# 2021 Global REIT Outlook

hazelview
INVESTMENTS

**"Help is on its way and while we appreciate that we are not yet out of the woods, we are embracing the global recovery that has already begun to gain traction."**

**- Corrado Russo**

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# Letter from Corrado Russo

2020 was a year unlike any other, bringing unparalleled global challenges and hardships. From peak to trough, global equity markets lost a combined ~$27 trillion USD in market capitalization in the first quarter - nearly the combined GDP of the European Union and China. It took just 16 days for the U.S. to enter a bear market, quicker than 1929 and second only to the Black Monday crash of 1987. Global REIT share prices were not exempt from the selloff, declining 42%.

As the year played out, monetary stimulus and fiscal support acted as an economic defibrillator to help resuscitate activity. In the fourth quarter, news of multiple, highly effective vaccines lifted the spirits and hopes of the market (and society) for a return to normalcy. The Biden win removed uncertainty around leadership in the U.S., spurring renewed optimism towards the de-escalation of trade war tensions with China.

As an overview of 2020, global real estate securities ended the year down 10.5%, lagging most other sectors. Within commercial real estate, the pandemic created headwinds for some property types but tailwinds for others, thus making its recovery look more K-shaped than V-shaped.

Looking ahead to opportunities in 2021, COVID-19 has left room for investors looking to own high-quality real estate at prices that are unattainable in the private market. Hospitality, office, senior housing, multifamily and retail are just some of the property types trading at large discounts to intrinsic value. Over the next 12-24 months, as markets and economies recover, we believe there will be a subset of companies from these sectors that will generate significant outsized returns.

Help is on its way and while we appreciate that we are not yet out of the woods, we are embracing the global recovery that has already begun to gain traction. Having members of our team located in major markets (North America, Europe and Asia) allows us global perspective and the ability to stay on the pulse of new developments.

We are positive that a vaccine will serve as the catalyst to restore normalcy and we believe 2021 will mark the beginning of the great “REIT-opening”, where we start to see a convergence of fundamentals and performance within the real estate industry.

We speak to hundreds of people every quarter (clients, investors, management teams, consultants, colleagues, friends and family) and the resounding and unequivocal desire is that they all want to return to their lives, pre-pandemic. They want to travel again, gather socially, see family, and return to a safe business environment without mobility restrictions.

It will take patience, strength and perseverance, but the next year’s forecast is optimistic, with plenty of chances for opportunities. If we stick to our course and adhere to sound advice, we can see ourselves through and come out stronger on the other end.

- Corrado Russo

*"Our valuation models suggest that global REITs are priced at a 25% discount to intrinsic value which implies over 30% upside in price."*

# 2020 in Review: An Unparalleled Year

The first half of 2020 saw the emergence of COVID-19. It created a macroeconomic downturn that was a shock of significant magnitude and breadth: global GDP declined by more than double the amount recorded during the Global Financial Crisis ("GFC"); consumer saving rates surged as households hunkered down; while employment, retail sales, manufacturing activity and stock prices all plunged in spectacular fashion.

From peak to trough, global equity markets lost a combined ~$27 trillion USD in market capitalization in the first quarter, nearly the combined GDP of the European Union and China. It took just 16 days for the U.S. to enter a bear market, quicker than 1929 and second only to the Black Monday crash of 1987. Global REIT share prices were not exempt from the selloff, declining 42%.

As quickly as markets collapsed, central banks and policy makers moved to fill the economic void created by the pandemic. In 2020, there were 190 central bank rate cuts. Since March, central banks bought **$1.3 billion USD of assets every 60 minutes**, which is an unprecedented amount of fiscal and monetary stimulus, measuring five times more than what followed the GFC a decade ago.

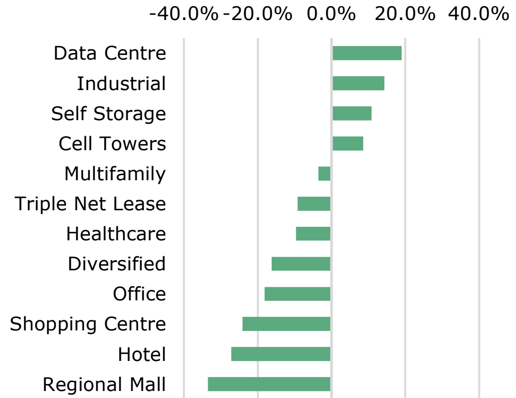
The stimulus and fiscal support led to employees on furlough being re-hired and mobility improved, despite a continued rise in COVID-19 cases. In Europe, consumer and business confidence experienced a strong V-shaped rebound. In China, leisure and business travel is rapidly closing the gap to pre-COVID levels and globally, manufacturing activity has surpassed prior peak levels with global trade rebounding more quickly in 2020 than it did after the GFC.

In the fourth quarter, news of multiple vaccines with high efficacy rates lifted the spirits and hopes of the market (and society) for a return to normalcy. Additionally, a Biden win removed uncertainty around leadership in the U.S. spurring hope towards reducing trade war tension with China. Combined, these catalysts sent share prices soaring around the world. Since the vaccine announcement, global real estate securities experienced strong gains of 10.3% local currency, outpacing global equities by 120 basis points[1].

Global real estate securities ended 2020 down 10.5% in local currency, lagging most other sectors, with the exception of energy and financials. Within commercial real estate, COVID-19 created headwinds for some property types and tailwinds for others, thus making its recovery look more K-shaped than V-shaped.

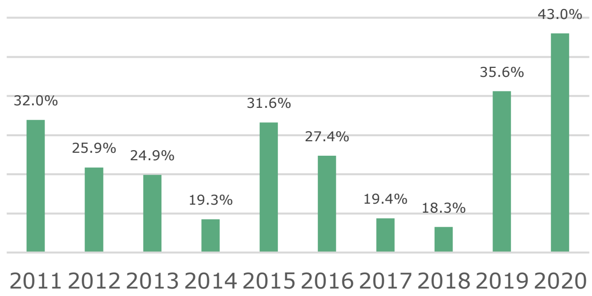
Technology-focused real estate or property types positioned for success in a more digital world, like industrial, delivered positive total returns on the back of rising e-commerce demand. On the other hand, asset classes that revolve around social interaction suffered. The dispersion of return was the highest in 10 years, reflecting the disparity of how COVID-19 impacted different property types.

**2020 Performance by Property Type**




*Total Returns presented in local currency

**Return Dispersion by Year**




Source: Bloomberg, Hazelview Investments. As of December 31, 2020

**"It took just 16 days for the U.S. to enter a bear market, quicker than 1929 and second only to the Black Monday crash of 1987."**

[1] Represents MSCI World Index

# 2021 Outlook

# 2021 Outlook: Forging Ahead

As we turn the page on 2020 and look ahead to 2021; there is hope.

Science, technology, and human ingenuity have banded together with world governments and private enterprises to find a solution to COVID-19. Multiple vaccine candidates are trialing at greater than 90% effectiveness and at the time of this writing, vaccinations have begun in the most developed countries, promising an eventual end to a global pandemic that has disrupted the lives of everyone.

Just like the pandemic led to a synchronized global economic shutdown, we believe the delivery of highly effective vaccines and therapeutics will lead to a synchronized global economic rebound starting in 2021. This, in turn, has a positive influence on residential and commercial real estate fundamentals, leading to a "REIT-opening" of property sectors that suffered the brunt of the pandemic financial impact.

