2022 Global Public Real Estate Outlook Report

hazelview
INVESTMENTS

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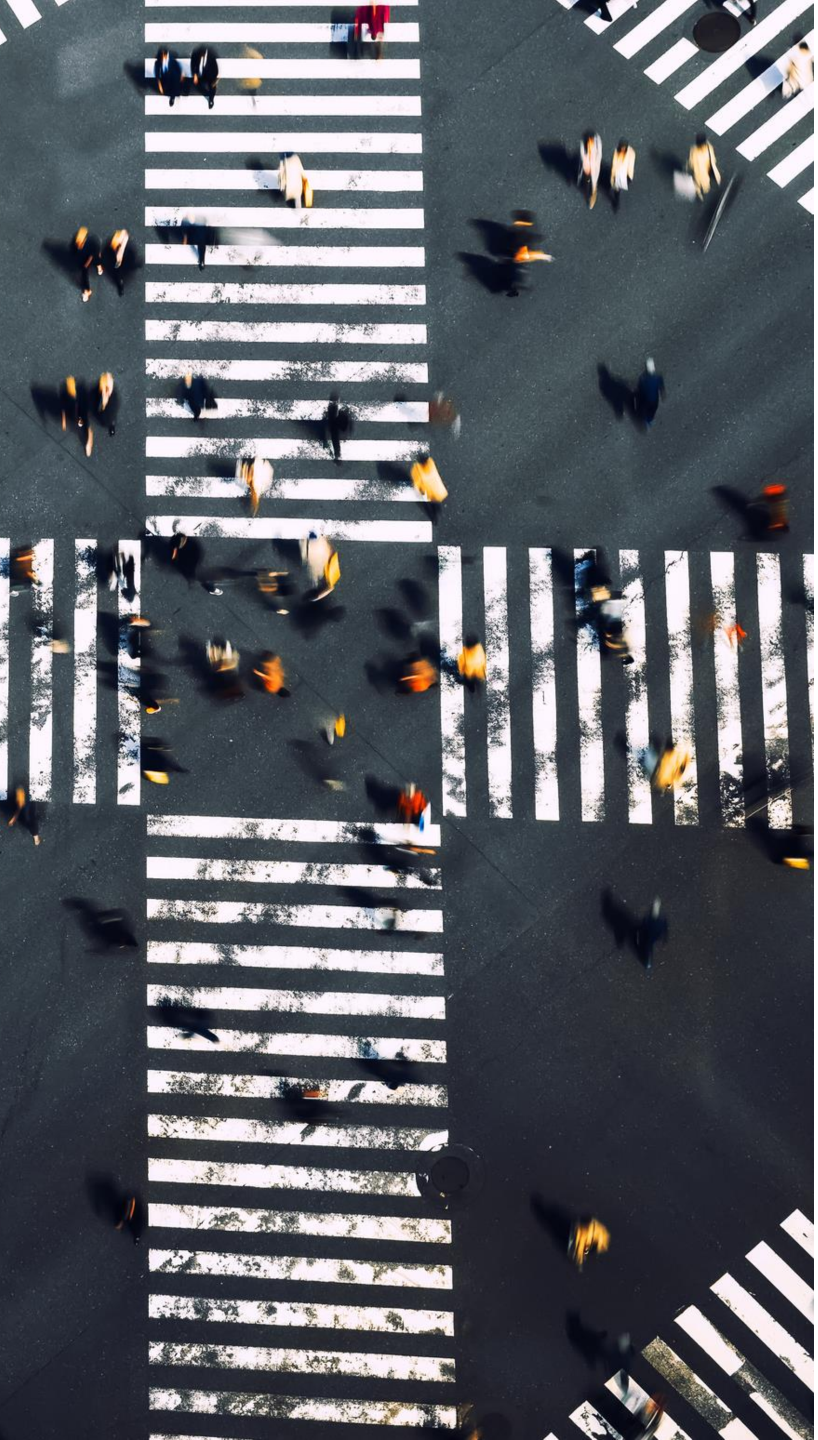

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Meet the Team

Letter From Corrado

This year, Hazelview celebrated its 10th anniversary investing in public REITs. And what a year it was, with publicly traded REITs rebounding strongly in 2021, experiencing a resurgence in demand, occupancy rates, pricing power and earnings growth. Navigating these evolving fundamentals required us to be flexible and committed to our investment process.

With our exceptional team of professionals based in Canada, the U.S., Europe and Asia providing Hazelview with the local eyes and ears to navigate these unprecedented market conditions, we begin our second decade where we finished our first, by looking for value that others have missed.

For those that received (and recall) our 2021 Outlook, we forecasted total returns of 15-20% for REITs in 2021. Outpacing this forecast, as well as most other industry segments, the REIT-opening in 2021 was in full swing. As for 2022, we believe the potential of sustained inflation will act as a tailwind for real estate valuations and coupled with strengthening fundamentals this will drive attractive earnings growth. Our target total return for global REITs in 2022 is 12-15%.

Segments we believe are exceptionally well positioned to outperform in 2022 include:

- Industrial Facilities in North America
- Data Centers in Asia
- U.S. Residential Sector
- European Office REITs
- Cell Towers

We look forward to another exciting year, as we seek to deliver the strong risk-adjusted returns our clients have come expect. We hope you enjoy this report and that it inspires conversation. I look forward to connecting soon.

See you in the new year,

Corrado Russo

Head of Global Public Real Estate Investments

2021 Market Recap

Global public real estate markets soared in 2021 fueled by unprecedented amounts of monetary and fiscal stimulus, the unleashing of pent-up consumer demand, vaccinations that allowed the world to reopen (albeit at different speeds) and a much quicker than expected resurgence in economic growth.

More than 55% of the world's population has received at least one dose of a COVID-19 vaccine (8.2 billion doses) exceeding the world's population of 7.8 billion people, which we believe should facilitate countries to further open their borders in 2022[1].

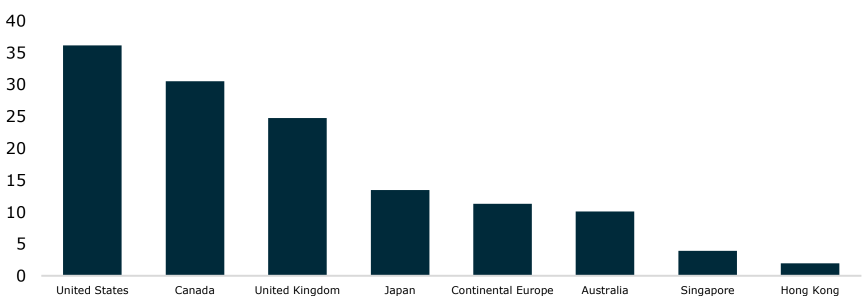
Since the onset of the global pandemic, $32 trillion of monetary and fiscal stimulus has been pumped into the global economy, supporting countries, companies and households[2]. According to UBS, global GDP is projected to finish 2021 6% higher than where it ended 2020; bouncing back quicker and stronger than initially anticipated and marking one of the fastest rates of global growth since 1980.

The surge in demand for goods and services combined with disruptions to global supply chains resulted in a surge in inflation not seen in over 40 years. Higher inflation led to higher nominal growth and a surge in asset prices, earnings, wages and rents.

To participate in these trends, investors allocated nearly USD $14 billion[3] of new capital to global REITs in 2021, the highest inflows since 2014. 2021 will also mark the highest year for fund raising by non-traded REITs, with investors projected to allocate $35 billion[4] to inflation-hedged hard assets.

In 2021, this capital helped resuscitate the transaction market leading to a flurry of large-scale portfolio trades and M&A deals underscored by the increased appetite for data center assets. Three public companies (QTS Realty Trust, CyrusOne and CoreSite) were taken private in 2021 by Blackstone, KRR and American Tower for nearly $30 billion in equity. The meaningful rebound in transaction activity combined with the strong recovery in operating fundamentals laid the foundation for the outperformance of global REITs. Through December 6, global REITs[5], gained an estimated +24.7% (local currency), exceeding our total return forecast of 15% to 20% set at the beginning of the year (Hazelview's 2021 Global REIT Outlook) and outpacing the total return of every other industry except for Energy.

Figure 1: Performance by Market



REITs in North America outperformed those in Europe and Asia-Pacific (Figure 1), geographies which have been slower to "REIT-open" their economies. Places like Hong Kong, China and New Zealand maintained a zero-COVID policy, compared to other markets that chose to live with COVID.

