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Monthly Insights: May Outlook
Real Estate Sector

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Sector Price Action & Performance Review: Real Estate



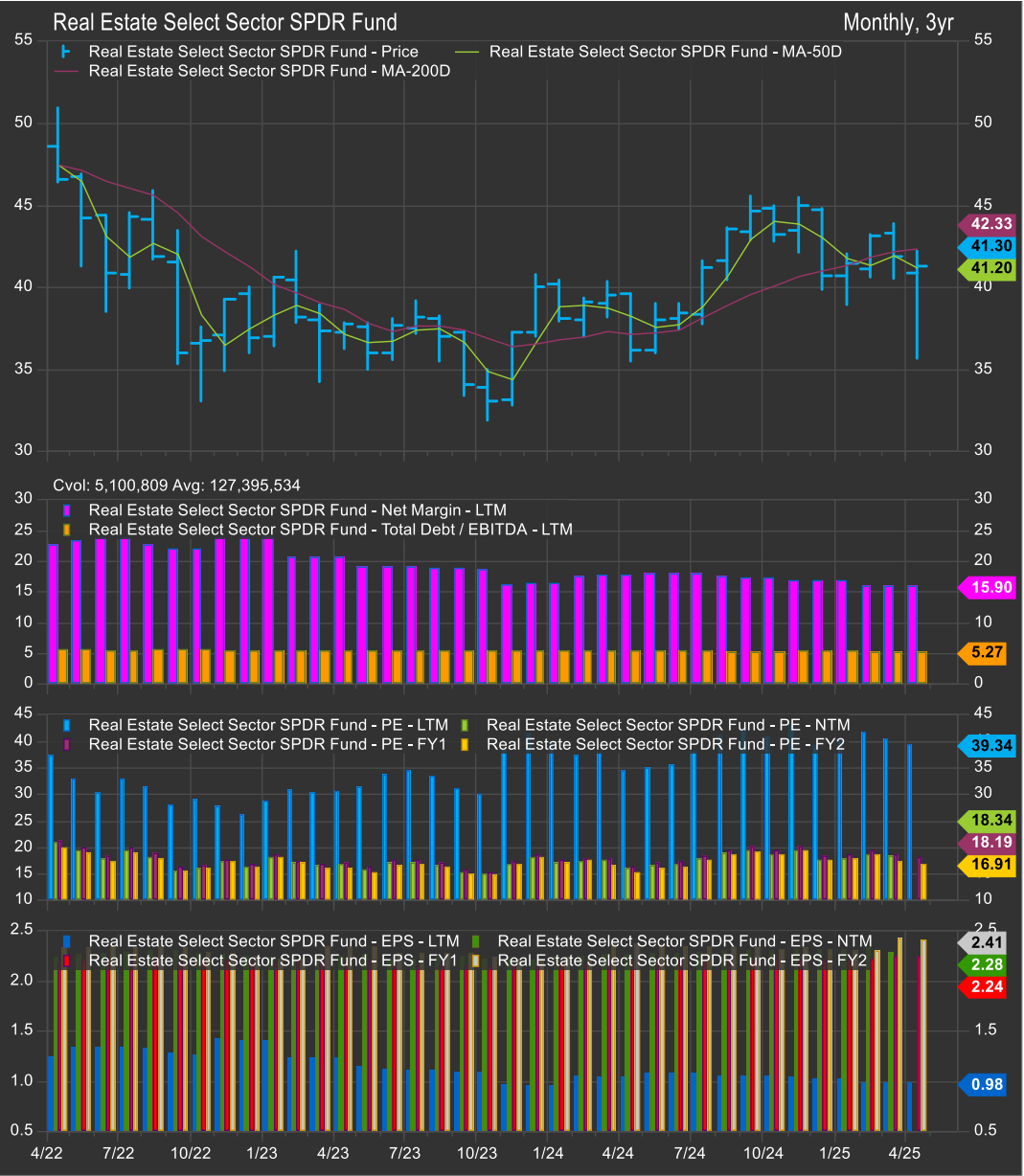
The YTD bullish reversal in the Real Estate Sector hit a rough patch in April. A sharp drawdown in equity prices boosted sector performance, but the ensuing bounce has come with a some rotation toward Growth and bottom-fishing in previous bull market leaders

At the industry level, weakness in Office REITs continues to dog the sector, while Management & Development co.'s have come under pressure. Trade war dynamics have put downwards pressure on Yields, but structural concerns about Office REITs and still high financing costs remain concerns for the sector. Increased stress on the consumer is also having deleterious effects on mall operators like SPG.

