hazelview INVESTMENTS

REITs

High Inflation, Rapidly Rising Rates, Recession Fear
Risk or Opportunity?

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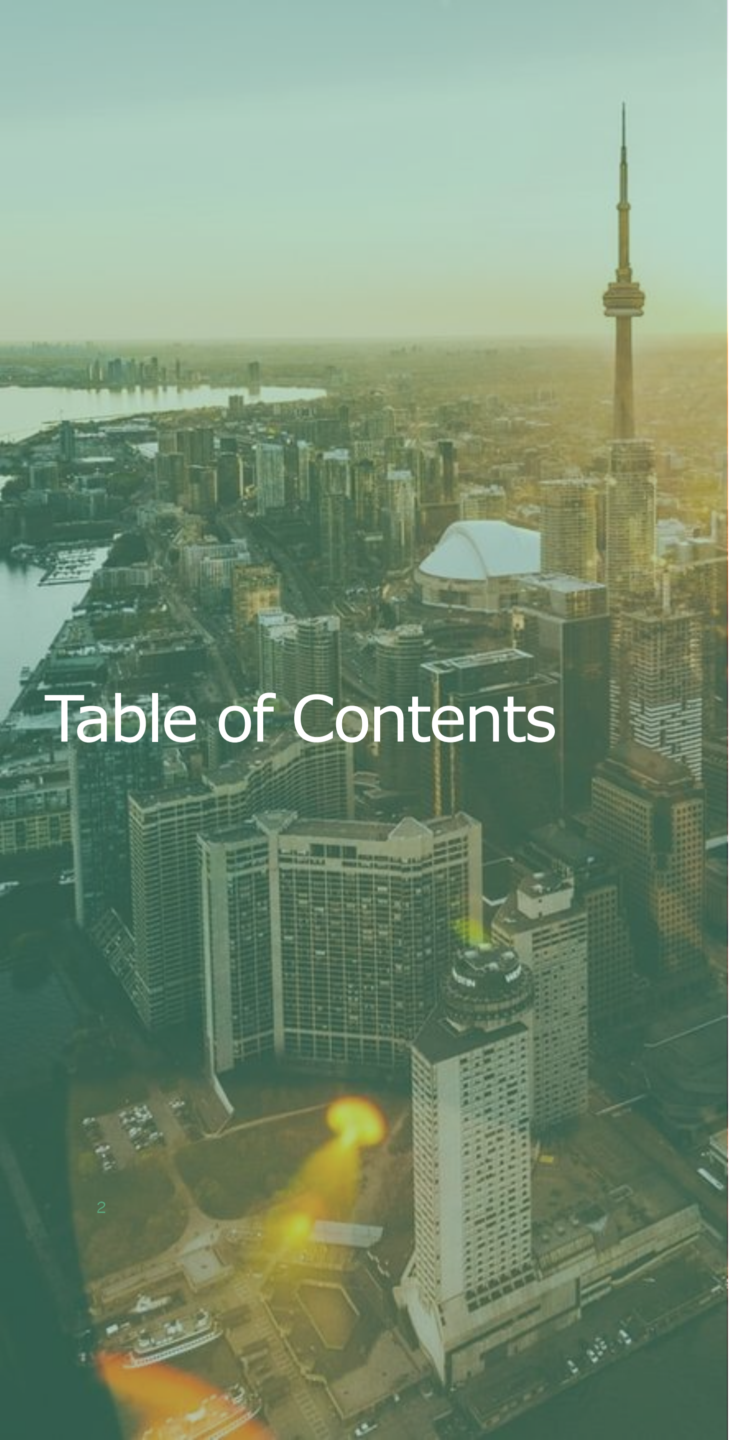

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Past recessions

2022 YTD Market Recap by Geography

- Countries experiencing higher rates of inflation and more monetary policy tightening fared the worst
  - Led by Continental Europe driven by higher energy and food prices that come with Russia's war with Ukraine and higher debt servicing costs
- Extended lockdowns in Asian markets have warded off inflation resulting in stronger performance in that region:
  - Led by Japan driven by the central bank's strong commitment to keeping yields low
  - Followed by Singapore given the country is the furthest along in term of 'living with COVID'

Region	**1H 2022 (%)**
Japan	3.7
Singapore	0.7
Hong Kong	0.5
Australia	-16.6
Canada	-18.5
United Kingdom	-19.1
United States	-20.5
Continental Europe	-30.6
Global	-17.4

Source: Bloomberg, as of June 30, 2022

The Last 7 Recessions

- 01 Oil Crisis I – November 1973
- 02 Oil Crisis II – January 1980
- 03 Oil Crisis III – July 1981
- 04 Early 90s Recession – July 1990
- 05 Dot Com – March 2001
- 06 Great Financial Crisis – December 2007
- 07 Covid Recession – February 2020