**While the worldwide economic recovery will not be uniform, consensus estimates call for global GDP growth of 4.9% in 2021. This represents the highest rate of growth since 2010, a year when global REITs outperformed global equities by approximately 800 basis points.**

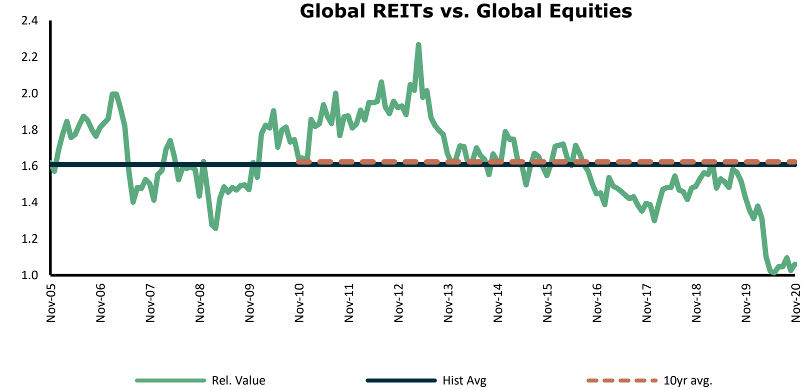
Demand from pent-up and deferred travel plans, household spending, social gatherings and a return to a more normal business environment are likely to drive economic recovery in 2021. 2022 is also forecasting to have above trend GDP growth, at 3.5%.

Robust economic growth will result in lower unemployment, which is projected to decline globally to 6.3% in 2021 and 5.8% in 2022, down from mid-to-high teens at the peak of the crisis and approaching 2019 levels at 4.9%. Lower unemployment will lead to stronger demand for commercial real estate, particularly in those traditional core property types that suffered the most in 2020 like lodging, office, senior housing and select retail and multifamily.

Since REITs are the landlords of the global economy, an improvement in GDP should bode well for REIT cash flow growth over the next 12 months. According to UBS, consensus forecasts a call for a strong recovery in global REIT earnings in 2021, rising 11%, after a 5.8% decline in 2020. We believe there is strong empirical evidence linking earnings growth and share price performance: i.e., as top-line growth recovers, so will earnings, and so will REIT share prices in 2021. **Given the significantly larger decline in REIT share prices in 2020 relative to the decline in earnings of 5.8%, we believe this reversal could foreshadow a disproportionate increase in REIT share prices in 2021.**

In 2020, Global REITs underperformed global equities by nearly 25% USD, the largest margin of underperformance in 25 years bringing us back to 1998 when technology companies were dominating investor attention. The technology sector was a major beneficiary of the pandemic, as daily life shifted to a virtual world, driving share prices and market capitalizations to new highs. Simultaneously, REIT share prices suffered, ending the year 12% below their mid-February peak. **We believe the valuation rubber band has become exceedingly stretched, leaving global REIT valuations at their cheapest and most attractive level relative to global equities in over 15 years.**

**Relative Price-Cash-Flow Multiple of Global REITs vs. Global Equities**



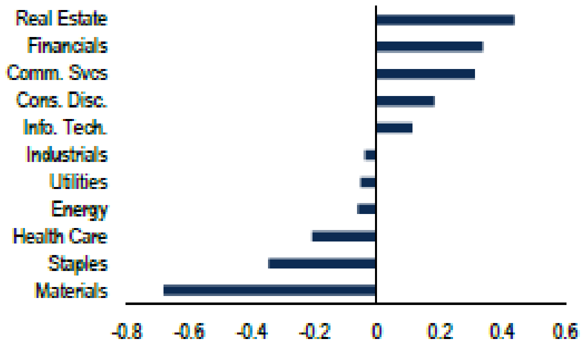

Source: UBS

A similar trend unfolded after the GFC when REITs underperformed in 2007 and 2008. However, by 2009, as fiscal and monetary stimulus drove an economic recovery (very similar to today), global REITs embarked on a sustained period of outperformance. From 2009 to 2013, REITs outpaced global equities by over 2,600 basis points as investors repositioned their portfolios from growth to value, allocating capital to industries with more attractive valuations that would benefit from a recovery in economic conditions.

**"We believe 2021 will mark the beginning of the great REIT-opening, where REITs begin to outperform other industries."**

As illustrated in the graph below, we are starting to see indications of a positive shift in investor sentiment towards real estate and believe this trend will accelerate over the next 12 months as a highly effective suite of vaccines and therapeutics serve as catalysts for a return to normalcy, economic recovery and an improvement in real estate fundamentals.

**Changes in Investor Sentiment[1]**




Source: BofA Global Research

**We believe 2021 will mark the beginning of the great "REIT-opening", where REITs begin to outperform other industries and within REITS, we start to see a convergence of fundamentals and performance between the "have" and "have not" sectors.**

Some sectors will bounce back to normal more quickly, some will take longer, and some will reach new heights, when compared to their pre-pandemic levels, creating a "new normal". The nuance being timing and magnitude.

As we think about the REIT investment landscape in 2021, we separate the opportunity set into four distinct categories.

Sectors with:

- Good fundamentals that will continue to experience strong tailwinds in 2021 while trading at reasonable valuations
- Poor fundamentals (real or perceived) that will experience a strong recovery in demand while trading at attractive valuations
- Good fundamentals where valuations are less attractive on a relative basis; and
- Cheap valuation, but cheap for a reason which are expected to continue to face challenges and lingering effects from the pandemic in the long-term.

COVID-19 has created a unique opportunity, through the public markets, to own high-quality, core, institutional quality real estate at prices that are unattainable in the private market. These sectors are suffering (or perceived to be suffering) in a COVID-19-ravaged economy characterized by weaker demand, lower occupancy rates and, in some cases, lower market rents, resulting in poor share price performance. Lodging, office, senior housing, multifamily and retail are just some of the property types trading at discounts to intrinsic value.

At the height of the crisis, tenants temporarily deferred rent payments, creating a headwind and overhang for the industry. We believe that this headwind could become a tailwind in 2021. In the U.S., rent collection rates declined to 82% in April and in Canada, rent collections dipped to 84% at the end of Q2 2020 with Europe, Asia and Australia having followed a similar trend. Presently, rent collection rates are closing in on pre-COVID levels. In October, rent collection rates have recovered to 95% in the U.S. and Canada with similar rates elsewhere in the world. Property types like multifamily, office, industrial and healthcare are trending at greater than 97%, while retail is approaching or exceeding 90% based on region.

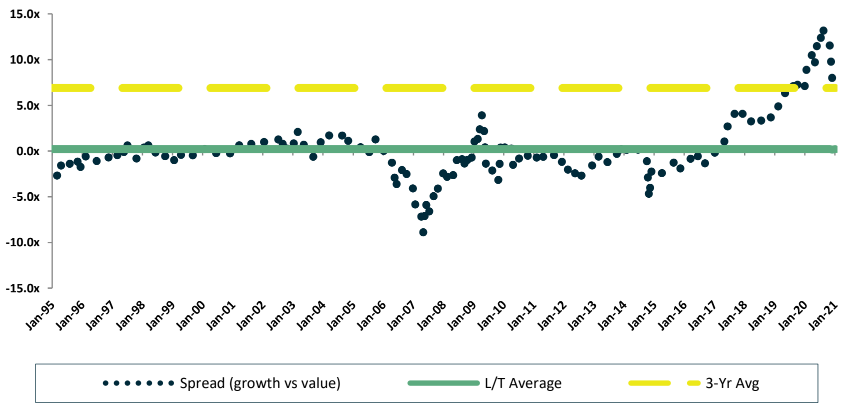
As markets and economies recover, we believe there will be a subset of companies from these sectors that will generate significant outsized returns as **the repayment of 2020 deferred and uncollected rent will benefit top and bottom-line growth in 2021.**

**"A material improvement in sentiment is not yet reflected in market prices."**

[1] In October

Additionally, valuations for the "have nots"/ out of favour sectors are trading well below their long-term average by nearly 10 multiple points. **We expect this multiple spread will narrow in 2021 as traditional core property types that fall in the lower half of the "K" receive a "shot" in the arm (pun intended), paving a path to recovery.**

**Historical Price-to-AFFO Multiple Spread of Growth vs. Value**




Source: Evercore ISI Research

**One of the most under-appreciated characteristics of REITs today is how much better REIT balance sheets are coming out of this economic downturn** compared to the GFC. In 2008, many REITs were burdened with too much existing debt and unable to take advantage of market dislocation. Entering the GFC, <u>BEFORE</u> a decline in cash flow, debt to gross asset values were frequently over 50% and net debt to EBITDA started in the 8x to 10x range. Today, we estimate that <u>AFTER</u> reflecting higher vacancy rates and lower rent collection rates, debt to gross asset value is approximately 35% and net debt to EBITDA at 7.6x. **We believe that lower leverage, a lower cost of debt and better liquidity places REITs in a favorable position to enhance earnings through acquisitions in 2021, leading to positive valuation reversion to the mean.**

In addition to the recovery opportunities available today, we believe there are five key secular growth trends that are poised to positively impact a post-COVID real estate world that can only be accessed, in size, through the public REIT market.

