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Monthly Insights: June Outlook

Real Estate Sector

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Sector Price Action & Performance Review: Real Estate

Real Estate Select Sector SPDR Fund — Daily
50-day & 200-day Moving Averages
with MACD (12,26,9) & RSI (14)

Real Estate Select Sector SPDR Fund - Total Return Relative to S&P 500 (TR)

The Real Estate Sector lost ground vs. the S&P 500 in May. The broad market continued its bullish reversal through most of the month while Real Estate stocks traded sideways. The sector starts June as a laggard and we're expecting that to continue through the month.

Improving sentiment on global trade and a round of deal making has seen interest rates firm and sentiment improve around sourcing, while demand for AI was affirmed through the recent earnings season. The latter development is a tailwind for US equities, but both are headwinds for the relative performance of the Real Estate sector.

Rotation into riskier stocks has diminished REIT performance and continued struggles in the Office category handicap the sector. Inflation concerns keep the Fed on the sidelines so rates are likely to stay high unless growth slows. We're seeing enough buying across cyclical stocks to expect continued expansion at present.

We start June 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

5/31/2025

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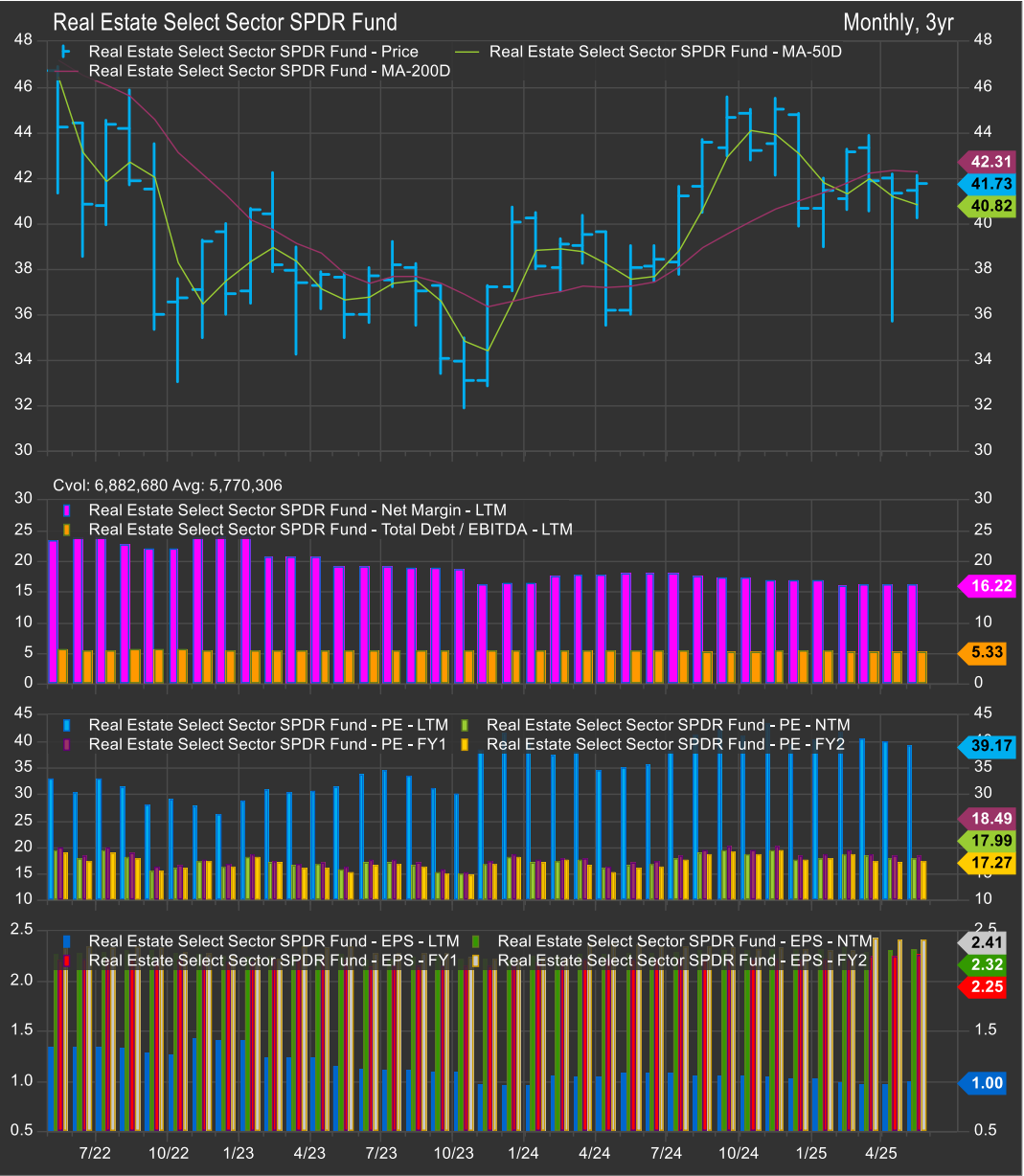
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to contract in 2025(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 is unlikely to outperform while equities broadly remain in an uptrend