Historical Yield Curve Inversions

- We have a partially inverted curve
- 12 partial inversions -> 8 full inversions -> 7 recessions
- Scenario #1 – no recession (5/12 times): 15-20% return for equities and 10-15% return for REITs for each of the next 3 years, equities to outperform
- Scenario #2 – recession (7/12 times): double digit return in the following 12 months, flat return in year 2 with possible drawdowns, and back on track in year 3. REITs outperform
- Historically, in the event of a recession vs. no recession, equity returns have varied significantly. However, for REITs, in either scenario, the 3-year returns are more consistent

Scenario 1 & 2		U.S. Equities								U.S. REITs							
Start	Event	T-6M (%)	T-3M (%)	T+3 M (%)	T+6 M (%)	T+9 M (%)	T+12 M (%)	T+24 M (%)	T+36 M (%)	T-6M (%)	T-3M (%)	T+3 M (%)	T+6 M (%)	T+9 M (%)	T+12 M (%)	T+24 M (%)	T+36M (%)
2/28/1973	Partial → Full → Recession	2.2	-3.6	-5.4	-5.1	-11.8	-10.6	-18.5	7.2	-5.3	-5.5	-5.2	-4.2	-10.8	-2.1	-17.1	4.2
8/31/1978	Partial → Full → Recession	20.3	7.5	-6.9	-3.7	0.7	12.2	30.5	36.8	20.8	9.9	-10.9	-0.7	17.1	39.2	62.4	80.7
8/31/1980	Partial → Full → Recession	11.2	11.1	15.6	10.2	12.5	6.3	10.4	48.2	18.6	20.1	9.3	7.5	12.5	18.3	18.1	62.0
9/30/1984	Partial → Nothing	7.4	9.8	1.9	11.0	18.2	14.1	43.5	81.0	9.4	8.9	8.2	14.3	16.0	13.2	30.8	38.1
3/31/1986	Partial → Nothing	29.9	13.6	5.9	-0.6	5.1	25.4	20.6	37.9	12.5	11.0	4.3	5.1	7.6	15.3	13.3	19.8
11/30/1988	Partial → Full → Recession	6.4	5.6	6.6	18.1	28.5	27.9	25.8	45.1	4.4	-1.4	1.6	5.8	9.2	4.8	-16.1	20.5
12/31/1994	Partial → Nothing	5.0	0.1	9.4	18.7	26.5	32.4	53.8	84.1	0.9	0.3	3.2	8.6	15.3	20.6	57.2	79.4
11/30/1995	Partial → Nothing	14.1	8.2	6.2	11.3	9.3	25.3	51.8	75.4	8.3	2.1	10.4	13.3	20.2	32.1	62.4	49.2
11/30/1997	Partial → Full → Nothing	13.6	6.8	10.0	14.4	3.0	23.6	43.5	40.7	16.6	8.1	0.6	-1.4	-18.7	-13.2	-22.7	1.4
9/30/1999	Partial → Full → Recession	0.7	-6.4	14.2	17.1	14.5	13.9	-15.1	-36.2	0.3	-10.1	0.3	1.6	13.1	22.7	33.3	40.8
8/31/2005	Partial → Full → Recession	2.5	2.9	2.9	5.9	5.6	8.7	23.2	12.4	15.3	8.3	2.7	11.8	11.3	23.9	28.5	21.3
12/31/2018	Partial → Full → Recession	-6.3	-13.8	13.2	17.9	19.6	28.4	48.5	74.6	-5.0	-5.7	15.4	16.1	23.5	22.6	17.4	54.6
3/31/2022	Partial → ?	6.3	-4.5	-16.8	-7.6	-	-	-	-	12.0	-3.7	-18.2	-9.1	-	-	-	-
Average	All	8.9	3.5	6.1	9.6	11.0	17.3	26.5	42.3	8.1	3.8	3.3	6.5	9.7	16.5	22.3	39.3
	Partial → No Recession	**14.0**	**7.7**	**6.7**	**11.0**	**12.4**	**24.2**	**42.6**	**63.8**	**9.5**	**6.1**	**5.3**	**8.0**	**8.1**	**13.6**	**28.2**	**37.6**
	Partial → Recession	**5.3**	**0.5**	**5.8**	**8.6**	**10.0**	**12.4**	**15.0**	**26.9**	**7.0**	**2.2**	**1.9**	**5.4**	**10.8**	**18.5**	**18.1**	**40.6**

Source: Bloomberg

REIT Performance in Recessions

- Scenario 3 – recession is coming sooner, or we are already in one
- Start from a quarterly negative real GDP print
- 10 initial negative GDP prints -> 7 recessions
- Equity and REITs are expected to be flat with potential drawdowns over the next 12 months. However, year 2 and year 3 are expected to deliver strong positive returns
- There are two negative outliers, especially for REITs
  - First oil crisis in 1973
  - Subprime crisis in 2008
- Outlook improves if we deem the GFC as unlikely/irrelevant to the challenges facing us today