1.https://ourworldindata.org. 2.BofA Global Research. 3.UBS 4.Robert A. Stranger & Co. Inc 5.Represented by the FTSE EPRA NAREIT Developed Total Return Index.

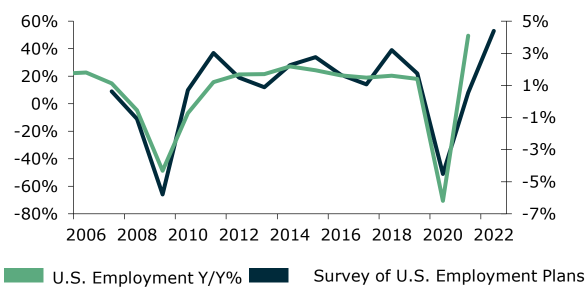
2022 Global Public Real Estate Forecasts

As we look to 2022, we see REITs well positioned to serve an inflation hedging role while benefiting from a continued recovery in operating fundamentals and above trend economic growth. We see earnings growth as the primary driver of share price performance with specialty property-types offering attractive secular growth opportunities.

We expect 2022 to be another solid year for the global economy with consensus forecasts calling for global real GDP growth of +4.4%. Although the pace of economic activity will be slower in 2022 than 2021, growth will still be +30% higher than the pre-COVID time frame from 2014 to 2019. J.P. Morgan estimates that developed market GDP will reach its pre-COVID mark before the end of 2022. For reference, it took eight years of expansion to reach prior peak GDP following the Great Financial Crisis.

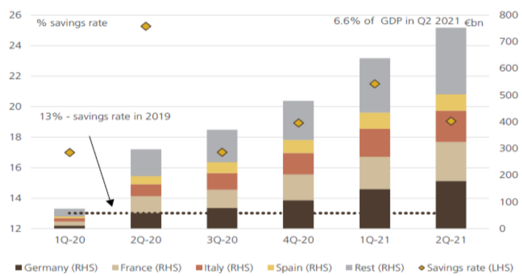
Job growth is anticipated to be strong in 2022. As highlighted in Figure 2, companies intend to hire more employees in 2022 than in any year in the past 15+ years. The countries anticipating the largest declines in unemployment are Canada (to 6.1% from 7.6% in 2021), the United States (to 4.0% from 5.4% in 2021), Hong Kong (to 4.0% from 5.3% in 2021), Sweden (to 7.7% from 8.8%) and Australia (to 4.4% from 5.1% in 2021)[6]. Job growth is a key pillar of support for real estate fundamentals in that it leads to stronger demand for commercial and residential real estate space.

Figure 2: Company Survey of U.S. Employment Plans



Source: Evercore ISI

Figure 3: Eurozone Household Excess Savings



Source: UBS

Households are in a strong financial position. Over the past year rising equity prices and home values have led to an unprecedented surge in consumer net worth, which has the potential to push future real GDP growth by upwards of 2%, over the next six months[7]. With more job postings than unemployed people, and wages rising resulting in excess savings (Figure 3, next page), we expect consumer spending patterns to remain strong in 2022, positively influencing consumer-oriented real estate fundamentals such as residential, industrial, lodging, self-storage, retail and cell towers.

6. Bloomberg: December 7, 2021. 7. Evercore ISI

Toronto New York Hamburg Hong Kong

In 2021, policy makers added almost $9 trillion of stimulus to the $23 trillion created in 2020 (Figure 4). Generally, it takes one year for monetary stimulus to impact economic conditions such that global economic growth should experience further tailwinds in 2022 from the fiscal and monetary stimulus created in 2021.

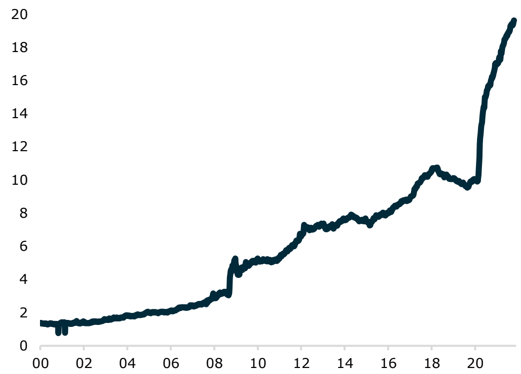
If we think of REITs as the landlords of the global economy, gains in GDP should bode well for REIT cash flow and earnings growth over the next 12 months. According to UBS, global REIT earnings are forecasted to rise by an additional 11% in 2022, after rising an estimated +8% in 2021 (Figure 5).

There is strong empirical evidence linking earnings growth and share price performance: i.e., as top-line growth accelerates, driven by a recovery in occupancy rates and landlords pushing through rent increases, earnings will rise which leads to higher REIT share prices.

What's good for economic growth may increase inflation. The pandemic and the emergency economic support needed to get the world back on its feet have led to dislocations, most evident in global supply chain disruptions for goods, services and labor. This, in combination with a surge in consumer spending, is creating a mismatch between supply and demand that has led to inflation (both consumer and producer). For example: the shipping rates of a container from China to Rotterdam are up nearly +100% YOY; energy costs are up +70%; food prices are up +30%; home prices are up +20%; +14%; Japan PPI +8% (40-year high); U.S. CPI +6.2% (40-year high); Canadian CPI +4.7% (18-year high); and businesses are raising wages at the fastest pace in 30 years[8].

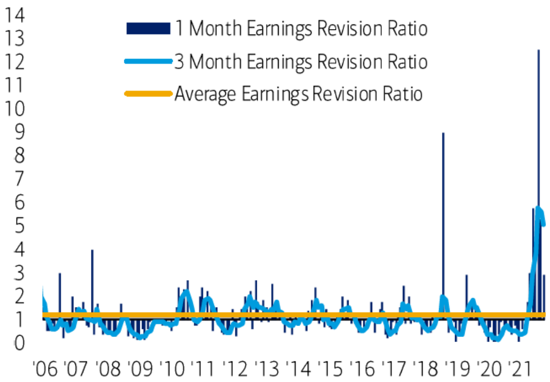
Consumer inflation in Asia has lagged North America and Europe but should catch up in 2022 as COVID restrictions ease.

Figure 4: Size of ECB and Federal Reserve, BoJ, BoE Balance Sheets



Source: Evercore ISI

Figure 5: REIT Earnings Revisions



Source: BofA Global Research

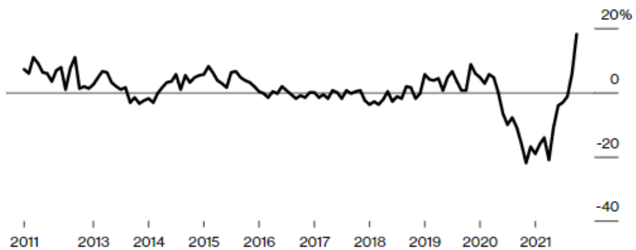
We believe commercial real estate is well positioned in the current environment. An investor's total return comprises of two components: income and capital appreciation. Real estate stands ready to benefit from both components and unlike other real assets such as commodities and/or precious metals, real estate cash flows are underpinned by predictable and recurring contractual leases which contain inflation protection mechanisms.

8. BofA Research

Looking at the income component, the inflationary safeguard is the ability for real estate rents to reset higher upon renewal of an existing lease or releasing of vacant space. In the current environment where higher inflation is linked to stronger economic growth, rents benefit from – and thus hedge – future inflation.

