

# The current case for REITs

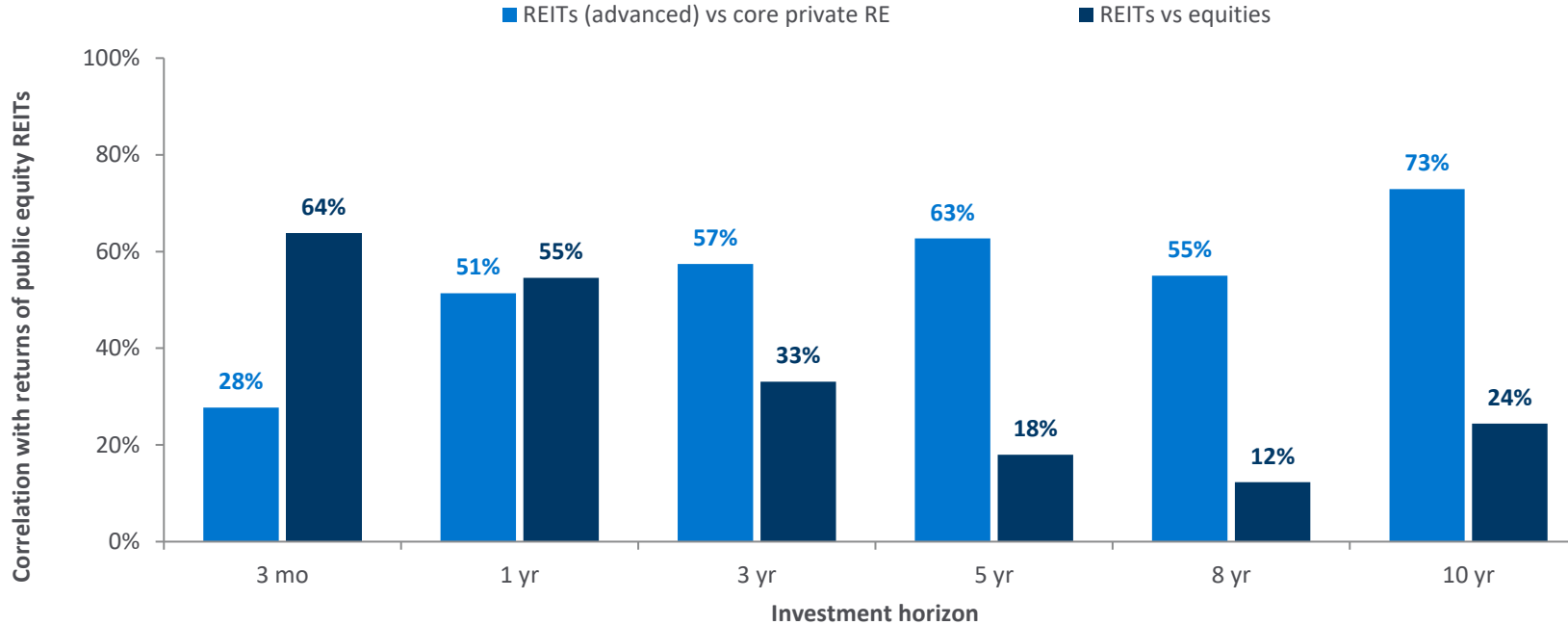
# WHY REITS NOW

- REITs behave more like direct real estate over the long term
- REITs provide investors with inflation hedge attributes of physical real estate yet not compromising on liquidity
- The end of the interest rate upcycle has historically been a tailwind for REITs
- REITs typically outperform when growth slows and deliver strong positive returns during early cycle recovery phases.
- REITs are discounted relative to private real estate and broader general equity indices

# REITs can enhance portfolio diversification

- ❖ REITs have behaved more like private real estate and less like stocks over the long term
- ❖ Low long-term correlations provide important diversification to a portfolio of equities

## Over time the correlations of REITs rise with direct real estate and fall with equities

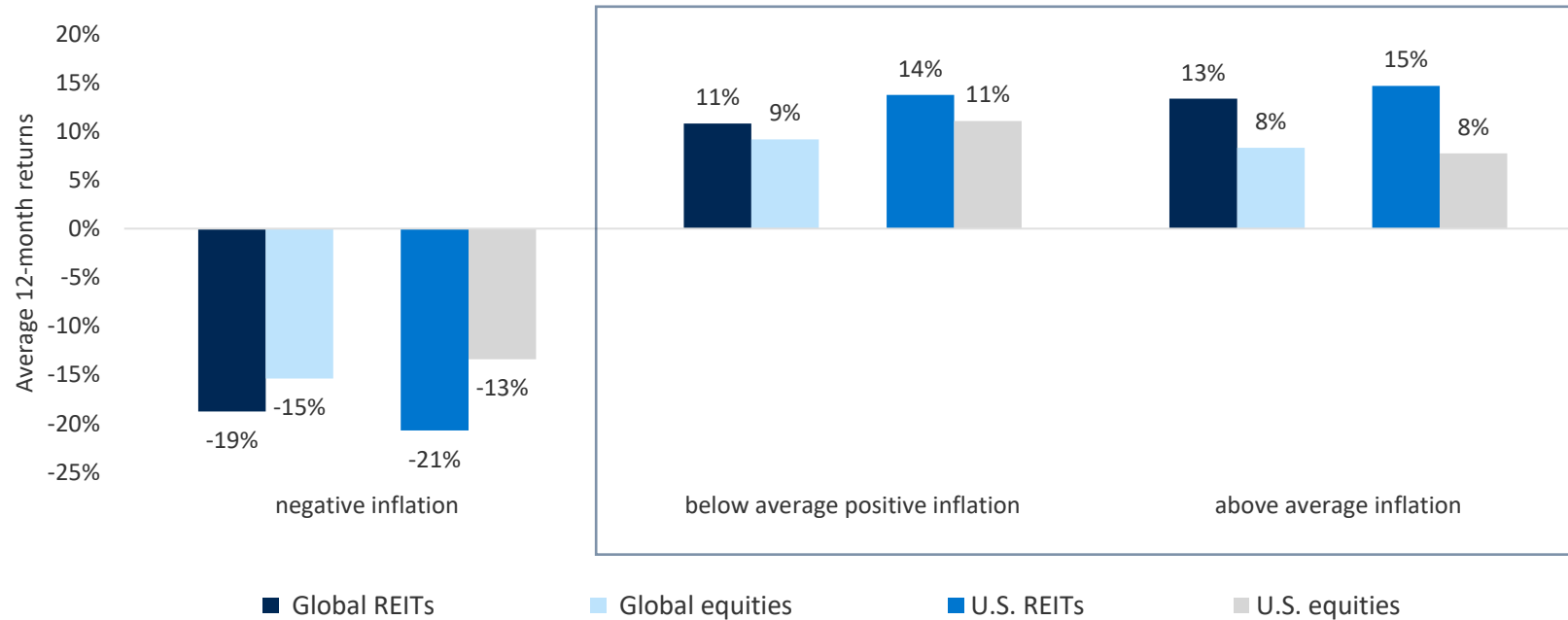


As of 31 December 2022. Source: Analysis of data from FTSE NAREIT Equity REITs Index, NCREIF National Property Index, and S&P 500 Index from 12/31/1991-12/31/2022. Public REIT returns are advanced 4 quarters relative to private real estate returns to adjust for the return lag private equity funds experience due to less frequent measurement compared to public markets.