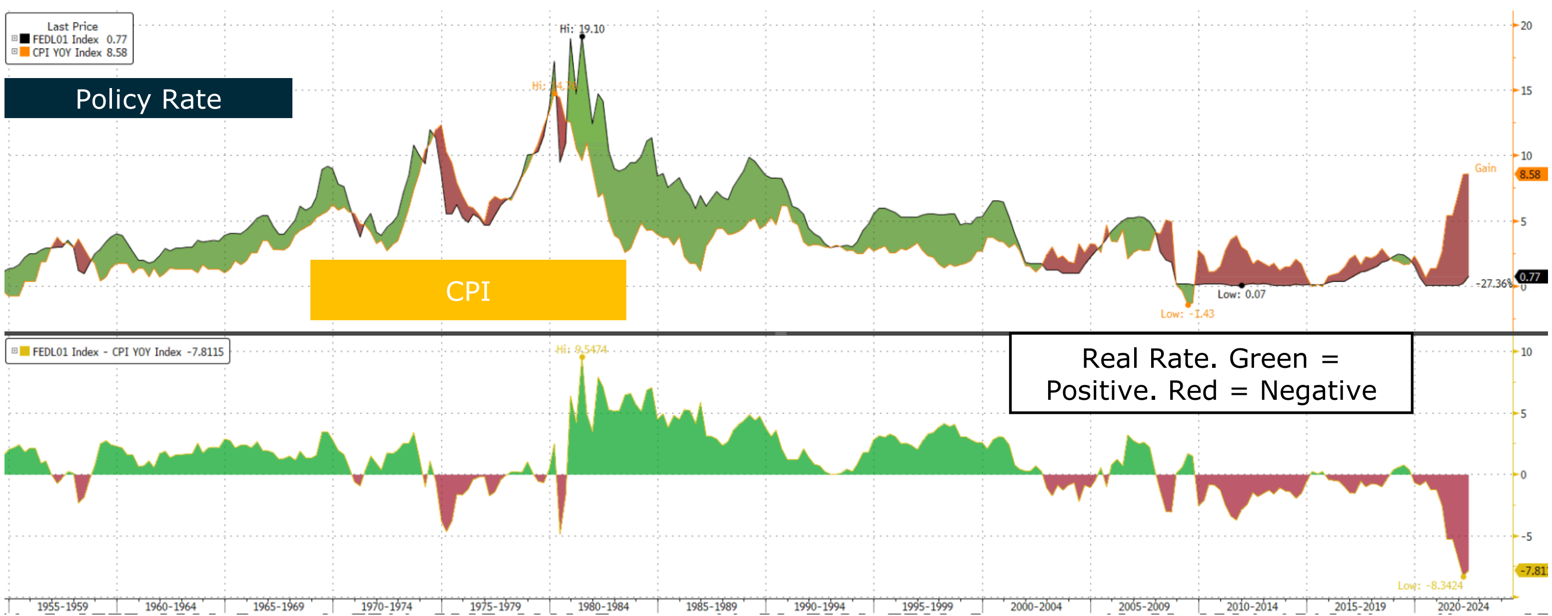
Scenario 3		U.S. Equities								U.S. REITs							
Start	Event	T-6M (%)	T-3M (%)	T+3 M (%)	T+6 M (%)	T+9 M (%)	T+12 M (%)	T+24 M (%)	T+36 M (%)	T-6M (%)	T-3M (%)	T+3 M (%)	T+6 M (%)	T+9 M (%)	T+12 M (%)	T+24 M (%)	T+36M (%)
09/30/1973	Neg. GDP -> Recession	-0.9	4.9	-8.9	-11.8	-19.5	-47.1	-11.8	15.9	-0.1	5.3	-13.3	-6.6	-17.6	-33.2	-18.3	12.5
06/30/1980	Neg. GDP -> Recession	9.4	12.9	10.9	20.6	22.1	19.8	8.0	57.7	11.7	18.8	13.0	20.5	29.0	36.3	29.3	78.2
06/30/1981	Neg. GDP -> Recession	-0.8	-2.3	-10.5	-3.5	-11.0	-11.9	37.8	33.4	15.8	7.3	-12.8	2.3	-5.2	-7.1	41.9	54.9
12/31/1990	Neg. GDP -> Recession	-5.4	8.8	13.9	13.9	19.2	28.0	35.6	45.4	-10.3	8.7	22.0	24.9	34.6	48.4	70.4	91.4
03/31/2001	Neg. GDP -> Recession	-19.7	-11.9	6.0	-9.3	1.1	1.5	-24.8	6.2	5.0	-0.6	11.7	5.7	11.2	19.9	14.5	58.2
03/31/2008	**Neg. GDP -> Recession**	**-12.9**	**-9.7**	**-2.3**	**-10.6**	**-33.5**	**-43.8**	**-1.9**	**14.2**	**-11.6**	**1.6**	**-4.8**	**-0.3**	**-39.4**	**-75.0**	**6.8**	**29.9**
03/31/2011	Neg. GDP-> No Recession	16.3	5.8	0.2	-14.3	-2.6	9.5	23.1	43.5	13.9	6.2	3.7	-11.6	3.6	14.3	28.6	34.3
09/30/2011	Neg. GDP-> No Recession	-14.3	-14.5	11.7	23.8	21.3	27.5	45.7	64.2	-11.6	-15.3	15.2	25.9	29.7	29.9	36.5	49.7
03/31/2014	Neg. GDP-> No Recession	12.1	2.0	5.2	6.4	11.2	12.4	15.1	31.2	9.4	9.9	6.8	3.8	17.7	22.6	27.9	30.8
03/31/2020	Neg. GDP -> Recession	-11.8	-20.6	19.6	28.6	40.7	46.8	62.3	-	-31.5	-30.6	11.4	12.4	25.4	34.8	58.9	-
03/31/2022	Neg. GDP -> ?	6.3	-4.5	-16.8	-7.6	-	-	-	-	12.0	-3.7	-18.2	-9.1	-	-	-	-
Average	All	-2.8	-2.5	4.6	4.4	4.9	4.3	18.9	34.6	-0.9	1.1	5.3	7.7	8.9	9.1	29.6	48.9
	Neg. GDP-> No Recession	4.7	-2.2	5.7	5.3	10.0	16.5	28.0	46.3	3.9	**0.3**	**8.6**	**6.0**	**17.0**	**22.3**	**31.0**	**38.2**
	Neg. GDP -> Recession	-6.0	-2.5	4.1	4.0	2.8	-0.9	15.0	28.8	-3.0	1.5	3.9	8.4	5.4	3.4	29.1	54.2
	Neg. GDP -> Recession (ex-GFC)	-4.9	-1.4	5.2	6.4	8.8	6.2	17.9	31.7	-1.6	1.5	5.4	9.9	12.9	16.5	32.8	59.0