On the positive side of the ledger, tower stocks continue to show signs of improvement after a multi-year bearish retracement. AMT and SBAC are our favored names there and data centers are also getting bids as investors start to accumulate AI plays again.

We start May out of the Real Estate Sector with an **UNDERWEIGHT allocation of **-2.25%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Real Estate Sector



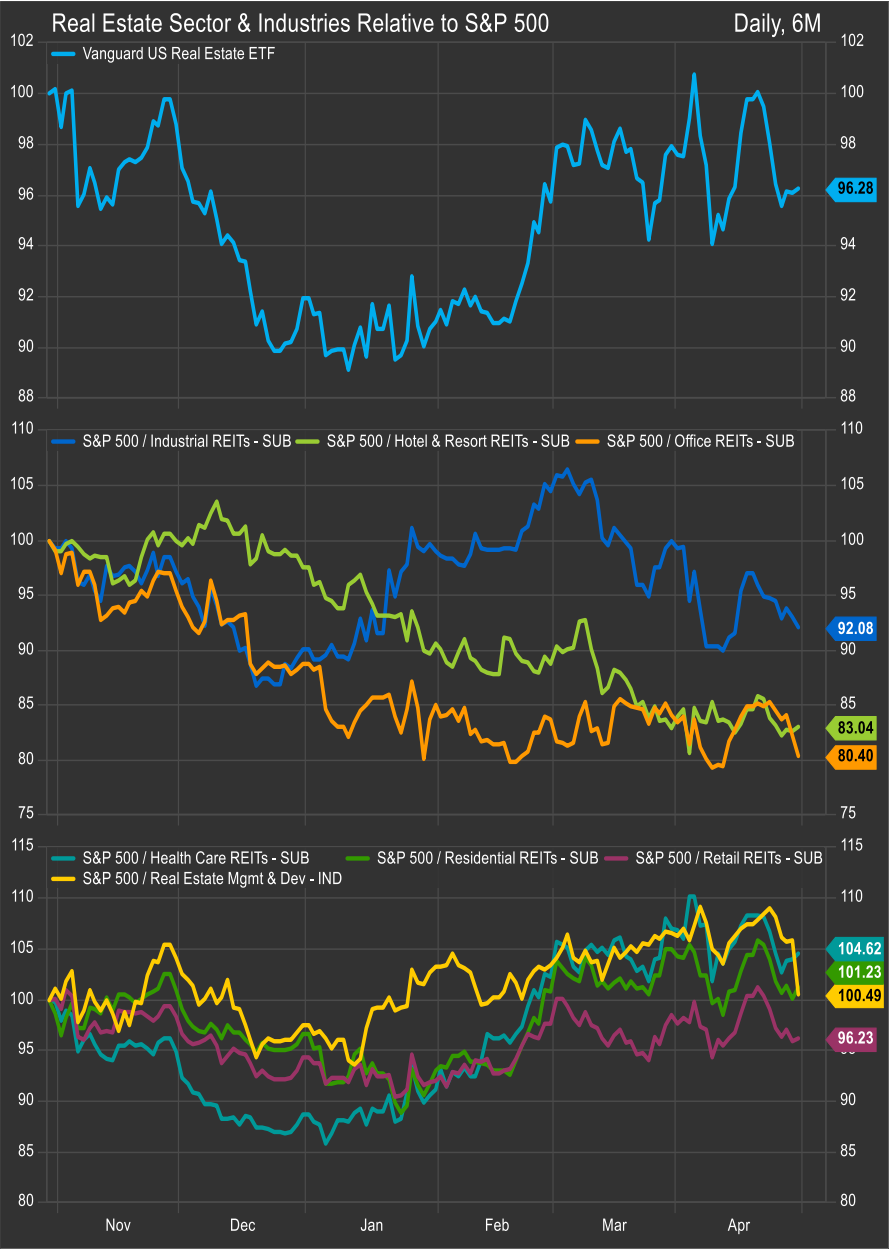
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

