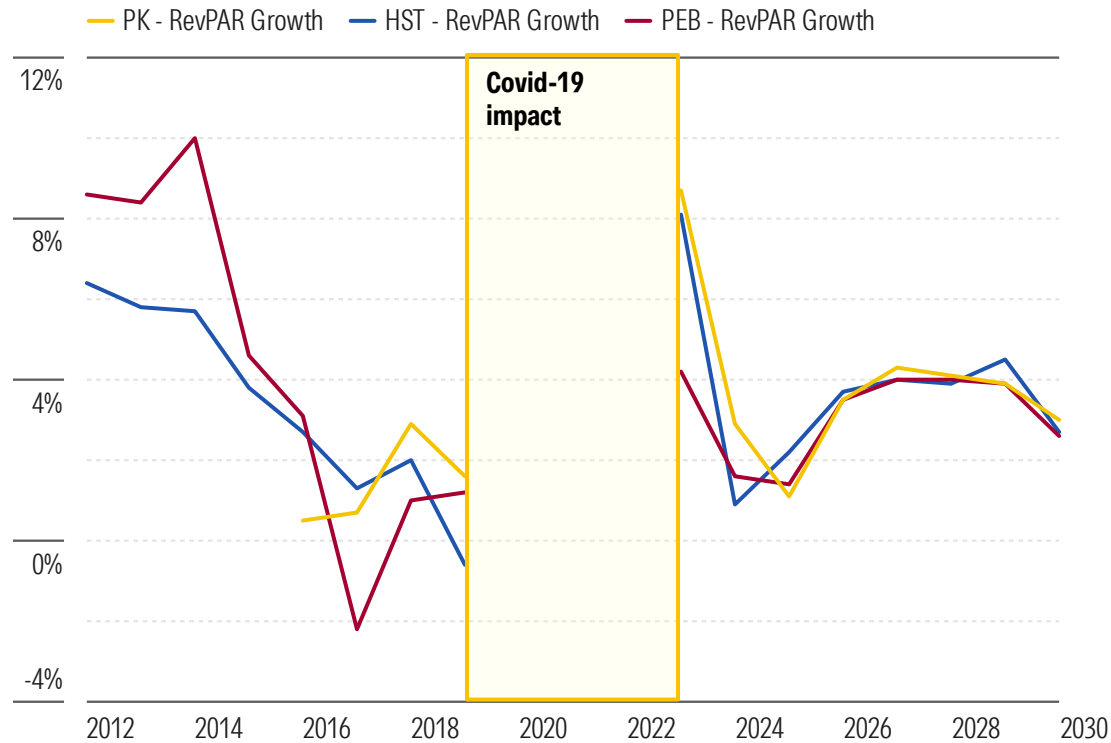
Segment	Metric	2023	2024	2025	2026	2027	2028	2029	2030	'25 to '30 CAGR
US	Revenue	5.40	2.40	1.80	3.90	4.20	5.20	5.00	5.00	4.20
	Supply	0.50	0.60	1.00	1.60	1.50	1.40	1.50	1.70	1.50
	RevPAR	4.90	1.80	0.80	2.40	2.70	3.70	3.40	3.20	2.70
Upscale	Revenue	9.10	3.30	1.40	6.20	6.30	6.90	6.40	6.20	5.50
	Supply	1.60	1.10	1.90	3.20	3.00	2.70	2.80	3.20	2.80
	RevPAR	7.40	2.10	-0.50	2.90	3.20	4.10	3.50	2.90	2.70
Luxury	Revenue	5.60	9.90	8.00	5.00	5.30	5.80	5.40	5.20	5.80
	Supply	2.80	6.90	4.30	1.90	2.30	2.00	2.10	2.40	2.50
	RevPAR	2.70	2.70	3.50	3.40	2.90	3.70	3.20	2.80	3.30

Hotel REITs Should See a Few More Years of Above-Average Growth

The REITs own hotels almost entirely in the upscale, upper-upscale, and luxury segments, which should produce revPAR growth around 3%. The companies have undergone recent renovations that should lead to slightly higher growth in future years.

We Expect Hotel REITs to Produce RevPAR Growth Around 4% Over Next Few Years

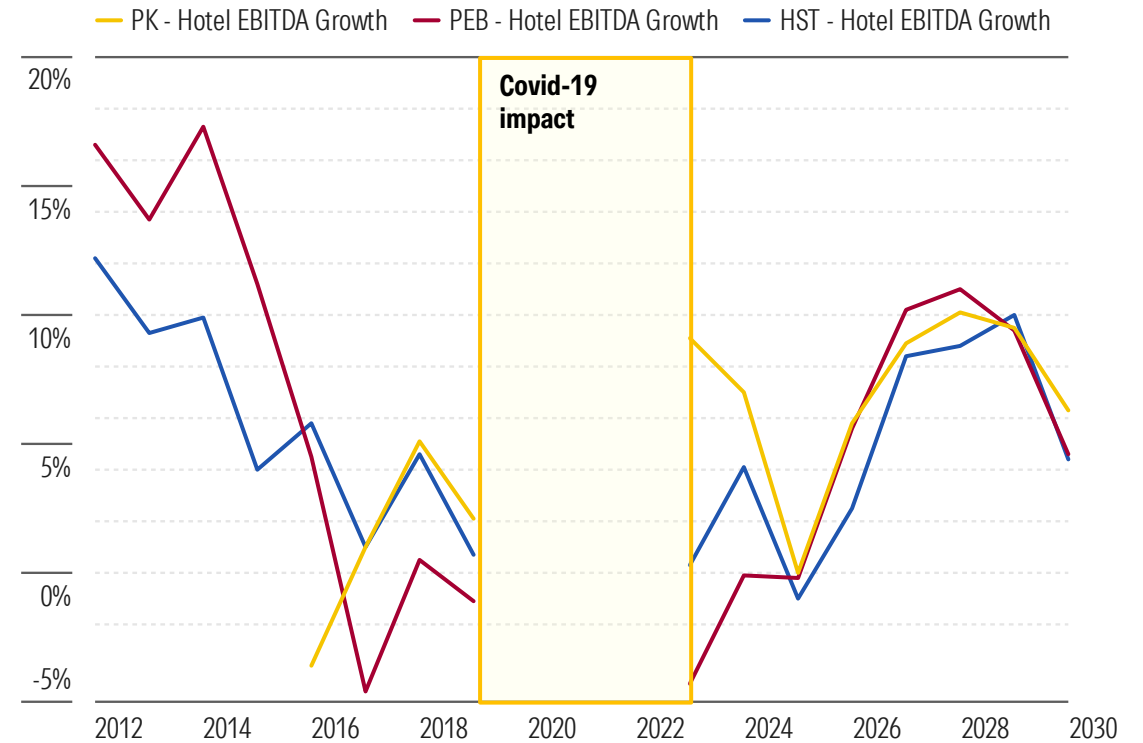
REIT portfolios should see growth higher than national average due to renovations.



While operating margins are still below their peaks, we think that revPAR growth that is more rate-driven than occupancy-driven should lead to margin recovery. Therefore, revenue growth combined with margin expansion should drive high NOI growth.

RevPAR Growth and Recovering Margins Should Produce NOI Growth Around 10%

We predict that margins should return to 2019 levels by 2030.

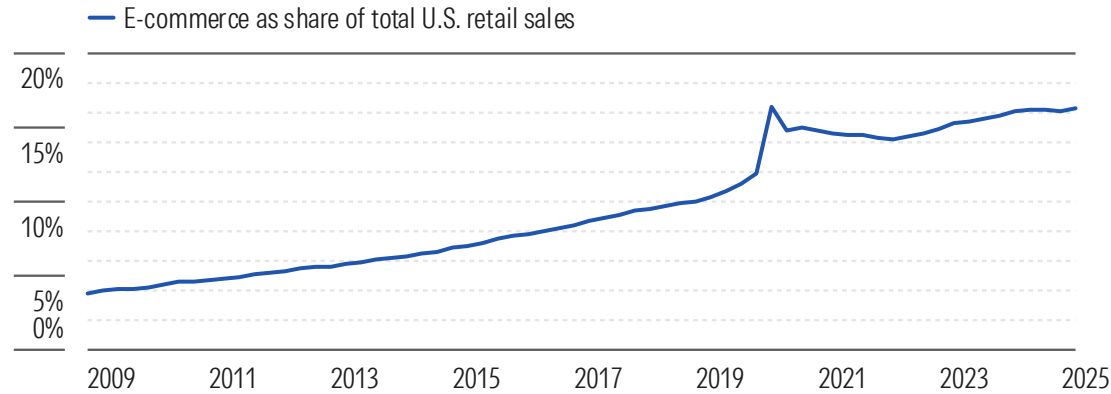


Outlook: Industrial

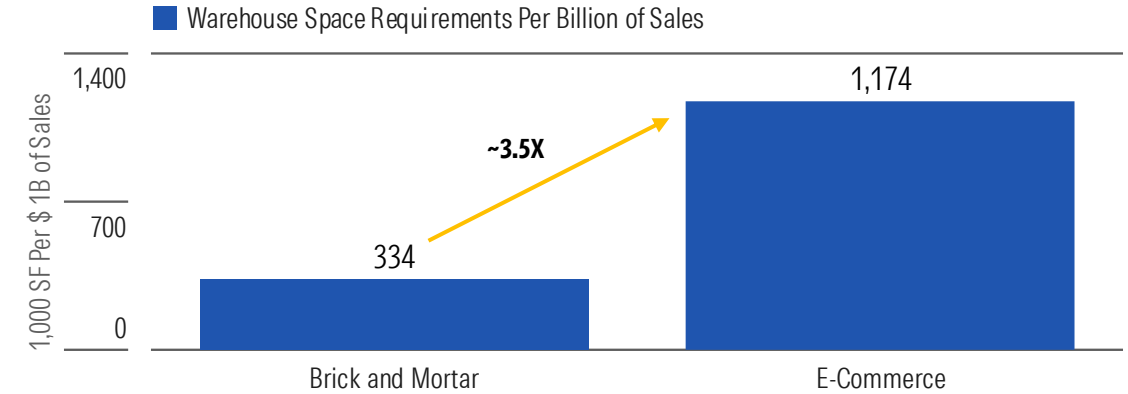
Industrial demand has cooled off, but mark to market should still lead to robust growth.

Structural Demand Drivers Have Led to Strong Growth for the Industrial Sector Over the Past Decade

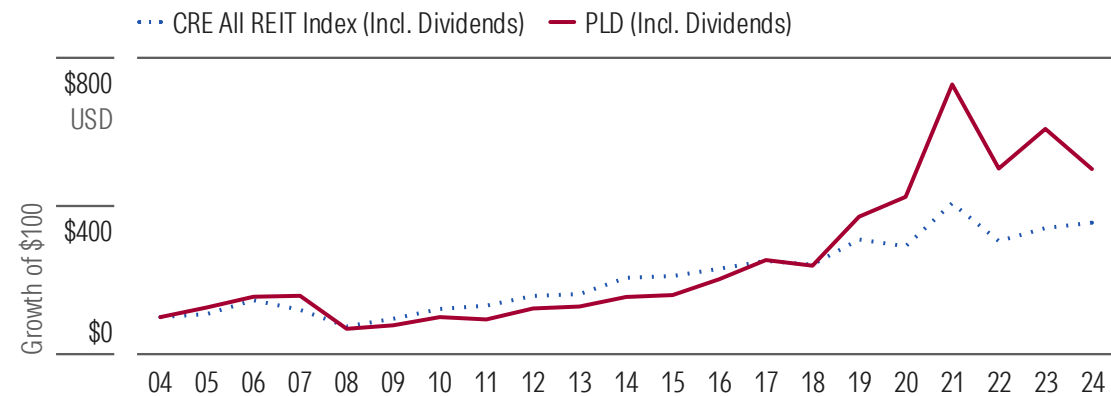
E-Commerce Penetration Has Expanded Rapidly Over the Past Decade



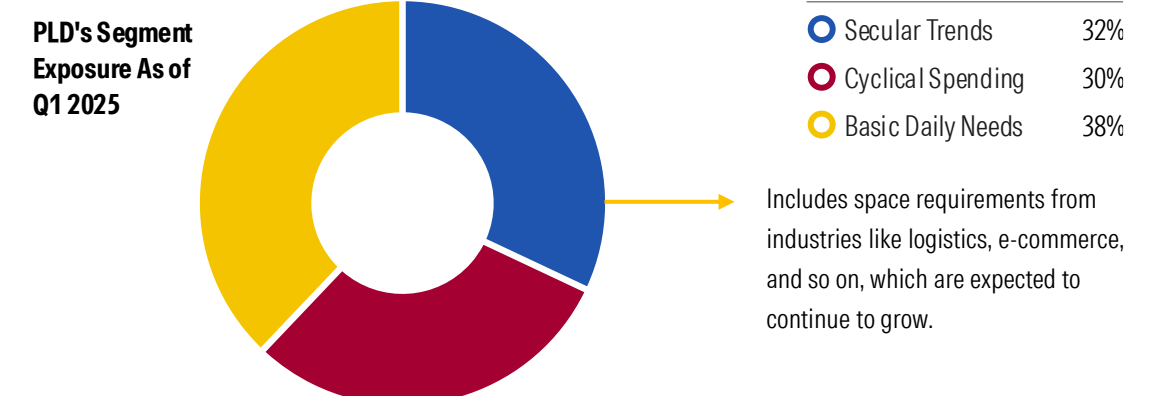
E-Commerce Needs 3.5 Times More Warehouse Space Than Traditional Channels