**Key Investment Trends**
for short term (2021) and medium term (3-5 years) opportunities.

- E-commerce and supply chain optimization
- The convergence of technology and real estate
- Growing demand for affordable residential housing
- Gentrification and the trend to smaller, more efficient spaces
- Specialty property types with growing institutional focus

Lastly, investors, ourselves included, are increasingly emphasizing ESG with REITs more focused on implementing environmental, social and governance strategies. During the global pandemic, social engagement within the global REIT industry was very strong with governance-related issues bubbling to the surface. As trust became even more valued in a landscape where uncertainty is elevated, management teams focused on making well informed decisions in order to channel investments to improve energy efficiency, minimize waste usage, increase diversity within the boardroom and senior management ranks, and achieve LEED certified Gold and Platinum status. REITs have taken leadership roles in their markets with many companies receiving GRESB ratings (The Global ESG Benchmark for Real Assets). We actively engage with REIT management teams to share our insights on best practices with the goal of improving their ESG rating. **We believe superior transparency and the implementation of best practices will lead to more sustainable earnings over the long-term resulting in premium valuations.**

**"Active management will capitalize on a reversion to the mean."**

# 2021 Return Expectations:
# Help is on the Way

We believe the key to creating value in 2021 will be to identify companies and property types where valuations have yet to reflect a meaningful recovery to fundamentals.

In addition, the lagged impact from fiscal and monetary stimulus should continue to support the recovery, providing tailwinds for growth. Countries like Germany, Japan, Singapore and the U.K. have pledged fiscal and monetary support that is equivalent to over 40% of GDP. The combined balance sheets of the Bank of Canada, European Central Bank, Bank of England and the U.S. Federal Reserve have increased an unprecedented 70% to $17 trillion.

We believe interest rates are poised to remain low for an extended period, offering companies an advantageous cost of capital that can be used to grow through acquisitions, new development and redevelopment. Simultaneously there exists the potential for asset values to rise as the spread between cap rates and bond yields, which are at historically wide levels, narrow (i.e. cap rates decline).

With global REIT share prices at 88% of pre-COVID levels, we believe the industry is well positioned to play catch-up in 2021. Real estate fundamentals typically lag economic activity by 6-12 months, so as economic conditions recover in 2021, the positive flow-through to underlying cash flows will be more pronounced in 2022. That said, we expect the market to start to "price in" a recovery scenario in early 2021.

**Our valuation models suggest that global REITs are priced at a 25% discount to intrinsic value (a blend between NAV and discounted cash flow), which implies over 30% upside in price. Assuming a two-year time period to get back to intrinsic value and when combined with current dividends, this equates to an annualized total return of 15%-20%.**

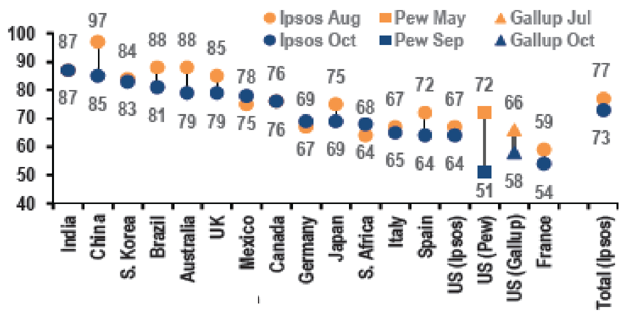
This return consists of a 4%-5% cash flow yield, double digit growth in earnings, and multiple expansion for those property types that have come under significant downward price pressure during the pandemic.

To put our expected return forecast into context, a 20% gain in global REIT share prices would result in the value of the global REIT Index rising roughly back to their 2020 pre-COVID high, which would still be well below global equities[1] which are already over 10% above its pre-COVID high and the NASDAQ which is over 30% above.

In our view, these returns are achievable in 2021. This is predicated on three key assumptions: the successful manufacturing / distribution of a COVID-19 vaccine, people's willingness to inoculate; and continued monetary and/or fiscal policy support.

Unexpected bottlenecks in the manufacturing / distribution process or a higher proportion of people who choose not to take the vaccine could create a slower than anticipated recovery in 2021, but to the benefit of 2022. As demonstrated in the graph below, according to various surveys in October, the percentage of people willing to get vaccinated was 73%. Since then, we believe the desire to take the vaccine has increased given the reportedly high efficacy rate of greater than 90% with limited side effects and the exponential rise of new cases around the world that is restricting mobility yet again, highlighting the universal desire for the return to everyday life.

**People's Willingness to take vaccine**




Source: Gallup, Ipsos, Pew, J.P. Morgan

Fortunately, 100% vaccination is not required to obtain sufficient herd immunity. J.P. Morgan estimates 50%-70% of the global population would require vaccination to remove the virus as a meaningful economic headwind.

Despite the risks outlined above, help is on its way and we are embracing the global recovery that has already gained traction. We are optimistic that a suite of vaccines will serve as the catalyst to restore normalcy and we believe 2021 will mark the beginning of the great "REIT-opening", where we start to see a convergence of fundamentals and performance between the "have" and "have not" sectors within the real estate industry.

Taking a bottom-up approach and looking to identify companies that are poised to outperform, we believe there are several investment opportunities – across property types and geographies – for the year ahead.

**"Our valuation models imply 15%-20% annualized total returns."**

[1] Represents MSCI World Index

# Investment Ideas for 2021

**Cell towers in North America and Europe benefitting from secular tailwinds driven by 5G**

**Self-storage properties experiencing a rebound in street rents and rising occupancy rates**

**Industrial benefiting from robust e-commerce growth and supply chain optimization**

**Hotels poised to benefit from a global vaccine-driven recovery from pent-up demand**

**Multifamily communities in Canada and the U.S. trading at significant discounts to intrinsic value**

**Open-air necessity-based retail centers serving as a quasi-last mile distribution point**

**Office REITs trading at deep discounts to private market values**

**Healthcare REITs owning senior housing facilities to benefit from recovery in occupancies**

**Data centers in Hong Kong seeing strong demand for space by hyperscale customers**

**Specialty property types such as life science, cold-storage and casinos**

For further details on our top investment ideas for 2021 please refer to the following sections.

# Global Sectors

# Global Sector Outlook

Our key indicator table outlines where we see the best opportunities for investors in the year ahead.

