The outlook for listed real estate

CBRE INVESTMENT MANAGEMENT

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In 2025, we see the potential for listed real estate to outperform broad equities and provide a differentiated total return compared to private real estate markets. We believe listed real estate is in the early days of a new upcycle, one in which long-term yields remain in a range, where earnings are accelerating, where listed capital market access remains abundant and where valuations can support continued returns. We expect the following characteristics for listed real estate in 2025:

- The ability to prosper in an environment of moderating central bank rates and range-bound yields
- Accelerating organic earnings based on improving supply/demand across sectors
- Access to capital supporting potential acquisitions and upside to estimates
- Compelling valuations and total return opportunities at this stage of the cycle

Listed real estate in a new cycle

A new cycle for listed real estate began in the fourth quarter of 2023 with the recognition of a pause in central bank interest rate hikes. We believe the absence of hikes will be powerful for listed real estate, even without a significant fall in target rates themselves. Historically, real estate has done well during periods of range-bound long-term yields at similar levels to today.

During 2001-2007, U.S. 10-year bonds yielded between approximately 4%-5% and listed real estate generated double-digit average returns. Listed real estate's strong access to capital currently, as compared to more constrained private real estate participants, should be maintained in such an environment in the future.

Figure 1: Listed real estate has performed well during periods of range-bound long-term yields

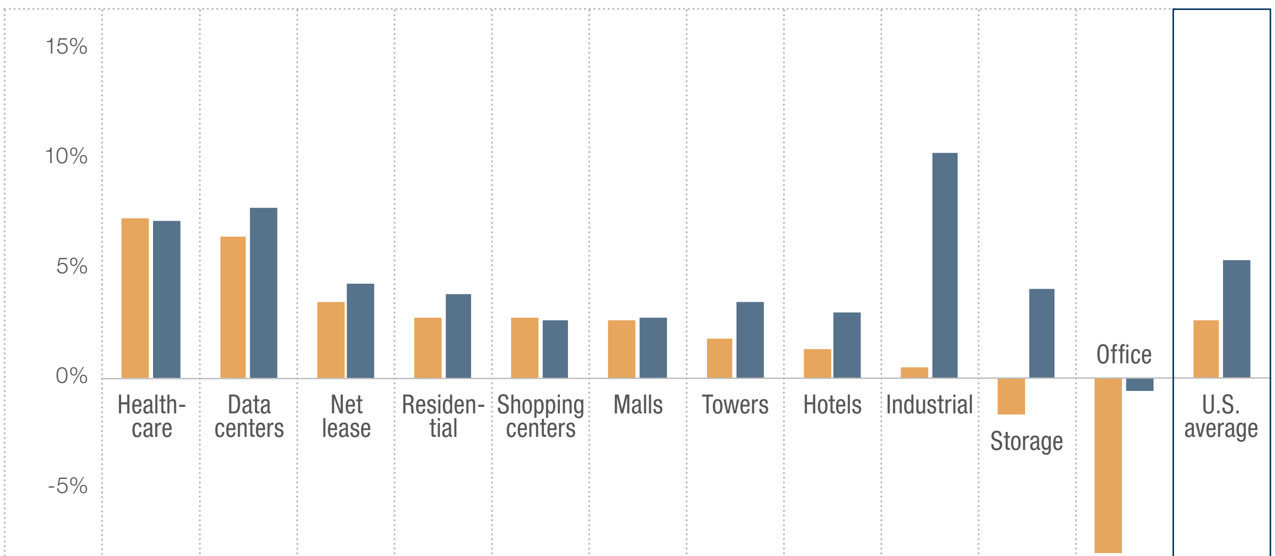
Source: CBRE Investment Management. Listed real estate represented by the FTSE EPRA NAREIT Developed Index, Net. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

Accelerating earnings growth

Across real estate sectors, we see earnings accelerating into 2025. We expect 5% earnings growth, which is approximately double that of 2024 levels. The strength is broad based: private pay senior housing continues to capitalize on powerful demographics; data center growth is accelerating with generative AI; cell towers are gradually recovering from customer churn; manufactured housing and apartments are improving in a new year; while retail and net leases continue to perform, aided by supply/demand and their prevailing costs of capital. Below are our earnings expectations by U.S. sector.

