Green Shoots for Hard-Hit REITs as Reopening Diverges

The past year and a half has been challenging for certain real estate property types. However, the world is now reopening, albeit with differing paces of recovery dependent on local vaccination rates. We believe this reopening divergence is creating investment opportunities, especially in those sectors most impacted by social distancing requirements. We see numerous green shoots that support our optimism that real estate fundamentals will improve, particularly for hard-hit sectors, as vaccinations—and related recoveries—become more widespread globally.

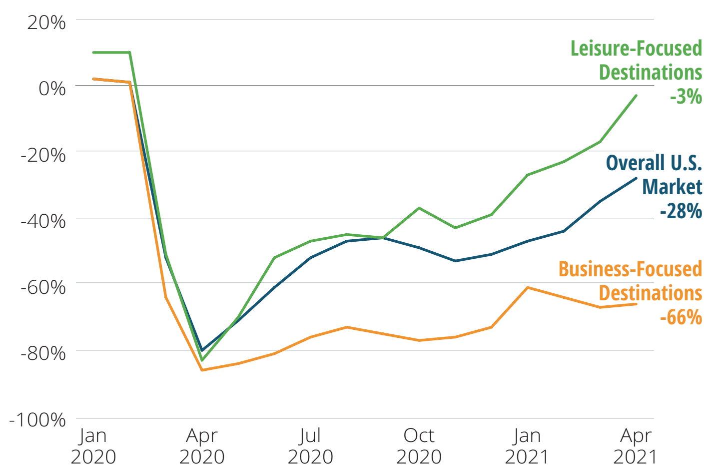
A BUSINESS TRAVEL RECOVERY COULD BE AHEAD, BENEFITING BUSINESS-FOCUSED HOTELS

Strong vaccination rollouts in the U.S. have spurred signs of a recovery in leisure travel, with leisure travel demand back to what it was in 2019. We think business travel demand will follow within the next year. Hotel revenue per available room (RevPAR) for leisure-focused hotels is approaching pre-pandemic levels. Similar figures for business-focused destinations are still far from those levels, dragging down RevPAR for the overall U.S. market. (See the chart to the right.)

We see signs, however, that U.S. business travel will resume this fall. Pent-up demand for in-person meetings and conferences should help drive a recovery in revenue for business-focused destinations. At the same time, leisure-focused hotels are likely to see continued demand, as more people get vaccinated and become less hesitant to travel.

LEISURE-FOCUSED HOTELS RECOVERING FASTER

Monthly Hotel RevPAR Relative to 2019



As of May 10, 2021. Source: Smith Travel Research and Bank of America Merrill Lynch. Leisure-focused destinations include Norfolk/Virginia Beach, VA; Miami/Hialeah, FL; Tampa/St Petersburg, FL. Business-focused destinations include New York, NY; San Francisco/San Mateo, CA; Boston, MA; Seattle, WA; Chicago, IL; Washington, DC-MD-VA. Leisure- and business-focused cities segmented by Brookfield PSG based on our view of the major drivers of hotel demand. Not all available markets are included in the analysis. RevPAR (Revenue Per Available Room) represents the revenue generated per available room, whether or not they are occupied; and it helps hotels measure their revenue-generating performance.

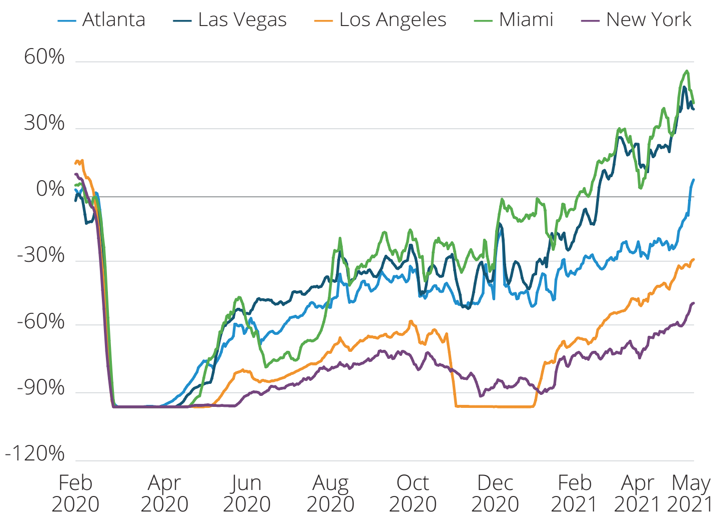
RESTAURANT DEMAND IS REBOUNDING; THIS IS GOOD NEWS FOR RETAIL REAL ESTATE

In U.S. cities that have reopened more widely, demand for in-restaurant dining is back to—and in some cases above—February 2020 levels. Meanwhile, demand in other cities is rising rapidly, as reopening spreads. The trend is similar internationally, although a bit delayed as vaccinations and reopenings are happening in many countries at a slower pace than in the U.S. (See the charts below.)