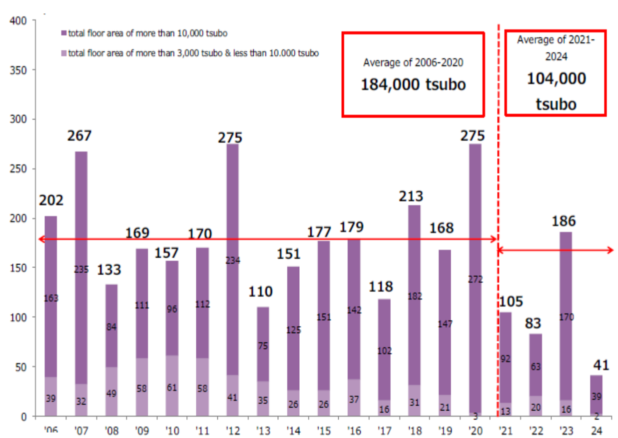
Real estate sectors with short duration leases (apartments, single family rentals, manufactured housing, self-storage, lodging and senior housing) benefit as lease rates reset more regularly. Longer-term leases (industrial, cell towers, data centers, retail and office properties) also offer inflation protection through built-in annual rent increases tied to the rate of inflation or at a predetermined fixed rate which is meant to mimic expected inflation. **We believe the market's expectation of higher inflation in the future can improve the negotiating power of landlords resulting in higher rents (Figure 6).**

Figure 6: Manhattan Apartment Rents Climb Highest on Record in October



Source: Miller Samuel Inc. and Douglas Elliman Real Estate

Figure 7: Tokyo Office Supply Forecast



Source: Nomura

From an asset value perspective, we believe this increase in underlying property level cashflows will lead to capital appreciation resulting in higher Net Asset Values for REITs. The positive yield spread currently in the market offers investors a path to generating an attractive return on invested capital.

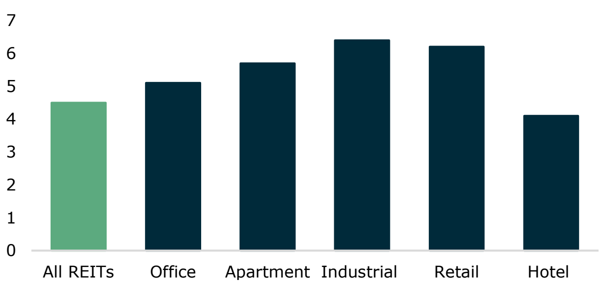
There is a record amount of dry powder (+1,284 funds totaling USD $365 billion)[9] sitting on the sidelines ready to be deployed in commercial and residential real estate investments. As the global economy re-opens, we expect this capital will look to take advantage of improving real estate fundamentals by acquiring properties keeping cap rates low and values high.

Furthermore, the rise in construction costs, land, labor and raw materials (well above the rate of inflation, i.e., +10%)[10] have contributed to higher replacement costs. Higher replacement costs should translate to lower levels of new supply which in turn increases existing landlord pricing power. This should lead to higher rental rates and ultimately higher earnings and asset values (Figure 7).

9. Prequin: October 2021. 10. Hazelview Investments Inc.

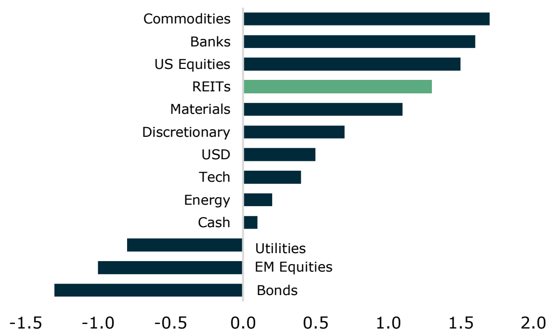
As highlighted in Figure 8, Cushman and Wakefield conducted a 40+ year regression analysis investigating the relationship between inflation and public REIT total returns. According to their analysis, for every 1% increase in inflation, public REIT total returns are expected to increase by 4.5%. Although public market volatility is higher, public REITs offer a strong hedge to inflation as public markets are quick to extrapolate expected changes in future earnings into current share prices.

Figure 8: Public REIT Total Return Regression Analysis (per 1% increase in inflation)



Source: Cushman & Wakefield. Represents NCREIF. Data from Q1 1978 to Q3 2021 *RGDP is Regressed GDP

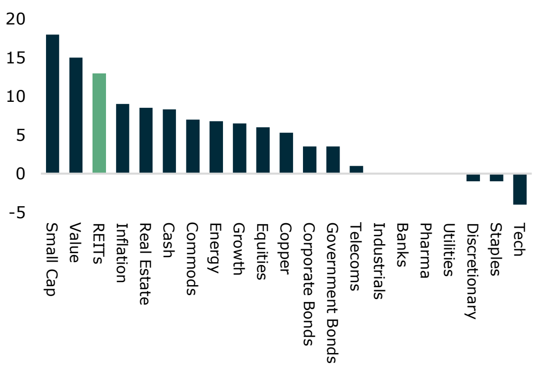
Figure 9: Investor Positioning Relative to the Past 10-Years



Source: BofA Global Research

Currently, investors are allocating more capital to asset classes that benefit from rising inflation like REITs (see Figure 9) while at the same time shifting capital out of assets that are vulnerable to interest rate hikes such as bonds, emerging markets and utilities.

Figure 10: Annualized Total Returns by Asset Class and Sector (%)



Source: BofA Global Research, 1972-1981

As illustrated in Figure 10, if we look back to the 1970s and 1980s, which was the last time period that the developed world dealt with a prolonged bout of high inflation, REITs were one of the best performing asset classes. During this time, REITs delivered the third highest annualized total return of any asset or equity sector (Figure 10). While our crystal ball is not perfect at predicting how high and for how long inflation persists, we do believe inflation is likely to be stickier than initially expected for as long as global supply chains remain disrupted, labor remains scarce and countries limit mobility.

2022 Return Expectations

We believe the key to creating value in 2022 will be to identify companies with pricing power that can raise rents on new leases and pass-through higher rental rates on existing leases to offset the impact of rising labor costs, utility expenses and property taxes.

Corporate pricing power is the highest it has been in over a decade with companies (REITs included) able to pass along cost increases (Figure 11). Higher prices lift company revenues leading to growth in employment. Higher employment boosts consumer incomes creating a feedback loop that allows consumers to pay higher prices.

Figure 11: Pricing Power Surveys

Source: Evercore ISI, represents manufacturers, retailers, consumer staple companies

We believe REITs that can grow margins in the face of rising cost pressures will outperform in 2022. Property types with short lease durations can reset lease rates more frequently are in a more advantageous position to grow cash flow. Concurrently, lease structures offer inflation protection with built-in rate increases tied to inflation.

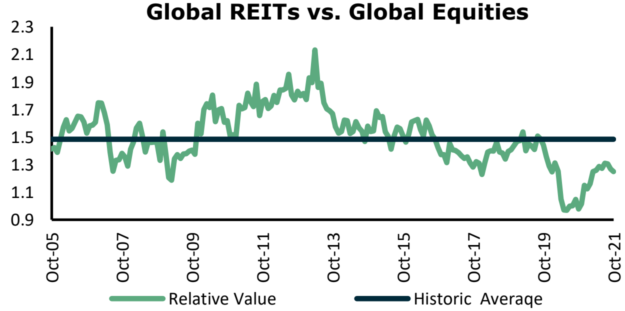
In 2021, we estimate approximately 2/3 of the sector's total return came from multiple expansion with the balance from earnings growth. In our view, **earnings growth will be a more meaningful driver of performance in 2022** determining most of the sector's total return.

We also believe secular growth property types like single family rentals, cell towers, data centers, industrial and self-storage offer investors a powerful combination of strong cash flow growth in 2022 and the ability to benefit from the step-up in market rents that are likely to extend well into the future.

From a valuation perspective, global REITs entered 2021 at their most attractive level relative to global equities, in nearly two decades. Even with +20% gains over the past 12 months[11], global REITs are entering 2022 trading more than 1-standard deviation below global equities[12] which represents its second lowest level outside the trough of the pandemic period.

Looking at our valuation models for the global REIT sector, current pricing suggests 19% upside in price on a weighted average basis to our forward-looking intrinsic value (defined as a blend between forward NAV and Discounted Cash Flow). **Assuming a two-year window to achieve intrinsic value combined with a current 3% dividend implies a total return for calendar year 2022 of 12%-15% (Figure 12).**

Figure 12: Relative Price-to-Cash Flow Multiple of Global REITs vs. Global Equities



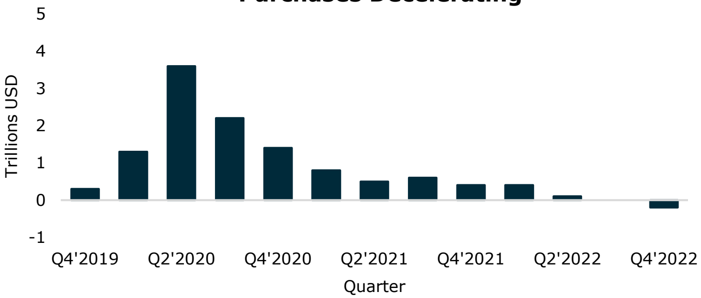
Source: UBS

11. Bloomberg 12 UBS.

To put our expected return forecast into context, over roughly the past two years (calendar year 2020 and YTD 2021 through December 6) global REITs generated a 11.8% cumulative total return or just 5.9% annualized compared to global equities up 37.4% cumulative or 17.9% annualized[13]. As such, we see 2022 as another catch-up year for global REIT performance. In fact, should the industry’s 2022 total return fall within our forecast range, the trailing 3-year annualized total return would be slightly more than 8%, below the long-term 20-year average of over 9%. In addition, REITs in Europe and Asia-Pacific have meaningfully trailed REITs in North America in 2021 and we believe a more fulsome re-opening in 2022 in should provide further tailwinds for the sector in the year ahead.