Industrial Has Outperformed Other Sectors but Has Been Under Pressure Recently



Secular Growth Sectors Represent 32% of Prologis' Occupied Space



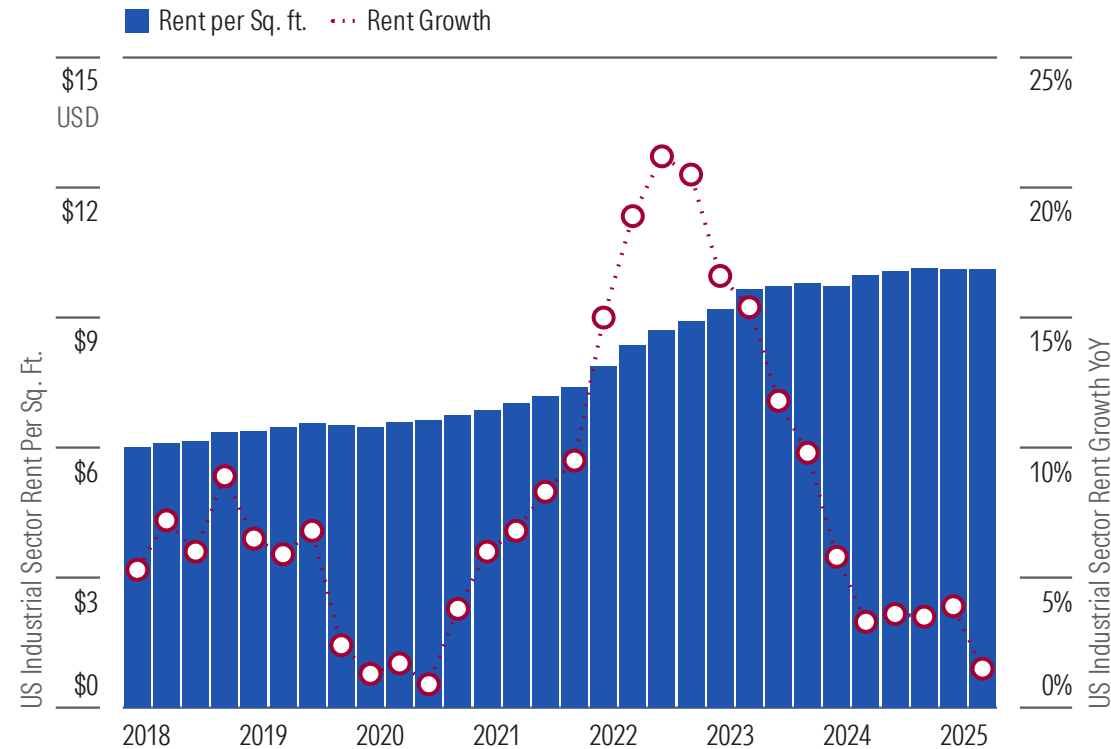
Source: Morningstar, US Census Bureau, Federal Reserve Bank of St. Louis. Data as of June 30, 2025 (top left). Euromonitor, E-Marketer, Census Bureau, Prologis Research. Data as of Aug. 31, 2025 (top right). Morningstar, Federal Reserve Bank of St. Louis, FTSE Nareit. Data as of Dec. 31, 2024 (bottom left). Prologis Research, Census Bureau, BEA, Euromonitor. Data as of March 31, 2025 (bottom right).

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US Industrial Sector Fundamentals Are Slowing Down From the Elevated Levels of Past Years

Rent Growth Has Weakened Significantly

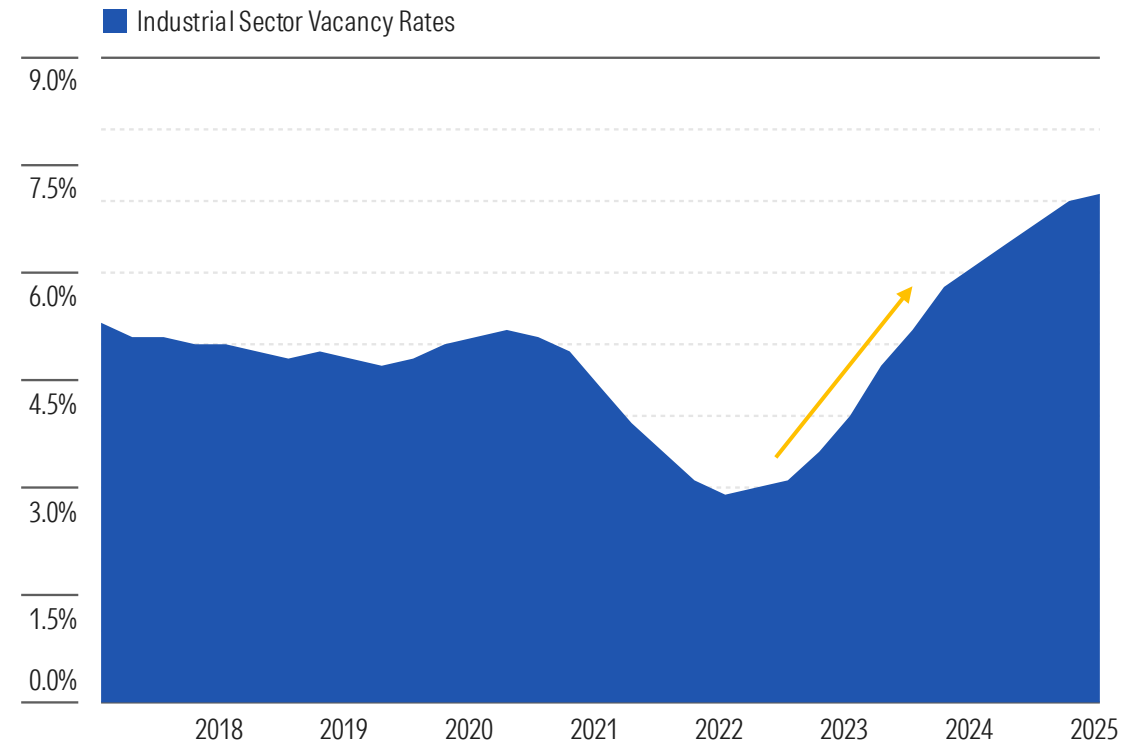
Fundamentals have weakened for the sector after the postpandemic boom.



Rents spiked in 2021 and 2022 due to booming demand for industrial properties, but rental growth has started to moderate in the past couple of years. Industrial rent growth has been quite weak in recent quarters.

As Vacancy Rates Continue to Swell and Are Now Much Higher Than 2019

Higher supply-side deliveries and slowing demand have resulted in higher vacancy.

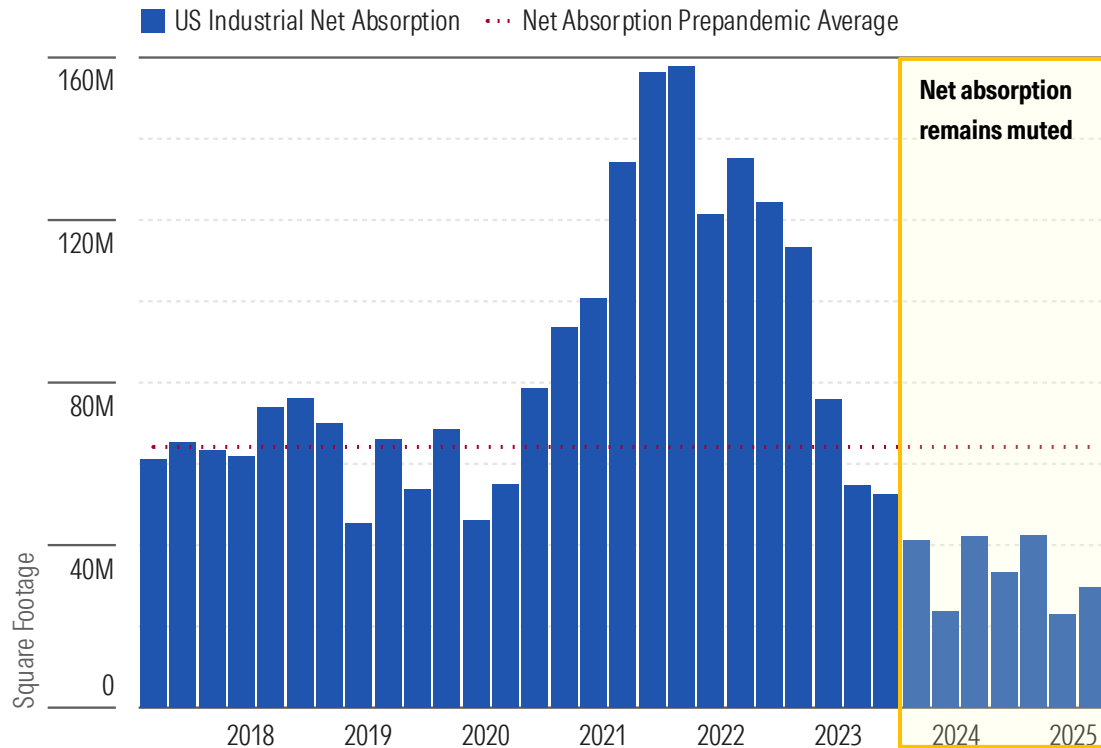


Vacancy rates moved up sharply due to higher supply and slowing demand in the past two years after reaching a relative low of 2.9% in the second quarter of 2022. They have surpassed prepandemic levels and are currently at around 7.1%.

Industrial Net Absorption (Demand Proxy) and Construction Pipeline (Supply Proxy) Continue to Retreat

Industrial Net Absorption Remains Relatively Weak

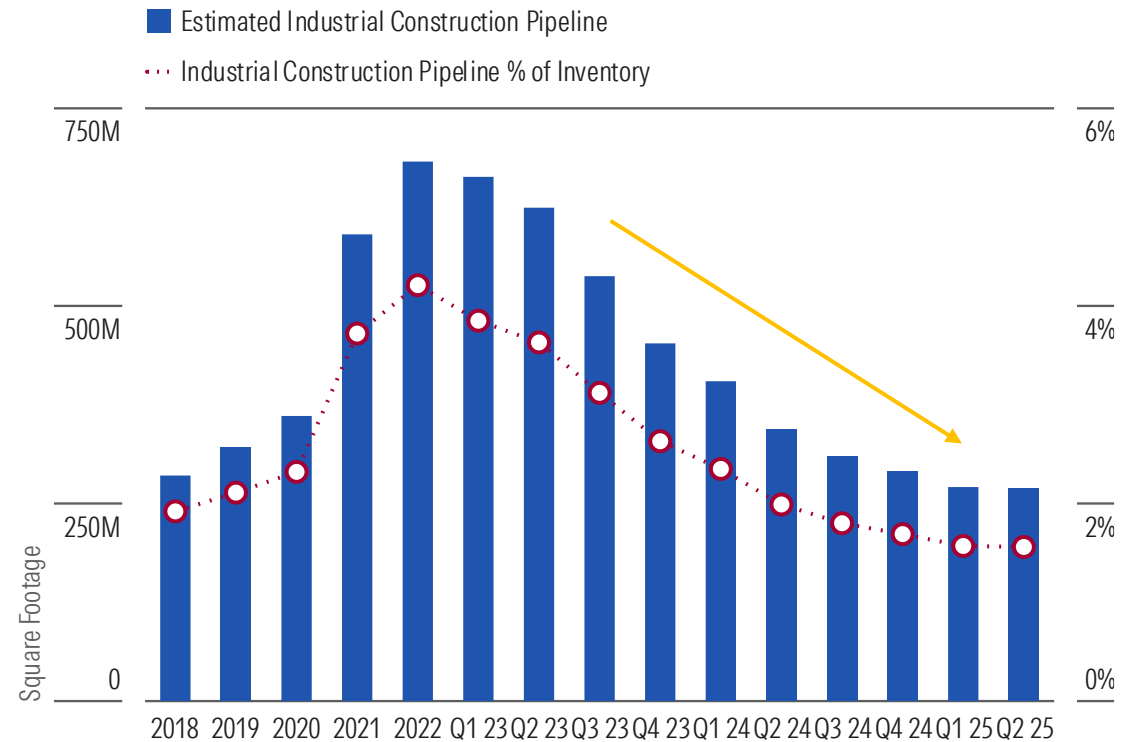
Net absorption continues to be materially below the prepandemic average.



Slowing demand for industrial properties is best exemplified by net absorption numbers. Net absorption in 2024 and 2025 has been running at a much lower rate than the prepandemic average.

Construction Pipeline Has Fallen From Its 2022 Highs

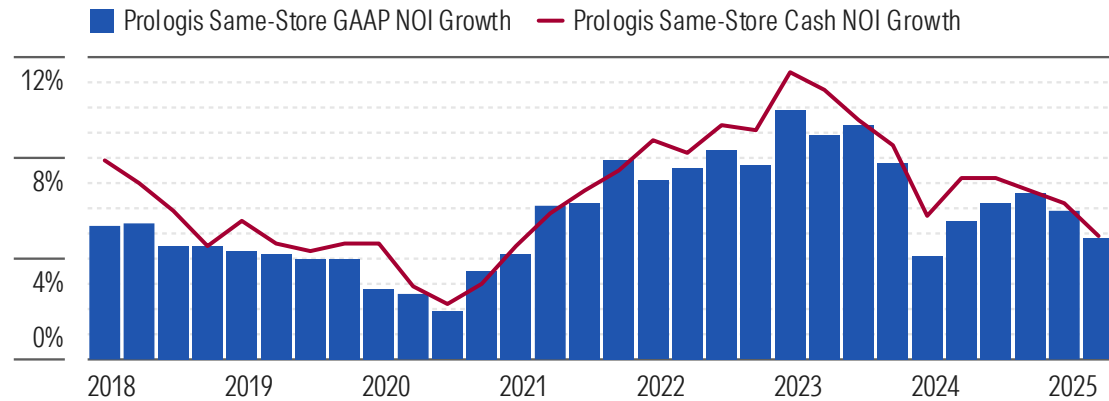
Lower construction pipeline is a material positive for industrial outlook.