5/31/2025

Industry Performance and Breadth: Real Estate
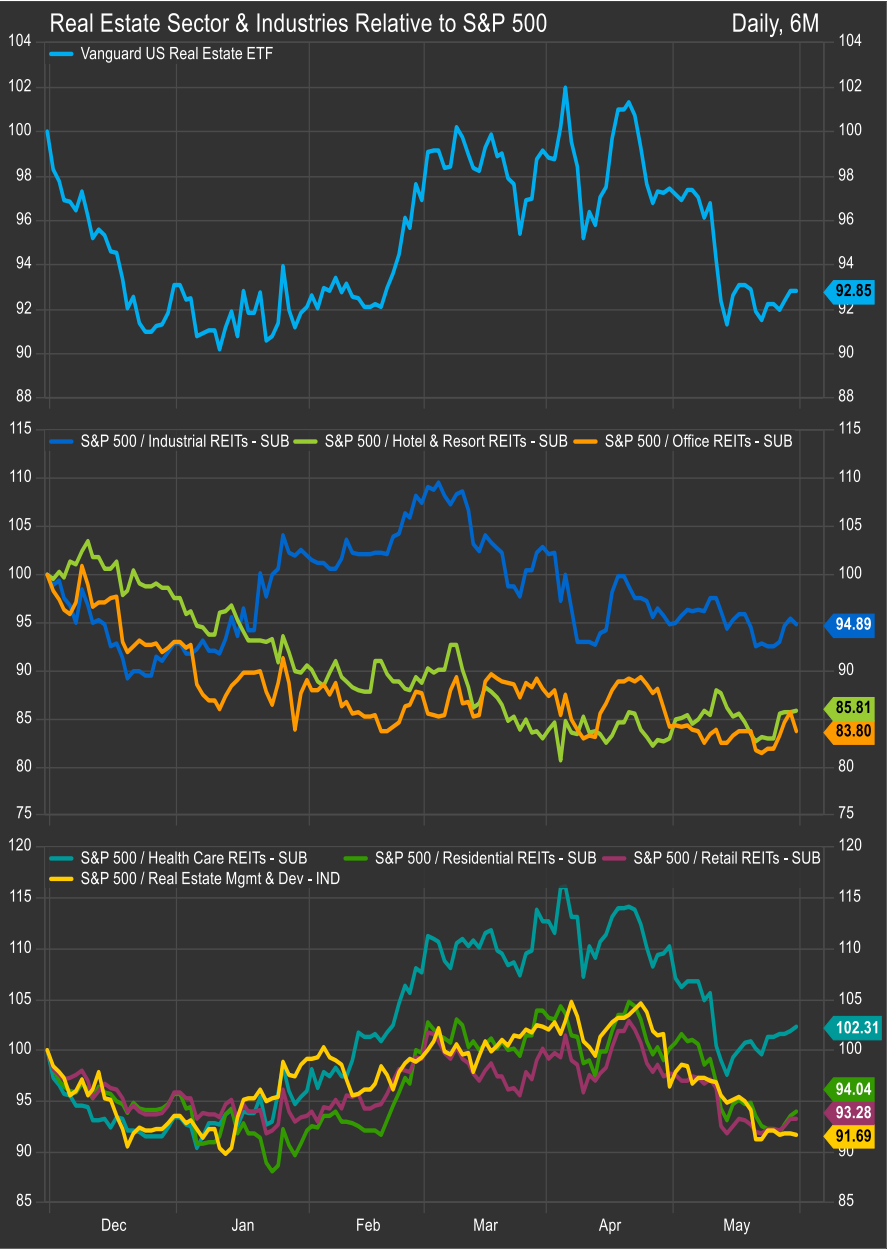
Real Estate Industries (chart, left): Each industry within the sector underperformed during May with the exception of Hotel & Resort REITs

Real Estate Sector Internals (chart, right): Over the short-term stocks are consolidating, but the longer-term trend remains challenged for the sector with less than 30% of stocks above their 200-day moving average despite the sector price just 2% away

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
IRM	Iron Mountain, Inc.	Consolidation	28,855.3	1.85	-2.1	2.0	1.16	4.3
HST	Host Hotels & Resorts, Inc.	Downtrend	10,738.7	0.81	-9.5	3.7	1.52	3.9
DLR	Digital Realty Trust, Inc.	Bullish Reversal	58,015.7	4.47	2.2	1.9	1.16	1.3
EXR	Extra Space Storage Inc.	Support	32,003.5	1.30	-3.3	2.9	1.16	0.2
KIM	Kimco Realty Corporation	Consolidation	14,443.2	1.21	-4.3	3.1	1.26	-0.1
PLD	Prologis, Inc.	Consolidation	101,357.4	1.49	-5.9	2.5	1.55	-0.5
BXP	BXP Inc	Downtrend	10,900.6	1.51	-2.6	3.8	1.14	-0.7
EQIX	Equinix, Inc.	Consolidation	86,807.5	2.39	-2.3	1.4	1.16	-1.7
PSA	Public Storage	Consolidation	53,685.5	1.21	-1.8	2.6	0.95	-2.0
SPG	Simon Property Group, Inc.	Consolidation	53,281.0	0.99	-5.9	3.5	1.58	-2.4

