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INVESTMENTS

THE **AI** IMMUNITY TRADE AND REITS

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EXECUTIVE SUMMARY

THE AI IMMUNITY TRADE AND REITS

AI disruption fears have sharply divided equity markets, triggering selloffs in SaaS and other service-oriented stocks while capital rotates toward asset-heavy sectors perceived as immune to fundamental AI replacement. Public real estate has been an early net beneficiary of this dynamic.

THE AI SCARE SELLOFF

Software (IGV ETF -24.3%), CRM providers such as Salesforce, cybersecurity firms like CrowdStrike, and private credit (Blue Owl - 38.9%) all sold off on AI disruption fears and the concerns are no longer confined to tech alone.

IMMUNITY PERCEPTION

Capital rotated to "Heavy Asset, Low Obsolescence" businesses like utilities, energy, and real estate which share meaningful physical capital investment, durable economic relevance, and higher barriers to entry that AI cannot easily replicate. Companies closer to the AI infrastructure layer like data centers and chip manufacturers continue to benefit as well.

THE REAL ESTATE MOAT

The REIT business model is structurally insulated: cash flows are governed by enforceable leases, physical scarcity limits supply, and non-digital demand (housing, logistics, data centers) remains resilient. AI cannot create new land or replace well-located real estate.

+1.3%

Global REITs

Q1 2026 Total Return*

+4.8%

US REITs

Q1 2026 Total Return*

-4.4%

S&P 500

Q1 2026 Total Return*

-24.3%

Software ETF (IGV)

Q1 2026 Return*

WHY REITs CAN OUTPERFORM IN THIS ENVIRONMENT

1

Contractual Cash Flows

REIT revenues are governed by legally enforceable leases with rent escalators, renewal options, and default remedies. Sectors like triple net lease have long WALTs, providing long-term income visibility.

2

Physical Scarcity

AI cannot create new land in high-demand areas or eliminate location constraints. Real estate is bound by zoning, entitlements, and construction timelines — barriers technology cannot overcome.

3

Non-Digital Demand

REITs serve fundamental physical needs — housing, logistics, healthcare, and location-dependent retail. AI would have to disrupt this type of demand directly or impair a landlord's ability to monetize space.

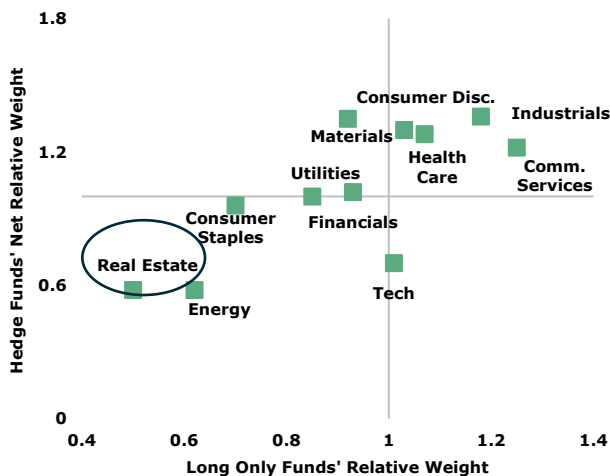
*Source: Bloomberg LP. Global REITs represented by FTSE EPRA NAREIT Developed Total Return Index. US REITs represented by FTSE NAREIT US REIT Regional Index. Global Equities represented by MSCI World Index. Timeframe from January 2nd, 2026 – March 31st, 2026. All returns presented in USD.

The AI Immunity Trade & REITs

While macro and geopolitical events have dominated recent headlines, the first quarter of the year also revealed rising fears around AI disruption, widening the gap between perceived AI winners and losers. Advancements in AI tools from frontier labs like Anthropic and others have sparked selloffs across multiple sectors ranging from SaaS (software as a service) to wealth management. The market's reasoning for the selloff has been very simple, the threat of AI replacing or competing with these service-based businesses has put their future earnings growth into question. On the opposite side of this trend, the early relative winners have been asset heavy sectors that are viewed as relatively more immune to AI substitution or replacement risk. In aggregate, it appears as though public real estate has been one of the early net beneficiaries at the market level so far from this dynamic. If geopolitical tensions in the Middle East subside, it would be unsurprising to see a continuation of this market trend. This would position REITs as a more compelling opportunity for investors on a relative basis.