# REITs have a decent record on inflation

- ❖ Real estate has performed quite well as an inflation hedge from the data available
- ❖ Going forward, we feel non-traditional property types are likely to be more resilient and can potentially offer additional inflation hedging benefits given strong pricing power on lease rates

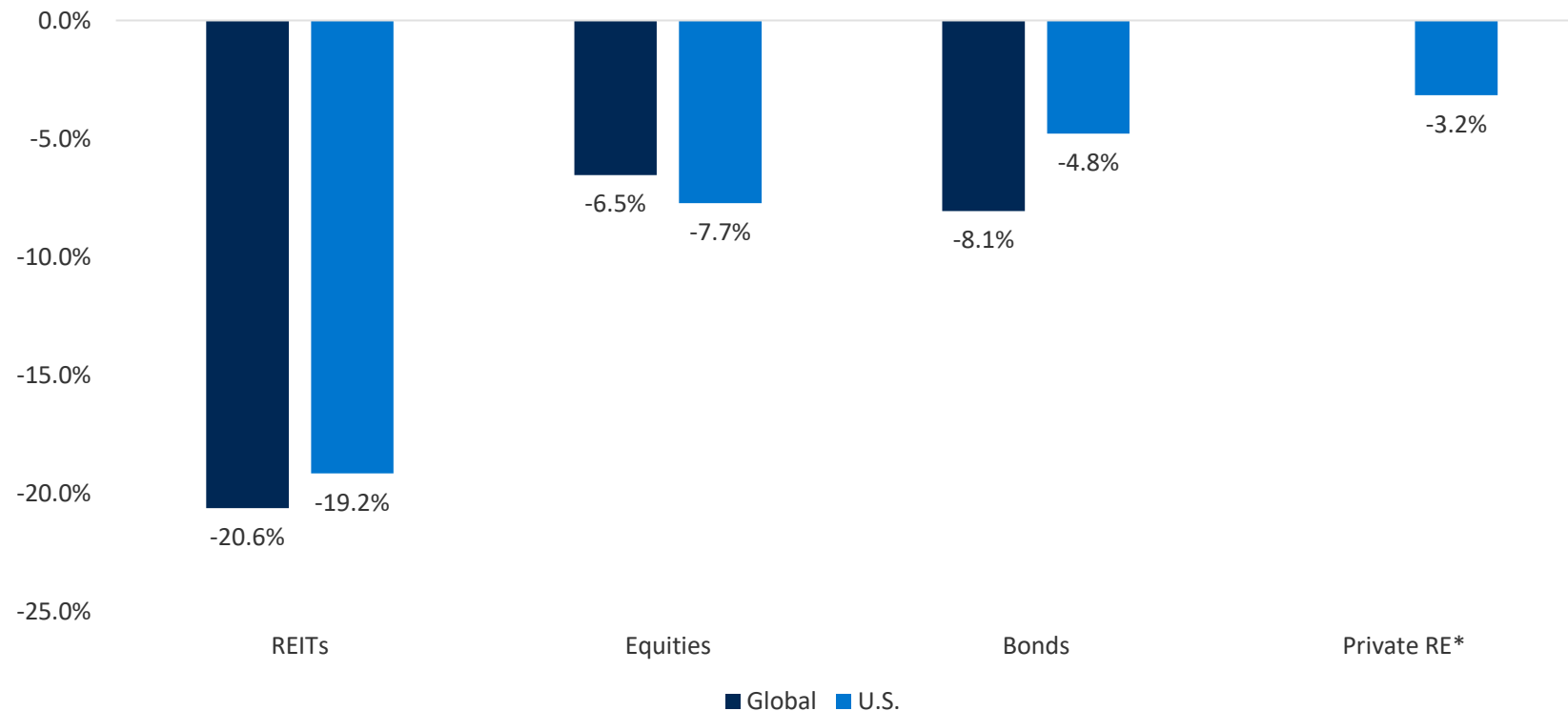
## Performance during various inflationary environments since 2000



As of 31 December 2022. Source: FactSet, U.S. Bureau of Labor Statistics. Indices represented: FTSE EPRA/NAREIT Developed, MSCI World, FTSE NAREIT Equity REITs, and S&P 500. Rolling 12 month time periods from 1 January 2000 – 31 December 2022. Inflation represented by the YoY CPI (with an average of 2.5%). Past performance does not guarantee future results.

# REITs have lagged due to rising rates and banking crisis

## Trailing twelve months total returns

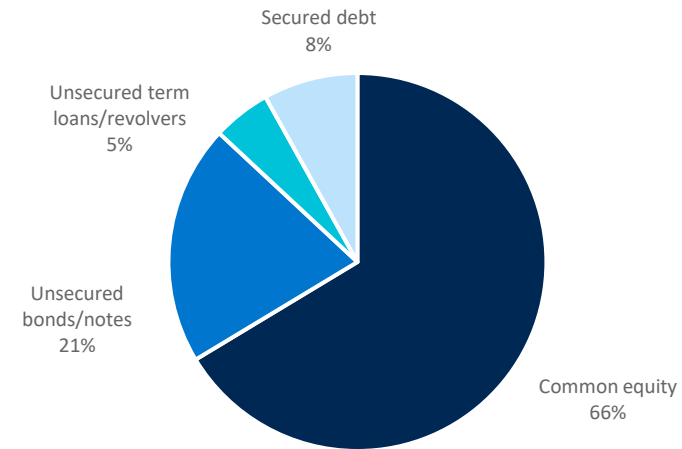


As of 31 March 2023. Source: FactSet. Global indices: FTSE EPRA/NAREIT Developed, MSCI World, Bloomberg Global Aggregate. U.S. indices: MSCI U.S. REIT Index, S&P 500 Index, Bloomberg U.S. Aggregate Index, and NCREIF ODCE. \*ODCE returns reflected are preliminary. Returns in USD. Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. Does not represent any investment strategy.

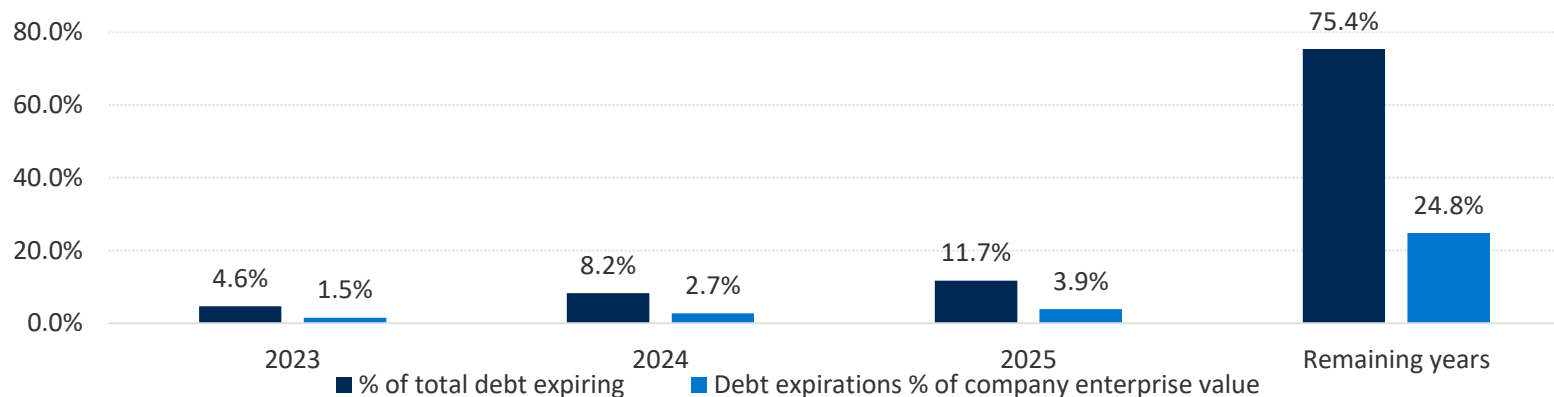
# Reasons why REITs are fairly insulated from a regional banking crisis

- **REITs have well diversified sources of capital**
  - REITs source 87% of overall capital from public bond and equity markets
  - We estimate only 20-25% of total debt capital comes from banks vs. ~35-40% for CRE more broadly
- **Staggered debt maturities and low leverage insulates the earnings impact from rising cost of capital**

Capitalization of U.S. REIT market



U.S. REIT debt maturities the next three years are manageable



As of 31 December 2022. Source: Principal Real Estate Investors, Morgan Stanley, FactSet, NAREIT.