We believe the biggest risk in 2022 is a monetary policy misstep to combating inflation. As shown in Figure 13, central banks are expected to taper their pandemic era quantitative easing programs. Should central banks become more aggressive fighting inflation (significantly tightening monetary policy), this could create a headwind for equities (REITs included).

Figure 13: Quarterly Pace of Central Bank Bond Purchases Decelerating



Source: BofA Global Research. Represents the U.S. Federal Reserve, ECB, Bank of Japan and Bank of England. Data in Trillions.

Raising interest rates won’t alleviate supply chains disruptions, help with COVID-related factory closures, overcome energy shortages. These are problems largely out of a central bank’s control. While some monetary stimulus reduction is expected and warranted given the strength or underlying demand, we anticipate central banks to do so at a measured pace, allowing the economy to adjust in lock step.

We believe an environment of slow interest rate hikes with healthy economic growth will result in top line revenue growth outpacing higher debt costs that typically come with rising rates. Other risks worth keeping top of mind include new COVID-19 variants, increasing regulations such as rent control (particularly in Europe and parts of Asia) and other factors that can destabilize markets.

13. Bloomberg. Global Equities = MSCI World Index. Global REITs = FTSE EPRA NAREIT Developed Total Return Index in USD

We believe REITs are poised to serve as an excellent inflation hedge in 2022 while benefiting from a continued recovery in operating fundamentals and above trend economic growth. We see specialty property types benefitting from attractive secular growth opportunities and robust pricing power.

Taking a bottom-up approach and identify companies and property types that we believe are poised to outperform, our Top 5 Investment Opportunities for 2022 are as follows:
- Industrial facilities in North America benefiting from supply chain disruptions and low inventory levels;
- Data centers in Asia, poised to deliver robust earnings growth in 2022;
- Favorable U.S. residential sector supply and demand dynamics, leading to outsized rent growth;
- Attractive arbitrage opportunities in European office REITs, which are trading at material discounts to private market valuations; and
- Cell towers around the world, benefiting from the roll-out of 5G.

In addition, we have identified two honorable mentions we see as primed to deliver strong returns in 2022:

- **Hotel**
  We see strong tailwinds for a recovery in Japanese hotels in 2022 led by a return of the domestic traveler. Our conviction in a recovery is underpinned by the robust support provided by the Japanese government to the tourism & travel sector, which remains a key focus for them over both the short and long term. In 2019, domestic travel accounted for over 80% of the 596 million overnight stays and we believe a resumption of Japan’s “Go To Travel” program will lead to a strong recovery in demand for hotel room nights.

- **Self-storage**
  We believe self-storage facilities in Australia are poised to deliver strong margin expansion in 2022, led by occupancy gains and rent increases. Increased economic activity, a strong housing market and more people working from home is leading to greater utilization of self-storage. In addition, we believe there is still room for valuation gains driven by higher cash flow and cap rate compression with self-storage properties in Australia trading ~100 to 200 basis points higher than what we see in Europe and North America.

Sectors

Industrial Facilities in North America

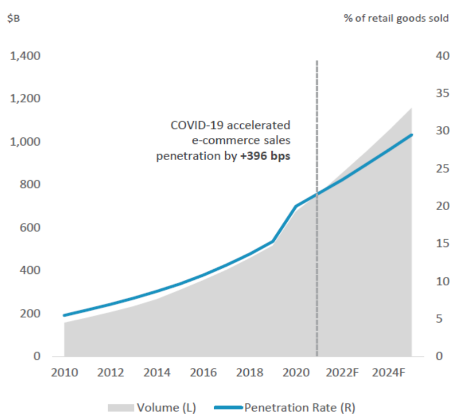
In 2022, we believe industrial facilities in North America offer one of the most compelling investment opportunities for investors. **Industry fundamentals are strong and poised** to deliver robust growth over the next 12 months, driven continued gains in market rents**.**

The industrial sector is benefiting from secular growth trends in e-commerce, which have strengthened even further since the onset of the global pandemic. E-commerce sales (as a percent of total sales) have increased as households have shifted their purchases to online and they demand quicker delivery times. This is leading to strong and growing demand for industrial space in last mile locations near the end consumer (Figure 1).

Higher transportation and wage costs are causing industrial tenants to act with greater urgency to offset rising expenses which is resulting in greater demand for in-fill locations as tenants move quickly to secure last mile space to deliver goods to their customers.

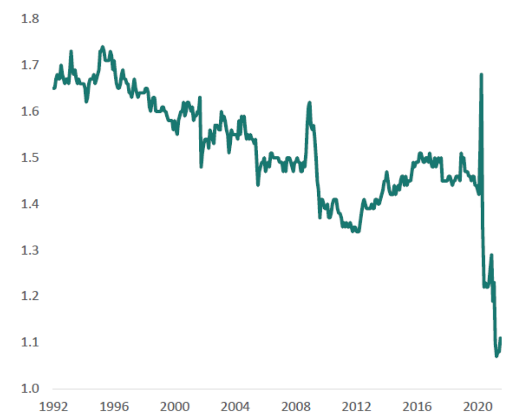
The disruption to global supply chains experienced over the past 12 months has led to a material decline in inventory levels. A replenishment of inventory simply back to pre-pandemic levels will increase the demand for space by upwards of 550 million square feet over the next two to three years, providing a strong tailwind for future demand growth (Figure 2).

Figure 1: Online Sales as % of Total Retail Sales



Source: Prologis

Figure 2: Inventory to Sales Ratio

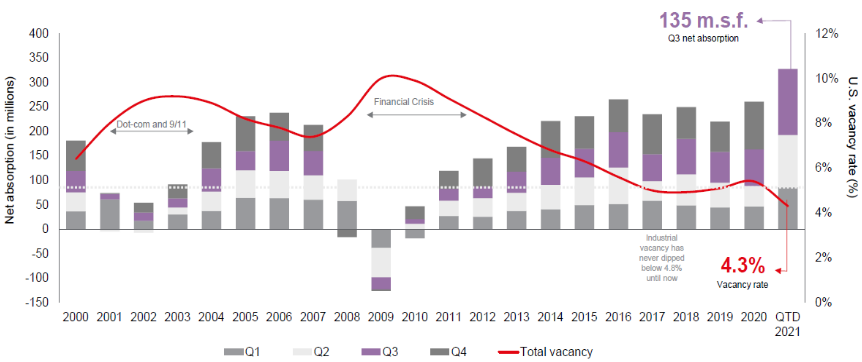


Source: Prologis

Industrial Facilities in North America

Robust leasing in 2020 and 2021 has pushed net absorption rates in the U.S. to new highs (328 million square feet) driving down vacancy rates to all-time lows of 4.3% and leading to strong increases in market rents (Figure 3).

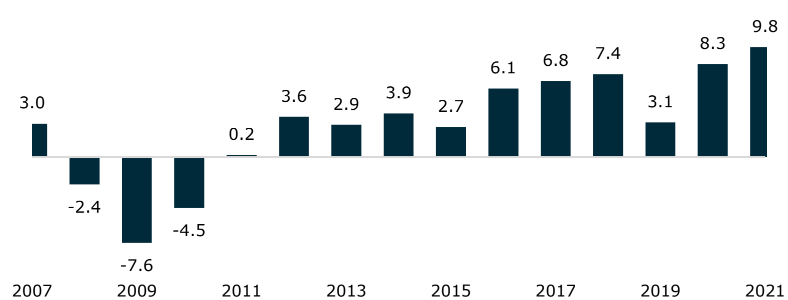
Figure 3: Vacancy and Net Absorption Trends



Source: JLL

We see a long runway for continued growth in market rents as real estate costs represent only a nominal slice of tenants' overall cost structure, far outweighed by the benefit of locating as close as possible to end users. According to CBRE, market rents in the U.S. are anticipated to increase by +20% over the next five years or more than 4% annually. We believe CBRE's forecast could prove conservative, as market rents are up nearly 10% in 2021 after rising by over 8% in 2020 (Figure 4).

