COHEN & STEERS

U.S. Realty Total Return

The U.S. real estate market, as represented by the FTSE Nareit All Equity REITs Index, had a total return of 8.32% for the quarter.

Investment Review

U.S. REITs had a positive total return for the quarter amid economic growth optimism. The prospect of accelerating growth outweighed inflation and interest rate concerns; the 10-year U.S. Treasury yield rose notably in the quarter as investors considered rising input prices and expectations for a large fiscal stimulus package, which passed in March. Investor optimism around economic recovery prospects was bolstered by vaccine distributions.

Fourth-quarter earnings for U.S. REITs were generally positive, fueling gains. Real estate companies reported mostly solid fourth-quarter earnings, with the majority beating expectations. Health care (6.6% total return) gained, lifted by Ventas, which benefited from better-than-expected senior housing results, and Welltower, which beat earnings estimates. The self storage sector (10.3%) outperformed in response to strong earnings, including above-consensus 2021 internal growth projections.

Retail REITs outperformed on vaccine rollouts. Regional malls (31.6%) and shopping centers (26.1%) were the quarter's biggest winners, despite investor rotation from cyclical into secular-growth-oriented REITs in March. Hotels (18.0%) also outperformed amid accelerating economic sentiment. Specialty (14.2%) outperformed, lifted by gaming and hospitality REIT VICI Properties. In the timber sector (7.2%), Weyerhaeuser continued to see strong performance.

Apartments (15.2%) performed well despite challenging urban fundamentals. Apartments, which underperformed in 2020, outperformed on increased confidence in urban-oriented housing as virus concerns abated. Single-family homes (9.5%) gained amid limited for-sale housing supply in a strong demand environment. While we believe apartments are contending with a deceleration in fundamentals in certain urban markets, we have added selectively. We believe single-family homes could demonstrate resilience; the pandemic has likely accelerated demand in suburban locations, and millennials continue to form families.

Secular-growth-oriented sectors, winners through much of the pandemic, lagged. Among the underperformers were pandemic winners such as data centers (–2.4%), where CyrusOne had a significant decline, infrastructure (6.0%), hindered by weakness in SBA Communications, and industrial (6.3%). These sectors were targeted by investors selling REITs in the first quarter's rising-rate environment. This occurred despite strong earnings performance from data centers, which demonstrated solid performance on the retail-demand side, and industrials, where fundamentals remained strong. Broadly, we expect data centers, cell towers and industrial warehouses to potentially benefit over the longer

Index Performance (US$)

	Linked Index[1]
Q1 2021	8.32%
1 Year	34.24%
3 Year	11.29%
5 Year	6.39%
10 Year	9.11%

(1) Linked Index: Prior to 2/28/19, the benchmark was the FTSE Nareit Equity REITs Index. Thereafter, it is the FTSE Nareit All Equity REITs Index.

Data quoted represents past performance, which is no guarantee of future results.

This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of fees, expenses or taxes.

Periods greater than 12 months are annualized.

Index Characteristics

	FTSE Nareit All Equity REITs Index
Premium to NAV	7.3%
Premium or Discount to DDM	0.9%
Dividend Yield	3.1%
Price/Cash Flow (2021E)	22.2x
Cash Flow Growth (2021E vs. 2020)	6.2%
Cash Flow Growth (2022E vs. 2021E)	8.0%
5-Year Cash Flow Growth	6.3%
Total Market Capitalization	$1,273.6B
Weighted Average Market Cap.	$33.8B
Number of Holdings	157

Source: Cohen & Steers.

Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE Nareit All Equity REITs Index and are subject to change over time.

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term from the secular shift toward an e-everything economy, but we are mindful of valuations.

Investment Outlook

We believe REITs are well positioned for the year ahead. Just as COVID upended REITs in 2020, we think listed real estate could be a prime beneficiary of widely available vaccines and continued economic expansion. Low interest rates, increasing fiscal spending globally, and more aggressive vaccine distribution plans could help to accelerate the recovery. Our expectation is for the U.S. Federal Reserve to remain accommodative in the near term.

REITs have historically delivered their strongest returns—both in absolute terms and relative to broader equities—in the early stages of economic recoveries. Today, valuations relative to the broad market and fixed income are attractive compared to their history. In addition, some companies that previously reduced or suspended dividends to preserve capital are now reinstating or increasing their payouts as the economy and real estate fundamentals continue to improve.

We maintain a favorable view on health care and certain residential sectors. Various health care property businesses, including medical offices and hospitals, have shown resilience in the face of COVID, aided by steady rental collections and a resumption of elective surgeries. We also see value in assisted living landlords, despite the prospect that it could take a few years to rebuild occupancy and cash flows. We believe single family homes should demonstrate resilience, as the pandemic has likely accelerated demand in suburban locations and the millennial population has begun to form families in larger numbers. Further, residences are a necessity and often take priority when households are making payment decisions.

Self storage is our largest sector overweight given improving demand due to increased movement and college student activity. As some investors are leery of office, retail and hotels given the weak operating environment, we believe that valuations in self storage companies will rise as capital gets squeezed into sectors with healthy fundamentals.

E-commerce REITs remain strong businesses. We believe companies that provide information and logistics infrastructure, including data centers, cell towers and industrial warehouses, may continue to benefit from strong secular demand in the shift toward an e-everything economy. However, in some cases, our concern about valuations has compelled us to hold modest relative positions here. We have been trimming our secular allocation in anticipation of continued economic expansion.

We see challenging fundamentals for retail and offices, but we are finding attractive values. The retail sector has already faced tremendous headwinds in recent years, and now many stores have been forced to close due to virus-related lockdown measures. Though retail landlords will likely continue to face significant pressure, we believe much of the pain is already priced in, creating potential opportunities in select securities we believe may be long-term winners. As work-from-home activity gains market share, we have become even more cautious toward offices based on oversupply and challenging leasing conditions amid weakening demand.

Hotels will likely continue to struggle without a resumption of business travel. We have added to hotels in anticipation of reopenings, but we prefer the regional gaming business, which is driven by consumers rather than corporate demand or air travel. We also expect regional gaming companies will be better able to improve their operating margins coming out of the pandemic.

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Index Sector Total Returns

Sector	Q1 2021
Regional Mall	31.57 %
Shopping Center	26.08 %
Hotel	17.96 %
Apartment	15.23 %
Specialty	14.23 %
Self Storage	10.31 %
Single Family Homes	9.45 %
Diversified	8.47 %
Timber	7.22 %
Health Care	6.58 %
Industrial	6.33 %
Infrastructure	6.00 %
Office	5.18 %
Free Standing	3.77 %
Manufactured Home	0.60 %
Data Centers	-2.35 %

Source: Cohen & Steers.

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The FTSE Nareit All Equity REITs Index contains all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

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