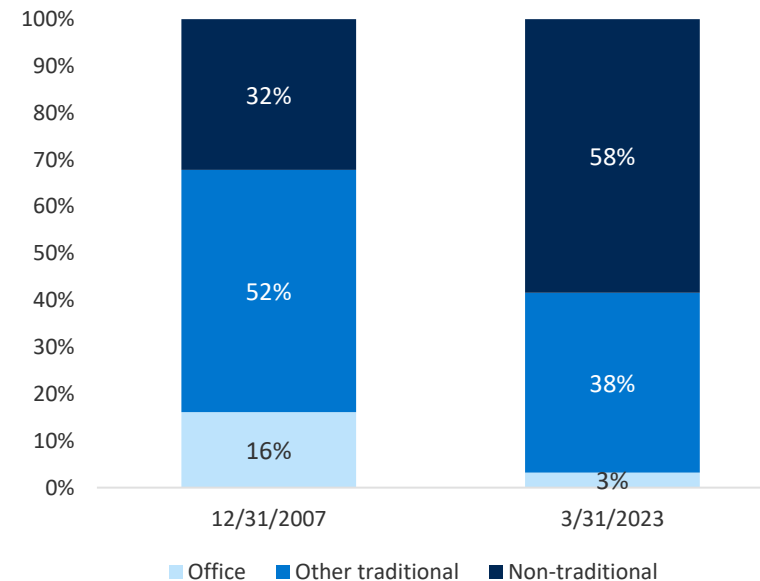
# Credit crisis? Why this time may be different for REITs

- Painful lessons from the Great Financial Crisis (GFC) resulted in major balance sheet improvement by REITs the last 15 years.

## U.S. REIT financial metrics: 2007 vs 2023

	12.31.2007	Current
Price to NAV	84.1	93.8
Company leverage (%)	38.3	29.0
% of total debt unsecured	48.4	75.4
Weighted avg. term to maturity	5.3 years	6.8 years
Interest expense as % of NOI	38.0	19.9
Interest coverage ratio (%)	2.7	4.5
Dividend payout ratio (%)	79.1	68.3

## U.S. REIT sector exposure 2007 vs 2023

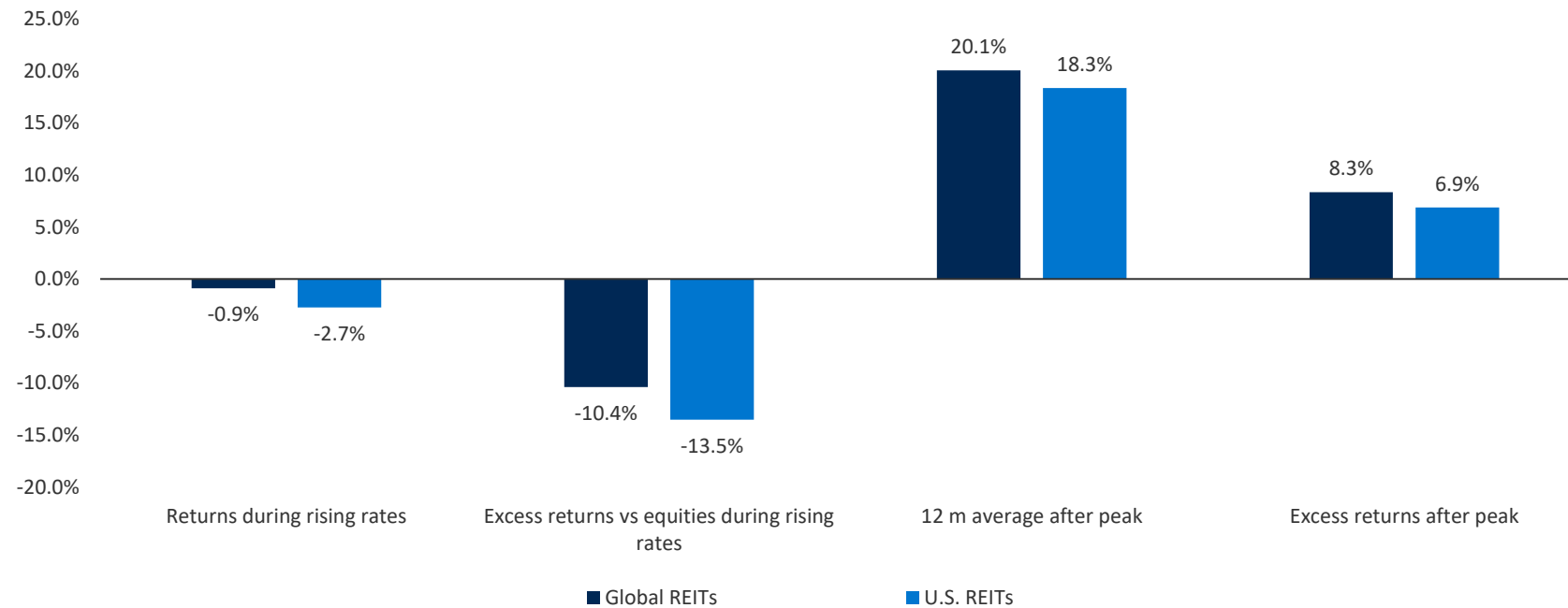


As of 31 March 2023. Source: FactSet, NAREIT. Returns data is showing average annualized returns realized during Great Financial Crisis from the FTSE NAREIT Equity REITS (U.S. REITs) and S&P 500 (U.S. equities) indices. Change in sector weights are from the FTSE NAREIT Equity REITs index – Other traditional includes industrial, retail, and multi-family residential | non-traditional includes healthcare, hotels, self-storage, net lease, data centers, specialized residential, diversified, other, and land/timber. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

# REITs have outperformed following a peak in real yields

The current banking crisis, slowing Fed rate hikes, and rising recession risks should likely mean an end to rising real yields in the near future. For REITs, this historically ushers in a period of strong outperformance.