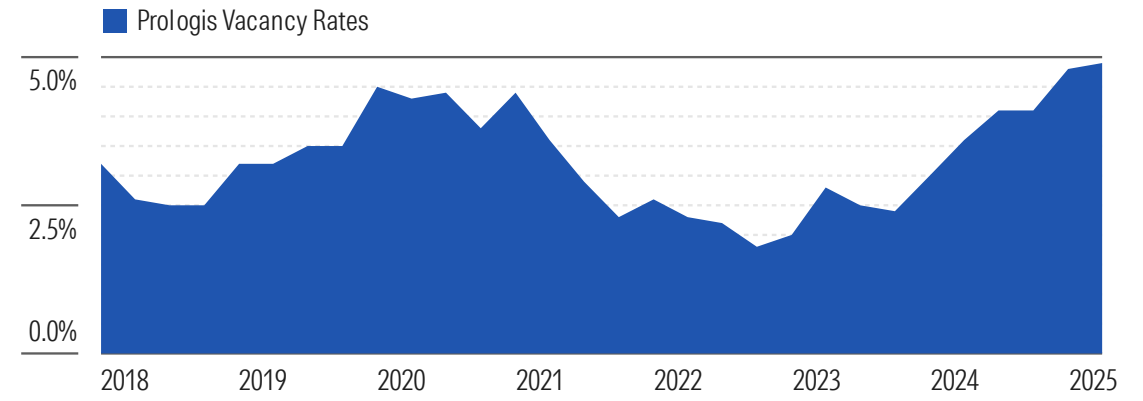
Slowing demand for industrial properties has also translated into lower construction starts in the sector. The construction pipeline, considered a proxy for additional supply, continues to fall from highly elevated levels.

High Mark to Market Should Continue to Drive Net Operating Income Growth for Prologis in Upcoming Years

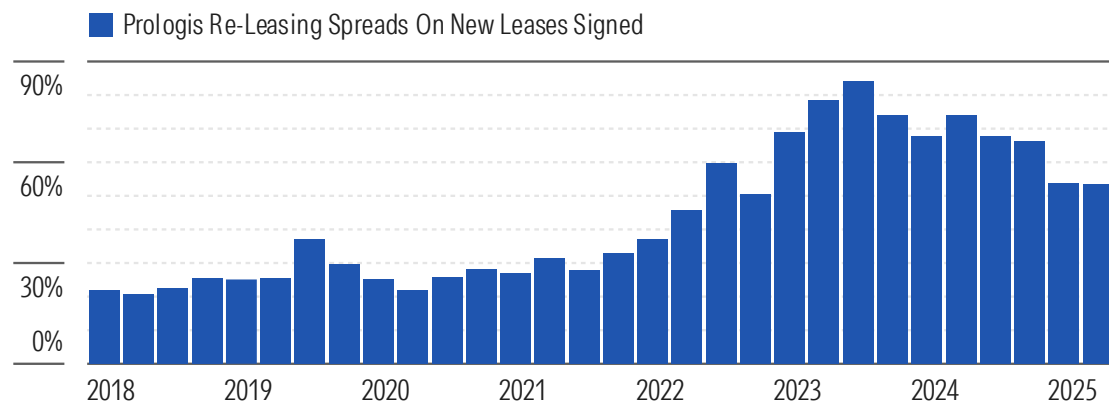
Prologis Same-Store NOI Growth Remains Decent Even as the Sector Slows Down



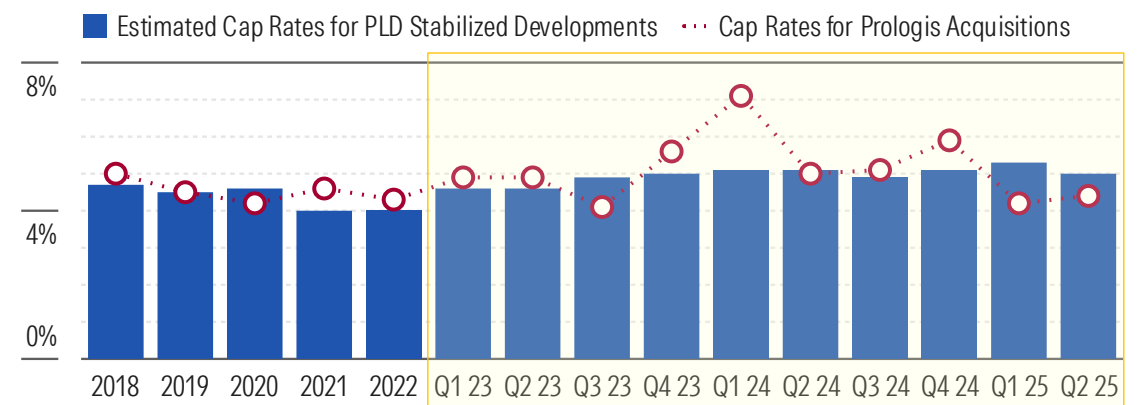
Although Vacancy Rates in Prologis' High-Quality Portfolio Have Moved Up



Mark to Market Is Still Driving Exceptionally High Re-Leasing Spreads



Rising Cap Rates for New Developments Will Dampen Development Profits



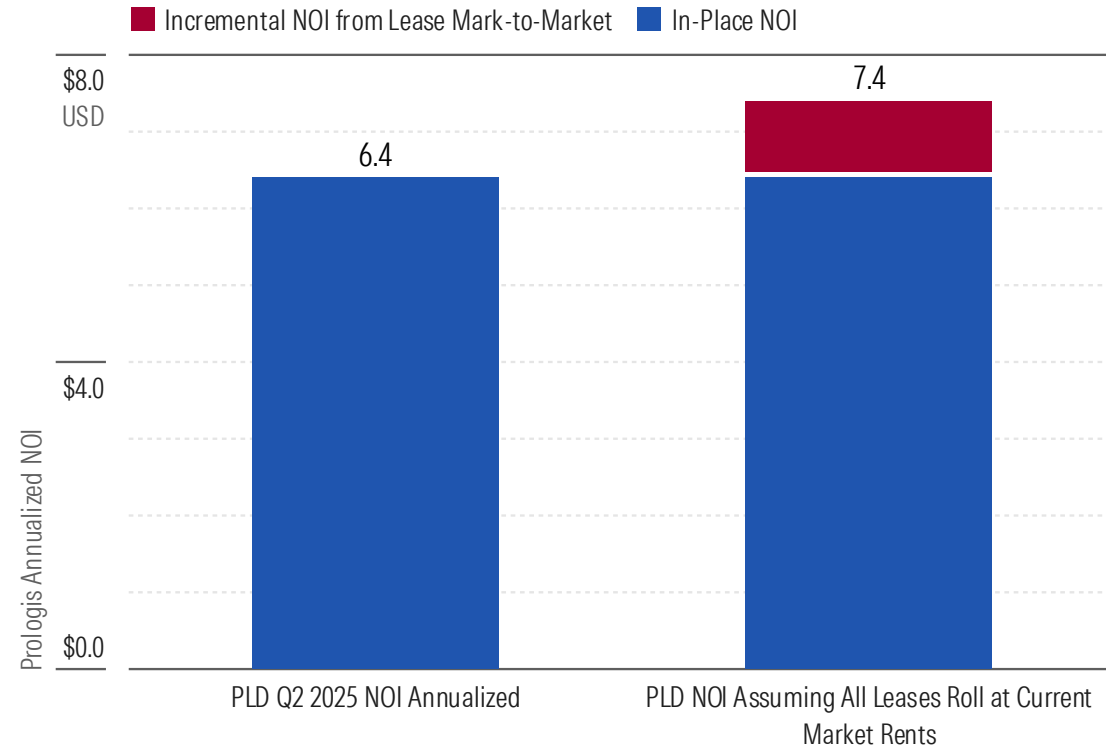
Source: Morningstar, company reports. Data as of June 30, 2025.

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High Mark to Market Should Continue to Drive Net Operating Income Growth for Prologis in Upcoming Years

High Lease Mark to Market Should Lead to Significant Growth in NOI

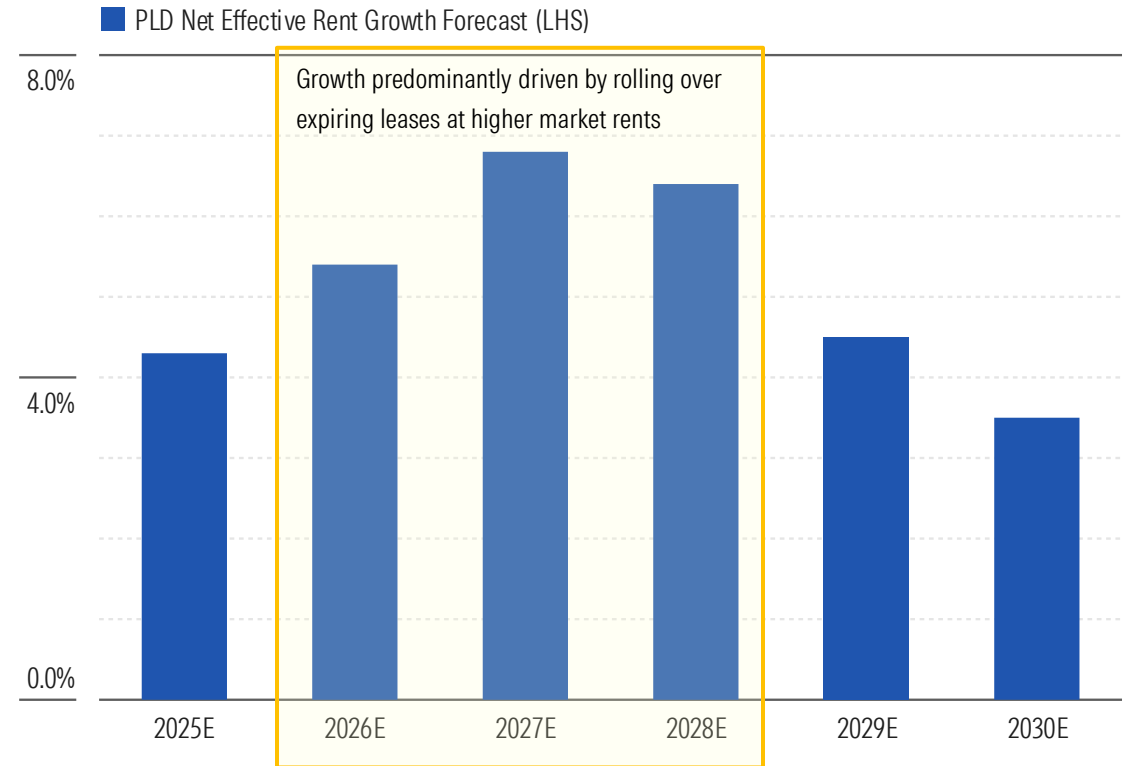
High mark to market could be thought of as built-in growth for the company.



Prologis reported 23% lease mark to market as of the second quarter of 2025. This implies an incremental NOI growth of \$1.0 billion if existing leases are rolled at the current market rents in a normalized environment.

Prologis' Growth Should Remain Strong for a Few More Years

Growth is expected to remain resilient in absolute terms, driven by mark to market.



Same-store NOI growth and vacancy rates for Prologis should continue to be resilient for the next few years, even as the sector faces fizzling incremental demand and supply-side additions.

Outlook: Office

Extremely challenging outlook, but valuation remains attractive for select names.

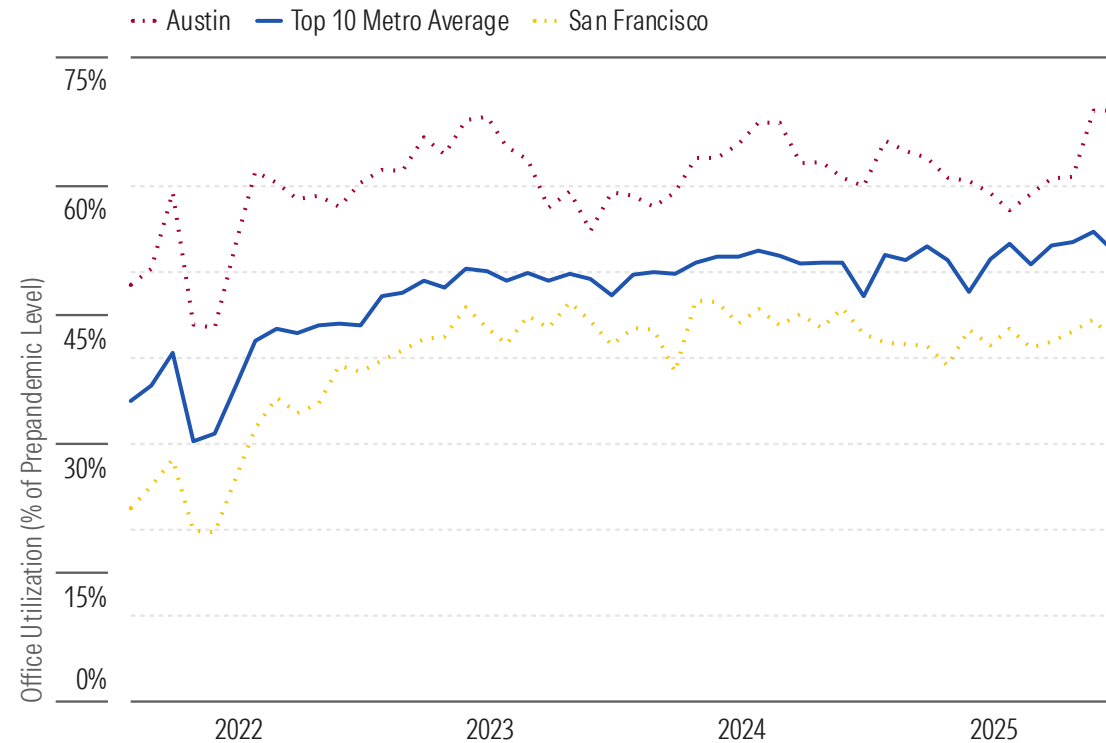
Employers Remain Hesitant to Sign New Office Leases as Physical Office Utilization Remains Stubbornly Low

Despite more employers requiring it, workers are still reluctant to return to the office, thereby keeping physical office utilization stuck at around 50%-55% of prepandemic levels.

