Morgan Stanley

INVESTMENT MANAGEMENT

The REIT Opportunity Today

GLOBAL LISTED REAL ASSETS TEAM | DECEMBER 2022

- Real estate values in the public markets have suffered year to date as a result of rising interest rates, moderating growth and tightening credit markets
- Despite the inflation protection typically associated with the real estate sector, REITs underperformed the broader equities market and have overcorrected compared to private real estate, creating significant opportunities for the coming year
- The earnings growth (and values) of REITs should be more stable and hold up better than broader equities over the next year

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2022 started with great optimism for stocks and real estate, yet quickly turned into a year of disappointment. Record inflation led the Fed and other central banks to raise rates more aggressively than anticipated.

These aggressive hikes, coupled with stubborn inflation, declining consumer confidence, the depletion of real income growth and deteriorating savings rates, led to declines in the broader equities market. Importantly, this also led to increasing credit market concerns—both for the availability and cost of debt—which spelled bad news for listed real estate.

Ultimately, real estate values are a function of supply, demand and credit. With demand moderating due to slowing growth and credit markets tightening with increasing interest rates, real estate values in the public markets suffered. Despite the inflation protection typically associated with the listed real estate sector, REITs underperformed the broader equities market.

Simultaneously, as is often the case, values within the private real estate markets are taking longer to adjust. The appraisal-based nature of private real estate typically lags public valuations by approximately 12 months, while the daily pricing and volatility of listed real estate typically results in overcorrections in the public markets. Though painful on a coincident basis, this has now created an interesting arbitrage opportunity as we are faced with some potential contraction in private real estate and potentially meaningful appreciation in public real estate.

DISPLAY 1

Year-to-Date (YTD) 2022 REITs Performance[1]

As of October 31, 2022

FTSE EPRA NAREIT DEVELOPED INDEX RETURNS	YTD 2022 USD (%)
Asia	**(20.1)**
Australia	(23.4)
Hong Kong	(21.6)
Japan	(19.1)
Singapore	(16.5)
Europe	**(45.4)**
Continent	(46.4)
United Kingdom	(43.0)
North America	**(25.3)**
Canada	(28.9)
United States	**(25.1)**
Data Centers	(35.5)
Healthcare	(27.0)
Hotels	(3.8)
Industrial/Logistics	(30.7)
Net Lease ex Retail	(0.5)
Office	(32.7)
Residential	(29.6)
Retail	(17.8)
Self-Storage	(18.1)
Global	**(27.3)**

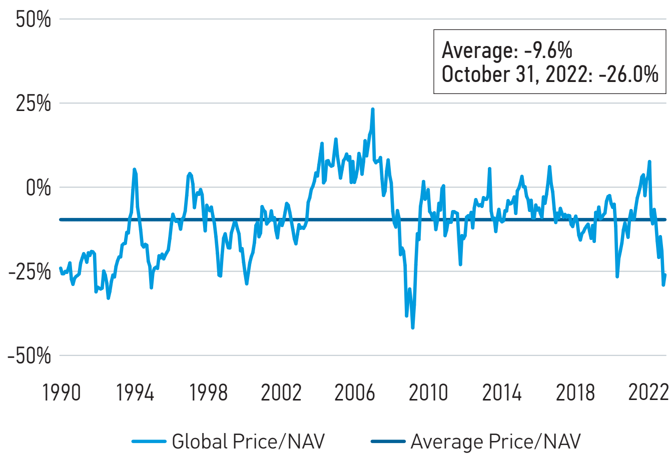
Source: FTSE EPRA Nareit, Morgan Stanley Investment Management.

[1] **Past performance should not be construed as a guarantee of future performance.** Index returns are gross of withholding tax. It is not possible to invest in an index. Groupings are based on how the investment team views the real estate securities universe and do not necessarily reflect official groupings. Provided for illustrative purposes only. The views, opinions and forecasts expressed herein are those of the investment team as of October 31, 2022, are not necessarily indicative of those of Morgan Stanley, are subject to change based on market, economic and other conditions, and may not necessarily come to pass.