Source: Bloomberg

Thoughts on Inflation

Real Policy Rate

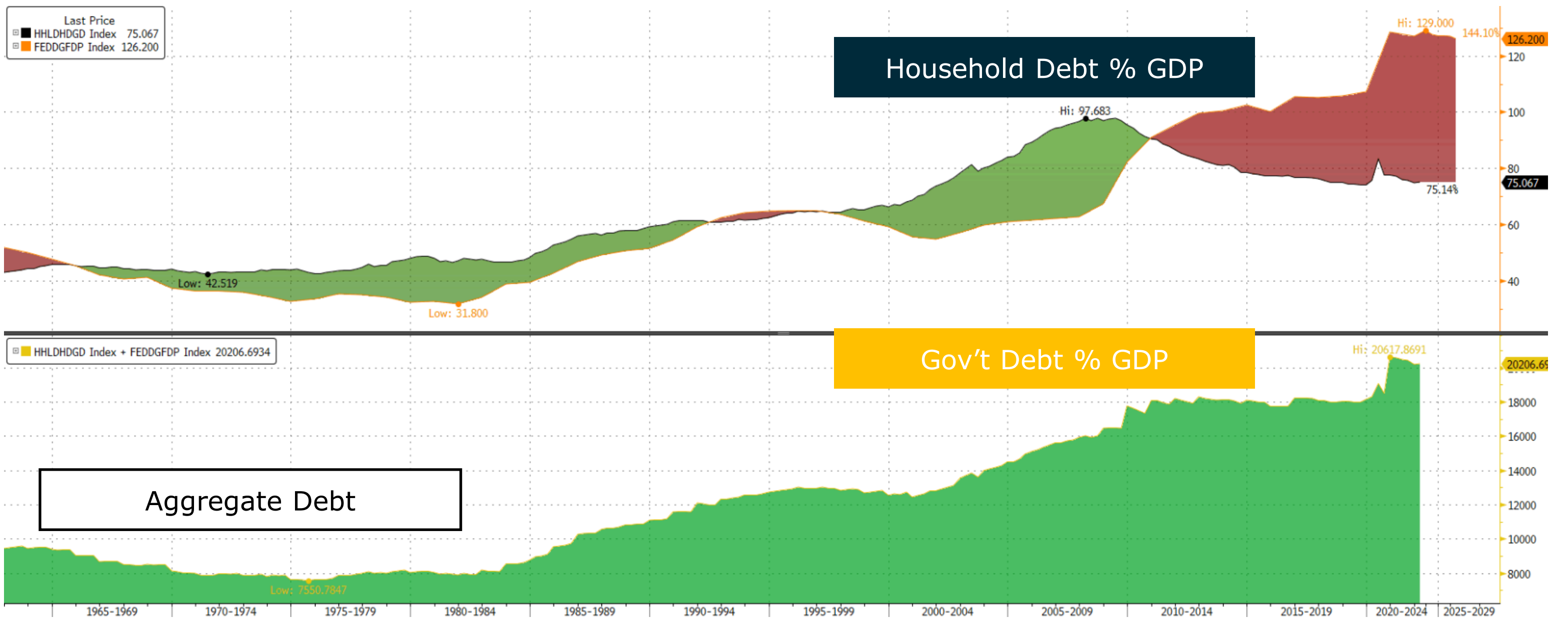
- Pre-80s: monetary policy was predominately driven by inflation risk. Each cycle saw higher peak interest rate as the Fed tried to contain inflation
- Post-80s: monetary policy was predominately driven by unemployment risk. Lower rates were needed to stimulate the economy. Subsequent rising rates were a result of normalization, not to fight inflation
- Pre-80s: saw greater extremes between peak and trough interest rates and inflation vs. post-80s, which suggests the economy had become more sensitive to interest rate hikes



