Starlight Capital Global Real Estate 2024 Outlook

January 2024

Dennis Mitchell, MBA, CFA, CBV

Chief Executive Officer and Chief Investment Officer

The best word that sums up 2023 for global REITs is volatility. January 2023 saw global REITs race out to a 12%+ total return on favourable valuations, falling bond yields, moderating inflation, and the expectation that the rate hike cycles were nearing their end. This rally was short-lived as the collapse of several banks (Silicon Valley Bank, Signature Bank, First Republic Bank and Credit Suisse) fueled concerns about lending and liquidity in the global financial system. The resulting risk off sentiment saw global REITs retreat to a -4.5% total return by the end of March. REITs then traded sideways for much of the year as investors settled in to watch the battle between central banks and inflation.

REITs rallied briefly in June on the back of the Federal Reserve Bank and the Bank of Canada ending their hiking cycle. However, a strong labour market and a two month break in the downward trajectory of inflation caused long bond yields to rise and REITs to retreat. The resumed downward trend in inflation coupled with the prolonged pause in rate hikes has finally given the global REIT market a sustainable rally. Globally, since September 30th, REITs have outperformed their diversified competing benchmarks, and that outperformance has accelerated in the month of December.

Exhibit 1 - REITs Rally After Rate Hike Cycle Ends

Source: Bloomberg Finance L.P.

We are at an inflection point for global markets as several key macro inputs are reversing course:

- The Bank of Canada and the Federal Reserve Bank have ended their hiking cycles and have communicated that they will begin cutting rates in 2024
- US and Canadian long bond yields peaked in October and have each fallen over 100 bps since
- US and Canadian inflation peaked in June and has fallen to 3.1% in both markets
- Fiscal stimulus has ended and is not likely to support economic growth in 2024
- Canadian and US unemployment rates troughed in March and have started to increase
- The IMF expects global growth to slow from 3.5% in 2023 to 3.0% in 2024 while the OECD expects global GDP growth to slow to 2.7% in 2024 from 3.0% in 2023
- Global earnings growth is forecast to increase by 6.1%, led by the US at 11.4% compared to 1.1% and 0.8% respectively, in 2023

In this environment North American REITs look attractively valued compared to diversified equity benchmarks. As the chart below demonstrates, REITs are trading at large discounts to their Net Asset Values and at a much lower earnings multiple, while offering significantly higher yields. While forecasted earnings growth is lower for REITs, we anticipate the broader market earnings forecasts to come down as the year progresses, while REIT earnings forecasts (long-term, contractual revenues) are likely to remain consistent.

Exhibit 2 - 2024 North American Valuations

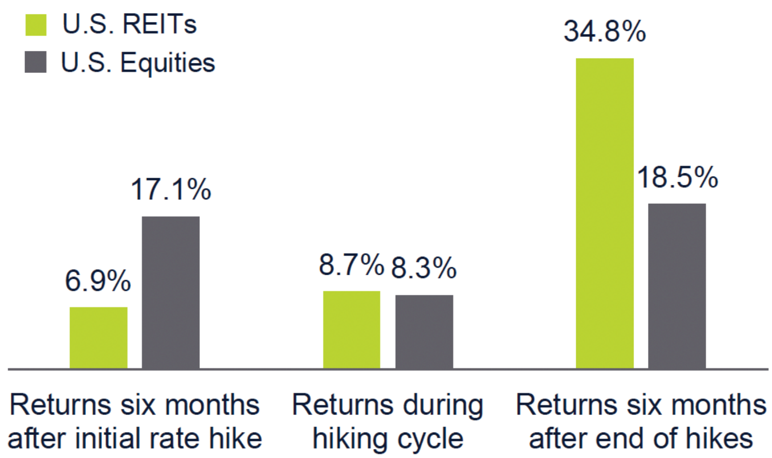
	Canadian REITs	S&P/TSX	US REITs	S&P 500 Index
Current Yield	5.3%	3.2%	4.1%	1.5%
2024 Earnings Growth	2.0%	13.0%	4.0%	11.4%
2024 Earnings Multiple	10.9x	14.4x	14.3x	20.8x
Current NAV Discount	-24.0%	N/A	-2.0%	N/A

Source: RBC Capital Markets, Bloomberg Finance L.P.