Figure 2: Listed real estate growth is accelerating in 2025

U.S. real estate earnings growth forecast by sector

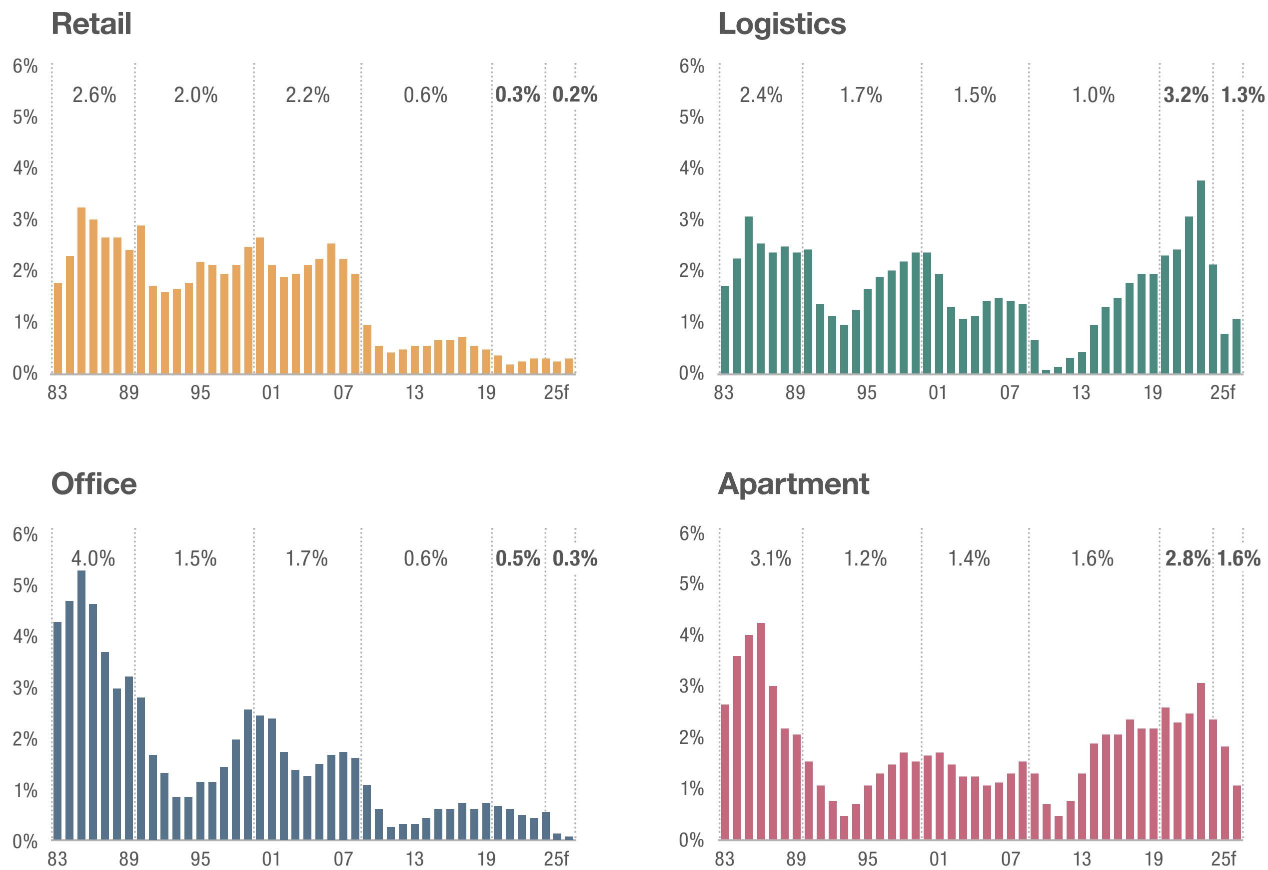


	Health-care	Data centers	Net lease	Residen-tial	Shopping centers	Malls	Towers	Hotels	Industrial	Storage	Office	U.S. average
2024f	7.3%	6.4%	3.5%	2.7%	2.7%	2.6%	1.8%	1.3%	0.5%	-1.7%	-8.0%	**2.6%**
2025f	7.2%	7.7%	4.3%	3.8%	2.6%	2.8%	3.5%	3.0%	10.2%	4.0%	-0.6%	**5.4%**

Source: CBRE Investment Management as of September 30, 2024. "f" refers to forecasts. 2024 is represented by 2023/2024, and 2025 is represented by 2024/2025. Earnings growth forecasts are calculated based on FFO growth of individual stocks followed by the Firm's research team and are considered as investible. Global, country, and sector FFO growth is calculated using a simple average. Forecasts are the opinion of CBRE Investment Management, which is subject to change and is not intended to be a guarantee of future results or investment advice. Forecasts are not indicative of future investment performance.

Our expectations assume minimal external growth by acquisition. Our view on earnings is affirmed by lower levels of to-be-built supply likely across most real estate sectors, today's strong occupancies with steady levels of global GDP growth and the ability to refinance. As shown in the graphs below, forward supply growth is decelerating relative to historical levels for selected sectors.

Figure 3: Net new supply as a % of national inventory, by property type, 1982-2026F



Source: CoStar. Supply prior to 2006 is based on building construction dates and excludes properties demolished prior to 2006. As a result, supply growth in the 1980s and 1990s is likely understated. Forecast is per CoStar. Retail includes all retail properties across all format types.

Access to capital affords acquisitions and can ignite a virtuous cycle

Listed real estate's access to capital, both in debt and equity, is currently superior relative to broad private markets. This access to capital provides listed real estate the potential to go on offense and boost earnings by acquisitions. The situation is somewhat reminiscent of the 1991-1997 period for REITs (during which they delivered an ~20% annualized return) and gained while private markets lacked capital.

On the unsecured debt front, listed real estate issuance has been sizable over the last two years. Over $70bn of unsecured debt has been issued at borrowing rates approximately 150-200bps lower than that for private markets. Debt has been issued across sectors—even in the beleaguered office sector, which has dominated negative-leaning news flow in recent years.

An improving total return outlook

When we look at the math, the total return opportunity for REITs is compelling. Listed real estate offers an approximately 4% dividend yield, which is competitive compared to private real estate income. That dividend is growing and based on a conservative payout level. Our base-level mid-single digit earnings growth has the opportunity for upside, while multiple expansion offers further opportunity.

In an environment of moderating central bank target rates and range-bound long-term yields, we believe listed real estate can prosper. The potential for positive earnings revisions, driven by a differentiated cost of capital, is reminiscent of one of the strongest periods in recent history. In our view, in 2025 listed real estate should provide a strong opportunity for both asset class returns and for outperformance driven by active management.

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