Source: Bloomberg

Saving Effect vs. Consumption Effect

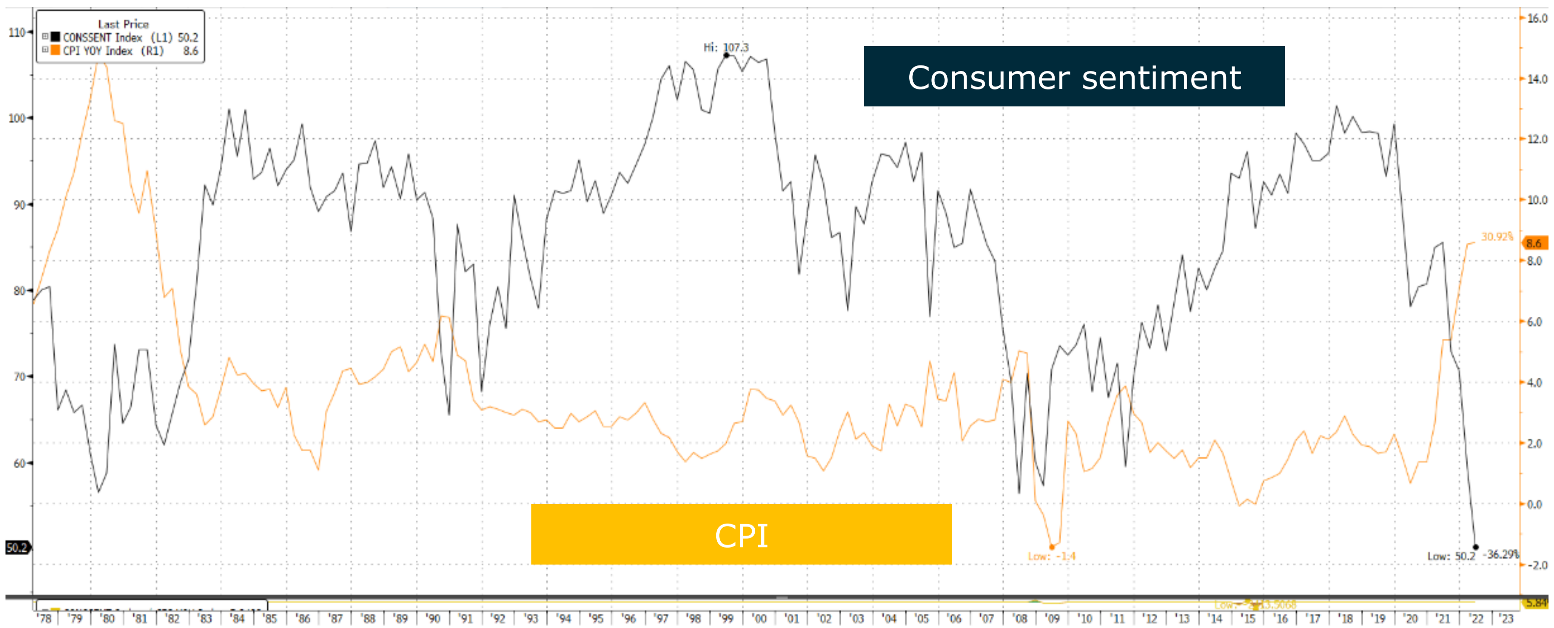
- Pre-80s: aggregate debt in the economy was declining post WWII, which meant that raising the cost of borrowing had minimal impact on disposable income. Therefore, interest rates needed to exceed inflation in order to encourage people to save rather than spend to curb inflation
- Post-80s: aggregate debt in the economy grew tremendously. Disposable income became more sensitive to small increases in borrowing costs. Therefore, QT tended to hurt consumption quicker, encouraging de-leveraging (instead of saving), which cooled down the economy and/or CPI
- Today, we are combating high inflation like the pre-80s. However, high aggregate debt levels make consumers' discretionary income more impacted by small changes in interest rates