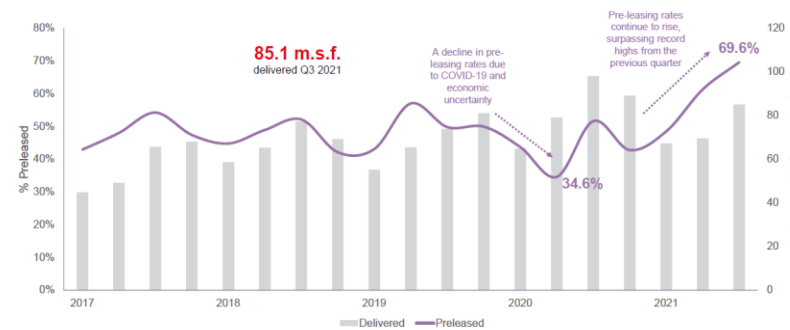
Figure 4: Growth in Asking Rents (%)



Source: Duke Realty

The imbalance of supply and demand has pushed pre-leasing rates on new development to record highs. With a lack of certain future space availability, development is an attractive avenue for future growth resulting in above average profit margins. For industrial REITs that have a seasoned track record in development, bringing projects to market where demand is robust and market rents are increasing should contribute to attractive, outsized earnings growth over the next several years (Figure 5).

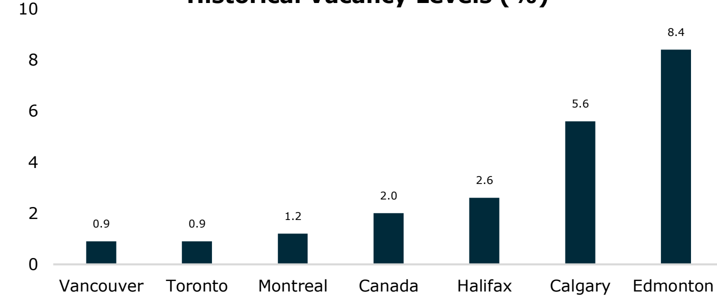
Figure 5: Pre-Leasing Rates at Record High



Source: JLL

In Canada, operating fundamentals are exceptionally strong, with national vacancy rates at an all-time low of 2.0% (Figure 6). Despite tight market conditions, new supply under construction is only at 1.8% of total stock (like the last two to three years), providing landlords with robust pricing power to push rents. In Toronto and Montreal, market rents are seeing high single-digit to double-digit increases and according to Scotiabank, Toronto rents will have to increase ~44% to justify new construction.

Figure 6: Current vs. Historical Vacancy Levels (%)



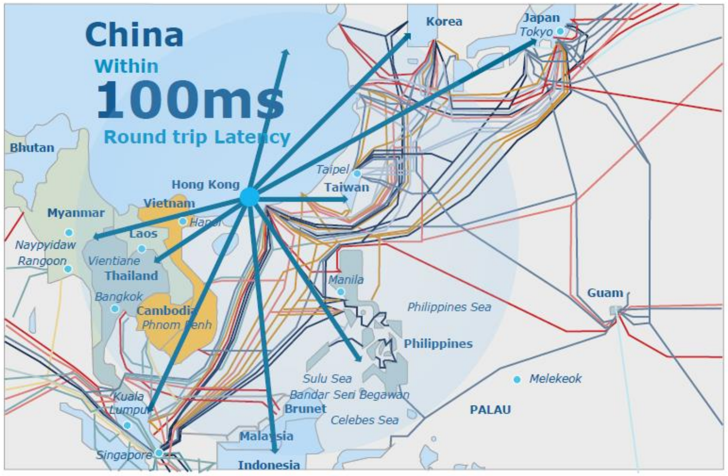
Source: Scotiabank

Data Centers in Asia

We believe data centers in Hong Kong, Singapore, and Japan will generate strong outperformance in 2022 driven by the confluence of several factors that include favorable geographic positioning and industry trends.

From a geographic perspective, Hong Kong is an international business hub, home to many multi-national companies as well as Chinese-domiciled companies that use Hong Kong as a gateway to international expansion. Hong Kong benefits from strong connectivity, with connections to 11 of 13 intra-Asia subsea cables and 100 millisecond round-trip latency across most of the Asia-Pacific region (Figure 1).

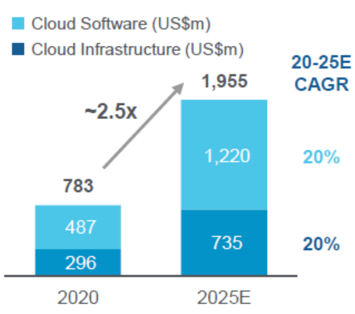
Figure 1: Hong Kong Connectivity Map



Source: SUNeVision

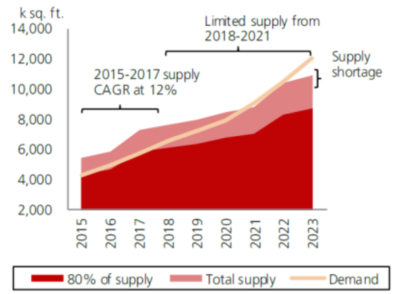
Strong trends in the Asian data center sector have been further amplified by the effects of COVID-19. The pandemic has accelerated cloud adoption by an estimated 3-5 years as a growing workforce of remote employees has pushed mid-sized and large corporations to migrate their IT infrastructure to the cloud. The growth of the Internet of Things (IoT) is expected to bring billions of new connected devices online each year. Furthermore, the continued rollout of 5G networks will provide us with faster processing speeds, higher bandwidth, and lower latency. As indicated in Figure 2, the public cloud market in Hong Kong is expected to grow at a 20% CAGR or 2.5x the existing market size over the next 4 years. This strong increase in demand comes against moderating supply growth, which is expected to fall from a 12% to 8% CAGR through 2023, leading to what we believe will be a supply shortage of data center space (Figure 3).

Figure 2: Growth in Hong Kong Public Cloud Market



Source: SUNeVision

Figure 3: Data Center Supply and Demand in Hong Kong

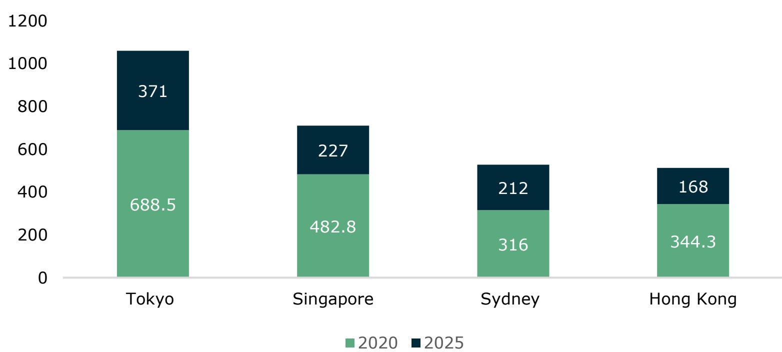


Source: DBS HK

Data Centers in Asia

In Singapore, a moratorium on new data center construction has led to one of the lowest vacancy rates (circa 2%) for a tier-1 market globally. Singapore's role as an Asia-Pacific data center hub stems from the country's stable power grid, proximity to SE Asia, and an abundance of subsea cables connecting to Asia-Pacific, Europe, and North America. Looking forward, six new subsea cables are expected to come online over the next three years which will further enhance Singapore's high connectivity rate. As no new builds are being approved, current demand is expected to outpace supply creating a favorable environment for pricing and rents. Compared to other developing markets that are growing in the surrounding region, we believe Singapore will continue to act as a safe haven for hyperscale tenants. With strong demand from cloud service providers, we believe landlords with pre-approved expansions and new developments will benefit until the supply moratorium is relaxed.

