COHEN & STEERS

What we believe investors should know about Non-Traded REIT redemptions

Recent news that NTRs limited redemptions raises questions about private valuations and underscores the opportunity we see in listed real estate

Recent market developments in real estate investing are in line with our expectations

- In recent weeks, some notable non-traded REITs (NTRs) have experienced declining inflows and accelerating redemption requests, resulting in the automatic limitation of monthly redemptions to 2% or quarterly redemptions to 5% of the funds' net asset values.
- The redemption limits are a feature of NTRs and are designed to prevent managers from having to liquidate significant real estate holdings at fire-sale prices. NTRs are intended only for investors with the financial means to hold their investments for relatively long periods of time including during times of market stress and illiquidity.
- The redemptions and subsequent asset manager activity have raised questions among the financial press about private real estate valuations, the structure of NTRs, and market expectations.
- We don't believe these developments reflect broad economic or systemic risk to markets — or to real estate investors specifically. Real estate, in our view, has not been a sector of the economy that has seen significant speculation or excessive leverage or lending. We do not see a disorderly unwind or panicked selling scenario for real estate funds to meet redemptions especially considering that NTRs only account for 1% of the commercial real estate market.
- We also do not see signs of stress in the core sectors represented in the holdings of NTRs.
- We believe investor behavior and recent performance of both listed and private real estate are rooted, in part, in historical precedent.

We don't believe these developments reflect broad economic or systemic risk to markets — or to real estate investors specifically.

Private and listed real estate performance has diverged significantly this year

- Listed REITs meaningfully repriced in 2022 amid slowing growth and higher financing costs. REITs, as measured by the FTSE Nareit Equity REITs Index, were down -21.0% through November.

- Private real estate, which typically lags listed real estate due to its slower-moving price discovery, has yet to correct. Through September 30, the NCREIF ODCE Index, a measure of private real estate, had a year-to-date total return of 13%.
- This type of valuation disconnect is normal. There have historically been economic turning points where listed real estate values have corrected while private real estate values have been slower to fully reflect such changes.
- Debate continues over whether we are in a recession. We believe, however, that the market has priced in a worse recession than we expect. Against this backdrop, we believe the current downturn could present a similar arc to recessionary precedent. REITs have performed remarkably well after downturns.
- We believe the recent NTR redemptions reflect a decision by investors, based on relative valuations, to rebalance away from their private real estate holdings that have performed well this year. This comes as liquid asset classes, such as equities, bonds, and listed real estate, are experiencing a down year.
- Further, investors may be anticipating a more difficult environment for private real estate, which typically lags listed real estate due to its slower-moving price discovery. These delays can take anywhere from one to two quarters to as long as one to two years in our experience. This is especially noticeable in recessionary periods like we are seeing now.
- Our private real estate team anticipates that private real estate values will sell off in the range of 10–20% unleveraged.
- We believe listed REITs as a whole, having corrected, are in a position of strength, buoyed by tight supplies and subsequent healthy cash flows.

The current environment represents an attractive entry point for listed REITs

- We have advised investors to have strategic allocations to both private and listed real estate. This is not an either-or proposition. Our analysis shows that a portfolio that is optimized between private and listed can deliver stronger returns while reducing volatility.
- By understanding the leading and lagging behaviors of listed and private markets, real estate investors can allocate at different times across the two asset classes.
- We believe the current environment calls for an overweight to listed REITs compared to private. In a different environment, we'd argue that an overweight to private real estate could be appropriate. However, we see the emergence of a backdrop that supports a listed REIT recovery over the next 12 months.

- Real estate supply vs. demand is tight, as indicated by data around high occupancy rates. We anticipate a deceleration in REIT earnings, reflecting a possible recession, but we expect REIT cash flows to be resilient, particularly compared to other asset classes.
- Listed real estate has historically outperformed in a more supportive inflationary backdrop we can now see on the horizon. That is when the end of the rate-hiking cycle occurs while real yields and growth are down.
- Listed REITs have historically performed remarkably well following a recession. Even investing during the recession, on average, generates 10.8% total return in the following 12 months. Investing during the early cycle generates a notable 20.4%, on average, in the following 12 months.
- Private real estate has declined, on average, –11.8% in the 12 months following a recession. This historical performance is in line with our view that private real estate is expected to reprice going forward.
- Private real estate had an applied capitalization rate of just 3.7% as of the last valuation on September 30, whereas listed REITs had an implied cap rate of 5.8% at that same time. This suggests a sizeable repricing can be expected in private. (The cap rate is the rate of return on a real estate investment property based on the income the property is expected to generate).

Index definitions and important disclosures

An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment.

U.S. REITs: Represented by the FTSE Nareit Equity REITs Index which contains all tax-qualified REITs except timber and infrastructure REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria. **U.S. Private Real Estate:** Represented by NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), which is a quarterly, unleveraged composite total return index for U.S. private commercial real estate properties held for investment purposes only.

Data quoted represents past performance, which is no guarantee of future results. The views and opinions presented in this document are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this document will be realized. This material represents an assessment of the market environment at a specific point in time and should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment.

This material is not being provided in a fiduciary capacity and is not intended to recommend any investment policy or investment strategy or to account for the specific objectives or circumstances of any investor. We consider the information to be accurate, but we do not represent that it is complete or should be relied upon as the sole source of appropriateness for investment. Cohen & Steers does not provide investment, tax or legal advice. Please consult with your investment, tax or legal professional regarding your individual circumstances prior to investing.

Risks of investing in real estate securities. The risks of investing in real estate securities are similar to those associated with direct investments in real estate, including falling property values due to increasing vacancies; declining rents resulting from economic, legal, political or technological developments; lack of liquidity; lack of availability of financing; limited diversification, sensitivity to certain economic factors such as interest rate changes and market recessions and changes in supply of or demand for similar properties in a given market. No representation or warranty is made as to the efficacy of any particular strategy or fund or the actual returns that may be achieved.

Cohen & Steers Capital Management, Inc. (Cohen & Steers) is a registered investment advisory firm that provides investment management services to corporate retirement, public and union retirement plans, endowments, foundations and mutual funds. Cohen & Steers U.S. registered open-end funds are distributed by Cohen & Steers Securities, LLC and are only available to U.S. residents.

Cohen & Steers U.K. Ltd. is authorized and regulated by the Financial Conduct Authority of the United Kingdom (FRN 458459). Cohen & Steers Asia Ltd. is authorized and registered with the Hong Kong Securities and Futures Commission (ALZ367). Cohen & Steers Japan Ltd. is a registered financial instruments operator (investment advisory and agency business and discretionary investment management business with the Financial Services Agency of Japan and the Kanto Local Finance Bureau No. 3157) and is a member of the Japan Investment Advisers Association. Cohen & Steers Ireland Ltd. is regulated by the Central Bank of Ireland (No.C188319).