Source: Bloomberg

Consumer Sentiment vs. CPI

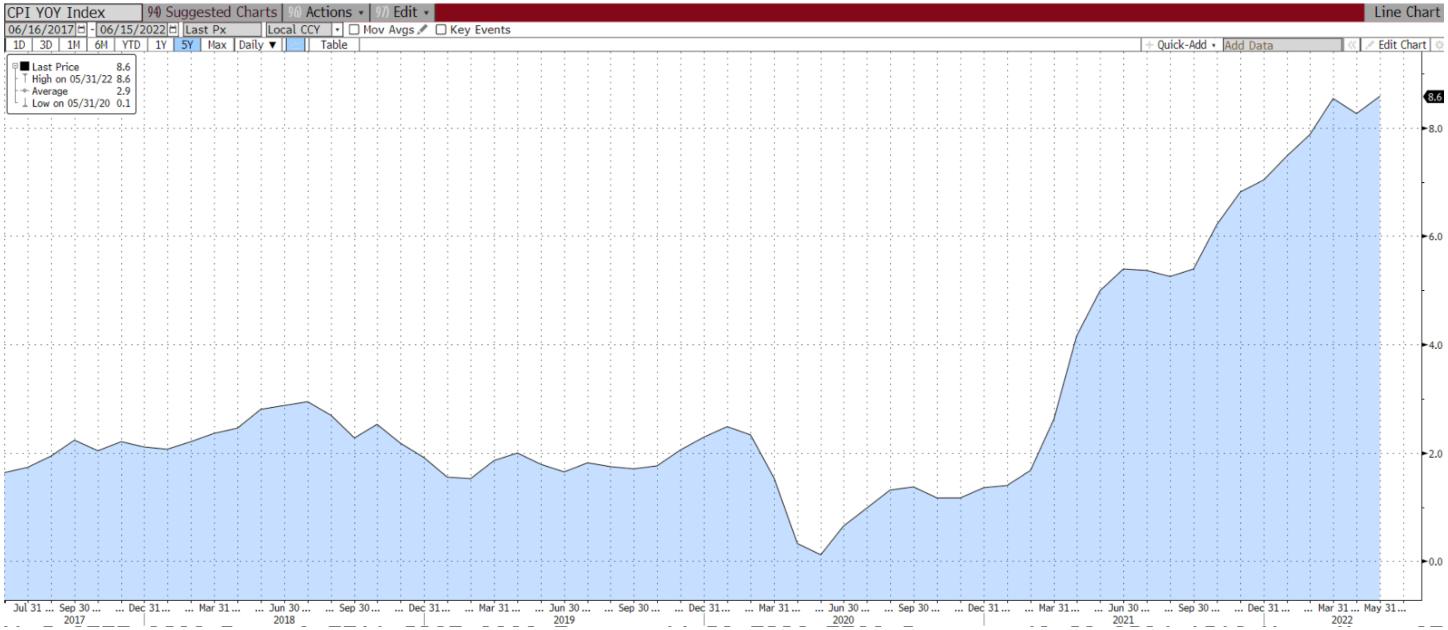
- CPI is at a 40-year high
- Consumer sentiment is at 40-year low
- The last time sentiment was at this level (May 1980), it coincided with peak CPI at 14%, policy rate was fluctuating 10-20% on a monthly basis, the QoQ was -8%



Source: Bloomberg

Tougher Comps on CPI Starting H2 2022

Month	CPI YOY
5/31/2002	8.6%
4/30/2022	8.3%
3/31/2022	8.5%
2/28/202	7.9%
1/31/2022	7.5%
12/31/2021	7.0%
11/30/2021	6.8%
10/31/2021	6.2%
9/30/2021	5.4%
8/31/2021	5.3%
7/31/2021	5.4%
6/30/2021	5.4%



Source: Bloomberg

Furthermore

01 Household discretionary income is much more sensitive to interest rate moves today

02 Consumer sentiment is the worst it has been in 40 years

03 Inflation is about to face tougher comps in the second half of the year

04 Historically, this data suggests that inflation has likely peaked and is set to come down

What’s Priced In

- There have been six global economic cycles over the last 50 years. In a bear market, stocks fall nearly 35% from peak-to-trough (using the MSCI World Index as a guide).
- Stocks peak about six months ahead of the start of a recession and they bottom about a year after the recession starts.
- Excluding the Great Financial Crisis the average peak-to-trough decline in a “typical” bear market is a little over 20%.
- In the first half of 2022, global equities declined 20.3% (USD) which implies the market has already priced-in a “typical” bear market / recession.