In our [2026 Outlook Report](#), we outlined why REITs have underperformed broader equities since 2020 and noted that investor sentiment towards the sector remained weak. This was evidenced by real estate ending 2025 as the most under-owned sector by long-only funds and hedge funds as illustrated in Figure 1.

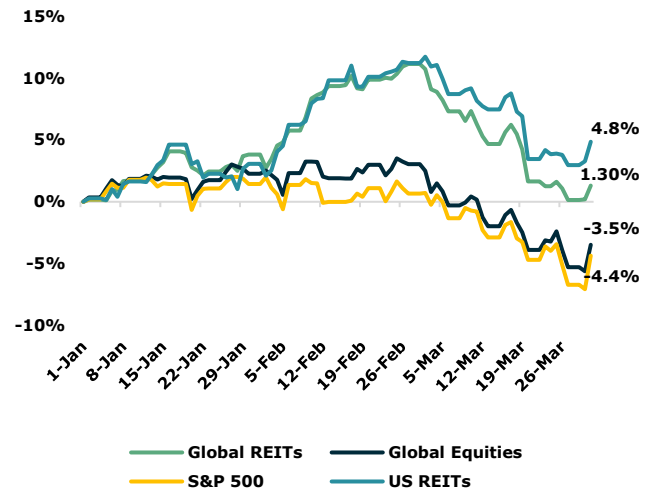
Figure 1. Long-only and Hedge Fund Investors' Sector Weights Relative to the S&P 500



Source: FactSet, BofA US Equity and Quant Strategy, November 20th, 2025.

This chart underscores how concentrated investor positioning had become in a narrow set of sectors. Our view was that even a marginal shift in sentiment, or a rotation out of these crowded sectors, could materially impact REIT fund flows and performance in 2026. The emerging market preference for business models perceived to be more insulated from AI disruption may prove to be one such catalyst.

Figure 2. REITs Q1 2026 Relative Performance



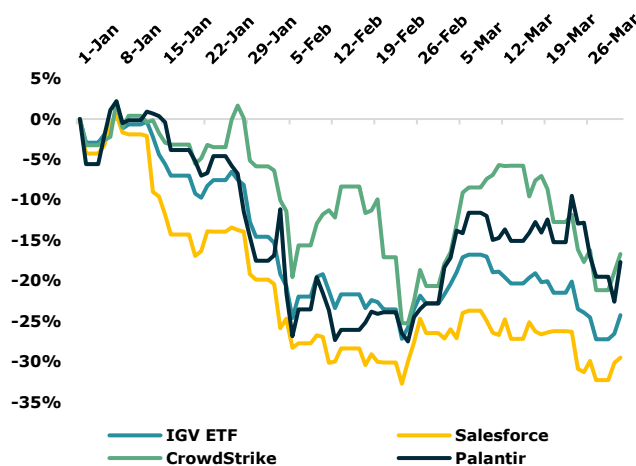
Source: Bloomberg LP. Global REITs represented by FTSE EPRA NAREIT Developed Total Return Index. US REITs represented by FTSE NAREIT US REIT Regional Index. Global Equities represented by MSCI World Index. Timeframe from January 2nd, 2026 – March 31st, 2026. All returns presented in USD.

Figure 2 displays the 2026 performance of global REITs relative to global equities as well as U.S. REITs and the S&P 500, as of the end of Q1. As depicted in the chart, global REITs posted a double-digit return in the first two months of 2026, outpacing both global equities and the S&P 500 at the index level. This strength was also reflected in net fund flows across U.S. registered REIT mutual funds and ETFs, which increased by an estimated \$244 million (USD) through the first 10 weeks of the year¹. Despite surrendering a meaningful portion of their earlier outperformance in March as escalating geopolitical tensions triggered a broader risk-off move, REITs still came out ahead in the first quarter with a modestly positive return.