The second half of 2024 saw net margins contract for the sector while debt burden relative to EBITDA has stayed level (chart, panel 2)

Valuation (chart, panel 3) is lofty due to earnings impairment from Office REITs though we can see out year P/E multiples are set to contract if the consensus for >100% EPS growth comes to fruition

The Sector has been down and out over a multi-year period, but the fundamental setup is supportive of more reflation in the near-term

Industry Performance and Breadth: Real Estate



Real Estate Industries (chart, left): Most Real Estate industries corrected in April as the sector's YTD bullish reversal was challenged. Office REITs are testing 6-month relative lows while Real Estate M&D co.'s pivoted from bullish to bearish during the month and are now sell rated in our work

Healthcare REITs are present leadership

Real Estate Sector Internals (chart, right): One of the few sectors where internal trends have responded positively to bottoming out in December & January

Top 10/Bottom 10 Stock Level Performers: Real Estate

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
▼	▼	▼	▼	▼	▼	▼	▼↑	▼
DLR	Digital Realty Trust, Inc.	Consolidation	53,836.0	4.37	1.7	2.0	12.8	
SBAC	SBA Communications Corp. Class A	Bullish Reversal	25,764.7	1.12	14.8	1.2	10.3	
EQIX	Equinix, Inc.	Consolidation	83,306.9	2.50	2.7	1.5	6.3	
CSGP	CoStar Group, Inc.	Bullish Reversal	34,879.8	3.00	8.2	0.0	4.5	
IRM	Iron Mountain, Inc.	Support	26,036.8	1.81	-9.8	2.3	4.0	
AMT	American Tower Corporation	Bullish Reversal	103,608.5	1.37	17.1	2.0	3.8	
O	Realty Income Corporation	Consolidation	51,169.7	1.59	5.8	3.7	2.1	
VTR	Ventas, Inc.	Uptrend	30,262.4	4.33	21.5	1.8	1.5	
VICI	VICI Properties Inc	Consolidation	34,089.2	0.47	9.6	3.6	1.1	
CCI	Crown Castle Inc.	Bullish Reversal	45,154.5	2.82	11.1	3.1	0.4	

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▼	▼	▼	▼	▼	▼	▼	▼↑	▼
ARE	Alexandria Real Estate Equities, Inc.	Downtrend	12,553.8	1.19	-27.8	4.9	-22.7	NT OVERSOLD
WY	Weyerhaeuser Company	Downtrend	18,704.8	1.38	-13.0	2.1	-11.9	
DOC	Healthpeak Properties, Inc.	Consolidation	12,338.4	2.76	-9.7	4.6	-11.3	NT OVERSOLD
ESS	Essex Property Trust, Inc.	Consolidation	17,699.8	1.91	1.5	2.4	-9.1	
CPT	Camden Property Trust	Consolidation	12,063.7	2.98	4.7	2.5	-6.5	
PLD	Prologis, Inc.	Consolidation	95,571.3	1.42	-5.9	2.6	-6.4	
UDR	UDR, Inc.	Consolidation	13,657.9	2.77	3.0	2.8	-6.1	
CBRE	CBRE Group, Inc. Class A	Consolidation	36,294.3	0.78	2.0	0.0	-5.7	
SPG	Simon Property Group, Inc.	Consolidation	51,155.0	0.97	-1.0	3.6	-4.3	
MAA	Mid-America Apartment Communities, Inc.	Bullish Reversal	18,410.7	1.56	11.2	2.5	-3.9	

Data centers pivoted positively in April with EQIX and DLR on the outperform list while higher momentum names generally did better than lower

Bullish Reversals in AMT and SBAC gained steam

Office properties, Industrial REITs and Retail REITs deteriorated in April

Metrics:
(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index
Premium (or discount) to benchmark valuation