**Key Indicators**

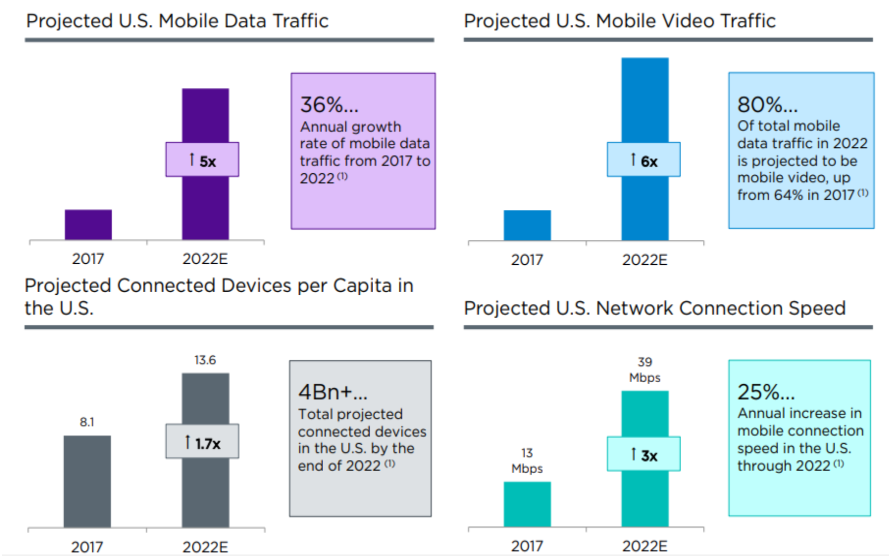
| | U.S. | Canada | U.K. | Continental Europe | Hong Kong | Japan | Singapore | Australia |
|---|---|---|---|---|---|---|---|---|
| **Cell Towers** | Positive | | | Positive | Positive | | Positive | Neutral |
| **Industrial** | Positive | Positive | Neutral | Positive | | Positive | Neutral | Positive |
| **Residential** | Positive | Positive | Negative | Positive | Neutral | Positive | Negative | Neutral |
| **Self-Storage** | Positive | Neutral | Negative | Positive | | | | Positive |
| **Hotels** | Positive | Neutral | | | Neutral | Neutral | Neutral | |
| **Retail** | Neutral | Negative | Negative | Negative | Neutral | Neutral | Negative | Negative |
| **Office** | Neutral | Negative | Negative | Positive | Neutral | Positive | Negative | Neutral |
| **Healthcare** | Positive | Neutral | Positive | Neutral | | Neutral | Neutral | |
| **Data Centers** | Positive | | | Positive | Positive | | Positive | Neutral |
| **Specialty** | Positive | Positive | | | Neutral | | | Positive |

Source: Hazelview Investments. As of December 31, 2020

| | | | |
|---|---|---|---|
| **Positive** | **Neutral** | **Negative** | **Empty = Not applicable** |

In 2021, the cell tower industry is set to experience another year of strong secular growth, driven by a robust increase in data consumption and traffic arising from the continued rollout of 5G cellular technology. The transition from 3G to 4G dramatically increased cellular download speeds, making it possible to use applications on smartphones such as Facetime, Instagram and streaming services, like Netflix. 5G will push download speeds from 10x to 100x that of 4G, lower latency from 30 milliseconds to 1-5 milliseconds and increase traffic capacity by up to 100x. Industry forecasts call for mobile data consumption to rise by more than 30% per year (given more devices in service and higher usage per device), leading to higher colocation and amendment growth for cell tower REITs.

**Projected Mobile Data Consumption**




Source: Crown Castle

To keep up with this next wave of 5G-driven demand, we believe wireless carriers will need to partner with cell tower REITs in 2021 to expand their wireless networks by installing more equipment on more towers.

In the U.S., we anticipate that small cell towers will play a critical role in delivering 5G coverage. We expect small cell tower buildouts to increase as wireless carriers allocate more capital spending (CAPEX) to densify their networks. A national 5G network may take a decade to construct, resulting in multiple years of elevated annual wireless carrier CAPEX. Industry estimates suggest that the number of small cell towers in the U.S. will increase from 200 thousand today to 1 million in five years. We believe small cells will be installed on streetlights and utility poles acting as a relief valve to enhance coverage, working in cooperation with macro towers, when networks become too congested.

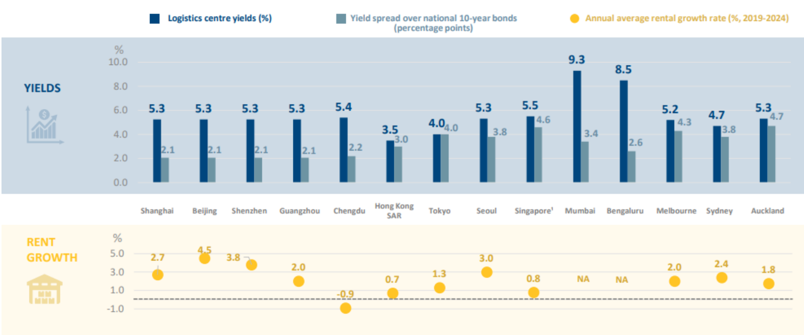
In Europe, we foresee strong growth potential in 2021 from macro cell towers driven by higher leasing volume. European telecom companies continue to spinoff their existing tower portfolios and raise capital to reinvest into their 5G network, leading to robust acquisition opportunities for REITs. For example, Cellnex, listed in Spain, has signed acquisition deals totaling €11 billion in 2020, more than doubling the €5 billion they spent in 2019. We also believe there will be significant margin improvements from acquisitions that will positively impact the bottom line, making deals highly accretive to future earnings. Internal growth will be driven by embedded annual rental escalations, adding tenants to towers and increasing tower equipment density. We believe the sector's high going-in cashflow yield, long weighted average lease term, and secular growth potential make cell towers a standout asset class in Europe for 2021.

# Industrial

COVID-19 accelerated the demand for logistics space in 2020, driven by a surge in online consumer purchases and an increase in the overall e-commerce penetration rate. The increased volume combined with a desire for faster delivery drove the need for additional last-mile delivery facilities. These trends are expected to continue and highlight the need to maximize efficiency through supply chain optimization.

In 2021, we believe the global logistic asset class offers one of the most compelling investment opportunities for investors driven by attractive yield spreads on new development, strong tenant demand for space and growth in market rents. Avoiding overpaying for future growth is central to investment selection in 2021.

**Property Yields and Rent Growth Forecast**




Source: Colliers

In Canada and the U.S., inventory replenishment should provide a further boost to an already strong fundamental market in 2021. As a result of COVID-19, inventory depletion became a real issue, creating a supply shock that highlighted the need for a higher inventory cushion. Import volume from seaports is recovering and we expect demand to remain strong post-vaccinations as customers continue to search for logistic locations closer to the end consumer. Presently, we are observing higher rates of leasing activity and lease proposals, which we believe will foreshadow another year of market rent growth in 2021. Higher cashflows should lead to a rise in property values (which is already underway) and further supported by lower interest rates, especially in Canada. In Europe, we believe demand will outpace supply in 2021, with average vacancy rates across key markets remaining at low levels. In the Nordics, new supply is low and so is the e-commerce penetration rate, which we believe will increase over the next 12 months as a result of COVID-19. We expect growing e-commerce sales will lead to rising demand, setting the Nordic region up for a strong 2021. Furthermore, much of Europe's existing stock is not fit for modern logistics requirements offering REITs the opportunity to develop warehouses on a build-to-suit basis. Outsized profit margins on new development will positively influence earnings growth in 2021 for those REITs that are able to take advantage of greenfield opportunities.

We believe Japan will be a standout industrial market in 2021, driven by the continued strong demand for space and the fact that modern logistics facilities account for just 4.3% of total stock. According to Mitsui Fudosan, despite the higher supply expected in 2021, primarily in Tokyo and Osaka, we believe strong absorption rates from e-commerce and third-party logistic tenants will keep the nationwide vacancy rate low. Total warehouse space per capita in greater Tokyo and Osaka is low, at 0.4 sqm and 0.2 sqm respectively, and can accommodate more supply without negatively impacting market rents.