The AI Scare Selloff

The relative strength in REITs was mirrored by notable weakness in sectors perceived to be more directly exposed to AI disruption. This dynamic was most visible in software. The iShares Expanded Tech-Software Sector ETF (Ticker: IGV), one of the largest U.S. software ETFs, declined -24.3% (USD) during the first quarter of the year. While many SaaS companies had already been under pressure since last year, concerns around AI-related competition accelerated in February following Anthropic's release of new AI co-work plugins across several business functions. The resulting weakness was broad-based. CRM (customer relationship management) providers such as Salesforce, cybersecurity companies like CrowdStrike, and even software firms widely viewed as beneficiaries of AI adoption, including Palantir, all saw notable selloffs in Q1 as shown in Figure 3.

Figure 3. Select US Software Stocks Q1 2026 Performance



Source: Bloomberg LP. Timeframe from January 2nd, 2026 – March 31st, 2026. All returns presented in USD.

Concerns that AI could compress the value proposition of enterprise software have been reinforced by a growing body of bearish commentary pointing to broader economic risks, including labor displacement and disruption across industries beyond software². More importantly, the market response suggests that these concerns are no longer confined to the technology sector. Private credit firms such as Blue Owl have also been caught up in the trade, with shares down -38.9% (USD) year-to-date as of the end of March, reflecting investor concern that loan exposure to software businesses may now carry greater risk³. Similar reactions have emerged elsewhere in financial services. The introduction of an AI tool by an online insurance shopping platform weighed on the shares of Aon, Willis Towers Watson, and other insurance-

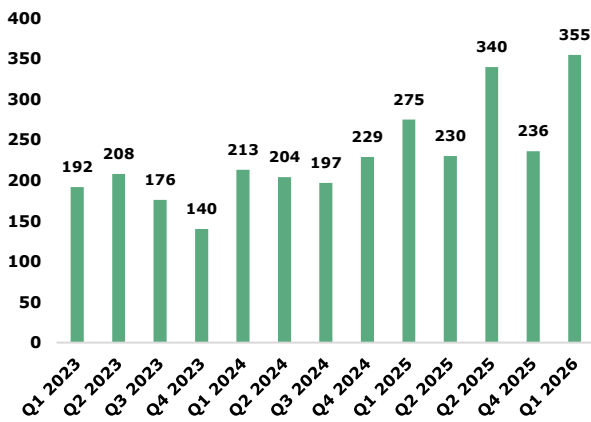
related names earlier in February⁴. Likewise, a new tax strategy tool from an AI startup contributed to a sharp pullback in wealth management stocks, with Charles Schwab falling nearly -10% (USD) over a two-day period.⁵

Whether AI will ultimately impair the long-term cash flows of these businesses remains uncertain and is still actively debated by market participants. Many of the affected companies maintain that AI can be incorporated into their existing platforms in ways that strengthen, rather than erode, their competitive position. Nevertheless, it is clear that AI-related disruption risk is being reflected more directly in equity valuations than ever before.

Immunity Perception

As this repricing has unfolded, capital has increasingly rotated toward sectors with business models and cash flows perceived to be more insulated from wholesale disruption, a dynamic that has been described as the “AI Immunity” or “HALO” (heavy assets, low obsolescence) trade. The HALO dynamic is not something only investors have begun paying attention to, executives and management teams have increasingly mentioned it this year, as showcased in Figure 4.

Figure 4. Mentions of “HALO” in Management Transcripts



Source: Bloomberg LP. Data based on prepared remarks and management answers, March 23rd, 2026.

These sectors generally share several characteristics, including meaningful physical capital investment, durable economic relevance, and higher barriers to entry. Given that much of these AI advancements and market rotations accelerated in February, S&P 500 sector returns during the month provide a useful snapshot of where investors have been expressing this view (Figure 5).

