GLOBAL MARKET UPDATE | Q3 2018

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MARKET REVIEW

As shown in U.S. dollar terms in the following table, global property securities, as measured by the FTSE EPRA Nareit Developed Index, returned -0.1% on a total return basis in the third quarter of 2018. North America was the top-performing region for the quarter, year-to-date, and 5-year trailing periods, while Europe was the top-performing region for the 1-year trailing period, and Asia Pacific was the top-performing region for the 3-year trailing period. Volatility within the FTSE EPRA Nareit Developed Index has been somewhat higher in North America than in the other regions over the past ten years.

FTSE EPRA/NAREIT DEVELOPED INDEX (USD)

Periods Ended 9/30/18	3rd Qtr Total Return	YTD Total Return	1-Year Total Return	3-Year Total Return(1)	5-Year Total Return(1)	10-Year Volatility
North America	0.77%	2.38%	4.24%	7.32%	8.47%	20.45%
Europe	-1.80%	-2.27%	5.25%	5.40%	7.85%	19.55%
Asia Pacific	-0.99%	-0.67%	4.89%	7.86%	2.02%	17.47%
Global	**-0.15%**	**0.76%**	**4.62%**	**7.16%**	**6.34%**	**17.12%**

Source: EPRA
[1]Returns over one year are annualized

REGIONAL COMMENTS

The FTSE EPRA Nareit North America Index returned 0.77% in U.S. dollar terms in the quarter, bringing year-to-date returns to 2.38%. The U.S. stock market posted strong returns and outperformed REITs, driven by tax reform and solid economic and employment data, although continued concerns regarding ongoing trade tariff increases drove volatility within the equity and bond markets. The Federal Reserve increased short-term interest rates and indicated an additional hike in 2018, while the 10-Year U.S. Treasury yield climbed 20 basis points to end the quarter at 3.06%. Looking ahead, wage pressures are more visible but have not yet translated into a broader surge in inflation. Nevertheless, the Federal Reserve seems on a path to increase short-term interest rates once more in 2018 and several times in 2019, a process that has been flattening the yield curve. Real estate fundamentals remain positive, but the cycle is maturing while still lengthening. Leasing demand generally has slowed but remains at a pace that still roughly offsets new supply. With the exception of industrial, occupancy rates have likely peaked for this cycle, and 2018 is expected to be the peak year for new construction in most sectors. Going forward, property market fundamentals will likely be driven more by broader economic momentum and its effect on leasing demand. At quarter-end, U.S. REITs traded at a 5% discount to net asset value. We expect REIT cash flow and earnings per-share to grow by roughly 5% in 2018 and into 2019.

The FTSE EPRA Nareit Europe Developed Index posted a total return of -1.29% in Euros and -1.80% in U.S. dollar terms in the quarter, bringing year-to-date returns to 1.03% in Euros and -2.27% in U.S. dollar terms. European REITs underperformed general equities in the third quarter, as measured by the FTSE Eurotop 100 Index, which increased by 1.3% in Euros. Companies with exposure to Northern European office continued to outperform, driven by strong fundamentals, while Spanish REITs pulled back due to full valuations and political uncertainty regarding the country's minority government. Shopping center REITs continued to be the weakest performers due to softening rental growth and retailers "rationalizing" space by consolidating

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their physical footprint to the best locations and closing stores in weaker locations. In the United Kingdom, Brexit uncertainty continues, and the United Kingdom will revert to World Trade Organization trade rules if no deal is reached by March 2019. Looking ahead, the outlook for the Continental European REITs continues to be generally favorable. With the exception of shopping centers, property fundamentals continue to be good in most sectors as demand for space is strong and new supply is limited. At quarter-end, United Kingdom REITs traded at a discount of around 15% to net asset value, a discount likely to persist as long as Brexit uncertainty exists. For the region, European REITs traded at an 8% discount to net asset value and offered a cash flow yield of 5.4% and a dividend yield of 3.9%.

The FTSE EPRA Nareit Asia Index posted a total return of -0.99% in U.S. dollar terms during the quarter, bringing year-to-date returns to -0.67%. Within the region, Singapore outperformed due to a recovery in the office and retail sectors and an attractive dividend yield spread, while Hong Kong underperformed due to slowing residential sales and higher interest rates. In Japan, strong corporate earnings and rapid expansion of co-working space are driving office demand and rent growth. Australian REITs benefited from semi-annual results that were at or above consensus and also from a flurry of merger and acquisition activity, although political risks increased as the government abruptly installed a new prime minister. Overall, REIT valuations in Asia Pacific are undemanding, trading at a 20% discount to net asset value (NAV) with an average dividend yield of 4.2%. With the exception of Japan and Singapore, REITs are trading at small premiums to NAVs due to their relative dividend yield spreads, while other markets are trading at discounts to NAVs. Property fundamentals are mixed with office the strongest across the region due to favorable demand-supply dynamics and strong appetite for assets by private funds. Residential sales, on the other hand, are slowing across all markets in the face of rising interest rates and sharp increases in prices. Monetary policy responses will likely vary, with Australia and Japan more likely to keep interest rates low for longer, while Hong Kong and Singapore are more correlated to the U.S. interest rate cycle.