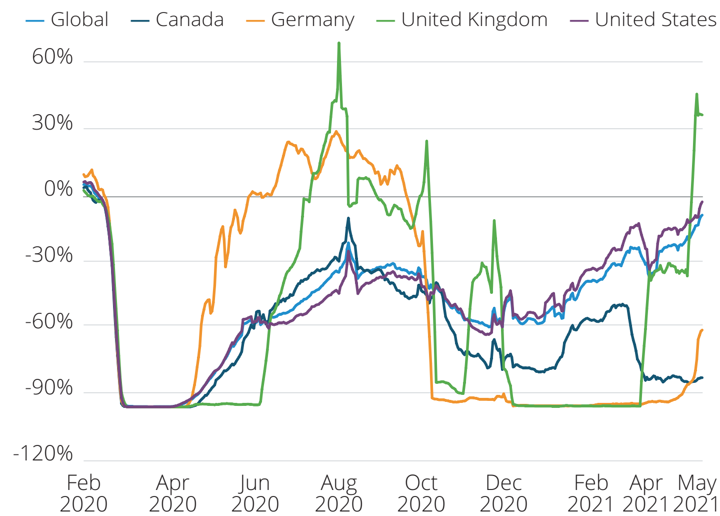
We believe the strong demand for restaurant dining, with many restaurants close to shopping locations, is good news for retail real estate. The pandemic helped shrink what was an oversupply of physical retail real estate in the U.S. Many weaker locations have been weeded out, and higher-quality retail assets are benefiting from pent-up demand as life returns to normal. Looking forward, we believe high-quality shopping destinations in areas with dense populations and high disposable incomes will be well positioned to take advantage of this demand. We see significant opportunity for investors here, especially given the attractive valuations of retail real estate securities.

RESTAURANT DEMAND IS REBOUNDING WHERE VACCINES ARE ROLLING OUT

Change in Number of Seated Diners (2021 vs. 2019)–Selected U.S. Cities



Change in Number of Seated Diners (2021 vs. 2019)–Global and Selected Countries



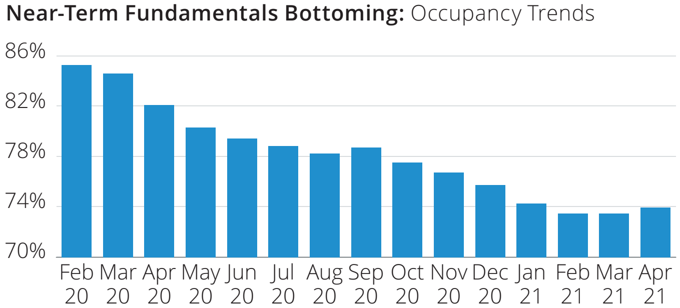
As of May 27, 2021. Source: OpenTable and Brookfield PSG Research. Change in the number of seated diners calculated using the 7-day average of seated diners in restaurants. Brookfield PSG selected cities and countries to include based on our analysis of varying vaccination levels.

SENIOR HOUSING IS RECOVERING AND IS POISED FOR GROWTH

The senior-housing sector was particularly hard hit during the pandemic, amid the vulnerability of the elderly population to COVID-19. Occupancy rates in the U.S. significantly declined through March 2021. Since then, however, we have seen signs of occupancy trends bottoming, and we believe the current uptrend will persist, given favorable long-term supply-demand trends. (See the charts below.) As a result, we expect senior housing occupancy—and cash flows—will recover and grow from here, benefiting investors.