## Average returns of U.S. REITs as real yields rise and the 12 month period after they peak

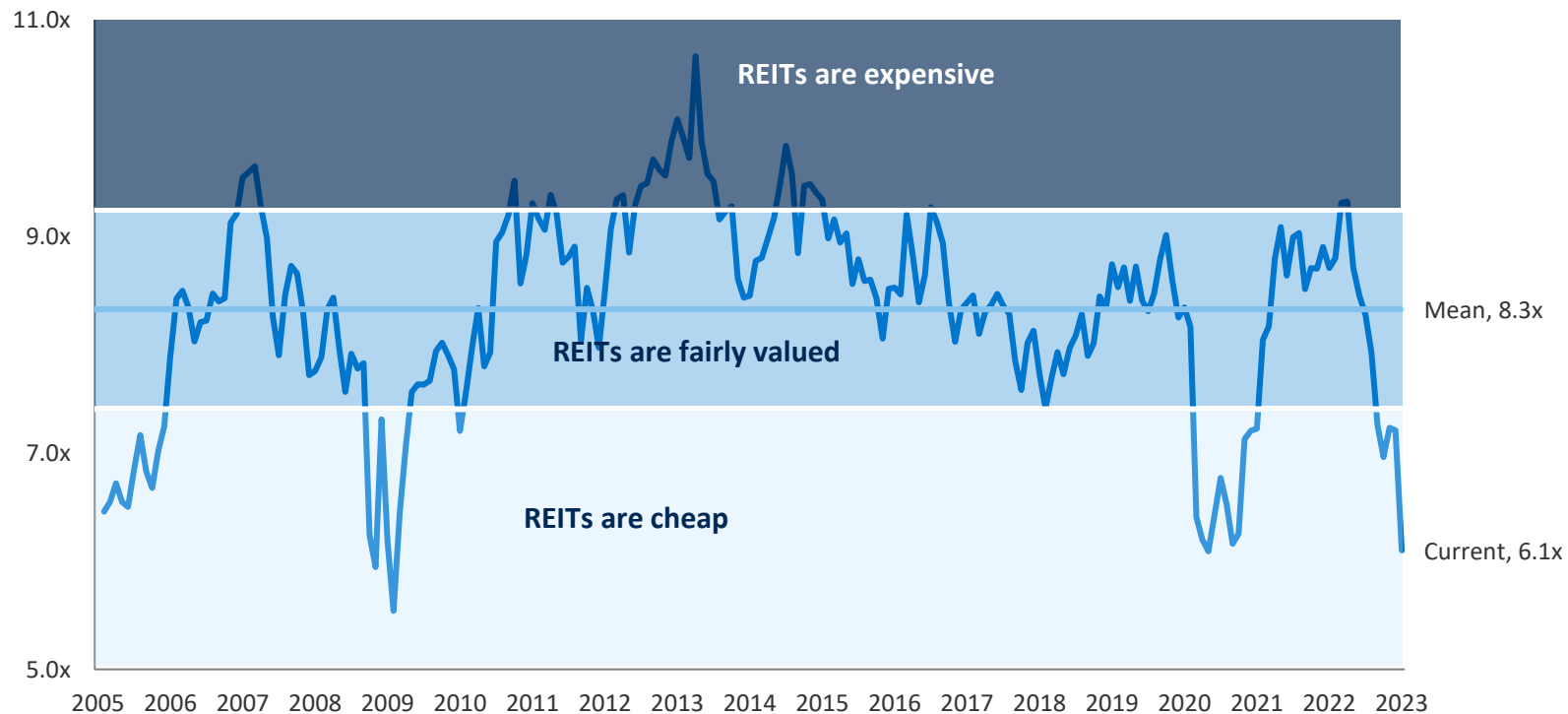


As of 31 March 2023. Source: FactSet. Returns data is showing FTSE NAREIT Equity REITs (U.S. REITs) and FTSE EPRA/NAREIT Developed (global REITs) average cumulative total and excess returns over the S&P 500 (U.S. equities) and MSCI World (global equities), respectively, during periods of real yields rising 75 bps or more and the 12 months after its peak. Analysis starts January 1, 1997, the start of the U.S. TIPS bond market. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.



# Global REITs are trading at a bargain to general equities

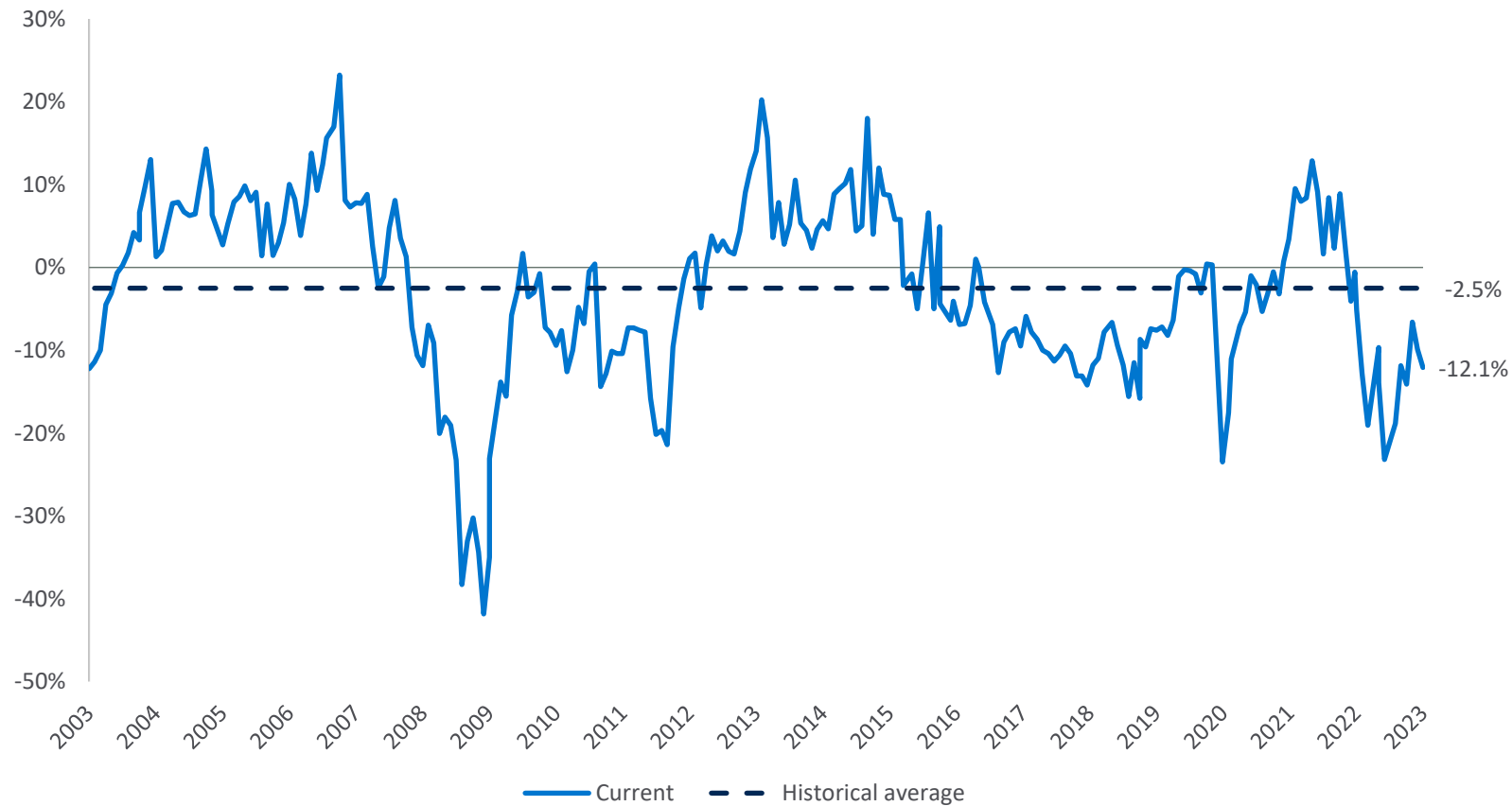
## EV/EBITDA spreads: Global REITs minus equities



As of 31 March 2023. Source: FactSet. Enterprise Value (EV) to EBITDA price multiples are used to measure valuations. The spread plotted is the EV/EBITDA of the FTSE EPRA/NAREIT Developed index minus the EV/EBITDA of the MSCI World index. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean.

# Global REITs trade a discount to private real estate values

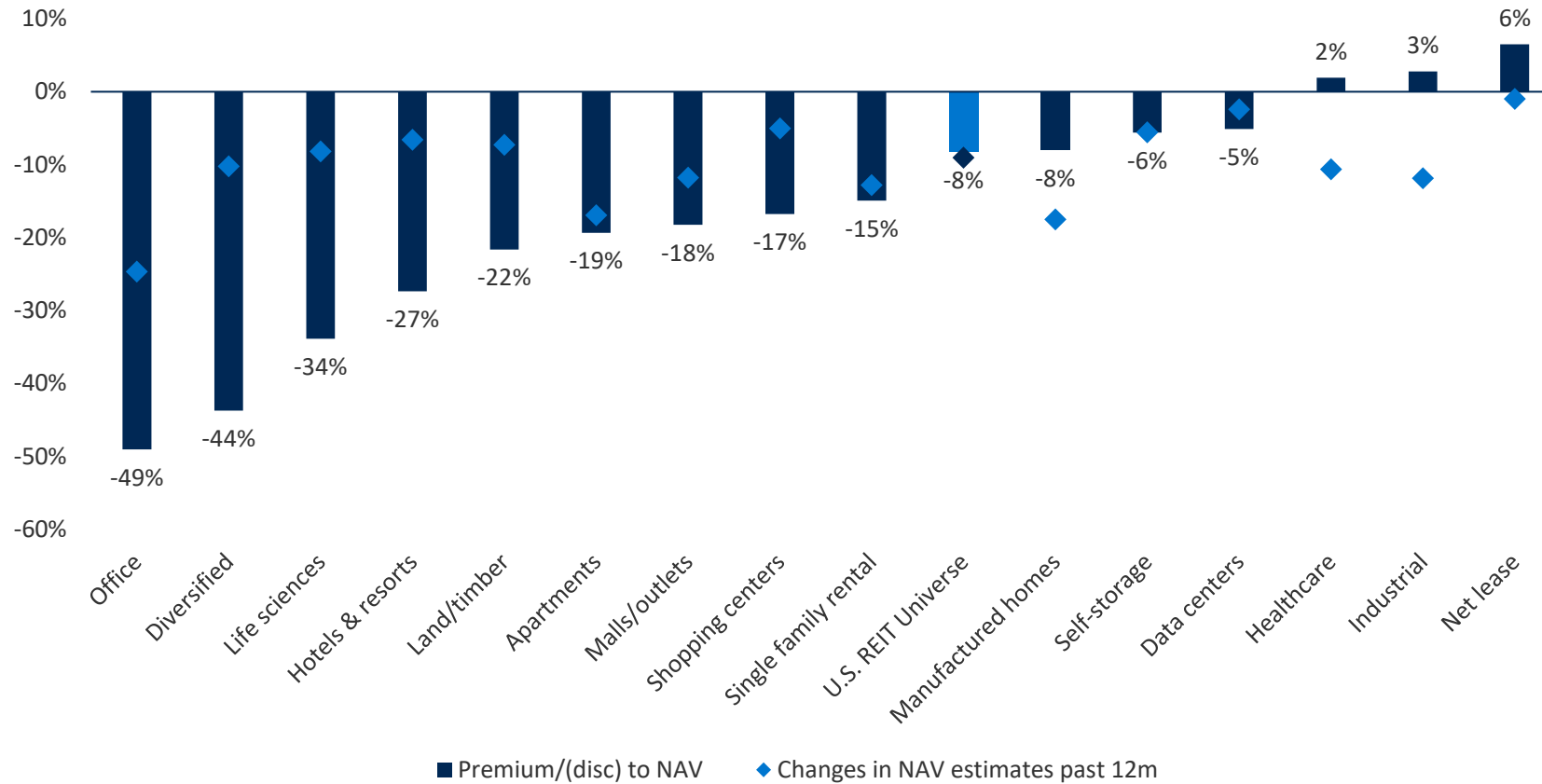
## Listed Global REITs: Premium (discount) to net asset value