Figure 4: Tokyo to Outperform Given Hyperscale Demand (amounts in Megawatts)

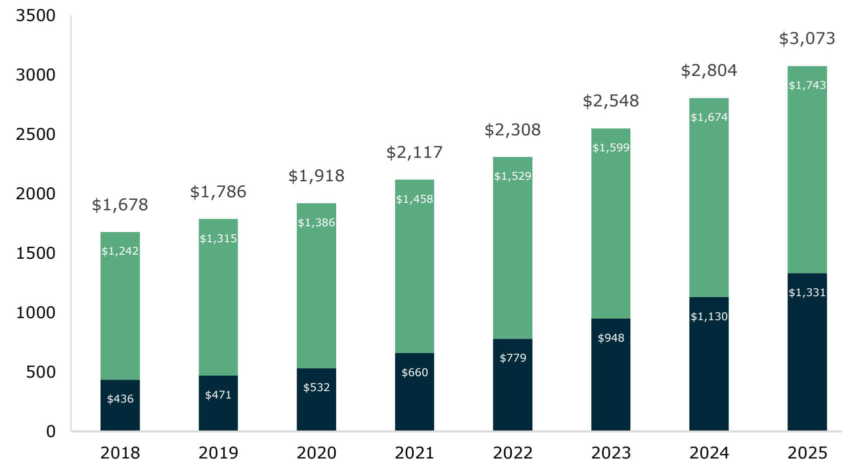


Source: Jefferies University

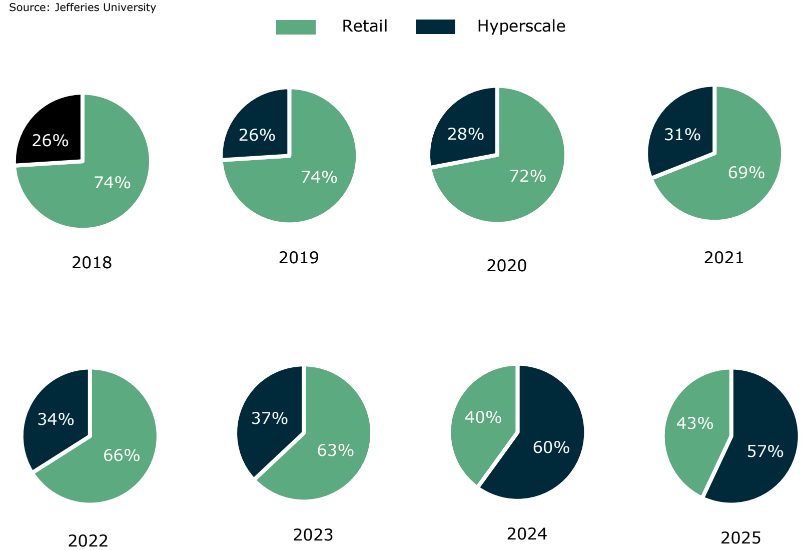
In Japan, the size of the data center market (489 MW currently) is expected to double from 2021 to 2024 with Tokyo poised to benefit from power availability sourced from Japan's largest utility company (TEPCO) and an array of transmission lines in the area. We expect the Inzai cluster, located 40km east outside of Central Tokyo, to be a driving force behind future data center growth with the market poised to become a campus-like community.

As a top financial and technology center in the Asia-Pacific Region, we see Tokyo experiencing strong demand for space moving forward, especially from hyperscale customers with a global presence. Finally, we believe companies with buildable power capacity in Tokyo will capitalize on the market growth potential through the deployment of new capacity and development projects.

Figure 5: Greater Tokyo Data Center Colocation: Market Size (In US$ Millions)



Source: Jefferies University



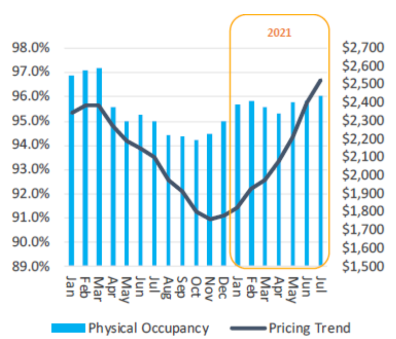
Source: Jefferies University

U.S. Residential Sector

The U.S. residential sector is one of our top investment ideas in 2022, driven by attractive public market valuations, strong industry fundamentals, robust pricing power and very favorable supply and demand dynamics that will lead to outsized rent growth over the next 12 months.

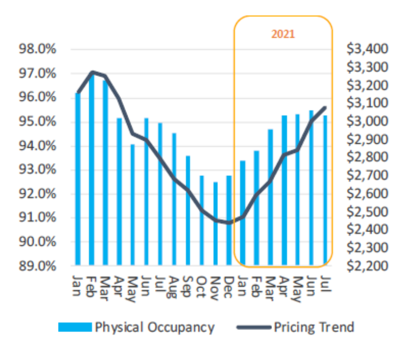
Apartment rents have rebounded strongly from the pandemic's trough driven by a surge in demand for housing. Landlord pricing power has recovered quicker than expected leading to a material decline in the use of rental concessions. Resident turnover has also declined as more customers are choosing to remain in place leading to a recovery in renewal rates. Market rents have also staged a tremendous comeback with rents in most major markets at or above pre-COVID levels. As illustrated in Figures 1 and 2, even the hardest hit markets like Seattle and San Francisco are seeing a sharp recovery in apartment rents.

Figure 1: Seattle



Source: Equity Residential

Figure 2: San Francisco



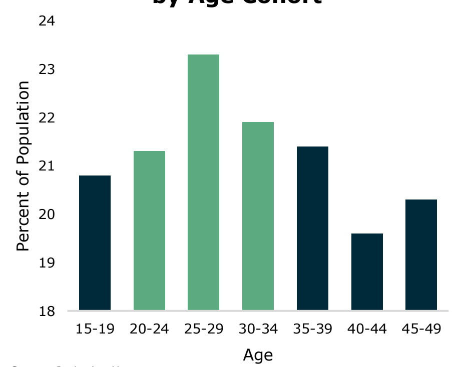
We believe the U.S. apartment sector will likely see record high revenue growth in 2022 given occupancy rates are back at or exceed prior peak levels. Higher inflation serves as a tailwind for rental rates as multifamily operators can reprice their units more quickly given the industry's standard 12-month lease duration. Earnings growth should be exceptionally strong, positively influencing share price performance.

From a valuation perspective, we believe the U.S. multifamily sector is trading at double digit discounts to our estimate of forward net asset value making the sector a compelling buy going into 2022.

Although we have a favorable view of the Canadian multifamily sector in 2022 and see strong industry fundamentals driven by occupancy rates remaining high, inflation-like increases in market rents, growth in immigration and gains in asset values, we see public market pricing in the U.S. as more attractive on a relative basis.

In the single-family rental sector, demand is strong and being bolstered by attractive long-term demographic tailwinds. Millennials now represent the largest generational cohort in the U.S. (Figure 3), and we believe that as this generation enters their prime household formation years, they will create a strong and growing demand for single family homes.

Figure 3: Current Population by Age Cohort

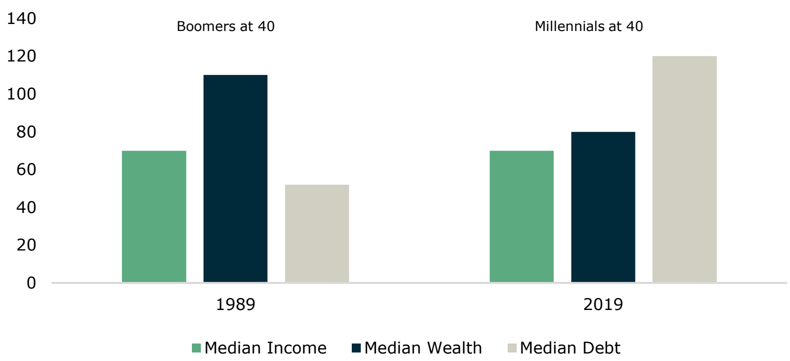


Source: Invitation Homes

U.S. Residential Sector

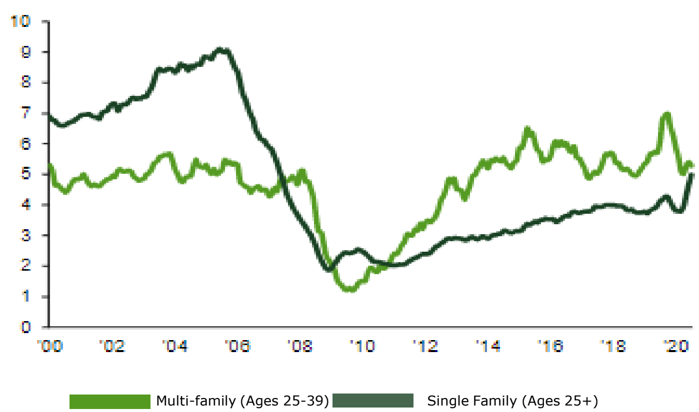
Given both the increasing cost of home ownership and the elevated levels of student debt for Millennials relative to that of prior generations at the same age, (Figure 4), this generational cohort will likely show an increasing propensity to rent versus own.