Post-WW2 S&P 500 Bear Markets*

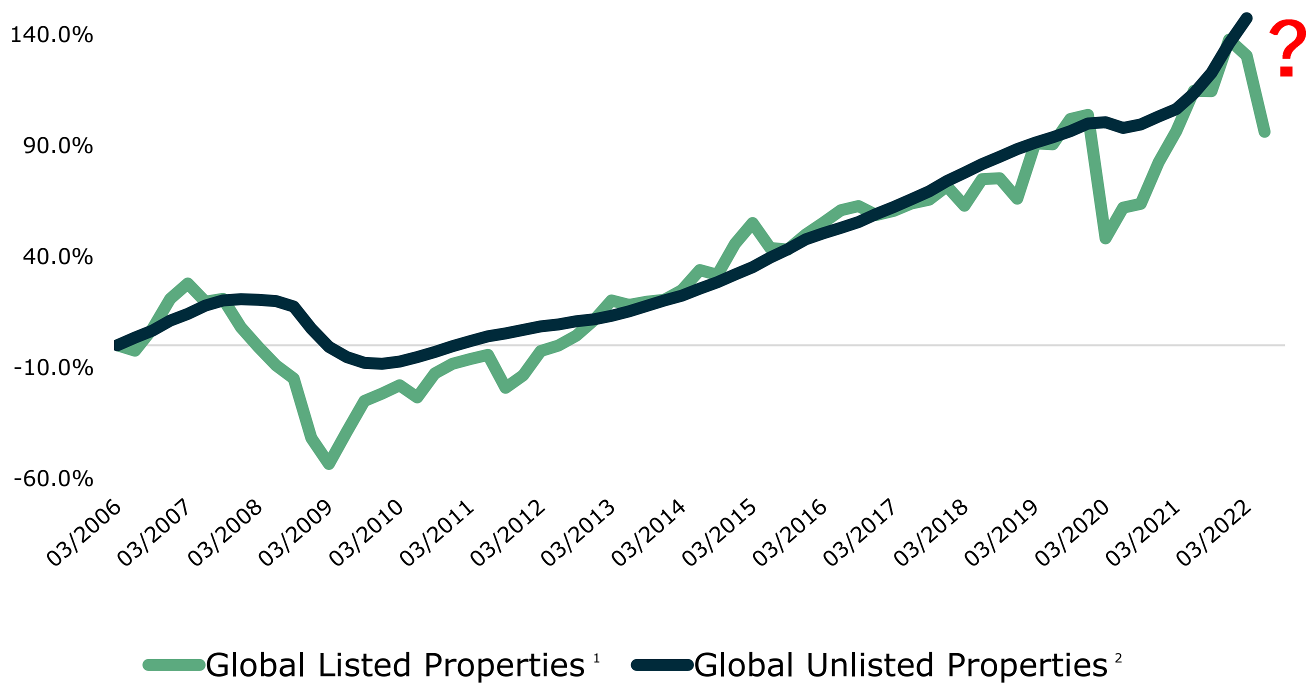
								S&P 500 % Change Once -20% Threshold is Hit				
Start	-20%	Days to Bear	End	Days from -20% to End	% Chg from -20% to End	Full Bear % Chg	Full Bear # of Days	Next Week	Next Month	Next 3 Mths	Next 6 Mths	Next Year
5/29/46	9/3/46	97	5/19/47	258	-8.20	-28.47	355	-2.73	-0.13	-3.40	2.73	2.20
6/15/48	6/13/49	363	6/13/49	0	0.00	-20.57	363	3.84	9.08	16.16	22.80	42.07
8/2/56	10/21/57	445	10/22/57	1	-0.43	-21.63	446	3.24	3.40	5.49	9.66	30.96
12/12/61	5/28/62	167	6/26/62	29	-5.73	-27.97	196	3.19	-1.96	5.93	11.93	26.14
2/9/66	8/29/66	201	10/7/66	39	-1.78	-22.18	240	3.88	2.39	7.90	16.44	24.62
11/29/68	1/29/70	426	5/26/70	117	-19.14	-36.06	543	0.25	4.45	-4.53	-8.93	11.89
1/11/73	11/27/73	320	10/3/74	310	-34.92	-48.20	630	-2.20	2.13	0.73	-7.44	-26.92
11/28/80	2/22/82	451	8/12/82	171	-8.22	-27.11	622	1.54	1.06	2.96	1.28	30.37
8/25/87	10/19/87	55	12/4/87	46	-0.41	-33.51	101	1.26	6.76	10.89	14.71	23.19
3/24/00	3/12/01	353	9/21/01	193	-18.16	-36.77	546	-0.79	0.28	6.41	-7.42	-1.24
1/4/02	7/10/02	187	7/23/02	13	-13.34	-31.97	200	-1.57	-1.29	-12.66	0.77	7.41
10/9/07	7/9/08	274	11/20/08	134	-39.55	-51.93	408	0.05	4.15	-26.90	-28.47	-29.08
1/6/09	2/23/09	48	3/9/09	14	-8.99	-27.62	62	-5.72	10.71	19.33	38.05	47.26
2/19/20	3/12/20	22	3/23/20	11	-9.81	-33.92	33	-2.87	12.46	22.60	34.68	58.96
1/3/22	?	161+	?	?	?	?	?	?	?	?	?	?
	Average	**244**		**95**	-12.05	-31.99	**339**	**0.10**	**3.82**	**3.64**	**7.20**	**17.70**
	Median	**238**		**43**	-8.60	-30.22	**359**	**0.15**	**2.89**	**5.71**	**6.19**	**23.90**
	% Positive	--		--	--	--	--	57.1	78.6	71.4	71.4	78.6
Avg. All Periods Since 1945								***0.30***	***1.01***	***2.42***	***4.88***	***9.89***