As of 31 March 2023. Source: Principal Global Investors, FactSet, FTSE. This chart illustrates the weighted average Price/Net Asset Value of the stocks in the FTSE EPRA/NAREIT Developed index. The historical average represents 20 years. Past performance is not a reliable indicator of future return. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

# NAV estimates have been lowered; REITs still trade at discounts

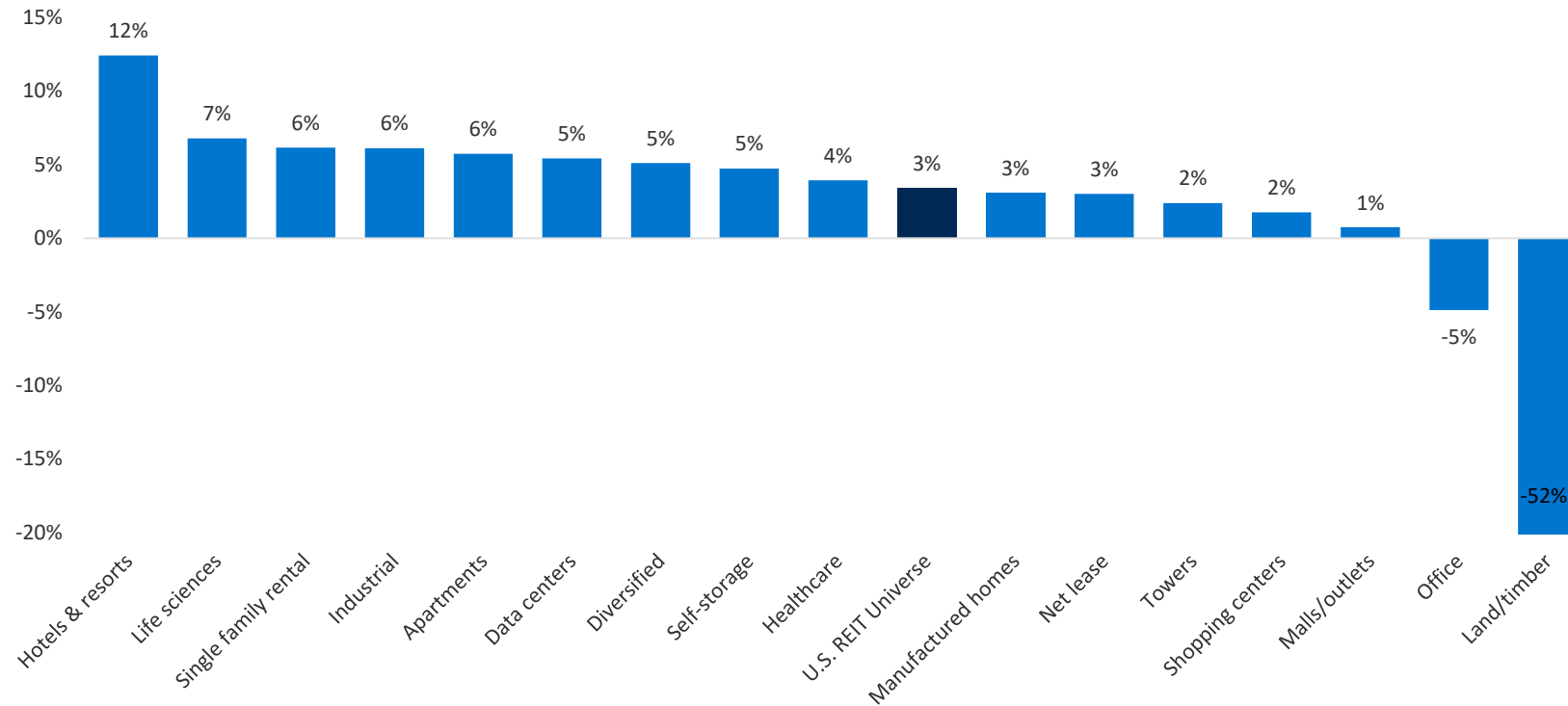
Listed U.S. REITs by property sector



As of 31 March 2023. Source: FactSet, Principal Real Estate Investors. Price to NAV and change in NAV estimates are shown for the U.S. real estate securities investment universe as defined by the Principal team. For illustrative purposes only. Does not represent any investment strategy or reflect fees, taxes, or expenses.

# One year earnings growth expectations positive for most sectors

Listed U.S. REITs: Next twelve months (NTM) earnings growth estimates



As of 31 March 2023. Source: FactSet, Principal Real Estate Investors. Earnings growth is represented by consensus FFO estimates for the U.S. real estate securities investment universe as defined by the Principal team. For illustrative purposes only. Does not represent any investment strategy or reflect fees, taxes, or expenses.