Figure 4: Millennial Net Worth



Source: Federal Reserve, Bloomberg

Figure 5: Millennial and Single-Family Construction Per Capita

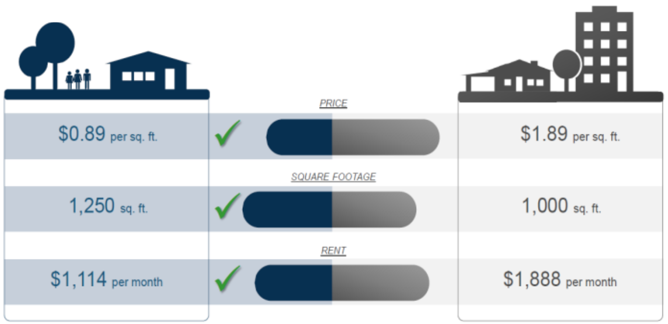


Source: GreenStreet Outlook Report 2021

In March 2021, new housing starts in the U.S. reached a post-2008 annualized high of 1.7 million units. However, this pace would need to be maintained for more than 20 years to close the estimated 5.5-million-unit housing gap that has been created over the past 20 years of underbuilding. In manufactured housing, we see many of the same favorable supply and demand dynamics that exist in the single-family rental sector, with demand also being driven by shifting demographics. In the U.S., the population segment aged 55+ is expected to grow 17% from 2021 through 2036 (Figure 6) with roughly 10,000 baby boomers turning 65 every day though 2030. This cohort is the prime customer base for manufactured housing communities which offer affordable living arrangements in a more suburban, outdoor environment.

The value proposition of manufactured housing continues to become more attractive due to the rapid growth in both single family home prices and rents. Manufactured housing offers ~25% more space with ~50% less cost per square foot relative to other rental alternatives. (Figure 7).

Figure 7: Manufacturing Housing More Affordable



Source: Sun Communities

These positive tailwinds for demand are complemented by a lack of supply growth largely due to community group opposition, restrictive zoning laws and regulations and the conversion of existing sites to alternative uses.

From a valuation perspective, we see exceptionally strong top-line and bottom-line earnings growth in 2022 with the sector trading in-line with net asset value (not a premium). We would argue that, given the sector's strong pricing power and predictable cash flow growth profile, there should be a premium reflected in its valuation.

European Office REITs

We believe the wide gap between European office public and private market pricing provides an attractive arbitrage opportunity for REIT investors in 2022. For those who are looking to acquire high-quality office properties with an enhanced liquidity profile, and while paying far less than buyers in the private market, look no further than European office.

Recent transactional evidence highlights the discrepancy between public and private market pricing. Demand for office assets in the private market remains robust as investors have an appetite for long-duration cash flowing assets with respectable yields relative to benchmark government rates. In this environment, REITs have been able to monetize properties above book value while shares continue to trade at material discounts to NAV. Figure 1 illustrates the majority of E.U. and U.K. office trades at a significant discount to NAV.

Figure 1: E.U. & U.K. Office Sector Discount to NAV

Source: Company data, Hazelview Investments Inc.

In a majority work-from-home environment, the office sector is currently grappling with aversion as investors are fearful about long-term negative impacts on office space demand. This fear has created an opportunity in the European office sector as we believe the fundamental supply and demand outlook is not nearly as dire as headlines would suggest.

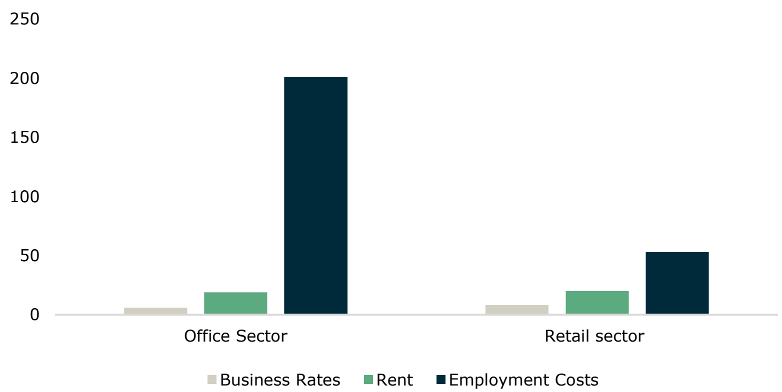
From a demand perspective, we believe Europe is in a better position than most other office markets for the following reasons:

a) Shorter relative commuting times. One of the main drivers behind the popularity of work-from-home is that the average commute time is 25 minutes.
b) More small- and medium-sized enterprises: Europe office demand is driven primarily by small and medium-sized enterprises which comprise more than two-thirds of the European workforce and more than 50% of the economic value added. Smaller firms have had an easier time navigating the post-pandemic landscape and bringing employees back to work, facing less legal risks and complexities due to having smaller workforces and occupying more small- and medium-sized buildings rather than high-rise, high-density office towers.

When compared to retail, a sector that has faced headwinds over the past few years, office rent comprises a much smaller proportion of a firm's total cost structure and thus, office occupiers are unable to realize material cost savings by simply giving up their space, in contrast to retail occupiers (Figure 2).

European Office

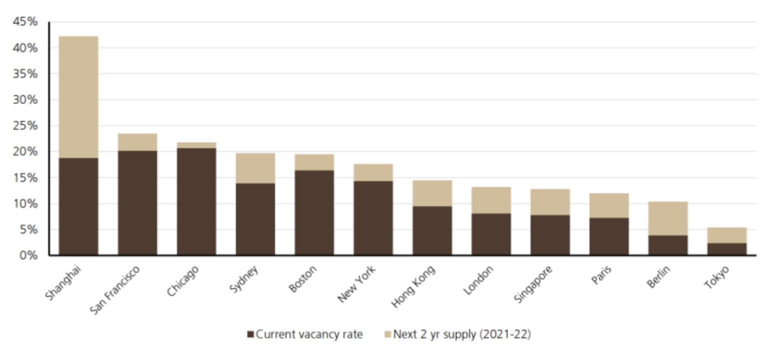
Figure 2: Rents as a Percentage of Total Cost Structure



Source: PIA Report 2017

With vacancies below 10%, major European office markets went into the crisis in much better shape than their global counterparts. And with limited expected supply over the next two years, European office markets continue to rank favorably relative to other markets (Figure 3).

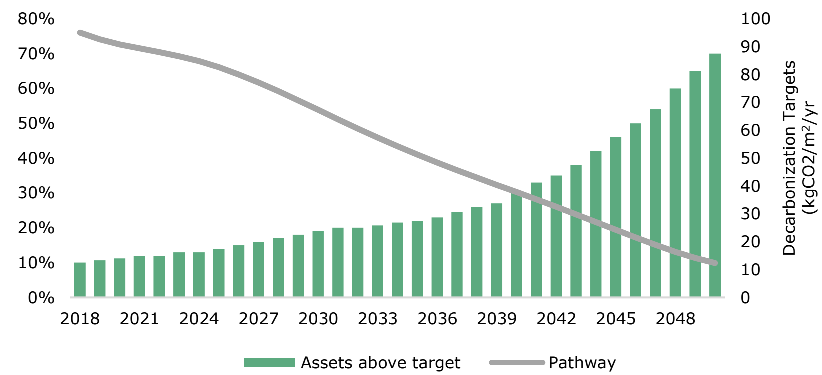
Figure 3: Current Office Vacancy Rate and Future Supply



Source: JLL, UBS

As more buildings fall short of future regulatory standards or market expectations, generally stricter in Europe than elsewhere, ESG hurdles are another factor we expect to further reduce the effective supply of office space. In Germany for example, 20% of assets will fall short of emissions targets over the next few years, a ratio which is expected to grow over time (Figure 4).