Figure 5. S&P 500 February Sector Returns

S&P 500 Sector Index	February Return (USD)
Utilities	10.4%
Energy	9.4%
Materials	8.4%
Consumer Staples	7.9%
Industrials	7.1%
Real Estate	6.4%
Health Care	3.5%
Financials	-3.7%
Information Technology	-3.9%
Communication Services	-5.1%
Consumer Discretionary	-5.4%

Source: Bloomberg LP. Data as of February 28th, 2026. All returns presented in USD.

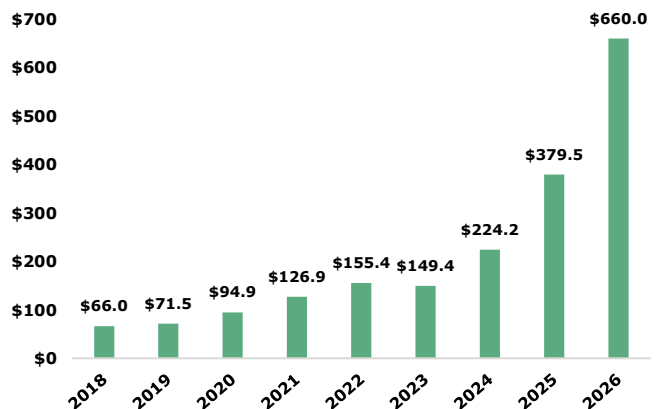
As exhibited in the chart, industrials, materials, utilities, energy, consumer staples, and real estate were among the largest beneficiaries of this shift in positioning.

At the same time, this should not be interpreted as a broad rotation away from AI. Market performance suggests a more nuanced pattern. Sectors with direct exposure to AI infrastructure investment, particularly semiconductors and data centers, have also continued to perform well. The VanEck Semiconductor ETF (Ticker: SMH), one of the largest semiconductor ETFs, returned 6.5% (USD) through the end of March, outpacing broader equity markets³. Data centers also outperformed during the first three months of the year, supported by higher-than-expected AI capital expenditure plans from hyperscalers such as Meta, Amazon, and Google.

This distinction matters as investors are not simply abandoning AI-related exposure but rather, they appear to be separating direct AI beneficiaries from business models viewed as more vulnerable to AI-led disruption. In other words, capital can continue to flow toward AI infrastructure while also favoring sectors with more visible cash flows, harder asset backing, and lower perceived obsolescence risk.

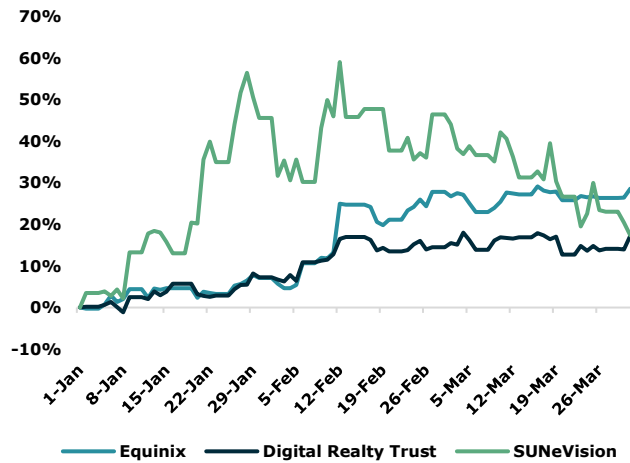
In our 2026 Outlook Report, we highlighted data centers as one of our key themes, and subsequent developments have only reinforced that view. At the time of publication, we estimated combined 2026 hyperscaler capex at \$514 billion (USD). Revised forecasts now point to approximately \$660 billion (USD) by year-end. The updated capex trajectory and the year-to-date performance of select data center companies in the U.S. and Hong Kong are shown in Figures 6 and 7, respectively.