From a timing standpoint, REITs have historically outperformed after the conclusion of a central bank rate hike cycle. This is usually due to their discounted valuation and the expectations of lower growth and rate cuts after the rate hike cycle has concluded.

There is ample evidence that this outperformance has already begun. Looking at the 2023 total returns, North American REITs significantly underperformed the broader markets. Both the Bank of Canada and the Federal Reserve Bank ceased hiking rates in July and both indicated that their respectively rate hike cycles were complete in September. In response, North American REITs have rallied sharply in Q4/23 and in December and REITs have outperformed.

Exhibit 3 - Real Estate Outperformance After Rate Hike Cycles



Source: Cohen & Steers calculations, Bloomberg Finance L.P. and Federal Reserve. As of August 31, 2022.

Exhibit 4 - 2023 Real Estate Market Relative Performance

	Dec-23	Q4/2023	2023
S&P/TSX Capped REIT Index	9.06%	9.39%	2.80%
S&P/TSX Composite Index	3.92%	8.11%	11.83%
Outperformance/Underperformance	**5.14%**	**1.28%**	**-9.03%**
MSCI US REIT Index	9.88%	16.00%	13.74%
S&P 500 Index	4.53%	11.68%	26.26%
Outperformance/Underperformance	**5.35%**	**4.32%**	**-12.52%**
FTSE ESPA Nareit Developed Total Return Index	9.65%	15.59%	10.85%
MSCI World Index	4.94%	11.53%	24.44%
Outperformance/Underperformance	**4.71%**	**4.06%**	**-13.59%**

Source: Bloomberg Finance L.P.

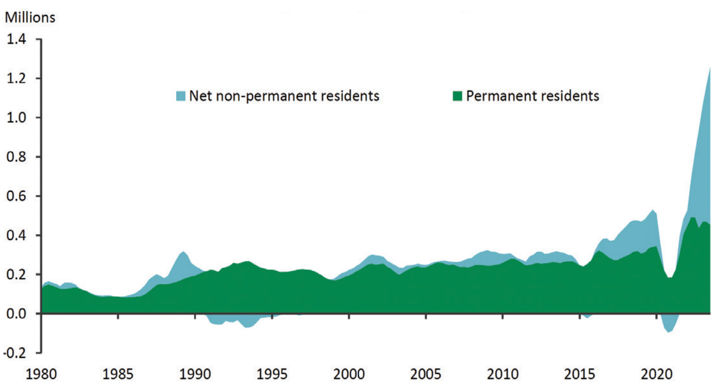
For the last two years, investors have piled into one-year Guaranteed Investment Certificates (“GICs”) yielding ~5.0%. However, this trade is coming to an end as interest rate risk has risen sharply. Investors who continue to buy these products will find their investments maturing into a lower yielding environment and may have missed significant market appreciation during that period. We believe most investors will move money out of these GICs and into equities and REITs will be a significant beneficiary of this rotation. REITs offer similar absolute yields as these GICs but much better after-tax yields. In addition, quality REITs will continue to increase their distributions over time and the current discounted valuations provide for material capital appreciation during 2024.

The Starlight Global Real Estate Fund is positioned to take advantage of several global macro trends that should continue to drive value creation in 2024.