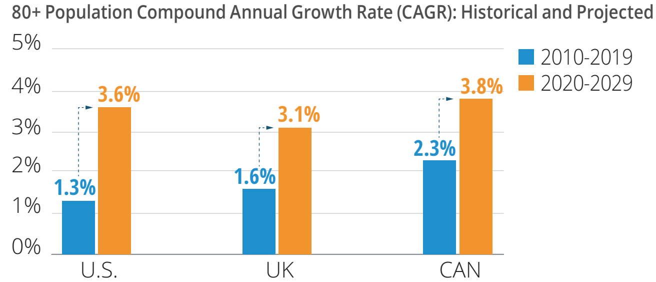
THERE ARE SIGNS THAT THE SENIOR HOUSING UPTREND COULD PERSIST

Near-Term Fundamentals Bottoming: Occupancy Trends



Long-Term Tailwinds Remain: Senior Housing Demand

80+ Population Compound Annual Growth Rate (CAGR): Historical and Projected



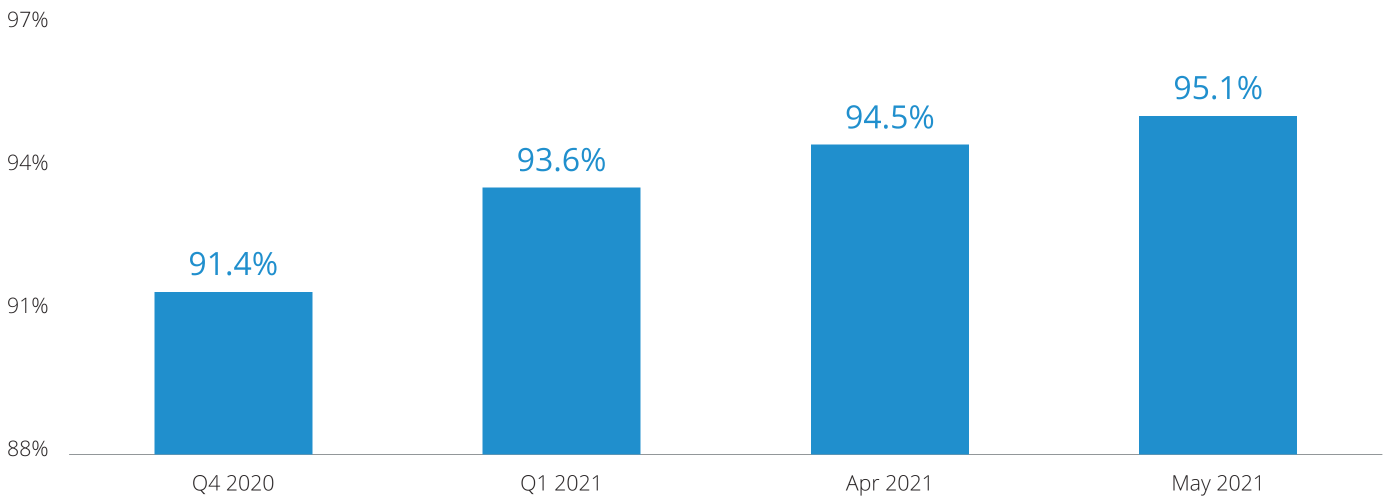
As of May 2021. Source: Welltower Inc. company disclosures (both charts), Brookfield PSG research (both charts), the Organisation for Economic Cooperation and Development (right chart). Occupancy in the left chart represents approximate month end pro rata occupancy for all Welltower senior housing operating (SHO) properties in operation as of February 29, 2020, excluding only acquisitions, executed dispositions and development conversions since this date. Forecasts are hypothetical in nature and are not guaranteed. Please see "Forward-Looking Statements" in Disclosures.

OPPORTUNITIES IN THE SUNBELT—AND IN COASTAL CITIES

We have been positive on Sunbelt markets for a number of years. We believe companies and employees alike find these markets attractive, particularly the Southeast markets, as they are characterized by less red tape, lower taxes, better affordability, shorter commutes and nicer weather. The pandemic accelerated migration to these markets, and we foresee the Sunbelt's strength persisting. That said, we believe young people will continue to be drawn to coastal cities like New York, Los Angeles and San Francisco due to the culture, entertainment and lifestyle benefits afforded to young, affluent professionals in these locations. In addition, outflows from coastal markets are likely to recede as life returns to normal. In fact, residential rents and occupancy trends are beginning to bottom in these markets after falling precipitously in the wake of the pandemic. We therefore see select opportunities in Sunbelt-focused residential stocks priced for growth as migration trends continue; and in hard-hit coastal-focused residential stocks priced for value as fundamentals rebound.

OCCUPANCY TRENDS ARE REBOUNDING IN COASTAL CITIES

AvalonBay Communities: Average Physical Occupancy at Urban Communities



As of June 4, 2021. Source: AvalonBay Communities, Inc. Urban Communities are communities located in submarkets with 3,500 households or more per square mile. The chart depicts the Urban Communities of AvalonBay Communities. Brookfield PSG believes AvalonBay Communities provides a good representation of a residential landlord focused on coastal/gateway markets.

OFFICE DEMAND IS COMING BACK

We expect the office recovery is going to be a bit slower than it would be in a normal economic cycle, given current supply levels and vacancy rates. But demand is coming back. Employers are telling employees to come back to the office, at least part time, while levels of interest, tours and showings that companies are seeing in coastal and Sunbelt markets have recently started to pick up dramatically.