Figure 6. Combined Hyperscaler Capex (\$Billions USD)



Source: Bloomberg LP, February 9th, 2026. 2026 estimates based on the midpoint of guidance for Meta, Alphabet and Amazon, and analyst consensus for Microsoft and Oracle.

Figure 7. Select Data Center Stocks Q1 2026 Performance



Source: Bloomberg LP. Timeframe from January 2nd, 2026 – March 31st, 2026. All returns presented in local currency.

We continue to believe that the unprecedented pace of AI infrastructure investment, together with supply constraints such as power availability, should support the potential for above-trend earnings growth for data center operators, as explored in our whitepaper last year, [The Impact of AI On Public Real Estate](#). More broadly, however, the relevance of AI to public real estate is not limited to direct beneficiaries such as data centers. It also extends to the relative resilience of the REIT business model itself.

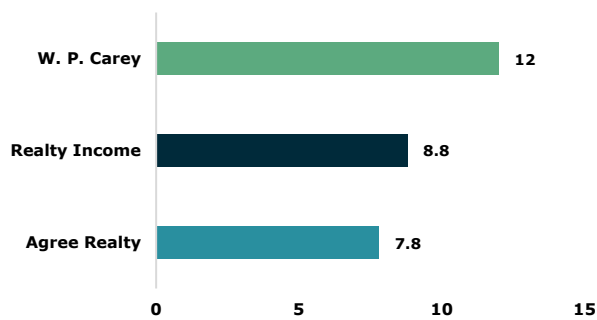
The Real Estate Moat

The REIT business model appears relatively more insulated from direct AI disruption because it is underpinned by several structural advantages.

1 Contractual Cashflows

First, REIT cash flows are supported by contractual property rights. Rental income is typically governed by enforceable leases that define rent escalators, renewal options, and default remedies. This provides a degree of cash flow visibility and stability that is difficult to replicate in many other industries and while competition among landlords certainly exists, there is no comparable AI displacement threat to the underlying business model itself. This stability also gives investors and management teams greater confidence in assessing future earnings growth and making capital allocation decisions, particularly relative to businesses facing more uncertainty around the durability of their future cash flows. This is especially evident in the triple net lease space, where lease terms are often longer and tenants typically bear operating expenses, taxes, and capital expenditures, leaving landlords with more predictable rental income. Figure 8 illustrates this dynamic by showing the weighted average lease term (WALTs) for three of the largest U.S. triple net lease REITs.

Figure 8. Select U.S. Triple Net Lease WALTs (Years)



Source: Agree Realty, W.P. Carey and Realty Income Q4 2025 Earnings Press Releases.

2 Physical Scarcity

Second, commercial real estate benefits from physical scarcity and supply constraints that are not easily displaced by technology. Real estate is constrained by location, zoning or entitlement restrictions, infrastructure access (roads, utilities), and construction timelines. Unlike a SaaS customer, a tenant cannot simply use AI tools to create a substitute for well-located real estate. AI can improve efficiency across parts of the real estate

value chain, but it cannot create new land in high-demand areas or eliminate the physical bottlenecks that support asset values. Consistent with this, when examining the most exposed occupations to AI disruption, landlord is unsurprisingly not included (Figure 9).

Figure 9. Top Ten Most Exposed Occupations To AI

Occupation	Observed Exposure
Computer programmers	74.5%
Customer service representatives	70.1%
Data entry keyers	67.1%
Medical record specialists	66.7%
Market research analysts and marketing specialists	64.8%
Sales representatives, wholesale and manufacturing, except technical and scientific products	62.8%
Financial and investment analysts	57.2%
Software quality assurance analysts and testers	51.9%
Information security analysts	48.6%
Computer user support specialists	46.8%

Source: Anthropic Economic Research, Labor market impacts of AI: A new measure and early evidence, March 5th, 2026.