Large amounts of private capital are expected to seek logistic assets, lowering cap rates and leading to rising asset and land values.

# Residential

COVID-19 has had a profound impact on residential markets in 2020, marked by the increasing demand for affordable housing solutions with work-from-home capabilities. Both for-rent and for-sale markets around the world took off with rising household demand for residences outside downtown cores.

We are positive on the residential sector in 2021, particularly in Canada and the U.S. as we see a disconnect between public and private market valuations, along with an easing of supply concerns due to COVID-related project delays, rising development costs due to higher land prices and a lack of funding. From a pricing perspective, cap rates remain at/or below pre-COVID levels, aided by lower financing costs.

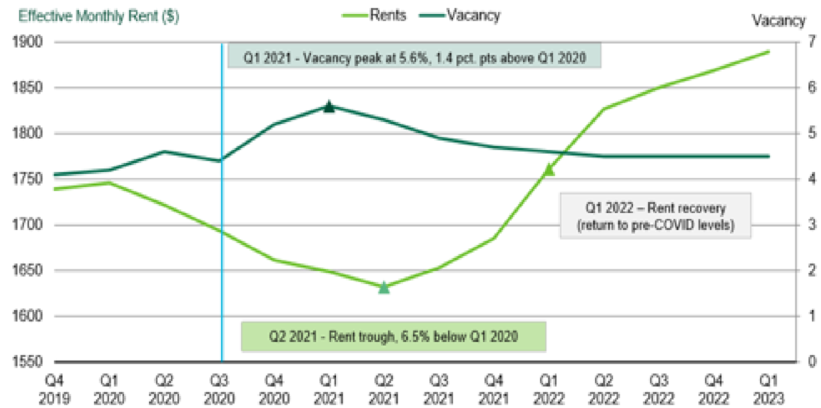
We believe the Canadian multifamily sector is poised to deliver attractive shareholder returns in 2021, led by rising household formation, the unaffordability of home ownership which is creating a swelling pool of renters and favorable immigration policies that will further increase demand for housing. We believe operating fundamentals in the GTA will outpace those in Western Canada where new lease spreads are negative and incentives are elevated. Occupancy rates, particularly in Toronto, have held steady and we believe continued strong investor demand for the asset class and minimal new supply, coupled with attractive financing rates will drive continued cap rate compression, resulting in another year of attractive growth in 2021.

In the U.S., we have a favorable view on all three segments of the residential for-rent market: multifamily, single family rentals and manufactured housing.

In the multifamily sector, we are beginning to see green shoots form, particularly in suburban locations within coastal markets which are experiencing a deceleration in the deterioration of operating fundamentals for both rental and occupancy rates. Starting in September 2021, we see move-ins exceeding move-outs, leasing traffic and site visits rising, early lease terminations abating and rent collection rates, resilient. We anticipate an inflection point in fundamentals will start to take shape in the second half of 2021, beginning with a pullback in concessions and a recapture of lost occupancy.

Single family rentals are poised to deliver strong internal growth in 2021, driven by gains in occupancy and increasing renewal spreads. COVID-19 has accelerated demand for suburban housing outside of city centers, in good school districts and at affordable price points, as the cost to rent a single-family home is approximately 30%-35% less than Class A multifamily rents. We see the millennial generation requiring housing solutions to accommodate newly formed households, resulting in an additional demand driver. New supply is low as rising labor, material and land costs make the construction of new affordable single-family housing a challenging endeavor.

**Multifamily Rent and Vacancy Forecast**




Source: CBRE

Manufactured housing communities are also poised to shine in 2021. These communities, which offer a more affordable rental price point, thrived during the pandemic. Occupancy rates remained high, rental rates remained positive, applications for home rentals increased, turnover decreased and drive-to recreational vehicle communities captured a sizable share of leisure demand. We believe these dynamics, that made manufacturing housing communities shine in 2020, will remain in place in 2021, leading to another year of outperformance.

The European multifamily sector was the REIT market's darling in 2020, due to the resilience of the underlying cashflow and steady demand for affordable housing. The European multifamily market is characterized by regulated rental rates that are often influenced by government decisions. In 2021, we see multifamily offering steady growth with a balance between high occupancy rates and inflation-like rent increases. From a fundamental perspective, we believe Germany is the most attractive market heading into 2021, driven by resilient demand and acquisition opportunities that is additive to growth.

# Self-Storage

In 2020, self-storage demonstrated its recession resilience by delivering positive total returns in North America, Europe, and Australia. Occupancy rates increased in most markets globally and street rates started to recover in the second half of 2020 after experiencing a decline in the spring, tied to the initial lockdown.

Demand for self-storage units is linked to a myriad of factors: housing market activity, employment trends leading to re-location, death, divorce, urbanization, high cost of living which results in smaller living quarters and businesses using the product as quasi-last mile access to the consumer.

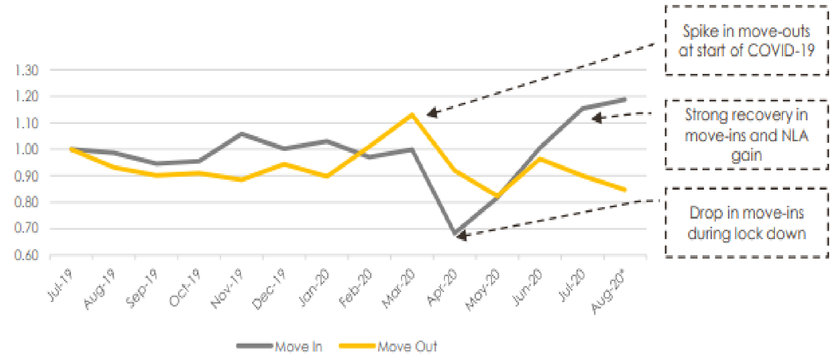
We believe the demand drivers outlined above will serve as a positive tailwind for fundamentals in 2021, particularly in the United States. U.S. REITs are experiencing a resurgence of pricing driven by all-time high occupancy rates (circa 95%) which is leading to 10% increases in street rates on a year-over-year basis, and companies have reinstituted rent increases on existing customers. Rent collection rates have normalized, move-in volume is exceeding move-out volume, length of stays are increasing, all of which are providing landlords with greater confidence to push rates upwards, which will positively influence bottom-line earnings in 2021. New supply, which had been a material headwind in the U.S. pre-COVID, should be less of an issue post-COVID, with Yardi forecasting a 40% decline in new deliveries over the next five years.

In Europe, self-storage is still a relatively new asset class, and has less space per capita than the United States. However, like the U.S., fundamentals in the U.K. and the Continent are strong and we expect them to remain so in 2021. Move-out activity was limited during the lockdowns and has continued to be surprisingly limited, which is also increasing length of stays, allowing landlords to reinstitute existing customer rate increases. Demand, occupancy, and new move-in activity exceed pre-pandemic levels in markets like the Netherlands, Sweden, Germany and Denmark, and after a brief increase in bad debt expense in the spring, rent collection rates have improved each month since April, and are now approaching 2019 levels. Maintenance CAPEX is also low relative to other property types, resulting in a higher cash-on-cash return profile.

In Australia, we believe the upside for margin expansion is even greater in 2021, as the Aussie self-storage market is years behind the U.S., particularly with respect to harnessing technology to drive growth and maximize profitability. We see continued occupancy improvement through higher move-in volume and lower move-out volume, which after initially freezing rates in the first half of 2020, should result in a recovery in rental rate growth in 2021. Utilization rates in Australia are lower than other developed markets, a gap which we anticipate will close, driving revenue growth in 2021 and beyond.