Momentum
Long higher scores, short lower scores

Dividend Yield Relative to Index
Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold
Price is >10% away from the 50-day moving average
Above/Below

GREEN|RED
Company scores positively|negatively for Elev8 Sector
Rotation Model for April

Economic & Policy Drivers: Real Estate Sector

1. Interest Rates & Fed Policy: Yield Relief a Tailwind

April brought a steady decline in long-end Treasury yields, with the 10-year note falling to its lowest level in three weeks by mid-month. The **flattening of the yield curve**, especially after March's steepening, has supported Real Estate valuations—particularly for long-duration assets like office, residential, and infrastructure-focused REITs.

The market is currently pricing in **~85 basis points of Fed rate cuts in 2025**, aided by:

Softer inflation expectations (April consumer surveys showed 1-year inflation expectations down from 6.7% to 6.5%).

Slower expected GDP growth due to surging imports and trade-related inventory effects.

A more cautious tone from Fed officials, even as some criticized the central bank's policy credibility.

2. Macro Sentiment & Credit: Mixed Fundamentals

April data painted a mixed picture of sentiment and credit market health:

Conference Board's Consumer Confidence Index dropped to 86.0, the lowest since Spring 2020. Expectations fell sharply, and labor market assessments weakened—negative signs for retail REITs and residential landlords.

JOLTS job openings fell to 7.2M, a sign that business confidence and hiring appetite remain soft.

Regional bank earnings (e.g., **BankUnited - BKU**) flagged **modest loan attrition and tighter lending standards**, which could affect refinancing for commercial real estate owners.

Mortgage demand declined as rates remained elevated relative to recent lows, impacting **housing turnover and rent growth** in single-family REITs and multifamily landlords.

The Real Estate sector is indirectly exposed to global trade dynamics via construction inputs, leasing demand, and tenant financial health. In April:

The White House announced **partial tariff relief for autos and auto parts**, but broader tariffs remain in place across electronics, steel, and building materials.

Reports noted potential **supply chain disruptions beginning in May**, with ports like Los Angeles expecting a **35% drop in inbound volumes** due to reduced Chinese shipments.

Some companies flagged **rising costs and longer lead times** for imported construction materials—particularly aluminum, copper, steel, and high-end finishes.

These developments have increased uncertainty for developers and construction-driven REIT

tenants (e.g., logistics firms, contractors, builders).

4. Subsector Dynamics: Divergence in Fundamentals

Positive Trends

Data centers benefited from continued AI infrastructure spending, with players like Digital Realty Trust (DLR) noting **strong bookings and pricing power** in Q1 results. Demand from hyperscalers remains a critical driver.

Industrial REITs are still supported by e-commerce logistics demand, although freight softness and supply chain shocks could pressure 2H leasing.

Stable/Neutral Trends

Multifamily REITs have seen stable occupancy, but rent growth is cooling in most regions. Some landlords are concerned about a slowdown in lease renewals amid stagnant wage growth.

Triple-net lease REITs have performed relatively well due to long-term contracts and inflation-adjusted leases, though financing costs remain a key watchpoint.

Challenged Segments

Office REITs remain under pressure amid persistent hybrid work trends and higher capex. Leasing activity is improving marginally, but not enough to materially change fundamentals.

Retail REITs—especially those tied to discretionary categories—are feeling the pinch of weaker consumer sentiment and declining foot traffic, though grocery-anchored centers continue to outperform.

5. Earnings & Outlook: Resilience With Pockets of Stress

April earnings results and guidance from key players revealed solid but cautious operating trends:

Digital Realty Trust (DLR): Q1 core FFO beat; FY guidance raised. Analysts positive on demand visibility and robust enterprise/hyperscale trends.

Realty Income, Simon Property Group: Guidance reaffirmed but commentary emphasized expense headwinds from tariffs and higher labor costs.

Office-heavy REITs like Vornado and Boston Properties (not directly mentioned in earnings this month) continue to see soft leasing and elevated vacancy, according to broker data and anecdotal industry reports.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.