Housing Shortage

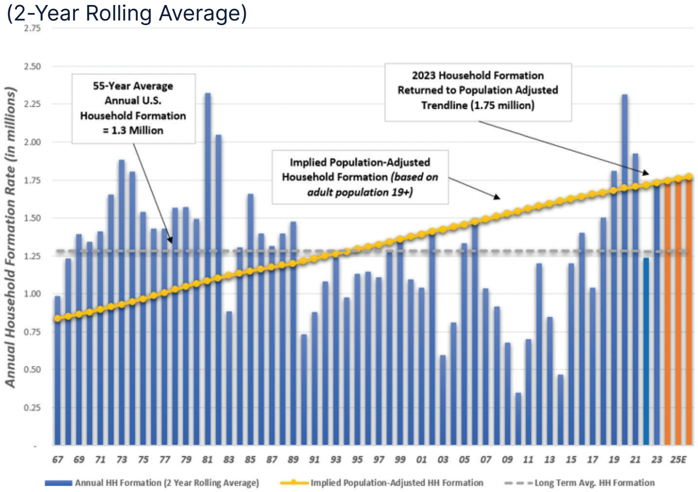
- Apartments, Single Family Homes, Seniors Housing, Manufactured Homes
- Canada has welcomed 1.3 million immigrants from 2016 through 2021 and Federal targets have risen to 1.5 million more immigrants from 2022 through 2025
- According to CMHC, the gap between housing supply and demand is expected to reach 3.5 million housing units by 2030, representing nearly 20% of total supply
- In the United States, immigration has caused the housing supply deficit to grow to 2.3 million homes from 2012 through 2022

Exhibit 5 - Population Growth - 4-quarter rolling sum



Source: Statistics Canada & Desjardins Capital Markets.

Exhibit 6 - Annual U.S. Household Formation
(2-Year Rolling Average)

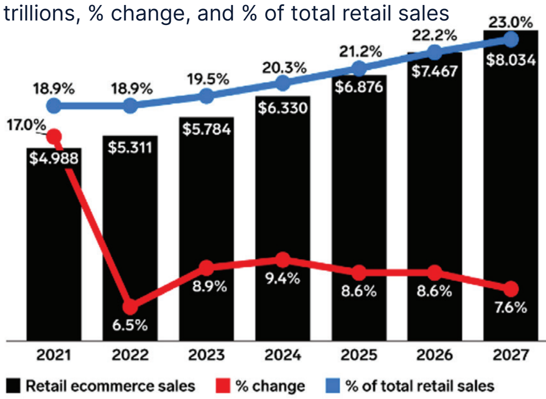


Source: U.S. Census Bureau; Raymond James Research

Global Reshoring and Trade

- Industrial, Retail, Gaming
- Global e-commerce sales have reached $5.8 trillion or ~19.5% of global retail sales but is expected to hit 23.0% of global retail sales in 2027
- World Data Labs estimates that 100+ million people per year join the global middle class with Asia, Africa and Latin America accounting for 107 million new middle-class consumers in 2024
- After the pandemic, many companies are future-proofing their supply chain by near-shoring to spread out the risk from natural disasters, geopolitical strife and labor strikes

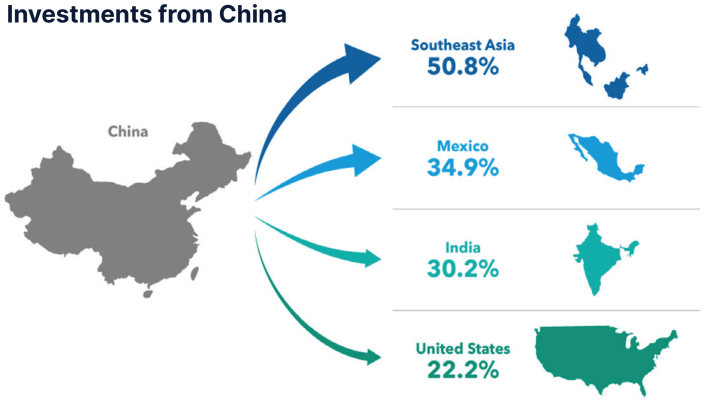
Exhibit 7 - Retail Ecommerce Sales Worldwide, 2021-2027
trillions, % change, and % of total retail sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and driking place slaes, gambling and other vice goods sales.