# Appendix

# U.S. real estate securities performance

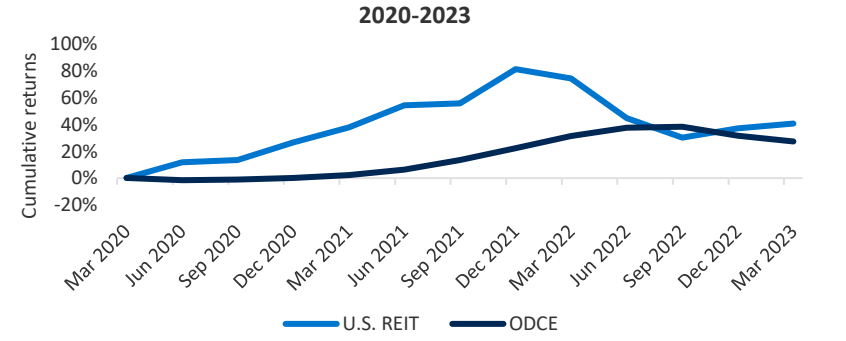
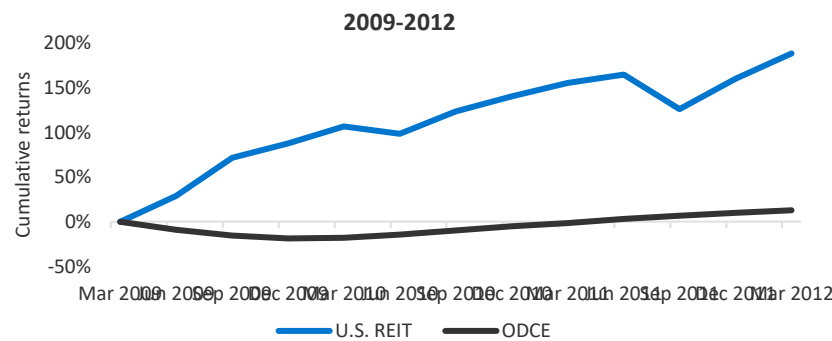
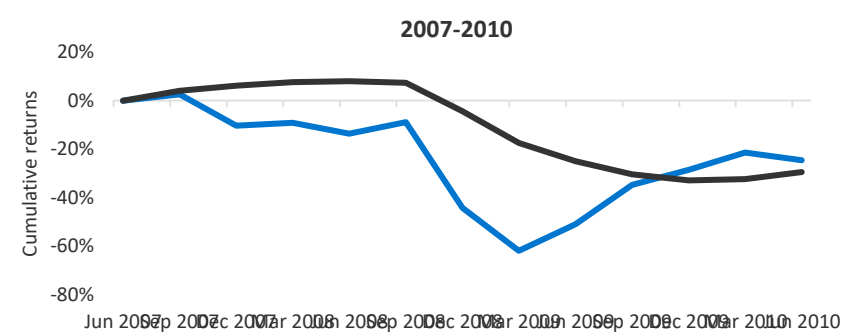
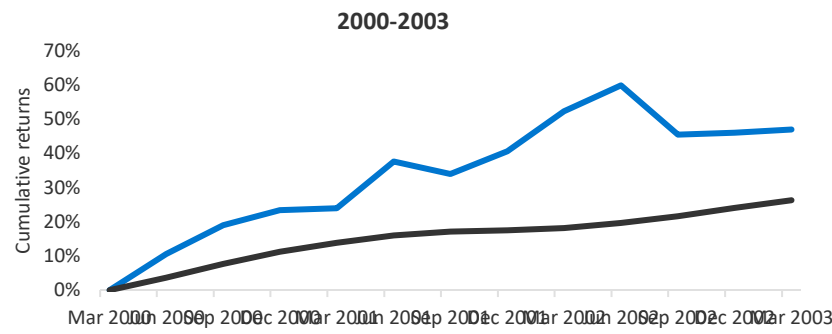
## By property sector

Sector	Universe weight (%)	Total returns	
		Trailing three months (%)	Trailing twelve months (%)
Healthcare	13.3	3.6	-11.4
Towers	13.0	-2.5	-19.9
Hotels & resorts	11.8	8.9	-9.0
Industrial	11.6	10.3	-18.5
Net lease	10.3	1.1	3.8
Apartments	8.2	1.5	-30.2
Data centers	6.7	7.2	-8.9
Self-storage	6.7	13.7	-15.0
Shopping centers	4.0	-2.3	-14.3
Malls/outlets	2.9	-2.4	-9.0
Land/timber	2.9	0.7	-15.0
Office	2.2	-17.6	-51.7
Manufactured homes	2.1	1.2	-15.1
Single family rental	2.1	5.8	-19.9
Life sciences	1.5	-12.9	-35.4
Diversified	0.7	-2.2	-36.1
<b>U.S. REIT universe</b>	<b>100.0</b>	<b>3.4</b>	<b>-14.9</b>

As of 31 March 2023. Source: FactSet, Principal Real Estate Investors. Please see important information section for Principal U.S. real estate securities investment universe description. Returns in USD. Past performance is not a reliable indicator of future return. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. Does not represent any investment strategy.

# Historical REIT performance when trading at discounts to private real estate

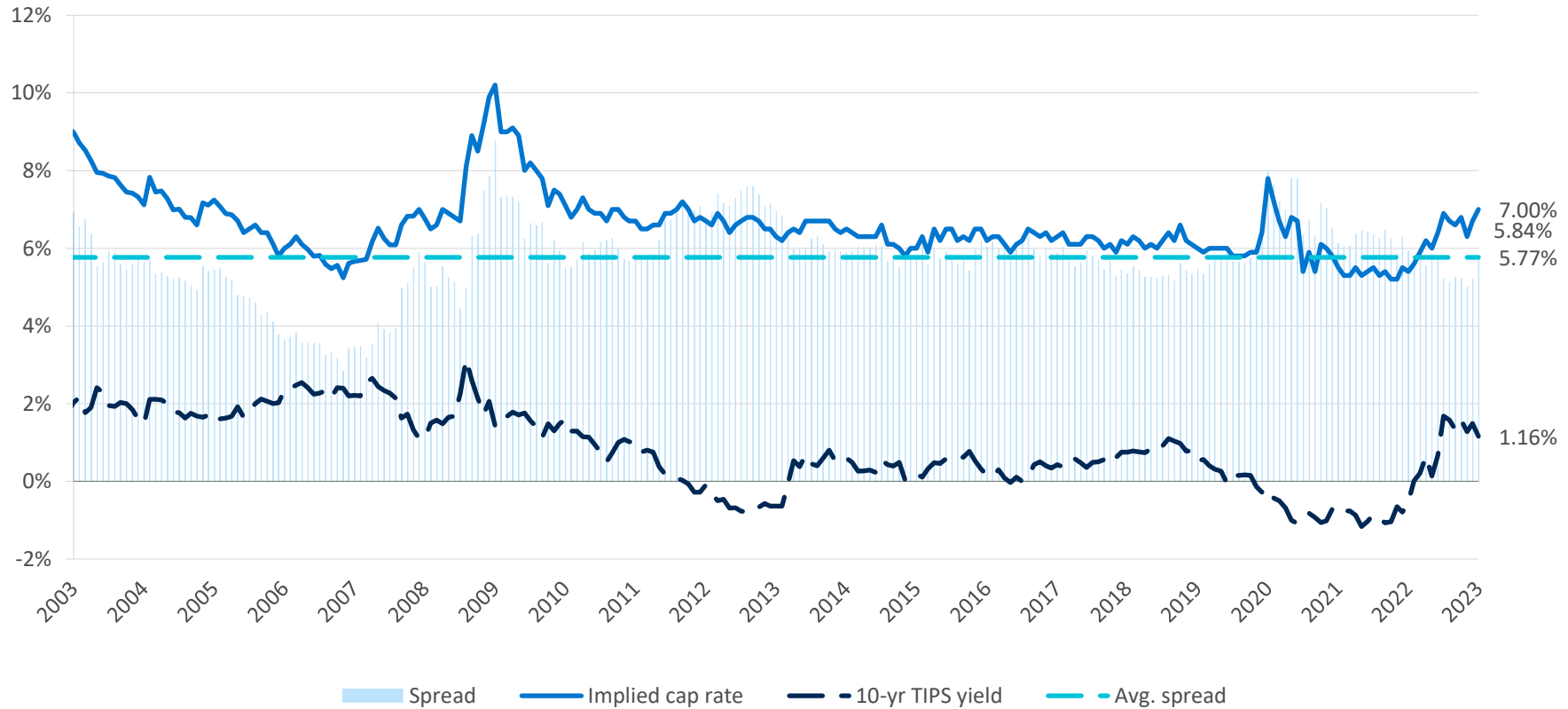
Disc to NAV >15%	U.S. REIT	3Y return after (ann.) ODCE	Excess return
Mar-00	13.7%	8.1%	5.6%
Jun-07	-9.0%	-11.0%	2.0%
Feb-09	42.3%	4.1%	38.2%
Mar-20	12.1%	8.4%	3.7%



As of 31 March 2023. Source: FactSet. FTSE NAREIT Equity REITs Index and NCREIF ODCE. Returns in USD. Past performance is not a reliable indicator of future return and should not be relied upon to make investment decisions. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. Does not represent any investment strategy.