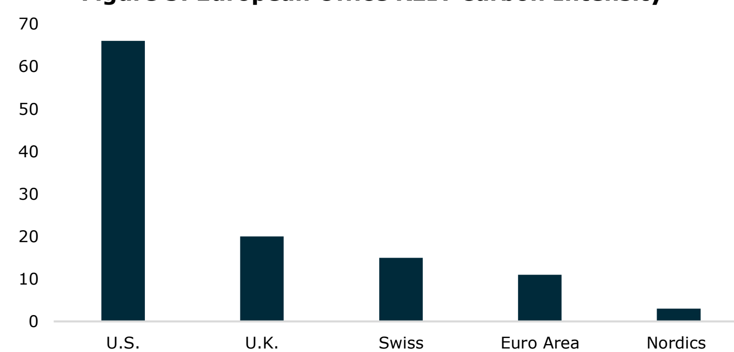
Figure 4: German Office Decarbonization Targets & GRESB Performance



Source: CRREM, GRESB

We believe the shortage in quality ESG-compliant space and the relative lack of new supply is dynamic, not comparable, to other global office markets. In fact, it positions the European office sector favorably relative to other geographies where emissions intensity is higher and asset owners will need to play catch-up against the growing importance of ESG investing and more stringent emissions targets (Figure 5).

Figure 5: European Office REIT Carbon Intensity

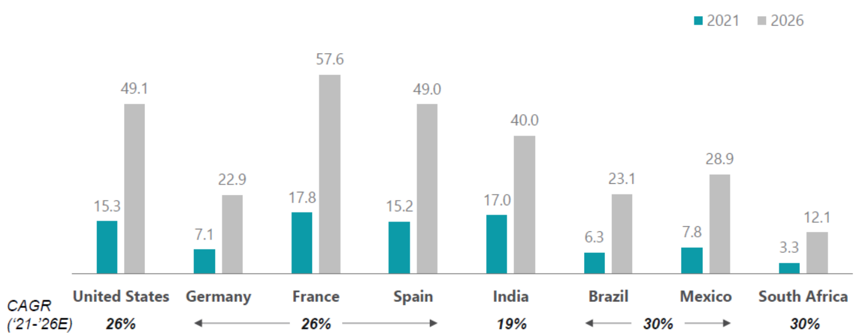


Source: Green Street

Cell Towers

Global tower demand is expected to reach new record levels in 2022, driven by the deployment of 5G cellular networks. Tower demand is a function of coverage (number of users) and capacity (data usage) among wireless users. As highlighted in Figure 1, mobile data usage is anticipated to grow over 25% by 2026. As both the number of devices and traffic per device accelerates in 2022, the need for tower space will grow resulting in wireless carriers adding new telecommunication equipment to new and existing sites.

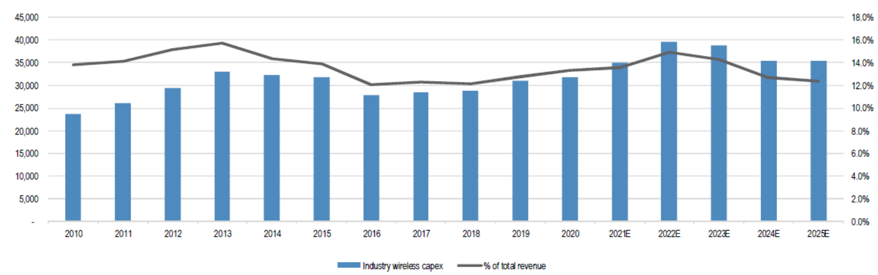
Figure 1: Monthly Smartphone Data Usage (GB/Month)



Source: American Tower

To meet this increasing demand from additional devices and higher data usage from 5G, we expect continued high levels of capex spending by the wireless carriers (Figure 2). Part of what drives this capex spending is the need to deploy more mid-band spectrum, which allows for faster data speeds, but at the cost of shorter range. Therefore, to achieve the same coverage, 5G will almost certainly require more cell sites compared to 4G.

Figure 2: Wireless Carries Capex

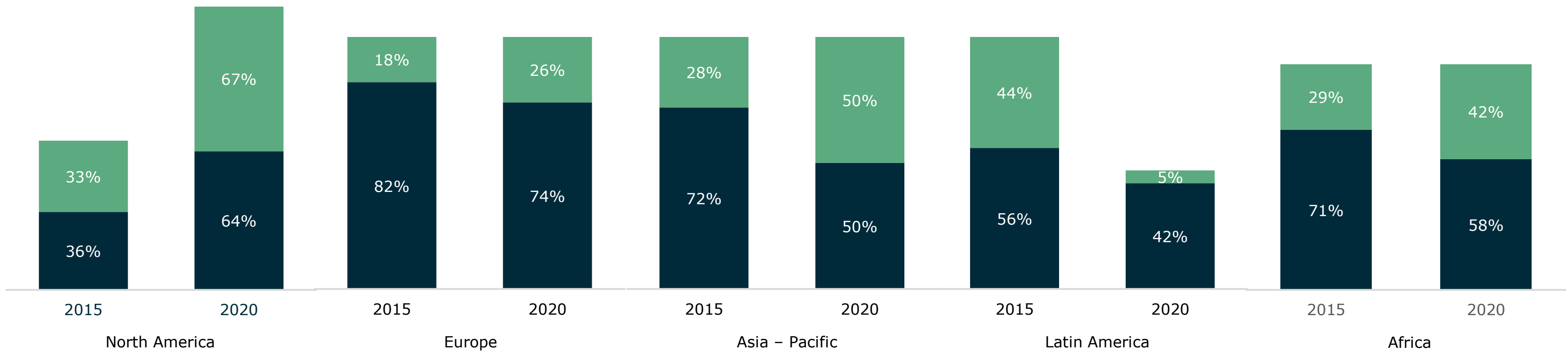


Source: J.P. Morgan

Over the past decade, cell tower REITs have served as consolidators as wireless carriers (i.e., MNOs) look to dispose of their owned tower assets in order to raise capital to fund investments into their network. As we turn the page to 2022, we expect acquisition volume will be greater outside North America where most towers are still owned by the wireless carriers (Figure 3). For example, we estimate the total European tower market consists of more than 500k sites with an aggregate value of >€200 billion. In addition, we see M&A serving a catalyst for the sector with REITs poised to capitalize on consolidation opportunities.

Cell Towers

Figure 3: Tower Ownership by Region



Source: American Tower

Economically, towers perform better when operated by a tower REIT rather than a wireless carrier because REITs can add additional density to the tower boosting returns. As such, wireless carriers can sell their tower portfolios to a REIT at a low going-in yield and in return receiving attractively priced capital, while the REIT acquires anasset with significant growth potential.

We believe structural growth drivers such as strong organic growth, build-to-suit activity and higher tenancy ratios should support low double digit EBITDA growth in 2022. Contractual rent bumps tend to be higher than most other property types and offer a natural inflation hedge. In the United States, rent escalators are typically +3%, while in Europe, Latin America and Africa lease escalators vary but are often higher than the U.S. and tied to inflation. Second, adding a new tenant to a tower with only one or two customers can increase revenue by 50% to 100% with very little increase in operating expenses. Finally, when wireless carriers need to upgrade their equipment, they will need to amend their lease likely leading to an increase in rental payments.

Meet the Team

Meet the Team

Hazelview Investments is an active investor, owner and manager of global real estate investments committed to creating value for people and places. We have an active, hands-on investment management platform that helps us find opportunities to invest in sustainable long-term cash flow and we are committed to fostering the long-term growth of our employees, residents and the investments we make for our clients.

Equipped with an experienced team of real estate professionals strategically located in major markets (Toronto, New York, Hamburg and Hong Kong) provides an advantage of global perspective and the ability to stay on the pulse of new developments. This 'feet in the street' presence allows us to be face-to-face with local markets, enabling us to accurately and efficiently source, underwrite and monitor global real estate investments.

Our key investment strategies include Core and Focused and are offered to both institutional and retail audiences through a range of public and private vehicles.

Meet our seasoned, institutional team of investment professionals covering key global markets made up of:

- Portfolio Managers: 20 years average experience; 16 years together
- Dedicated 14 person REIT team located in 4 global offices
- Managing C$3.4B in global real estate
- 10-year track record

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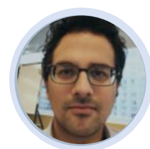

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Thank You