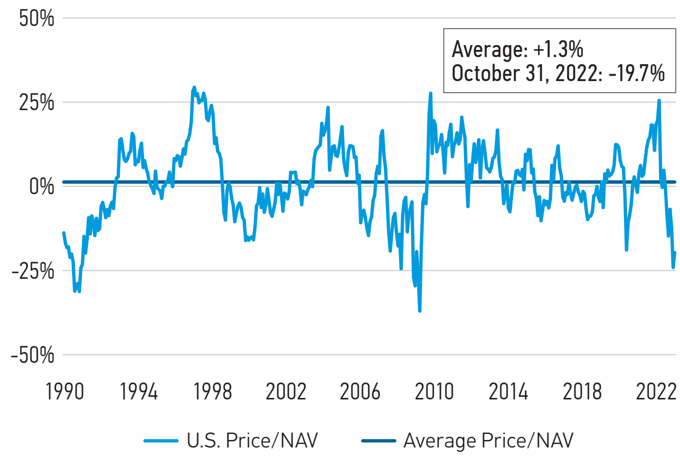
DISPLAY 2

Global and U.S. REITs Currently Trading at Significant Discount to NAVs, Creating an Interesting Arbitrage Opportunity Compared to Private Real Estate

Global Price/NAV Over Time



U.S. Price/NAV Over Time



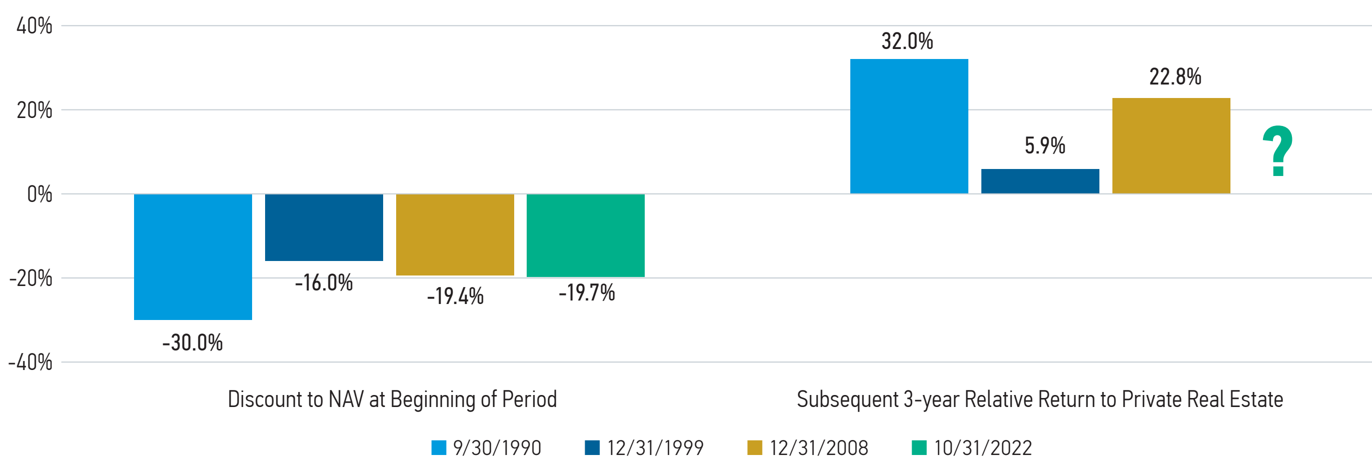
Source: UBS. Monthly Price/NAV data from January 31, 1990 - October 31, 2022

Past performance should not be construed as a guarantee of future performance. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. It is not possible to invest in an index. Provided for illustrative purposes only.

DISPLAY 3

REIT Significant Discounts to NAV Have Preceded Outperformance Relative to Private Real Estate[2]

U.S. REIT Relative Returns Compared to Private Real Estate Following Periods of Large Value Dislocation



Sources: UBS, FTSE Nareit, NCREIF, MSIM, as of October 31, 2022.

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[2] **U.S. REITS:** FTSE Nareit All Equity REITs Index; **Private Real Estate:** NCREIF Fund Index - Open-End Diversified Core (NFI-ODCE). Analysis provided shows three largest U.S. REIT Price to NAV discounts based on UBS analysis of quarterly data from December 31, 1998 to September 30, 2022, and corresponding relative annualized performance of U.S. REITs versus NFI-ODCE over subsequent three year time period from date of discount, with no performance overlap between discount dates