Higher interest rates, slowing employment growth for office jobs, and the lingering effects of remote work are keeping US office leasing volumes depressed.

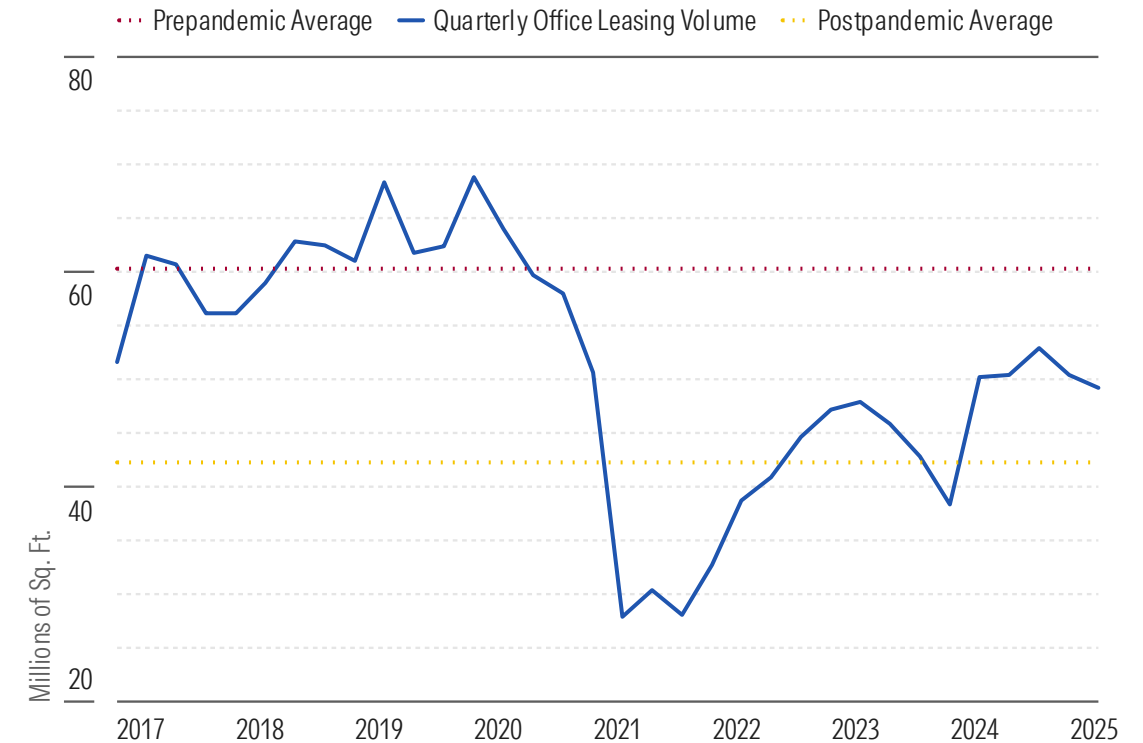
Hybrid Work Solutions Continue to Weigh on In-Office Attendance

Office utilization is stuck at around 50%-55% of prepandemic levels.



Office Leasing Volumes Have Picked Up but Remain Materially Below 2019 Levels

Average postpandemic leasing volume is about 30% lower than prepandemic average.

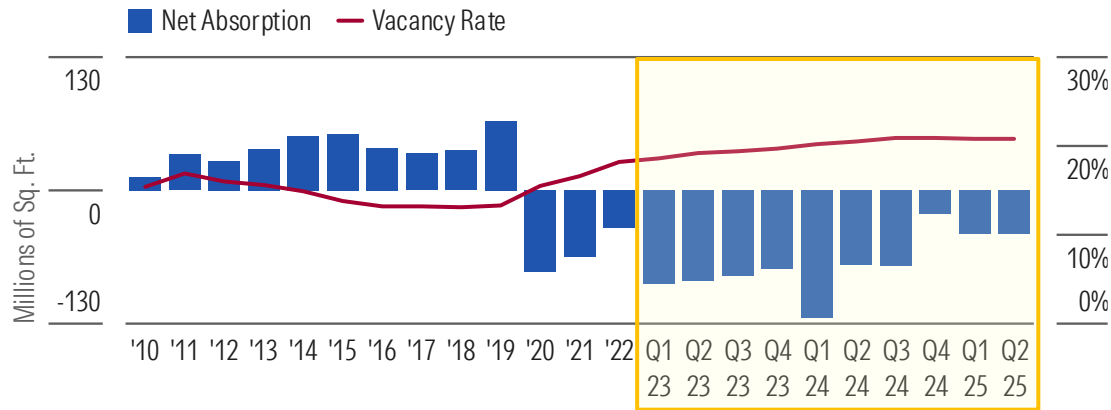


Source: Kastle Systems Back to Work Barometer. Data as of Aug. 20, 2025 (left). Morningstar, Jones Lang LaSalle Research, Cushman & Wakefield. Data as of Jun. 30, 2025 (right).

See Important Disclosures at the end of this report.

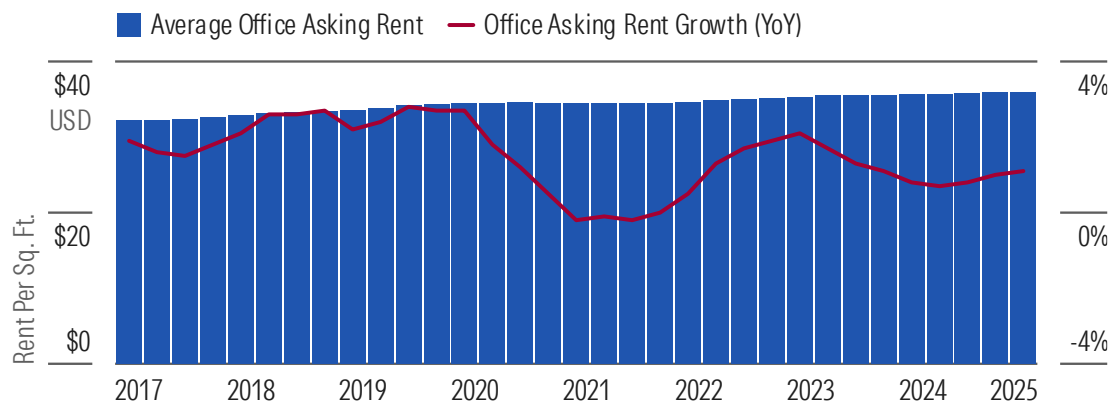
Office Real Estate Is Under Tremendous Pressure as Net Absorption Remains Substantially Negative

Net Absorption Remains Pressured, but Vacancy Rates Are Stabilizing



Net absorption in the office sector had improved steadily after the pandemic-driven disruption until 2022, but the trend has reversed in the past few years, with net absorption remaining in negative territory. To illustrate the stress in the sector, the average annualized rate of negative net absorption in four of the last 10 quarters has been even higher than the average 2020 levels. Annualized net absorption remained in negative territory during second-quarter 2025 at negative 42 million square feet but showed 43% improvement from a year ago. For context, this amounts to about 0.8% of total office inventory in the US. Vacancy rates in the office sector seem to have stabilized and are currently hovering at around 21%.

Office Asking Rents Have Held Up Well, but Are Coming Under Increased Pressure



Asking rents for offices have held up reasonably well in the past three years, given the sector's challenging fundamentals and long-term headwinds. To a certain extent, the asking rent number looks better than the actual cash rents of office properties in the US since lease incentives (like free rent, tenant improvements, and so on) have increased considerably over that period. Asking rents for office properties are up around 5.9% compared with prepandemic levels, and year-over-year growth has remained in positive territory for about 13 straight quarters. We note that rental growth in real terms remains disappointing after adjusting for inflation during that same period.

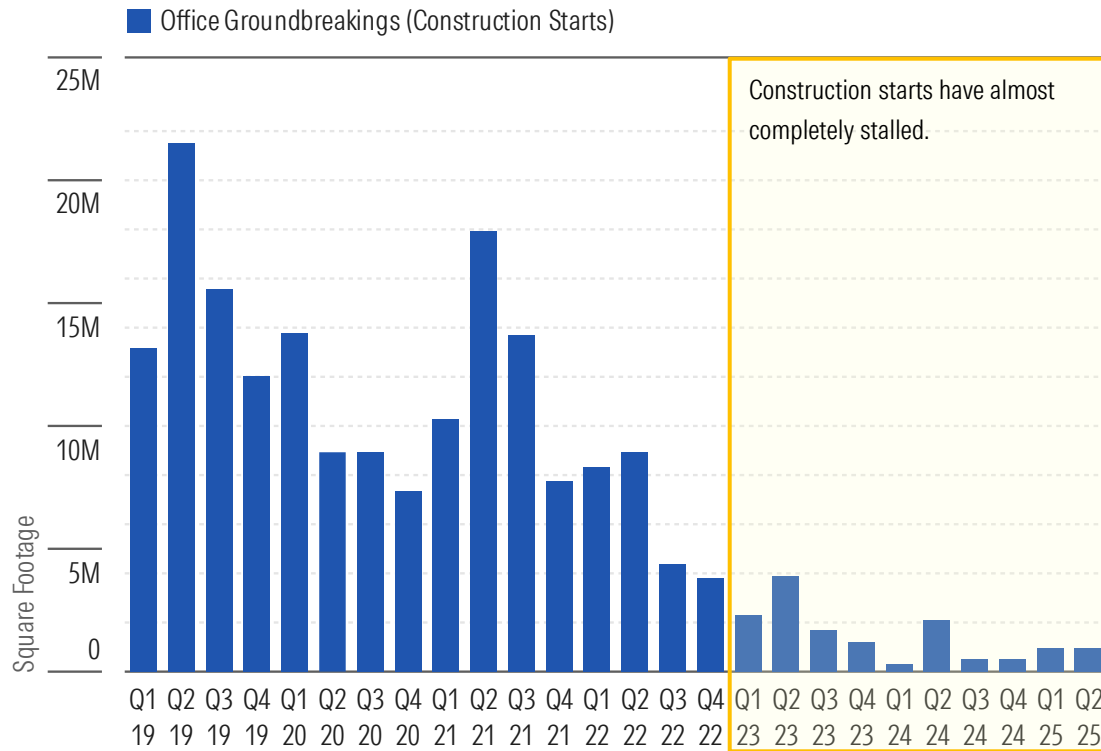
Muted Supply-Side Additions Will Be the Basis for Office Sector Recovery in the Long Run

New office groundbreakings are down about 94% compared with 2019, given the sector's challenging fundamentals and the slowdown in the development pipeline. We think groundbreakings will remain muted in the upcoming quarters.

The construction pipeline for the office sector has declined by around 77% since the onset of the pandemic in 2020, and the rate of office deliveries will decline even further in the upcoming year, given the muted construction starts in the sector.

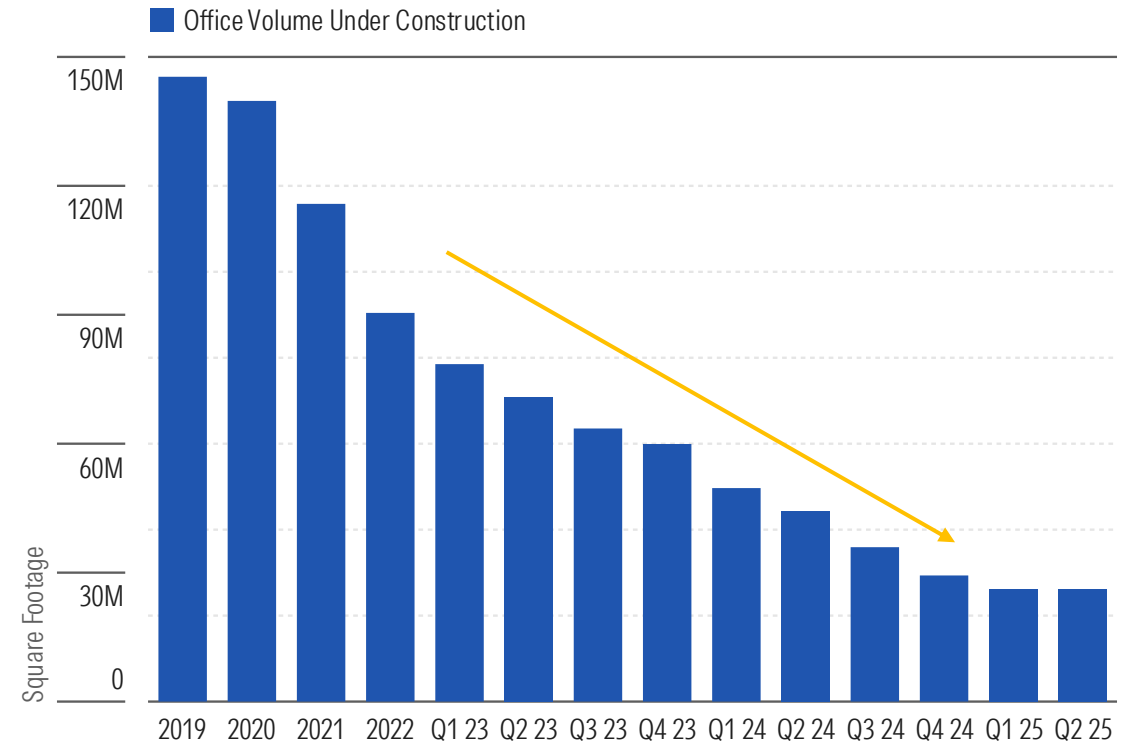
New Office Groundbreakings in the US Have Slowed Down Significantly

There is little appetite for incremental funding for new office development projects.