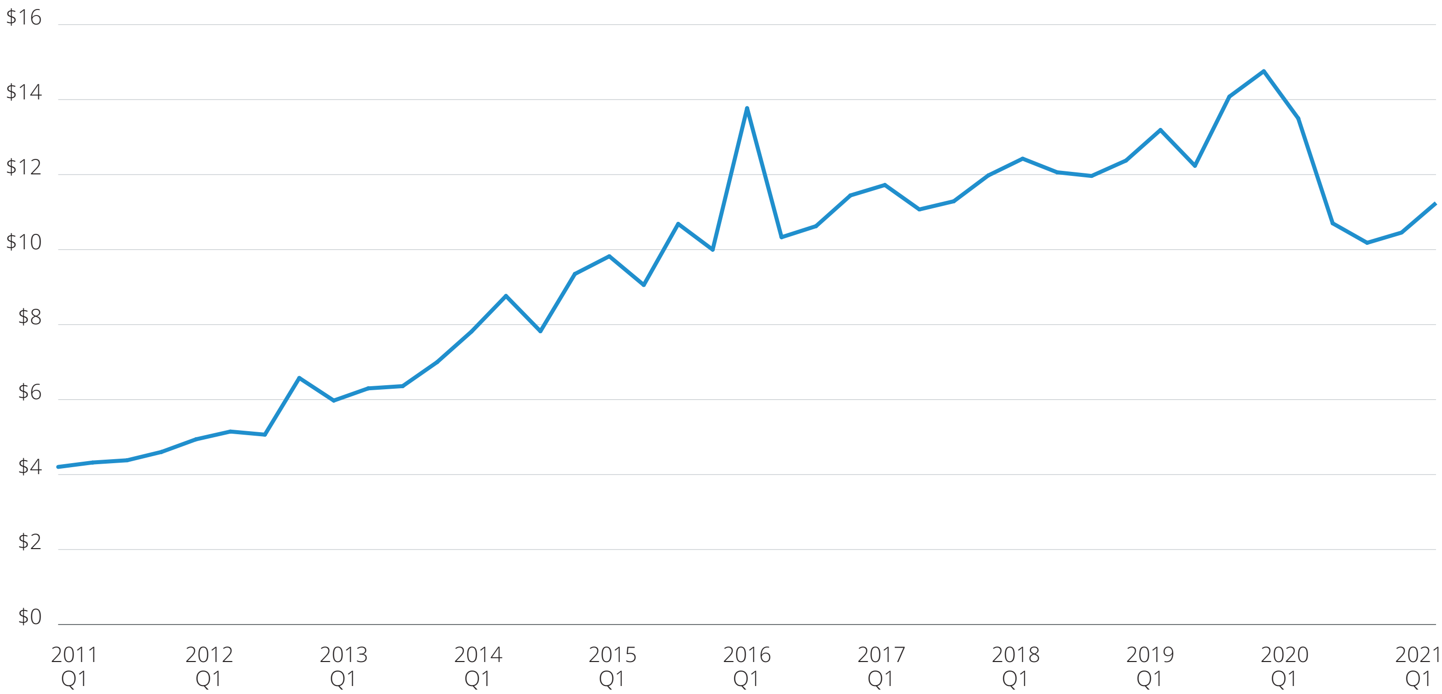
A year ago, with a majority of employees working from home, employers may have been more likely to let leases expire. Today, we believe that employers with leases coming up for renewal over the next six to 12 months may instead be thinking about downsizing, maintaining or even growing their footprints. We believe we are in the early phases of an office recovery that will go across Sunbelt and coastal markets, with the beaten-down office real estate sector likely to provide upside from here over the next six months.

DIVIDENDS ARE LIKELY TO RECOVER

Many hospitality and retail real estate companies cut dividends amid social distancing, and this led to an overall decline in dividends for global real estate of about 20%. We expect increasing net operating income will result in reinstatement of dividends to shareholders, and we believe we are in the growth phase from here, with dividends returning to pre-COVID levels over the next two to three years. After bottoming in the third quarter of 2020, the amount of dividends paid by U.S. equity REITs grew for two consecutive quarters. We believe this trend will continue as economies begin to reopen and life returns to normal.

DIVIDENDS PAID ARE RECOVERING FROM THEIR RECENT BOTTOM

Dividends Paid–All Listed U.S. Equity REITs ($ Billions)



As of June 16, 2021. Source: Nareit.

AN ACTIVE, CONCENTRATED APPROACH CAN HELP CAPTURE THESE GREEN SHOOTS

The past 18 months have been challenging for certain real estate property types, but we think the examples above highlight how different the world is now compared with even a year ago. They help support our optimism for listed real estate moving forward, particularly for those sectors most impacted by social distancing requirements.

Reopening will be uneven and heavily dependent on vaccine administration and local governments' ability to deal with outbreaks from new variants. As such, we believe an active, concentrated approach based on fundamental research can uncover the most attractive opportunities across global markets, regions and sectors.

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