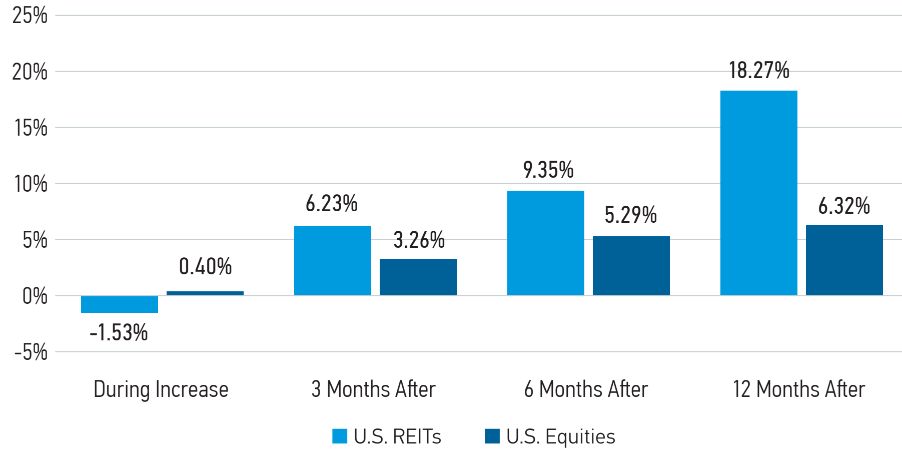
This is an important inflection point for listed real estate. While demand is anticipated to moderate as a result of slower macro growth, cash flows are expected to remain positive. Additionally, many REITs are expected to benefit in the current environment from contractual rent escalations that are explicitly built into leases and rising construction costs are likely to limit new supply and support more resiliency in fundamentals. Finally, although credit markets remain tight, rate hikes are expected to slow thus allowing for a normalization in lending, spreads and real estate cap rates. Ultimately the growth profile and values of REITs should hold up better than broader equities and private real estate over the next year.

While the weakness in real estate securities year-to-date can't be minimized, it has created significant opportunities for the coming year.

DISPLAY 4

REIT Returns and Rising Interest Rates

U.S. REIT Performance Versus Equities During and After Significant Increases in 10-Year Treasury Yield[3,4]



Sources: Bloomberg, MSIM, as of October 31, 2022.

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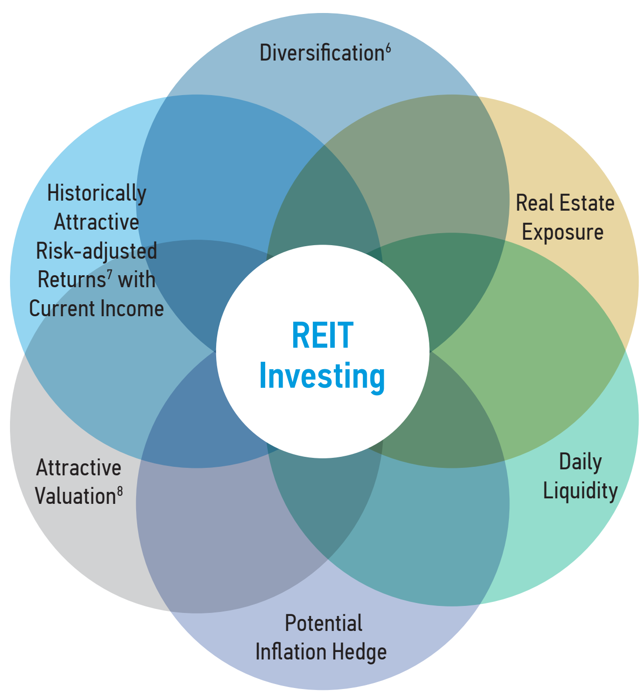
DISPLAY 5

Why Invest in REITs?[5]



Sources: UBS, FTSE Nareit, NCREIF, MSIM, as of October 31, 2022.

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[3] Rising-yield periods are the 10 largest 1-month increases in the yield of the U.S. 10-Year Treasury since 2000 and through October 31, 2022. These rising-yield periods are 4/5/00-5/8/00; 11/7/01-12/7/01; 6/25/03-7/29/03; 3/23/04-4/23/04; 12/30/08-1/30/09; 4/27/09-5/27/09; 11/10/10-12/14/10; 6/5/13-7/5/13; 3/7/22-4/7/22; and 8/26/22-9/27/22. Average is calculated as the simple average of relative returns of REITs and equities over the time periods shown.

[4] U.S. REITS: FTSE Nareit All Equity REITs Index; U.S. Equities: S&P 500 Index. Returns shown during subsequent periods are calculated as an average cumulative return from the ending dates of the rising-yield periods shown above, over the subsequent 3, 6 and 12 months.

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[6] Diversification does not protect an investor against a loss in a particular market; however, it allows an investor to spread that risk across various asset classes.

[7] Past performance is not indicative of future results.

[8] REITs represent attractive valuation versus private real estate and broader equity markets.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks.

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