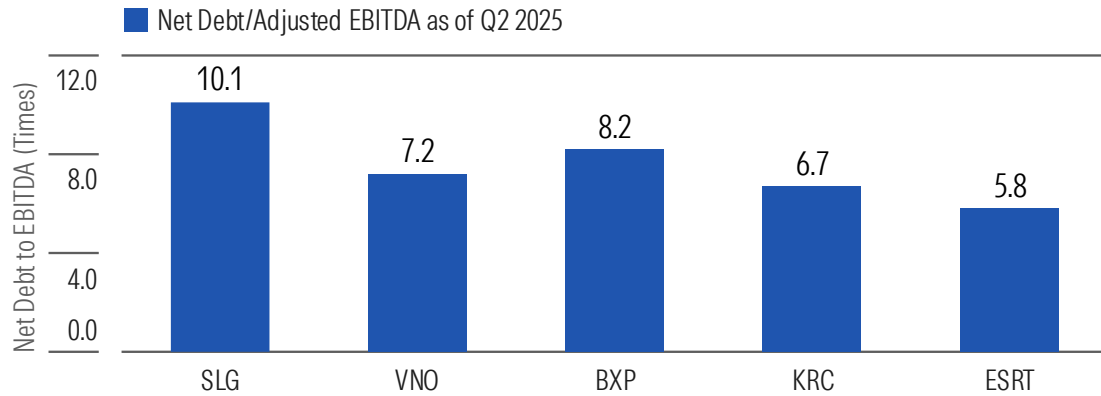
Office Volume Under Construction Remains Muted After a Multiyear Decline

Construction pipeline is at 0.5% of current inventory levels, a multiyear low.

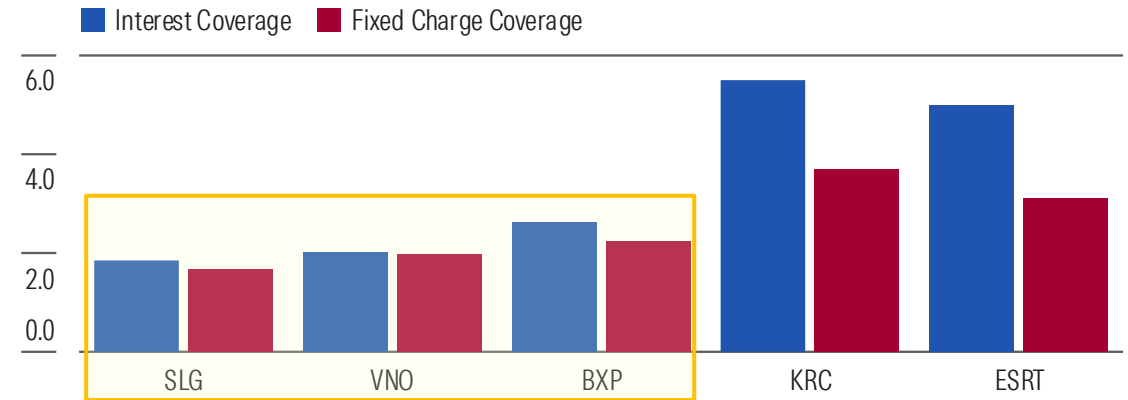


Balance Sheet Strength of Office REITs Varies Significantly, but They Should All Benefit From Flight to Quality

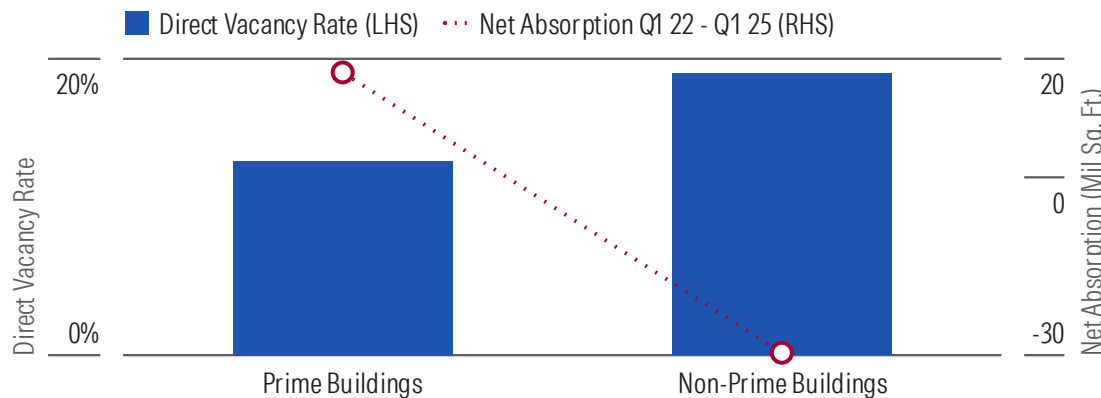
Leverage Varies Significantly Among Our Office REIT Coverage



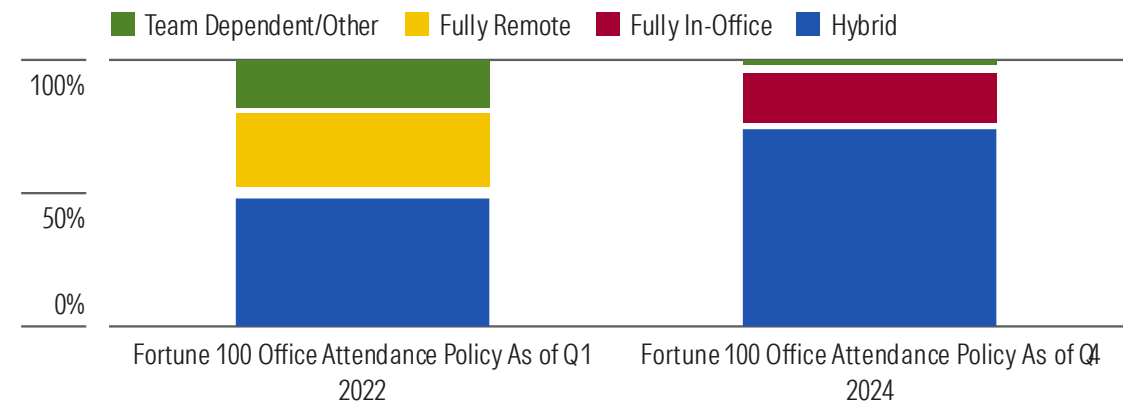
SLG, VNO, and BXP Have Relatively High Leverage and Lower Coverage Ratios



Top-Tier CBD Office Buildings Have Significantly Outperformed in Recent Years



Employers Are Slowly but Surely Bringing Workers Back to Office



Source: Morningstar, company filings. Data as of June 30, 2025 (top left). Morningstar, company filings. Data as of June 30, 2025 (top right). CBRE Econometric Advisors, CBRE Research, Morningstar. Data as of March 31, 2025. Note: Chart uses data from five central business districts in the US, namely Boston, New York, San Francisco, Seattle, and Washington, D.C. (bottom left). Morningstar, JLL Research, company filings. Data as of Dec. 31, 2024 (bottom right).

See Important Disclosures at the end of this report.

Outlook: Residential

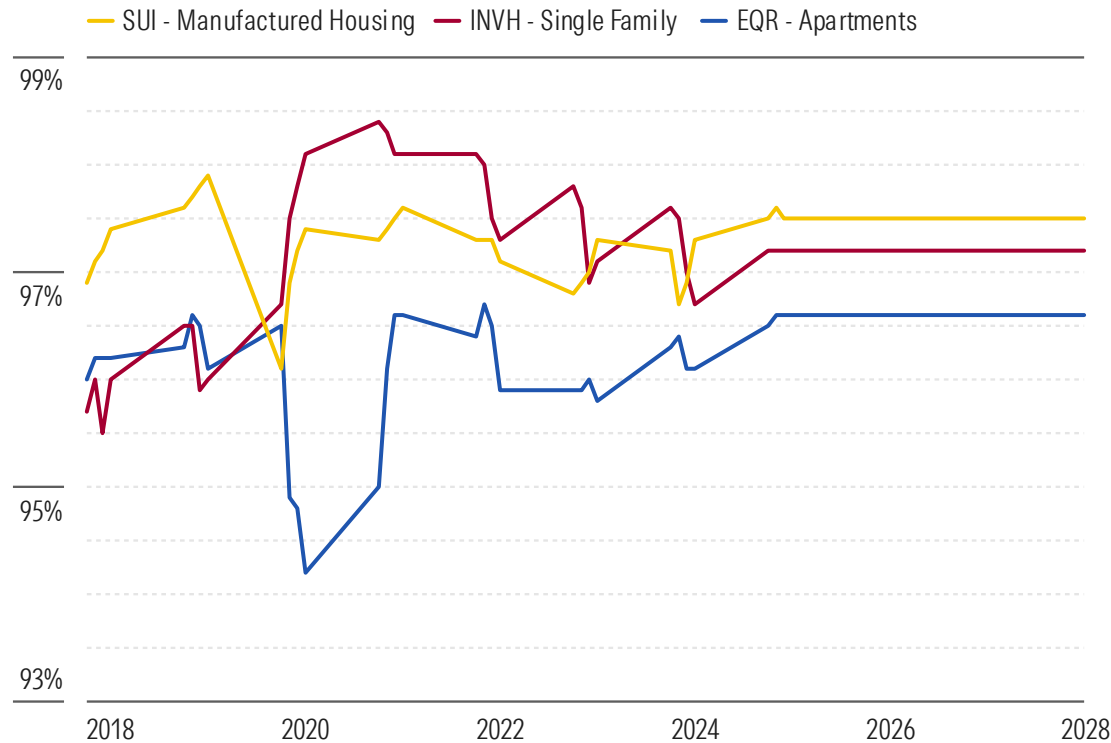
Fundamentals all stabilizing near historical average for sector.

Apartment Demand Fell During Pandemic as Renters Sought Single-Family and Manufactured Homes

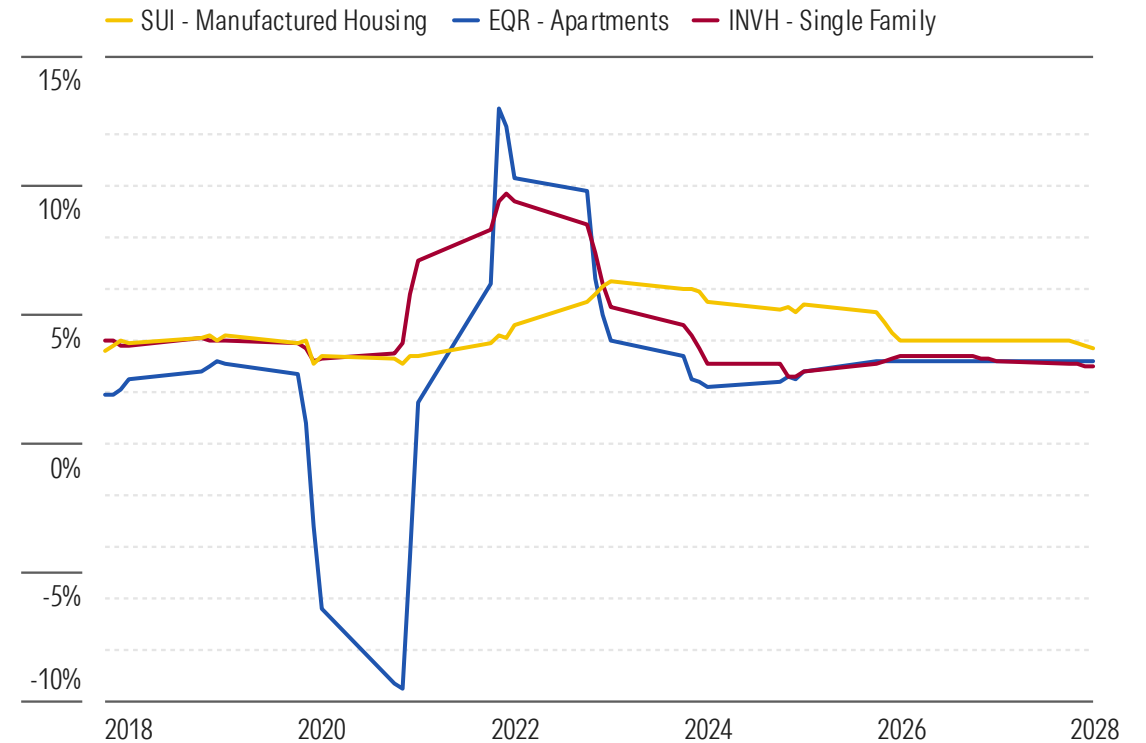
Apartment occupancy fell during the pandemic before recovering, as prices for single-family homes rose in 2021. Meanwhile, demand for single-family home rentals saw higher demand during the pandemic but has since cooled.