Finally, Aussie cap rates (circa 6.50%) are 100 to 200 basis points higher compared to the U.S. and Europe. We see the potential for cap rate compression in 2021, particularly in Sydney and Melbourne, as investors seek out higher yields in a low yield environment.

**National Storage REIT Move-in vs. Move-out Volume**




Source: National Storage REIT

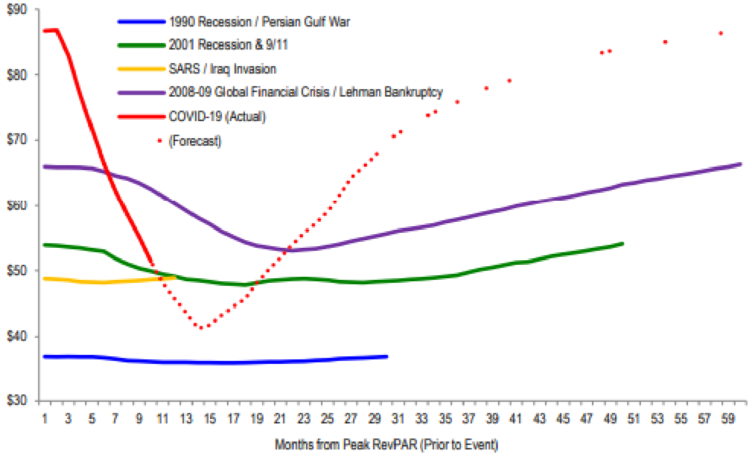
# Hotels

Overall, no other sector was impacted by COVID-19 as badly as the lodging industry. Travel restrictions and forced lockdowns around the world stretched hotel operators and owners to unprecedented levels. North American and European hotels suffered the worst, while China's hotel market recovered in the second half the year (RevPAR growth is down only 8% Y/Y for the week ending December 12), driven by its better control of the virus. In the second half of 2020, Japanese leisure demand also saw a recovery in resort and ryokan-type of accommodations, while business travel remained slow.

As we turn to 2021, we see light at the end of the hotel hallway. People want to get back to their pre-COVID lives, socialize and travel. We are of the view that multiple COVID-19 vaccines will serve as the catalyst to unleash a significant amount of pent-up leisure, business and group travel demand.

In the United States, we believe leisure travel will be first to recover with limited-service hotels in suburban, drive-to and coastal locations benefiting the most in 2021. The recovery will be slower for hotels in central business district locations that rely on large group, business or inbound tourism. We also believe warmer climate cities will be the first to receive group business, given the ability to host outdoor events. New supply should be materially lower in 2021 and going forward which should positively influence pricing power.

**Trailing 12-Month RevPAR Forecast**




Source: STR, Evercore ISI Research

Although the pace and timing of the recovery will differ by market and hotel type (i.e. upscale vs. economy), we expect margins to be higher next cycle than this cycle as owners and operators turn to zero-based budgeting to maximize profitability at a lower level of occupancy.

Break-even property-level occupancy rates for U.S. REITs are in the 35%-45% range, while corporate break-even rates are 45%-55%. Pre-COVID, those ranges would have been 10%-15% higher. Our best guess is that 2022 to 2023 is where the recovery will gain steam with a return to peak EBITDA by year-end 2024.

In Japan, many fixed lease agreements were restructured in 2020, transitioning to variable leases in 2021. Based on findings from Mizuho, Invincible Investment Corporation, we believe break-even gross operating profit is roughly 70% below 2019 RevPAR levels, while operators should be able to pay fixed rents per their lease agreements at RevPAR levels that are 40% below second half 2019. Tourists visiting Japan are anticipated to decline from 31.9 million in 2019 to 6.5 million in 2020, with third-party forecasts projecting a swift recovery to 16.8 million in 2021 and 30.6 million tourists in 2022, according to the UBS. Rising tourism will help Japan recover more quickly.

We are keeping a close eye on REIT credit ratings, covenant waivers, credit line availability and banking support. Hotel owners with the best access to debt and equity capital will be able to take advantage of attractive acquisition opportunities in 2021. We believe we will see sequential quarterly improvement starting in Q2 2020, which should positively influence share prices as the year progresses.

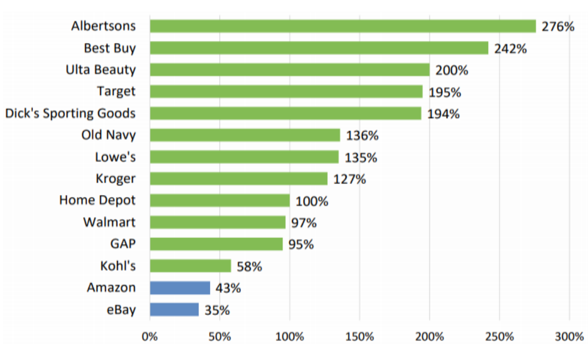
# Retail

The retail sector was hit hard by government-imposed lockdowns, implemented to slow the spread of COVID-19. Although format types (grocery stores, open-air shopping centers, enclosed malls) vary among countries, most retail REITs suffered substantially, leading to share price declines of 20%-50%.

Despite the expected recovery in 2021, we remain very selective and price sensitive when it comes to retail. Open-air, necessity-based retailers in neighborhood shopping centers (groceries, pharmacies, bank branches and national brands that cater to the mass market consumer) have thrived during the pandemic, experiencing rising traffic and sales. We believe 2021 will continue to favour this type of retail. Nonetheless, we are willing to consider select opportunities given implied values of REIT portfolios in discretionary/enclosed malls in North America and Europe are pricing in value declines of over 50% from peak 2016 levels.

COVID-19 has accelerated the shift to online shopping, especially for discretionary products, by 5-10 years, turning the open-air shopping center into a quasi-last mile distribution outlet. This change in consumer behavior, which was already underway, has global ramifications for market rents, occupancy rates and asset values. In Q3 2020, e-commerce sales increased more than 35% with total penetration approaching 15%. Curbside pickup programs are helping tenants adapt to the changing habits of shoppers with quick service restaurants benefiting from drive-through options, for instance. We believe essential retailers like Target, Walmart, Costco and others may start to carry more inventory, using their stores to fulfill online orders, a trend beginning to play out today. Rent collection rates of 95%-100% from retail categories such as pet stores, grocery, pharmacy, auto repair and home improvement, speaks to the resiliency of necessity-based retail. We expect occupancy rates to trough

**Year-over-Year Growth in Online Sales**



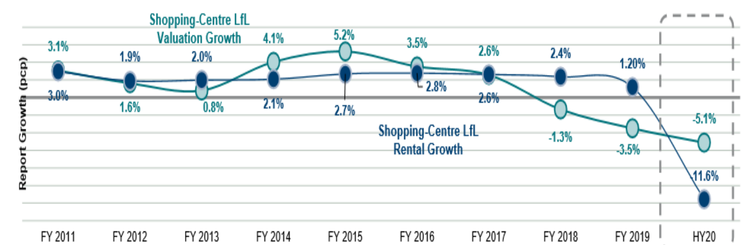

Source: Kimco Realty. Represents growth in Q2 2020, year-over-year comparison

around mid-2021 (skewed toward small shop space) with a recovery, thereafter, benefiting from a vaccine and higher household mobility. We are already seeing a resurgence in leasing volume and tenant inquiries, with activity increasing towards pre-COVID-19 levels as retailers look to upgrade store locations to higher productivity centers.

Europe, which is more regulated, has distinct cultural drivers and is more complex than short term share price movements suggest. For example, investors have been focused on rent collection rates, which are highly influenced by regulations and don't necessarily translate into a higher likelihood of lost income. Smaller retailers (unlike in the U.S.) benefit from financial support in Europe, which has helped significantly curtail bankruptcies. We forecast 15%-20% rental declines (which we believe is less than what the market is currently expecting), supported by an earlier re-opening experience.