# Listed U.S. REIT valuation spreads

## U.S. REIT implied cap rate vs. 10-year real yields

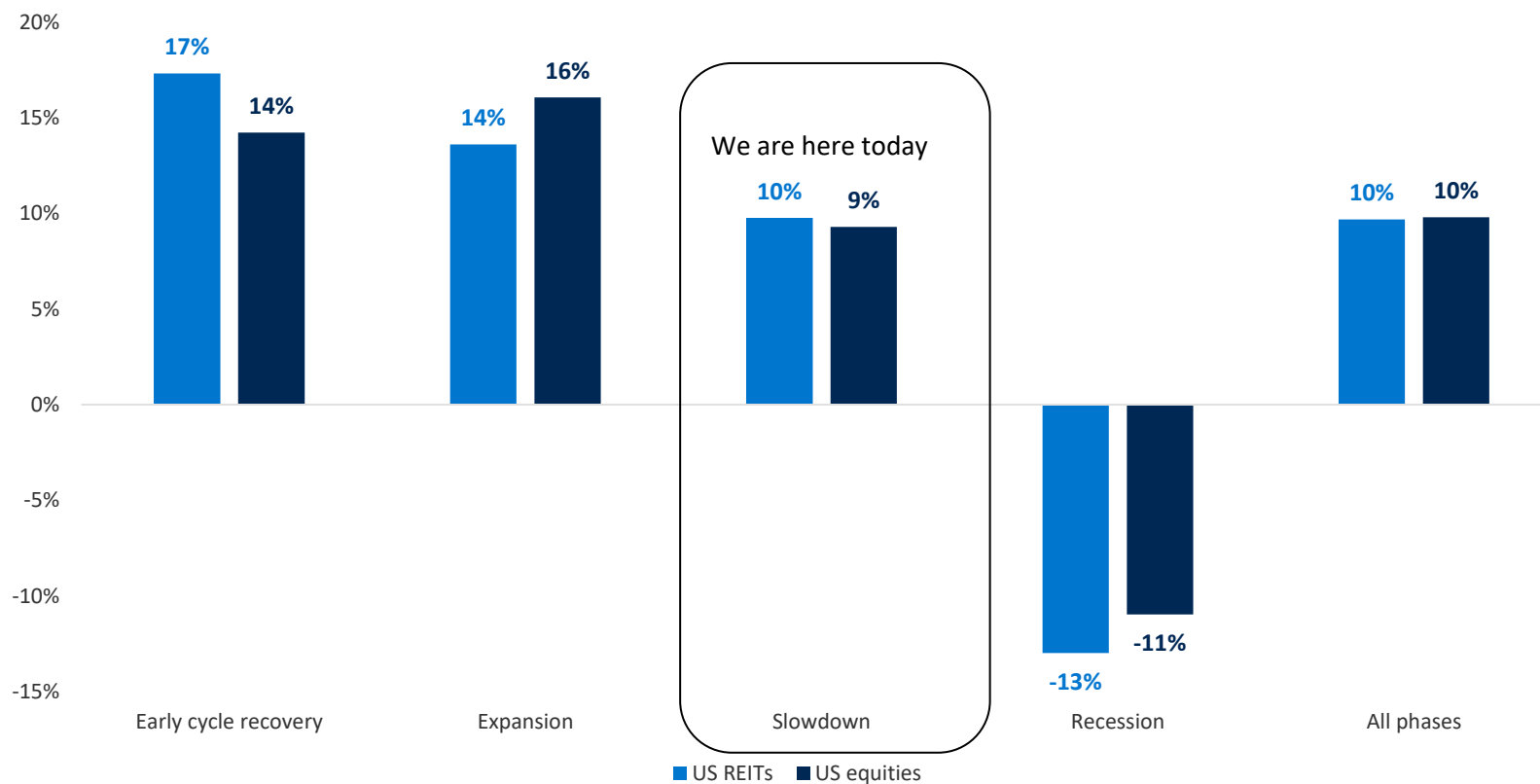


As of 31 March 2023. Source: Citi, FactSet. The historical average spread represents 20 years. Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions. Does not represent any investment strategy.



# U.S. REITs have outperformed during past economic slowdowns

Average annualized total returns during different phases of the business cycle since 1990

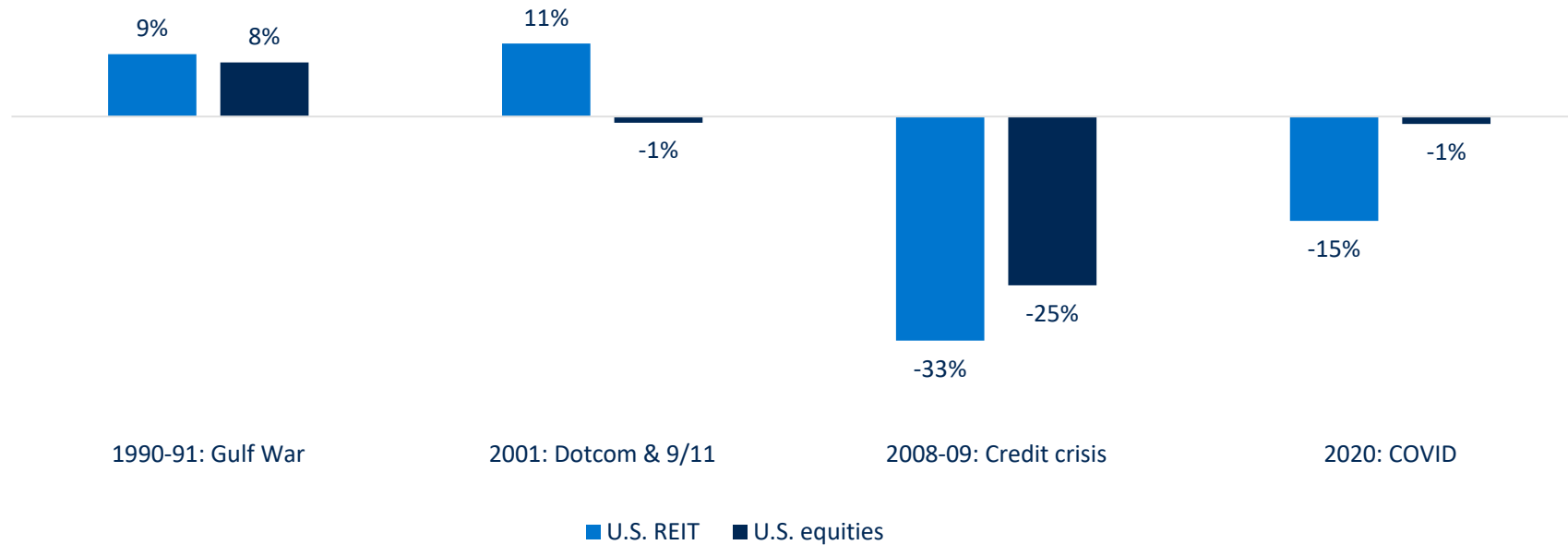


As of 31 March 2023. Source: The Conference Board Leading Economic Index (LEI), National Bureau of Economic Research (NBER), FactSet. LEI and NBER were utilized to identify business cycle phases since 1990. Returns data is showing average annualized returns that occurred from the FTSE NAREIT Equity REITs (U.S. REITs) and S&P 500 (U.S. equities) indices during each phase. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

# No two recessions are the same

Base expectation is a moderate recession in 2023. REITs may outperform equities with healthy balance sheets, resilient demand from structural demand drivers, and manageable supply conditions.