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
CSGP	CoStar Group, Inc.	Retracement	31,249.1	2.87	-9.7	0.0	0.92	-16.9
VTR	Ventas, Inc.	Bullish Reversal	28,950.8	4.09	3.1	2.0	0.94	-13.7
AMT	American Tower Corporation	Consolidation	100,045.8	1.32	3.8	2.1	0.86	-9.9
CCI	Crown Castle Inc.	Support	43,698.3	2.54	0.1	3.2	0.98	-9.7
SBAC	SBA Communications Corp. Class A	Bullish Reversal	24,739.7	1.07	5.3	1.3	0.83	-9.5
VICI	VICI Properties Inc	Consolidation	33,465.9	0.47	0.6	3.7	0.80	-8.3
ARE	Alexandria Real Estate Equities, Inc.	Downtrend	12,325.5	1.47	-32.2	5.0	1.36	-8.3
O	Realty Income Corporation	Consolidation	50,897.6	1.60	0.5	3.8	0.80	-7.8
MAA	Mid-America Apartment Communities, Inc.	Consolidation	18,231.7	1.58	-0.9	2.6	0.78	-7.6
DOC	Healthpeak Properties, Inc.	Downtrend	12,171.7	2.51	-14.6	4.7	1.13	-7.2

IRM rebounded in May to lead the sector on performance while most constituents lagged the S&P 500 as it moved higher

Data Centers (DLR, EQIX) stand to gain from improving sentiment around AI while tower stocks (AMT, CCI, SBAC) are retracing their Q1 break-out

Performance is likely to skey negative while Treasury Yields remain above 4% and equities prices are moving higher

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

Rate Volatility & Financing Conditions

The **10-year Treasury yield topped 4.5% early in May**, applying valuation pressure to rate-sensitive REITs and limiting refinancing flexibility.

As economic data softened and Treasury auctions were well received, yields fell in the final week of May, prompting some **short-covering and rotation into REITs**, particularly those with stable cash flow profiles.

Lending conditions remained tight. **Banks continued to tighten commercial real estate lending standards**, and credit availability for new development or repositioning remained scarce outside of institutional sponsors or government-backed programs.

Industry Breakdown

Healthcare REITs

Healthcare REITs benefited from improving operating metrics across **senior housing and medical office portfolios**.

Lower labor cost pressure and signs of increased demand from deferred procedures and aging demographics helped support rent collections and occupancy.

Reimbursement uncertainty remains a watch item, though **no new major Medicare cuts were announced** in May. The policy environment remains stable, aided by bipartisan consensus around expanding access to care.

Residential REITs

Residential REITs showed resilience as **rising mortgage rates and affordability pressures pushed more households to rent**.

Sunbelt-focused multifamily names continued to outperform those with heavy urban exposure, although signs of new supply in some southern metros led to cautious commentary on rent growth.

Several municipalities announced new **property tax relief measures** or incentives for affordable housing projects. However, investor concern remains elevated around potential rent control legislation in select urban jurisdictions.

Retail REITs

Results were mixed in Retail. **High-quality, necessity-based shopping centers** performed relatively well, while **enclosed malls continued to lag**.

May foot traffic data showed **flattening mall visits**, with big-ticket discretionary purchases under pressure due to tighter credit and inflation fatigue.

Retailers flagged **tariff-related input cost pressures** in Q1 earnings, raising concerns about tenant health into the second half of 2025.

Office REITs

The Office subsector remains the weakest link. While some markets saw marginal improvement in leasing velocity, **vacancy rates remain elevated** in urban cores.

Investor focus continues to shift to **conversion opportunities**, particularly as local governments unveiled new incentives to transform underutilized office properties into **residential or mixed-use** space.

Washington D.C., New York City, and San Francisco all expanded or proposed tax abatements, zoning relief, or **low-cost financing for office-to-residential conversions**, though execution remains complex and lengthy.

Lenders continue to scrutinize **collateral valuations and lease roll exposure**, with some Office REITs trading at deep discounts to net asset value.

Policy & Regulatory Backdrop

Debate continued over expanding **federal tax incentives for housing investment**, including **LIHTC (Low-Income Housing Tax Credit)** expansion and conversion grants.

The **reconciliation bill's Section 899 provision**, which addresses discriminatory tax policies and may alter real estate tax treatment for foreign investors, remained under scrutiny.

Trade-related tariff policies indirectly affected construction input costs, though labor availability and permitting remain more pressing challenges for developers.

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.