To retain residents, many apartments had to offer free rent, which reduces apartment rental rates. Meanwhile, rate growth for single-family and manufactured housing was unaffected by the pandemic. High inflation had a positive impact on rate growth.

Pandemic Had Opposite Effects on Occupancy for Different Residential Sectors
Need for space sent people from urban apartments to suburban single-family homes.



Apartment Rental Rates Fell During Pandemic While Other Segments Unaffected
Rate growth in 2022-23 is high due to recovery for apartments and high inflation.



Source: Morningstar estimates, company filings. Data as of Aug. 29, 2025.

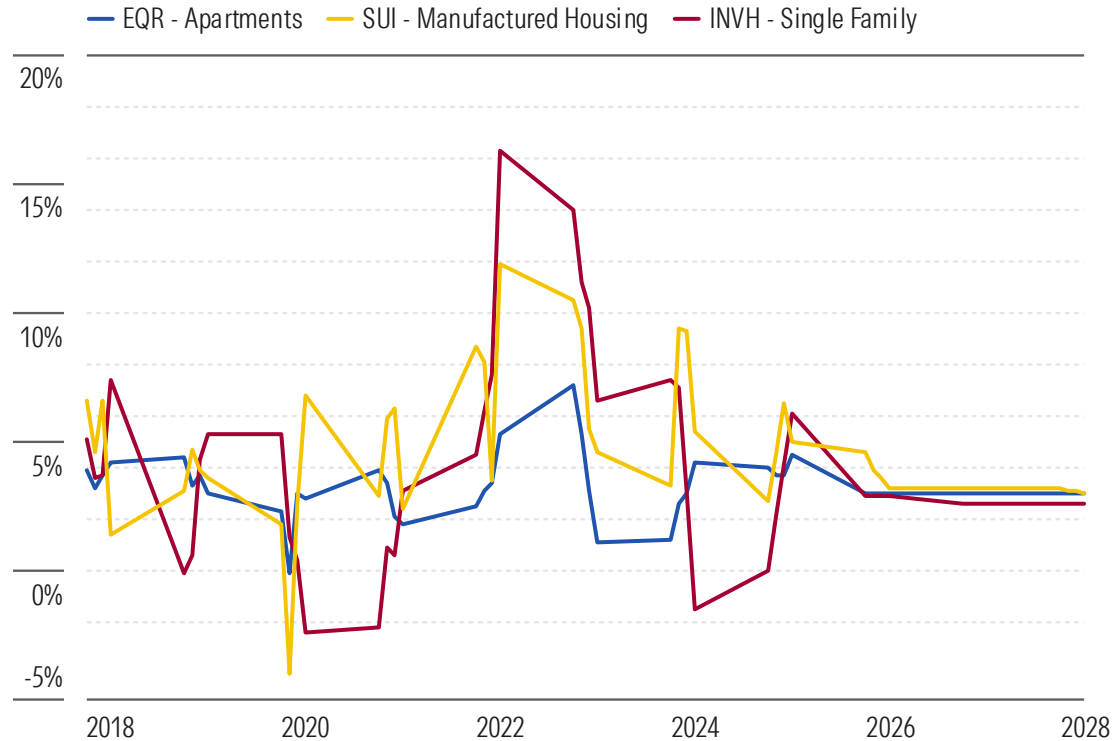
See Important Disclosures at the end of this report.

We Anticipate That NOI Growth Will Average Between 3% and 5% Over the Next Decade

Operating expense growth lagged the impact of high inflation on rental rate growth as some large expense line items, like real estate taxes, take longer to react. The sector seems to have passed the peak and should revert to its long-term average.

Operating Expense Growth Spiked in Late 2022 Due to the Impact of High Inflation

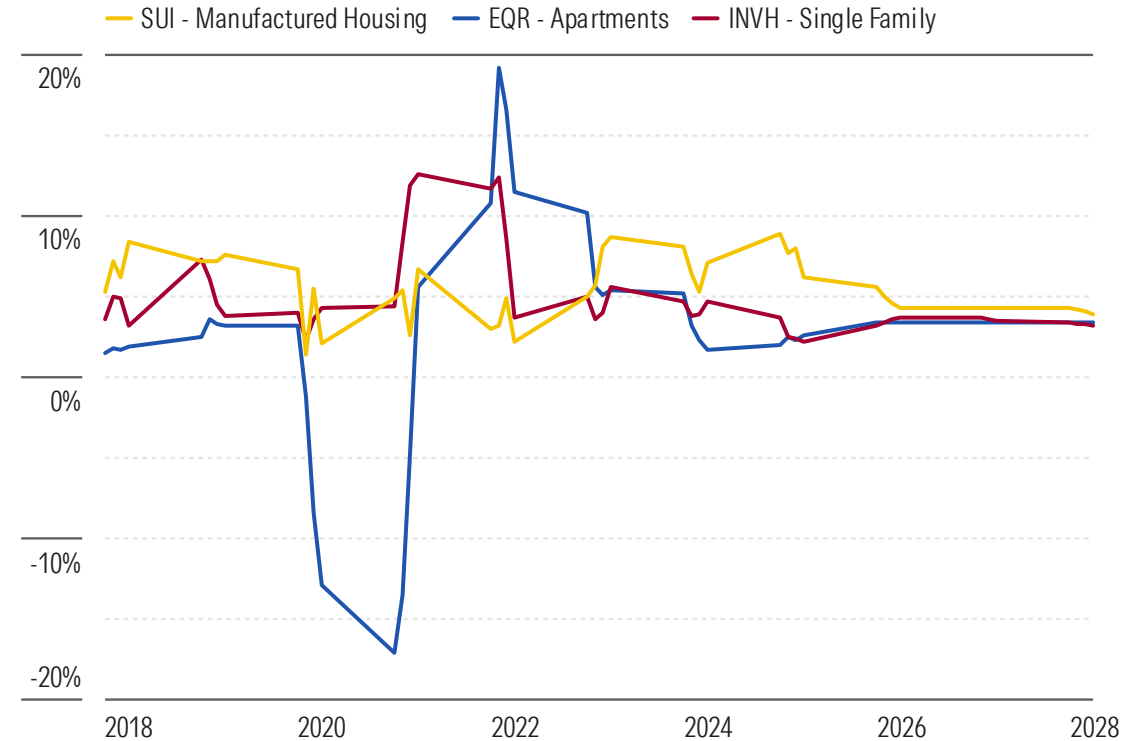
Expense growth remained steady during the pandemic.



Net operating income growth has fallen from recent record levels as rate growth has decelerated and expense growth has picked up. We anticipate NOI growth to remain in the current range of 3%-5%, which matches the sector's historical average.

NOI Growth Has Decelerated From Record Levels to Settle Into Historical Average

Stabilized occupancy, rate growth, and expense growth should produce NOI stability.



Outlook: Retail & Malls

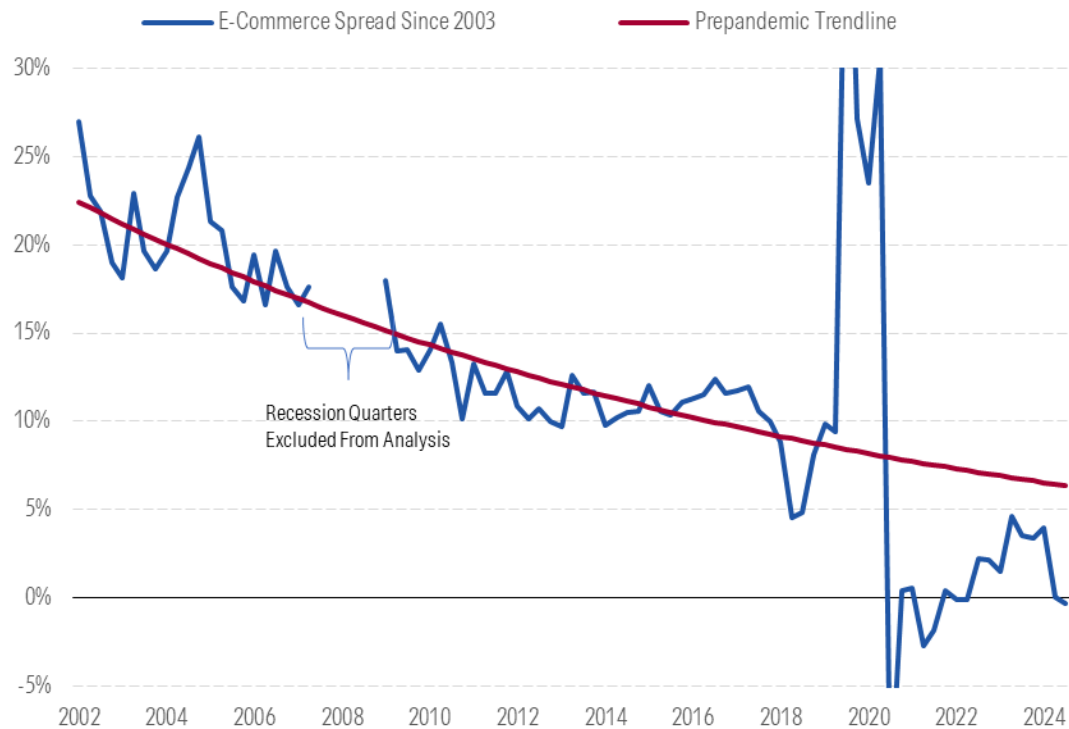
Brick-and-mortar retail sales growth remains solid.

While E-Commerce Has Pressured Brick-and-Mortar Retail Sales, Growth Should Be Positive

Before the pandemic, e-commerce sales grew at a steady but decelerating spread over brick-and-mortar retail sales. While e-commerce sales spiked early in the pandemic, they have been well below the prepandemic trendline over the past few years.

E-Commerce Grew at a Consistent Spread Over Brick-and-Mortar Retail Sales

E-commerce has remained below the prior trendline since Q2 2021.



Even though we anticipate that 40% of all applicable retail sales will move online over the next decade, brick-and-mortar retail sales should be able to continue producing positive sales growth.

Brick-and-Mortar Sales Should Remain Positive Despite E-Commerce Growth

Growth should remain below total retail sales growth as e-commerce's share increases.

	Modified Retail Sales	Modified Retail Sales Growth	E-Comm Spread over Total	E-Comm Retail Sales Growth	E-Comm Retail Sales	E-Comm Sales Percent of Total	B&M Retail Sales	B&M Retail Sales Growth
2018	2,231,819	4.6%	+ 10.3%	= 15.0%	452,468	20.3%	1,779,351	2.3%
2019	2,323,119	4.1%	+ 6.8%	= 10.9%	502,286	21.6%	1,820,833	2.3%
2020	2,471,656	6.3%	+ 26.3%	= 32.6%	667,928	27.0%	1,803,728	-0.9%
2021	2,882,011	17.0%	+ 5.1%	= 22.0%	802,734	27.9%	2,079,277	15.9%
2022	3,084,047	7.1%	+ -1.1%	= 6.0%	850,733	27.6%	2,233,314	7.5%
2023	3,260,428	5.7%	+ 1.4%	= 7.2%	911,794	28.0%	2,348,634	5.2%
2024	3,399,573	4.3%	+ 3.9%	= 8.1%	986,024	29.0%	2,413,549	2.8%
2025	3,560,894	4.8%	+ 2.1%	= 6.9%	1,053,891	29.6%	2,507,003	3.9%
2026	3,673,889	3.2%	+ 4.5%	= 7.7%	1,134,892	30.9%	2,538,997	1.3%
2027	3,825,537	4.1%	+ 4.7%	= 8.9%	1,235,604	32.3%	2,589,933	2.0%
2028	4,004,374	4.7%	+ 4.7%	= 9.4%	1,351,912	33.8%	2,652,462	2.4%
2029	4,177,063	4.3%	+ 4.5%	= 8.8%	1,471,025	35.2%	2,706,038	2.0%
2030	4,338,407	3.9%	+ 4.3%	= 8.1%	1,590,662	36.7%	2,747,744	1.5%
2031	4,505,982	3.9%	+ 4.1%	= 7.9%	1,716,588	38.1%	2,789,394	1.5%
2032	4,680,030	3.9%	+ 3.9%	= 7.7%	1,848,957	39.5%	2,831,073	1.5%
	A				B		C	
	Calculation for B&M Sales: A - B = C			Calculation for E-Commerce % of Total: B / A				

Source: Morningstar, US Census Bureau. Data as of June 30, 2025.

See Important Disclosures at the end of this report.