We believe private market asset values of discretionary retail centers in Europe are likely to decline. The key to finding value in 2021 will be predicated on how much of this new reset in fundamentals (occupancy, rent and cap rates) are priced into stock prices, setting up a scenario of improving stock prices from results being "less bad" then expected.

**Change in Valuation and Rental Growth**




Source: Green Street. Represents growth in Q2 2020, year-over-year comparison

In Asia, non-discretionary retail centers, in 2020, experienced the most favourable operating conditions due to their proximity to densely populated residential clusters. Retail centers in Asia are often located at the base of residential towers and therefore were less impacted. We have a favourable view of this type of retail in 2021, particularly in Hong Kong, where market rents have declined by only 5%-10%, while occupancy rates have remained relatively stable at nearly 96%, driven by food and beverage offerings. Although asset values have decreased by 5%-10%, we believe the market is pricing in more deterioration than what ultimately will take place.

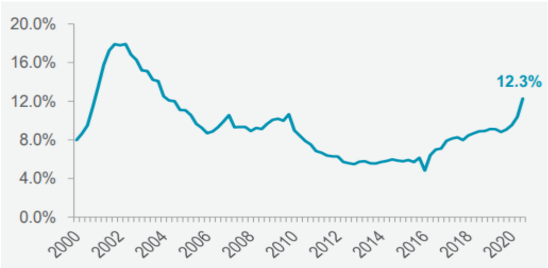
# Office

COVID-19 led to an unprecedented, world-wide call to work-from-home. Although this shift was initially expected to be short-lived, as of late 2020 many regions around the world continue to primarily work from home due to the difficulties in containing the spread of the virus, particularly in North America and Europe.

In the U.S., office REITs have long traded at discounts to underlying NAV and this spread widened dramatically as investors attempted to price in both the long-term negative consequences of work-from-home on office demand and the near-term impact of the COVID-19 recession on rental rates.

As we look ahead to 2021, we are cautious on the outlook for densely packed coastal central business district markets in the U.S., due to reliance on mass transit and the abundance of high-rise office towers. Both pose logistical challenges in getting employees back to work, until large segments of the population are vaccinated. This uncertain outlook for in-person office work has led to more than a 50% drop off in leasing volumes alongside a sharp uptick in sublease space as firms look to cut the fixed costs of underutilized space. With availability rates in major North American cities at levels not seen since the GFC and leasing volumes subdued, net effective rental rate growth should remain

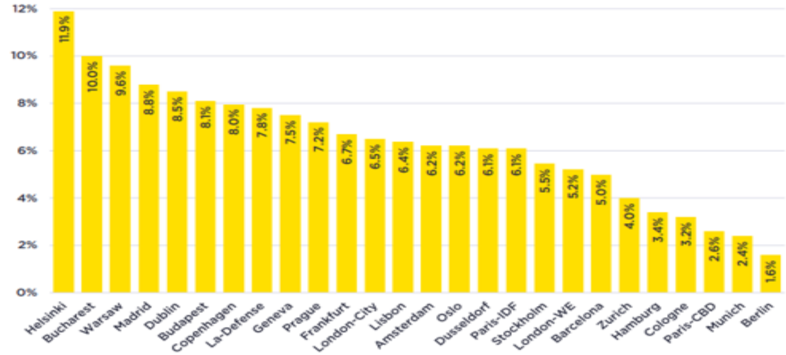
**U.S. Sublease Space as % of All Available Space**




Source: Cushman and Wakefield

negative through 2021 until most of this excess space is leased up or taken off the market and companies feel like they can safely implement return to office measures for employees. We remain incrementally optimistic on less dense office markets across the Sun Belt, which benefits from a car-centric culture and positive migratory inflows of both individuals and corporations seeking a higher quality of life and more favourable taxes. These regions were already experiencing strong population growth pre-pandemic which has accelerated in 2020 and are expected to remain robust in 2021. In Europe, we have a more positive outlook for the office market in 2021. The denser nature of many European cities lends itself to shorter average commute times, which mitigates some of the appeal of working from home. Transaction volumes have remained robust in 2020, with markets like Germany, Italy and Denmark reporting record volume, while vacancies across most cities enter 2021 at moderate levels.

**European Office Vacancy Rates, Q3 2020**




Source: Savills

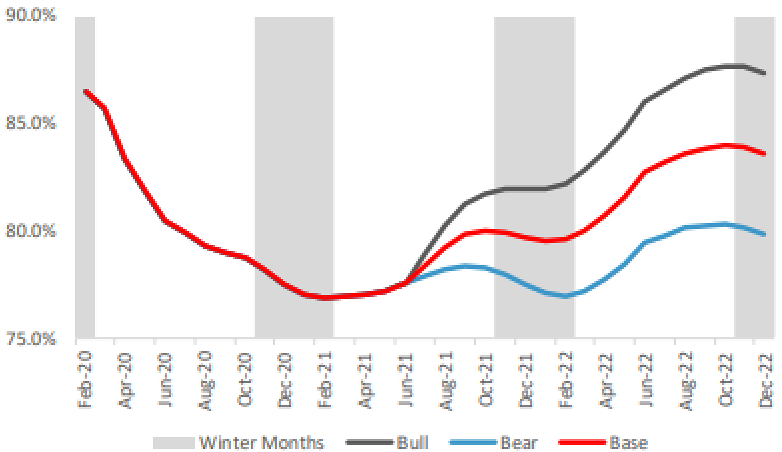
In 2021, we expect cities in Germany, Switzerland, the Netherlands and the Nordics to be net beneficiaries coming out of COVID-19, while cities like London and Paris face greater headwinds due to longer commute times, higher costs of living, more high-rise buildings and a higher absolute level of rents. London, particularly, faces uncertainty in 2021, as firms refrain from making long-term space commitments, until there is greater clarity on a post-Brexit landscape. In 2021, we see the best investment opportunities in Continental Europe with current share prices implying asset value discounts of 15%-25% to pre-COVID levels, which exceed our internal estimates of 5%-10% asset value reversions.

In Asia-Pacific, we are positive on Japan's office market in 2021, specifically, Tokyo. We believe Japan benefits from a strong workplace culture that values in-office work, and we do not expect COVID-19 to change this. Despite the addition of new supply totaling 4% of existing stock during 2020 (the most since 2003), fundamentals remain healthy, with vacancy rates in the central five wards at 4.3%, at the end of November. We expect supply growth over the next two years to remain below long-term averages, and we see continued strong appetite for Japanese office assets in the private market, with cap rates compressing below 3.5%.

# Healthcare

COVID-19 has had a disproportionately negative impact on seniors and the facilities they live in. Globally, nearly one third of all COVID-19 fatalities are tied to residents living in nursing homes and senior housing facilities. Since the start of the pandemic, occupancy rates at U.S. senior housing facilities have declined by over 700 basis points, resulting in higher move-out volume and lower move-in volume, as facilities ceased accepting new patients. In 2021, senior housing residents and employees are targeted to be some of the first individuals to receive the COVID-19 vaccine. We believe the vaccine will serve as a positive catalyst for a recovery in move-in rates and lower move-out rates, leading to a strong rebound in occupancy.

**Senior Housing Occupancy Scenario Analysis**




Source: Scotiabank

Prior to the most recent surge in COVID-19 cases starting mid-October, the rate of deterioration in occupancy was materially improving, as facilities re-opened their doors to new residents. Leasing activity started to recover in late third quarter and early fourth quarter, as more senior housing properties reported zero positive COVID-19 cases, leading to a shrinking in the number of days from time of initial deposit to actual move-in. In-person visitation is slowly returning and virtual tours have replaced in-person tours which has helped families acquaint themselves with a facility.