Facetious anecdotes aside, there is a valid debate around second-order effects of this profound technology. If AI were to contribute to rising white collar unemployment over time, some property types, particularly office, could face pressure. In fact, within the U.S. REIT market, office has been the worst performing sector in 2026 with a return of -16.4% (USD) as of the end of March⁶. It is difficult to disprove a future hypothetical and only time will prove whether the labor force is materially impacted by AI. However, even research from AI labs that have been sounding the alarm on this potential issue has not demonstrated any credible evidence of AI related unemployment so far⁷. Nevertheless, it stands to reason that employees not displaced by AI will continue to gravitate towards prime office real estate in major urban hubs, potentially creating a winner-take-most dynamic for operators in those markets.

3 Non-Digital Demand

Lastly, commercial real estate is tied to physical rather than digital-end demand. Even in an increasingly digitized economy, major categories of demand remain physical. People need places to live, goods require storage and distribution, and many retail or service formats remain location dependent. For AI to represent a fundamental disruption to the



REIT model, it would need to materially reduce the need for space itself or impair a landlord's ability to monetize that space. For these reasons, REITs and other real asset classes appear to possess a structural "moat" that AI cannot easily displace directly. Although this market trend is still novel, the value proposition of this moat can also be inferred from the lower correlation REITs have demonstrated with broader equities in the first two months of the year (before conflict escalations in the Middle East in March). Figure 10 compares the correlations for the first two months of the year with the last 10 years for both global and U.S. REITs to the S&P 500.

Figure 10. REIT Correlation Matrix Comparison

10 Year	S&P 500	US REITs	Global REITs
S&P 500	1.00	0.73	0.75
US REITs	0.73	1.00	0.97
Global REITs	0.75	0.97	1.00

Jan 2026 – Feb 2026	S&P 500	US REITs	Global REITs
S&P 500	1.00	0.04	0.00
US REITs	0.04	1.00	0.89
Global REITs	0.00	0.89	1.00

Source: Bloomberg LP. Global REITs represented by FTSE EPRA NAREIT Developed Total Return Index. US REITs represented by FTSE NAREIT US REIT Regional Index. 10-year timeframe from December 31st, 2015 – December 31st, 2025. Second timeframe from December 31st, 2025 – February 28th, 2026.

While the broader economic implications of AI remain uncertain, public real estate offers a business model whose core value proposition appears more resilient than many other sectors currently facing AI disintermediation risk.



RECAP

In conclusion, the early 2026 AI disruption narrative has sharply divided equity markets, amplifying selloffs in SaaS and service-oriented stocks amid fears of commoditization and replacement, leading to uncertain future earnings. Conversely, asset-heavy sectors like commercial real estate are increasingly being perceived as immune to fundamental AI replacement risk. The business model of REITs, characterized by physical scarcity, contractual revenues, and non-digital demand, has drawn investor attention and contributed to early outperformance relative to broader equities. The key questions AI raises about the market, the global economy and society will only be answered with time. This includes whether the negative market reaction to certain businesses and their valuations is justified or not. Nonetheless, we view the fundamentals for global REITs to be as compelling as they did at the start of the year, but it will be interesting to see how the new perception of AI immunity affects future market sentiment and performance, both for REITs and the broader capital markets.

Recent macro, policy, and geopolitical developments may continue to influence short-term index performance and valuation dispersion, but in our view, they do not alter the core relative case laid out here.

SOURCES AND DISCLAIMER

1. Citi Research, March 12th, 2026
2. Wall Street Journal, February 23rd, 2026: [Viral Doomsday Report Lays Bare Wall Street's Deep Anxiety About AI Future - WSJ](#)
3. Bloomberg LP. Data as of March 31st, 2026.
4. Bloomberg News, February 9th, 2026: [Insurance Broker Stocks Sink as AI App Sparks Disruption Fears - Bloomberg](#)
5. Bloomberg News, February 10th, 2026: [The New AI Stock Trade Is Dumping Any Company In Its Crosshairs - Bloomberg](#)
6. Bloomberg LP. Data as of March 31st, 2026. US REITs represented by FTSE NAREIT US REIT Regional Index.
7. Anthropic Economic Research, March 5th, 2026: [Labor market impacts of AI: A new measure and early evidence \ Anthropic](#)