Source: Insider Intelligence | eMarketer, June 2023

Exhibit 8 - Top Destinations for Companies Redirecting Investments from China

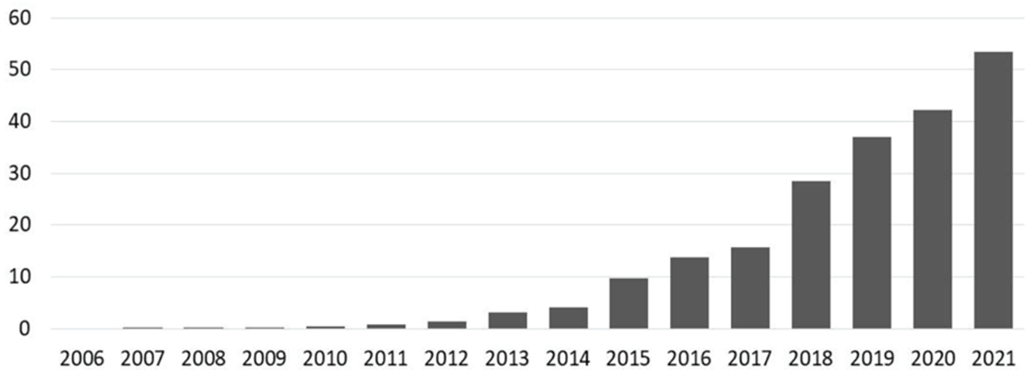


Source: AmCham Shanghai 2021 China Business Report, published September 22, 2021.

Digital Real Estate

- Cell Towers, Data Centres
- Social media, streaming, e-commerce, AI, crypto and big data are driving the demand for integrated communications networks (cell towers, small cells, WIFI) and data storage (data centres)
- ~5 billion people access the internet each day and 92% of their access is on their smartphone, connected via cell towers and broadband internet
- ~90% of the data that exists in the world was created in the last two years, demonstrating the need for more data storage

Exhibit 9 - U.S. Annual Wireless Data Traffic in Exabytes: 2006-2021



Source: CTIA, "Annual Wireless Industry Survey 2022", September 2022 and Ericsson, "Ericsson Mobility Report", June 2022.

The Starlight Global Real Estate Fund is a concentrated portfolio of 24 high-quality real estate companies with a track record of increasing their distributions annually. In 2023 the portfolio generated 26 distribution increases with an average increase of 10.5%. The portfolio currently yields 7.1% and 65.6% was taxed as return of capital in 2022.

We invite you to partner with us.

Starlight Capital

Investment Management Team

Dennis Mitchell, MBA, CFA, CBV
Chief Executive Officer and Chief Investment Officer

Dennis Mitchell joined Starlight Capital in March 2018 as Chief Executive Officer and Chief Investment Officer. He has over 20 years of experience in the investment industry and has held executive positions with Sprott Asset Management, serving as Senior Vice-President and Senior Portfolio Manager, and Sentry Investments, serving as Executive Vice-President and Chief Investment Officer.

Mr. Mitchell received the Brendan Wood International Canadian TopGun Award in 2009, 2010, and 2011 and the Brendan Wood International 2012 Canadian TopGun Team Leader Award. He also received the Afroglobal Television Excellence Award for Enterprise in 2020 and the Black Business and Professionals Association's Harry Jerome President's Award in 2021.

Mr. Mitchell holds the Chartered Financial Analyst and Chartered Business Valuator designations and earned a Master of Business Administration from the Schulich School of Business at York University in 2002 and an Honors Bachelor of Business Administration degree from Wilfrid Laurier University in 1998.

Mr. Mitchell currently sits on the Board of the Toronto Foundation and is Co-Founder and Director of the Black Opportunity Fund.

About Starlight Capital

Starlight Capital is an independent Canadian asset management firm with over $1 billion in assets under management. We manage Global and North American diversified private and public equity investments across traditional and alternative asset classes, including real estate, infrastructure and private equity. Our goal is to deliver superior risk-adjusted, total returns to investors through a disciplined investment approach: Focused Business Investing. Starlight Capital is a wholly-owned subsidiary of Starlight Investments. Starlight Investments is a leading global real estate investment and asset management firm with over 360 employees and $28B in AUM. A privately held owner, developer and asset manager of over 66,000 multi-residential suites and over 7 million square feet of commercial property space. Learn more at www.starlightcapital.com and connect with us on LinkedIn at www.linkedin.com/company/starlightcapital/

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