In 2020, monthly rental rates stayed relatively steady despite the decline in occupancy and we expect that to remain the case in 2021, which should lead to a quick recovery in margins once occupancy rates start to improve. We believe the resiliency around rental rates speaks to how COVID-19 has not changed the role senior housing plays as a secular needs-based product. Senior housing facilities also tend to be private pay, which means the sector is less vulnerable to changes in government healthcare reimbursement policies and the residents that occupy a senior housing facility are typically the ones that can afford to do so.

The need for senior housing facilities has not dissipated as the baby boomers, the largest generational cohort, will continue to age into the 75+ bracket. We are of the view that with the distribution of a vaccine in 2021, administered initially to health care workers and the elderly, will unleash a wave of pent-up demand from families that have temporarily relocated senior loved ones to their homes or delayed decisions with regards to their future living arrangements, making senior housing facilities in the U.S. one of the more compelling investment opportunities over the next 12 months.

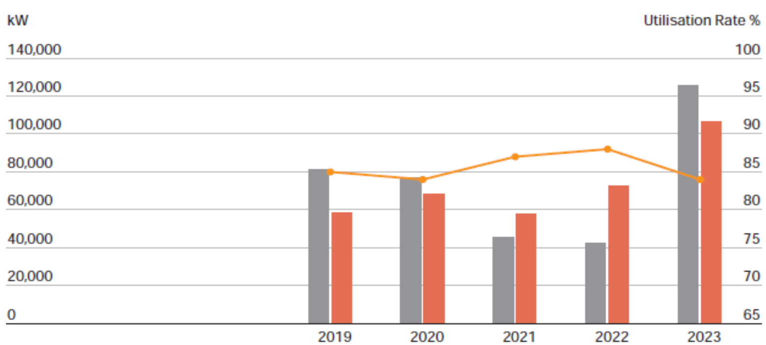
# Data Centers

As a result of COVID-19, demand for data center space soared in 2020 as companies and institutions from all over the world looked to enhance their IT infrastructure and cloud computing capabilities to accommodate employees working from home. The meteoric rise of video applications like Zoom and Microsoft Teams, remote learning for students, materially higher usage of social media applications and video streaming services further increased requirements for data storage. In 2020, global leasing volumes surpassed 500 MW as hyperscale and cloud service providers rapidly expanded, exceeding the record set in 2018 of 290 MW.

Prior to COVID-19, data centers were amid a secular growth trend, driven by the proliferation of data creation and consumption, migration to the cloud, improved network connectivity and new technologies that require increased data storage, like the Internet of Things and artificial intelligence. Social and mobility restrictions in 2020 accelerated adoption rates, steepening the growth curve even further.

As we look forward to 2021, we believe data center market fundamentals will remain robust as existing capacity in prime markets is quickly absorbed. REITs with hyperscale development projects and mission critical interconnected ecosystems will experience strong growth momentum in 2021. Most REITs in the U.S., Europe and Asia-Pacific develop to a yield on cost in the 9%-13% range, significantly higher than private market cap rates (5.0%-7.5%), resulting in outsized profit margins. In the Asia-Pacific region, we believe Hong Kong and Singapore offer the best opportunity for growth in 2021.

**Singapore Data Center Supply/Demand/Utilization Forecast**




| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Supply Added (kW) | 81,211 | 76,450 | 45,200 | 42,500 | 125,500 |
| New Demand (kW) | 58,500 | 68,300 | 57,400 | 72,500 | 106,400 |
| Utilisation Rate (%) | 85 | 84 | 87 | 88 | 84 |

Source: Keppel DC REIT Annual Report 2019

Despite political unrest, we believe Hong Kong will remain the gateway for Mainland Chinese enterprises looking to expand outside of China. Hong Kong is one of the most inter-connected data center markets in the region with 13 international submarine cables and 17 overland cables to China. Many companies who lease space in Hong Kong (such as Microsoft, Amazon and Apple) also have a presence in China and we expect robust demand and growth in market rents in 2021.

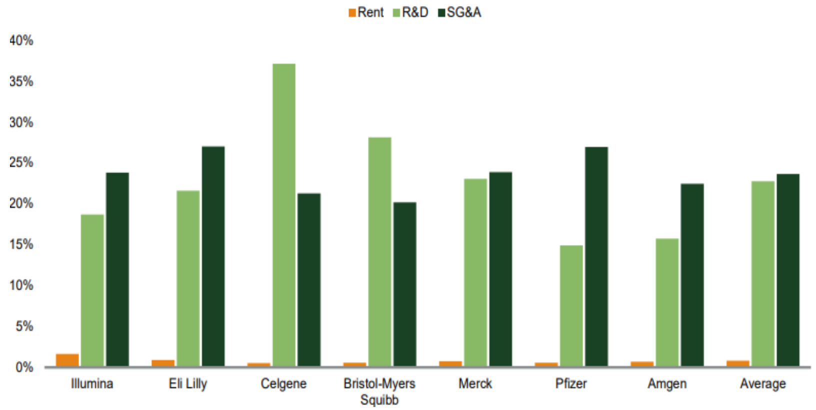
In Singapore, we anticipate higher market rents in 2021 due to the supply/demand imbalance caused by a government-imposed moratorium in early 2019. We also see a supply shortage in Hong Kong as the government has put a higher priority towards allocating land for housing. In 2021, we believe companies that can deliver new capacity into the market to capture rising demand will be in a favourable position to grow revenues and earnings, leading to share price outperformance.

# Specialty

We see an emerging group of institutional property types such as life science, cold storage and casinos, that are poised to shine in 2021.

We believe life science real estate serves a critical role to bioscience, diagnostic and pharmaceutical companies focused on solving the world's diseases and health problems, including COVID-19. Tenant demand for life science lab and office space is strong, particularly in major U.S. markets, such as Cambridge, South San Francisco / Mission Bay and San Diego, as well as international markets like Toronto. These markets are near major research institutions, funding sources (like the National Institute of Health), and university talent pools that provide the intellectual capital required for research and innovation. Rent is a very low component of the overall cost structure of a life science firm, and with COVID-19 accelerating the demand for lab space, we believe the runway for rent growth in 2021 is strong, given the importance of being in key cluster markets relative to the nominal cost of higher rent.

**Cost Structure of a Life Science Firm (% of Total Revenue)**




Source: Green Street

Cold storage facilities are an emerging product type within the industrial warehouse sector. Temperature-controlled facilities are particularly critical for customers in the food industry. Demand for space is driven by population growth, which in turn drives the consumption of frozen and fresh food. The ownership of temperature-controlled industrial warehouses is highly fragmented, providing REITs that specialize in this sector, an attractive growth by acquisition strategy to drive earnings growth higher for years to come. As ownership transitions into institutional hands, we see upside from operational improvements and technology initiatives leading to margin expansion.

Casinos are a niche-oriented, often overlooked segment of the real estate market that offers attractive secular growth potential through steady internal growth and low maintenance CAPEX, which leads to high cash-on-cash returns. The ownership of gaming properties in the U.S. is highly fragmented, often tied to families or local operators. REITs have a competitive advantage to be the buyer of choice as they can use partnership units to solve complex tax situations. Unlike other real estate property types, there are strict legislative and regulatory controls around the supply of new casino properties resulting in high barriers of entry and minimal new supply. We believe there is a robust opportunity to consolidate the ownership of gaming properties as COVID-19 has created additional dislocations, making 2021 a prime year for acquisitions.

# 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 (North America, Europe and Asia) provides an advantage of global perspective and the ability to stay on the pulse of new developments. This ‘feet on the ground’ 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 Income 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 avg experience; 16 years together
- Dedicated 13 person REIT team located in 4 global offices
- Managing C$2.5B in global real estate
- 10-year track record; top-quartile performance

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