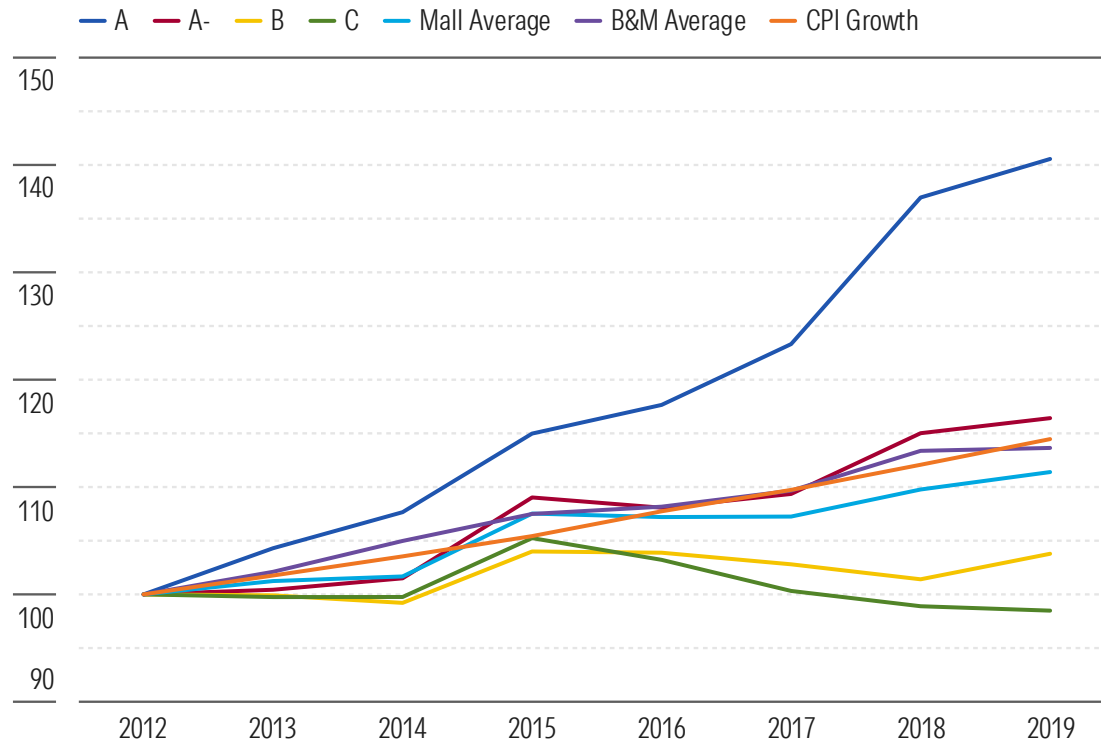
High-Quality Retail Should Outperform Brick-and-Mortar Average, Supporting Low but Positive NOI Growth

Class A malls consistently produced sales growth above the brick-and-mortar average, which should translate to higher demand for high-quality retail properties. Meanwhile, Class B/C properties produced sales growth below inflation over the same period.

Retail tenants typically sign seven-year leases, with annual rent escalators around 2.5%. While re-leasing spreads may decline to the low single digits from the current double-digit level, retail REITs should continue to average 2.5% NOI growth.

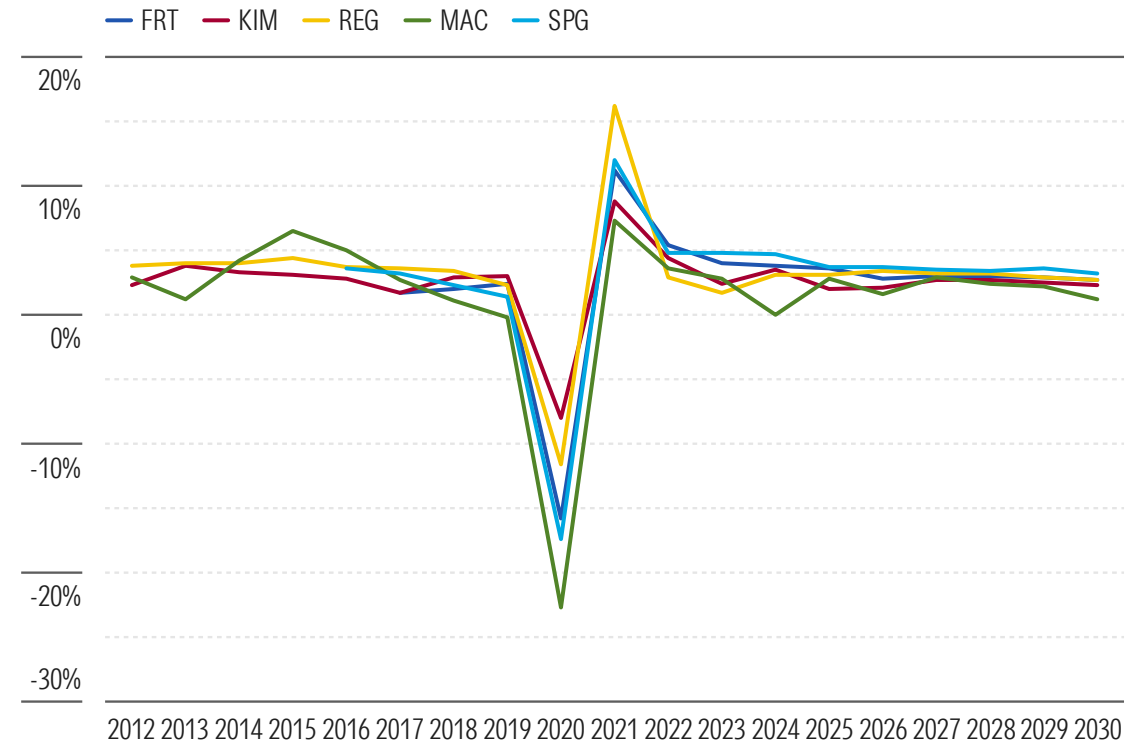
The Top 250 Class A Malls Produced Superior Sales per Square Foot Growth

While tenants may reduce total store counts, they would seek to retain the best stores.



Long-Term Leases With 2.5% Rent Escalators Should Produce 2.5% NOI Growth

High-quality REIT portfolios likely won't see negative re-leasing spreads.

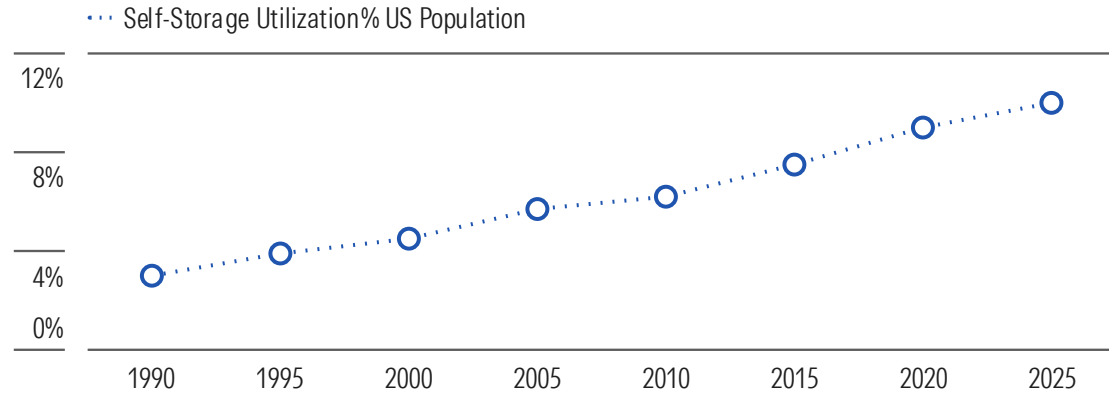


Outlook: Self-Storage

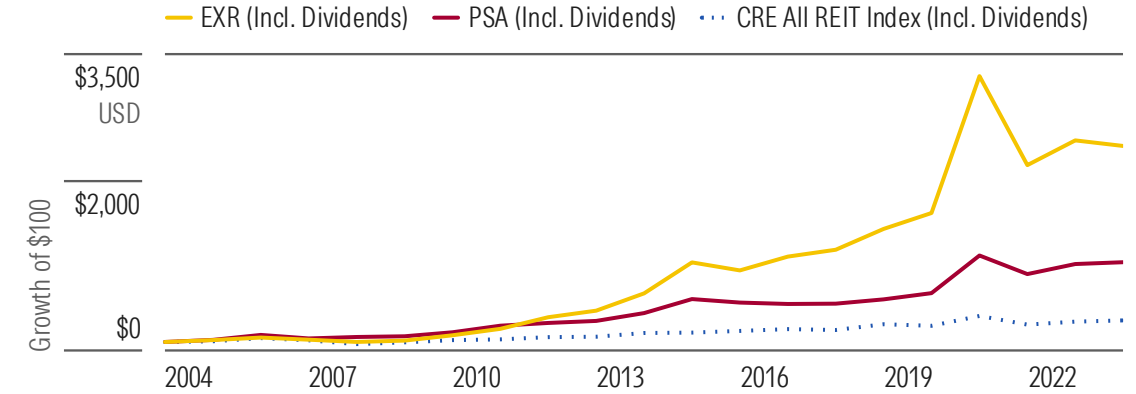
Demand for self-storage has slowed sharply, but the long-term story is intact.

Self-Storage Sector Has Witnessed Robust Growth Over the Past Decade

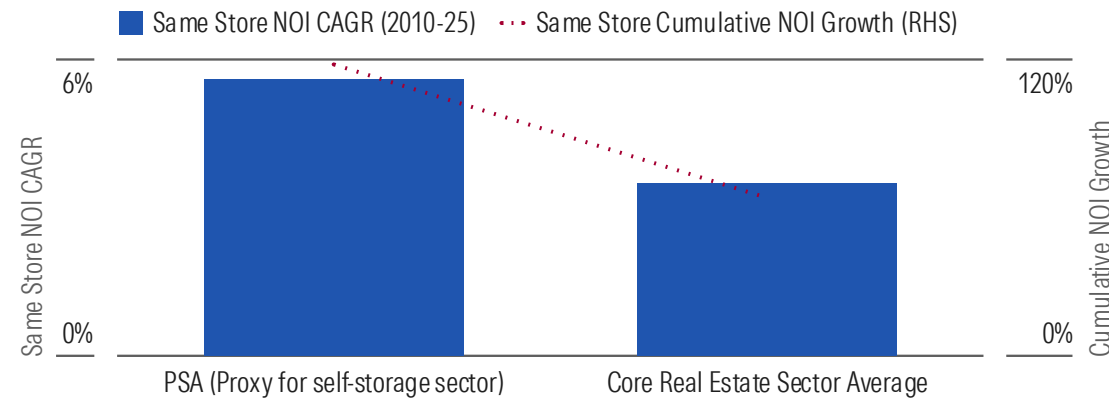
Self-Storage Utilization Has Consistently Increased in the US



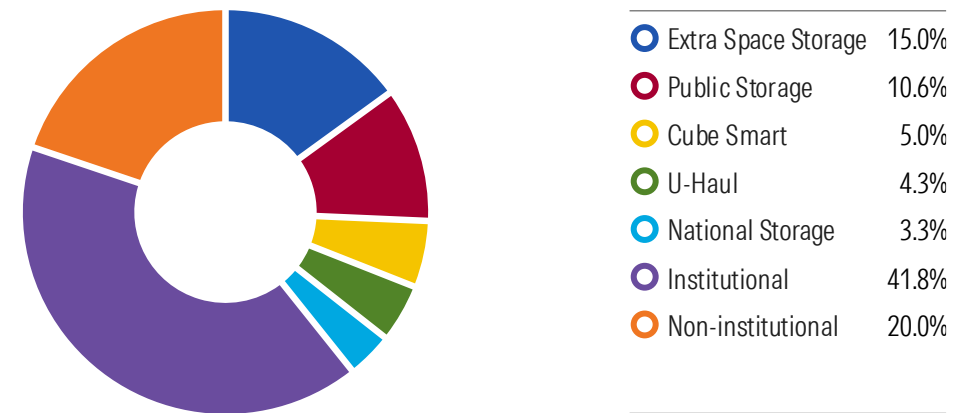
Self-Storage Has Been One of the Best-Performing Sectors Among REITs



Self-Storage Sector's Same-Store NOI Has Grown Much Faster Than Other Sectors



Still Room for Consolidation for the Biggest Players in the Self-Storage Industry



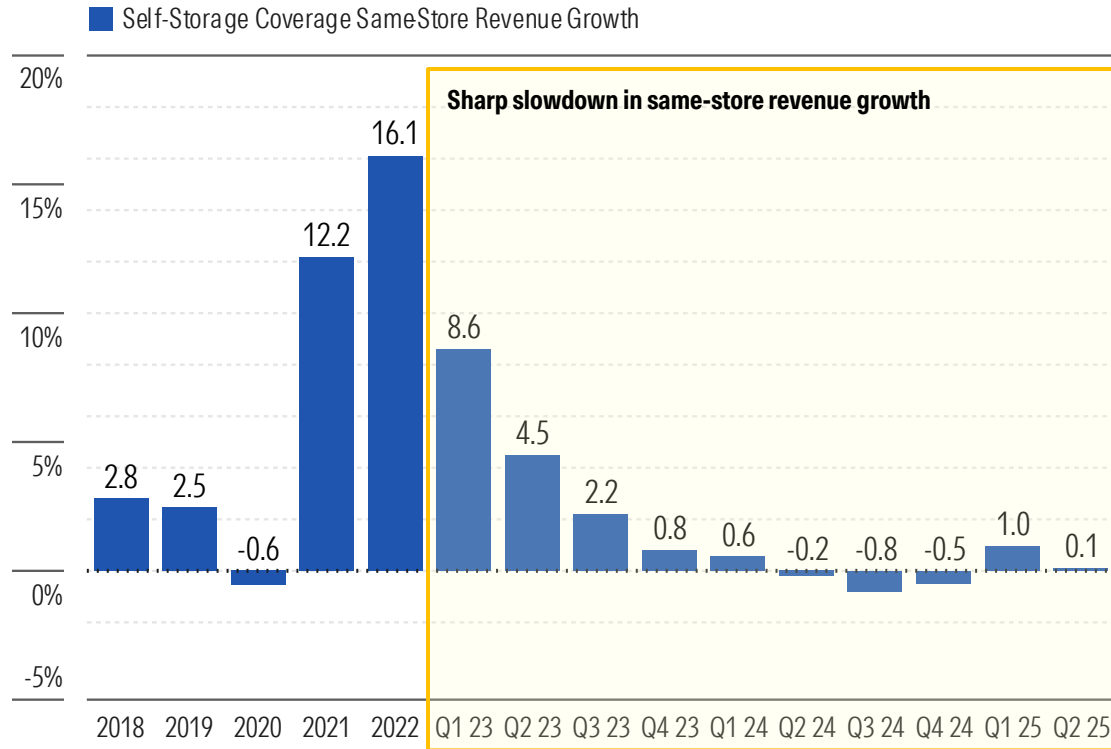
Source: Morningstar, company filings, Self Storage Almanac, US Census Bureau, Green Street Advisors, Radius+, Yardi Matrix. Data as of June 30, 2025 (top left). Morningstar, Federal Reserve Bank of St. Louis., FTSE Nareit. Data as of Dec. 31, 2024 (top right). Morningstar, company filings. Data as of June 30, 2025. Note: Core real estate sector average is defined as an average of apartments, office, industrial, mall, strip center, manufactured housing, and lodging sectors (bottom left). Morningstar, company filings, Extra Space Storage estimates. Data as of March 31, 2025 (bottom right).