*Bear Market definition of 20%+ decline that was preceded by a 20%+ rally, all on a closing basis.

= Recession began within two years of bear market start.

What's the Opportunity?

- From a valuation point of view, according to UBS, global REITs are trading over 1-standard deviation cheaper on a discount to NAV basis than their 30-year history.
- Our valuation models point to global REITs trading at a 19% discount to forward NAV (including a conservative estimate of 5-15% decline in asset values)
- From the start of the year, the implied cap rate on global REITs has expanded 62 basis points to 5.5% with the largest increases in the U.S. (93bps), Canada (71bps), Australia (68bps) and Europe (64bps).
- According to Bank of America Global Research, over the last three recessions (which includes the Great Financial Crisis), private market cap rates in the U.S. increased an average of 113 basis points from trough-to-peak.
- That implies the public market has nearly re-priced listed REITs (~82%) to a level where cap rates expand too in a recession.



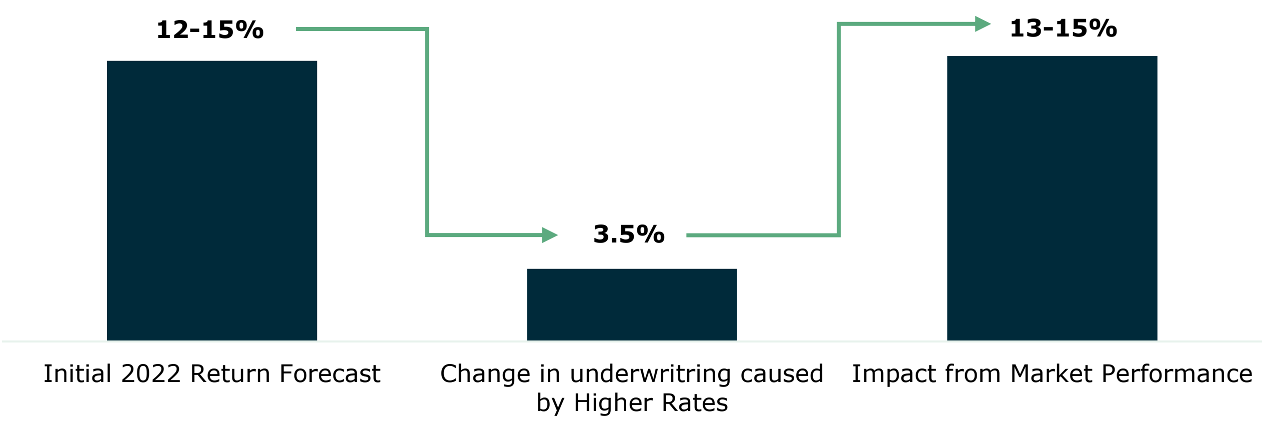
1. FTSE EPRA/NAREIT Global Local Return Index as of Q2 2006 to June 30, 2022. 2.GREFI All Funds Local Return Index, data as of Q2, 2006 to March 31, 2022. June 30 data was not available.

Our Outlook

- Recession or not - most likely path forward are double digital returns over the next 12 months

Higher interest rates offset by decline in market therefore continue to target 13% to 15% annualized return over the next two years.

Impact of Higher Interest Rates on Expected Returns



Source: Hazelview, Bloomberg

THANK YOU

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