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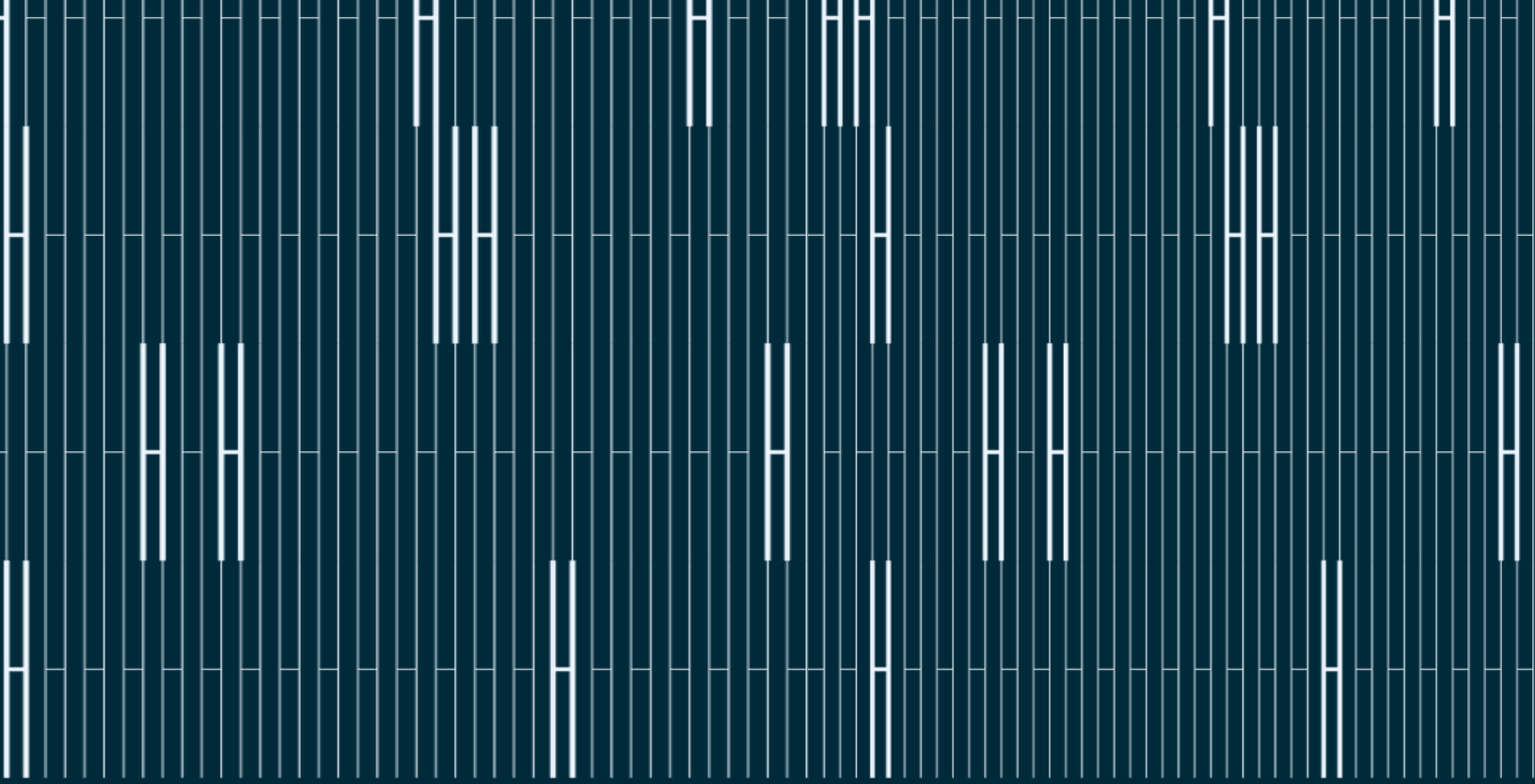


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