See Important Disclosures at the end of this report.

NOI Growth in Self-Storage Sector Has Started to Cool Down After Exceptionally Strong Growth in 2021 and 2022

Same-Store Revenue Growth Has Remained Under Pressure in Recent Quarters

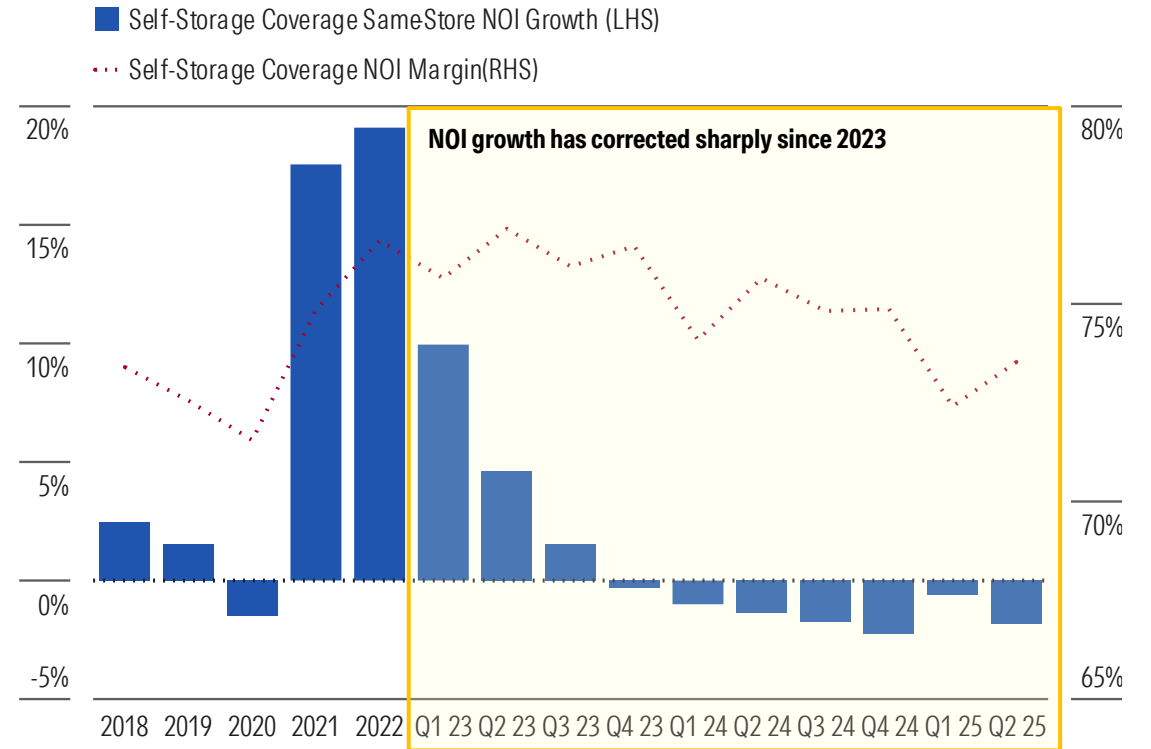
Rental growth outlook remains challenging but should improve from 2024.



Self-storage demand cooled down in 2023 and remained pressured in 2024, after an exceptionally strong 2021 and 2022. Slowing demand is reflected in weakening sector fundamentals.

And Married With Steady Expense Growth, Same-Store NOI Growth Has Declined

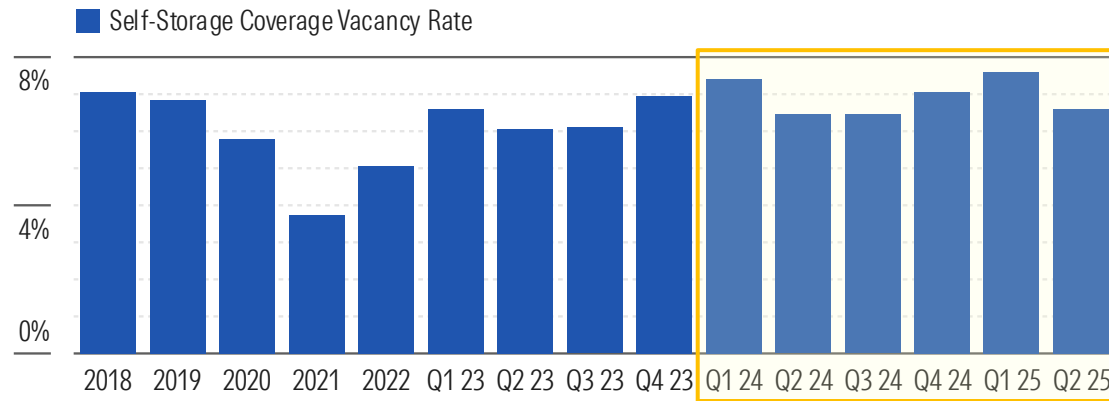
Expense growth was higher than revenue growth for the last seven quarters.



In the past seven quarters, self-storage properties' expense growth outpaced revenue growth. This has resulted in NOI growth worsening for the sector. We expect NOI to remain under pressure in the near term.

Big Divergence Between Move-In and Move-Out Rents Points Toward More Stress for the Sector

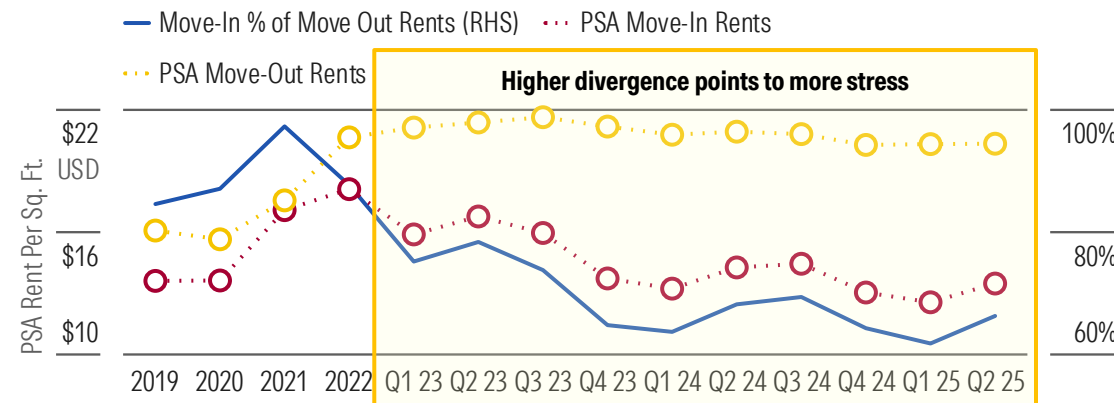
Vacancy Rates Have Normalized From the Very Low Levels of 2021 and 2022



The self-storage sector achieved extremely low vacancy rates during 2021 and the first half of 2022 as a result of specific factors related to the postpandemic demand boom, such as working from home, the strong housing market, and so on. Incremental supply in the sector started to increase in 2021, with significant deliveries to the market in 2022 and 2023.

Additional supply and slowing demand started to weigh on the sector's fundamentals in the second half of 2022 and were much more apparent in 2023. The vacancy rate for self-storage companies under our coverage is hovering at around 6%-7%. The sector's stress should further weigh on vacancy rates in the upcoming quarters.

Difference Between Existing and Move-In Rents Has Expanded Considerably



The slowdown in the self-storage sector is best reflected in the rental rates achieved on leases signed by new customers during the quarter. The exhibit on the left shows the difference in rents for customers moving in compared with customers moving out of self-storage facilities. A divergence between the two dotted lines suggests higher stress in the sector. We have seen continued divergence between move-in and move-out rents since 2023. The move-in rates within the sector remain significantly below the average rent on previously occupied space, meaning there should be continued downward pressure on future rent growth.

ESG Snapshot

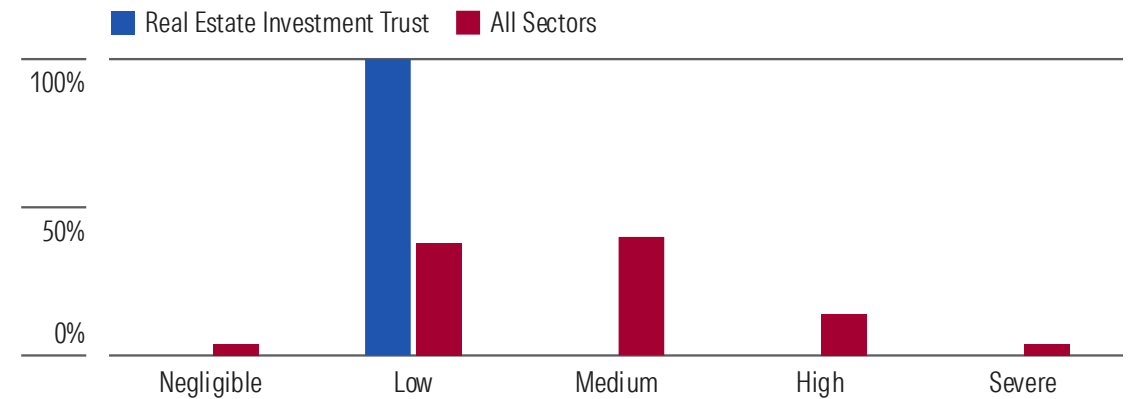
REITs have materially lower ESG risks compared with other sectors.

Summary of Sustainalytics ESG Exposure Ratings

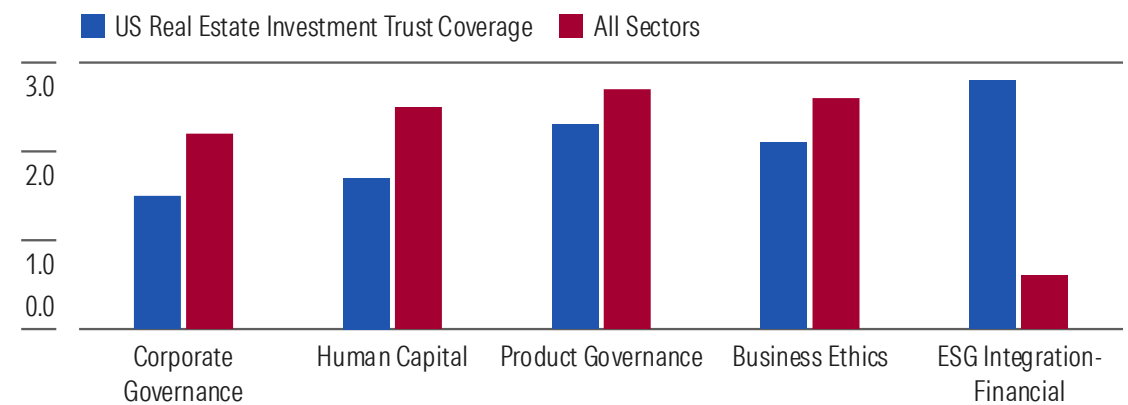
Morningstar Sustainalytics, a division that provides sustainability research, assigns a Low ESG Risk Rating to all of the companies in our REIT coverage. The biggest areas of ESG risk for REITs include product governance, corporate governance, and ESG integration—financial, business ethics, and human capital.

- Product Governance:** This risk highlights the challenges REITs face in managing all the operational aspects of a property to satisfy tenant and customer needs across their portfolios and thereby generate consistent revenue. These include properly maintaining the safety of the buildings, paying a competitive wage, and meeting the sustainability requirements of their clients.
- Business Ethics:** The real estate industry is subject to a relatively high level of regulation, which pushes companies to ensure proficient management of business ethics issues. For example, rent increases are often strictly regulated in many cities to ensure that rent increases are managed responsibly.
- ESG Integration-Financial:** Real estate investment trusts generally use significantly higher levels of debt, which leads to relatively higher exposure to this risk than other sectors.

Distribution of ESG Risk Ratings for REITs and All Industries



Top ESG Risk Rating Scores by Material ESG Issue



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