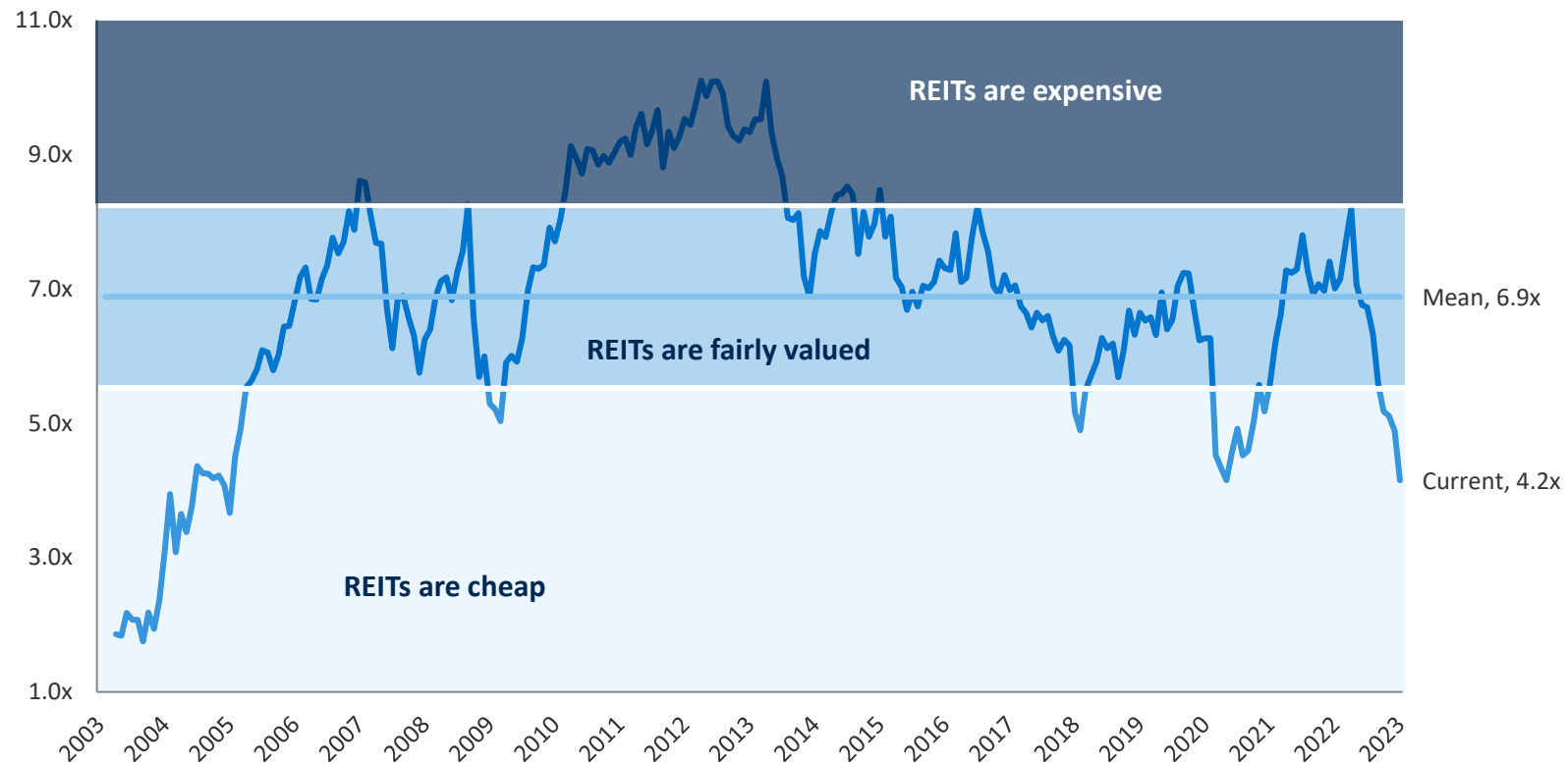
## Average annualized returns during U.S. recessionary periods since 1990



As of 30 April 2020. Source: National Bureau of Economic Research (NBER), FactSet. NBER was utilized to identify past recessions since 1990. Returns data is showing average annualized returns realized during these recession periods from the FTSE NAREIT Equity REITS (U.S. REITs) and S&P 500 (U.S. equities) indices. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

# U.S. REITs are trading at a bargain to general equities

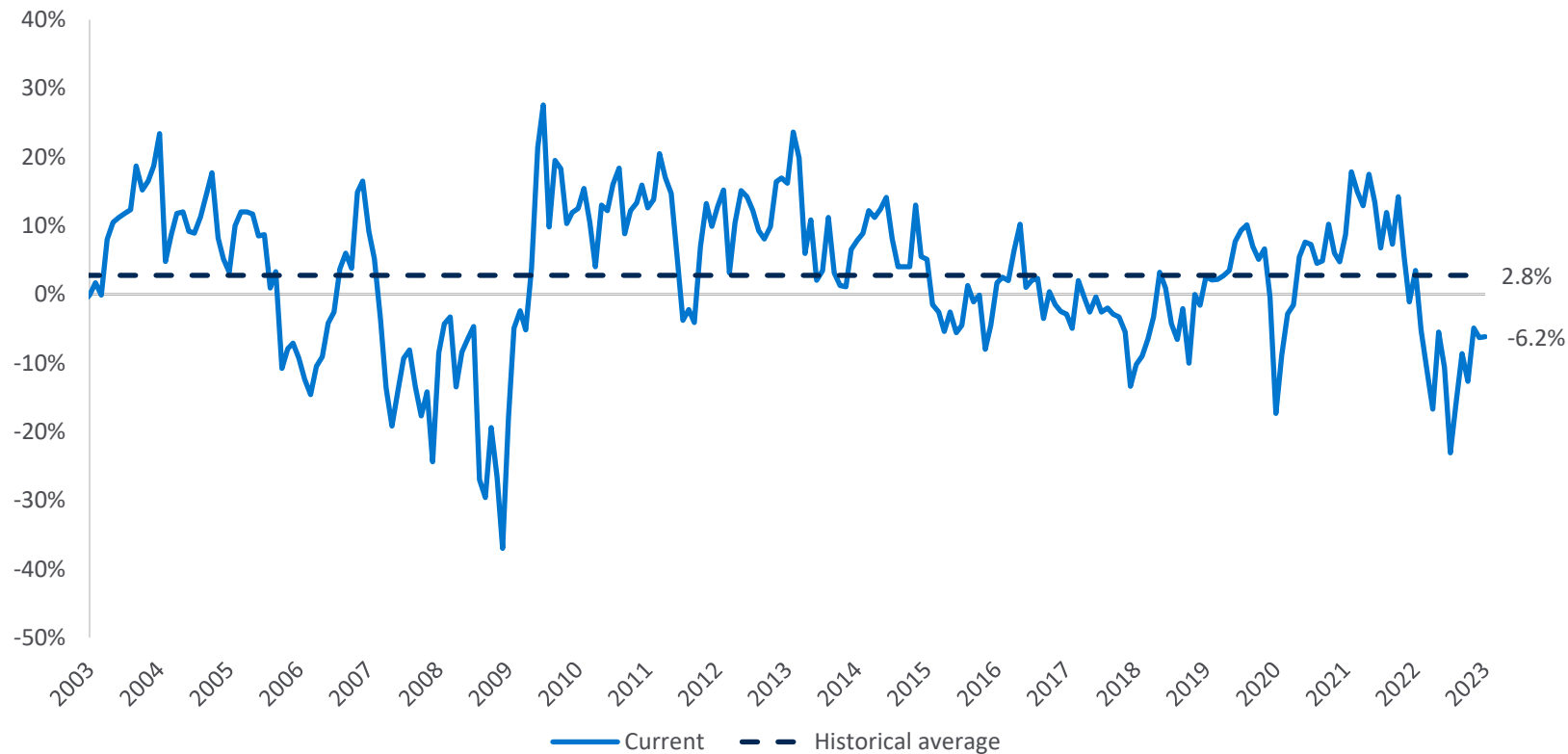
## EV/EBITDA spreads: U.S. REITs minus equities



As of 31 March 2023. Source: FactSet. Enterprise Value (EV) to EBITDA price multiples are used to measure valuations. The spread plotted is the EV/EBITDA of the MSCI US REIT index minus the EV/EBITDA of the S&P 500 index. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean.

# U.S. REITs trade a discount to private real estate values

## Listed U.S. REITs: Premium (discount) to net asset value



As of 31 March 2023. Source: Principal Global Investors, FactSet, MSCI. This chart illustrates the weighted average Price/Net Asset Value of the stocks in MSCI U.S. REIT Index. The historical average represents 20 years. Past performance is not a reliable indicator of future return. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. Does not represent any investment strategy.

# Risk disclosure

Investing involves risk including possible loss of principal. Past performance is no guarantee of future results. Potential investors should be aware of the risks inherent to owning and investing in real estate, including: value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. Real estate investment options are subject to some risks inherent in real estate and real estate investment trusts (REITs), such as risks associated with general and local economic conditions. Investing in REITs involves special risks, including interest rate fluctuation, credit risks, and liquidity risks, including interest conditions on real estate values and occupancy rates. Asset allocation and diversification do not ensure a profit or protect against a loss.

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