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Monthly Insights: July Outlook

Real Estate Sector

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Sector Price Action & Performance Review: Real Estate

The S&P 500 Real Estate sector posted modest gains in June, outperforming some other defensives but still trailing the broader market. Despite favorable rate moves mid-month, macroeconomic headwinds, policy uncertainty, and shifting investor preferences limited broader participation. However, pockets of structural tailwinds—particularly in residential conversions and data infrastructure—began to emerge.

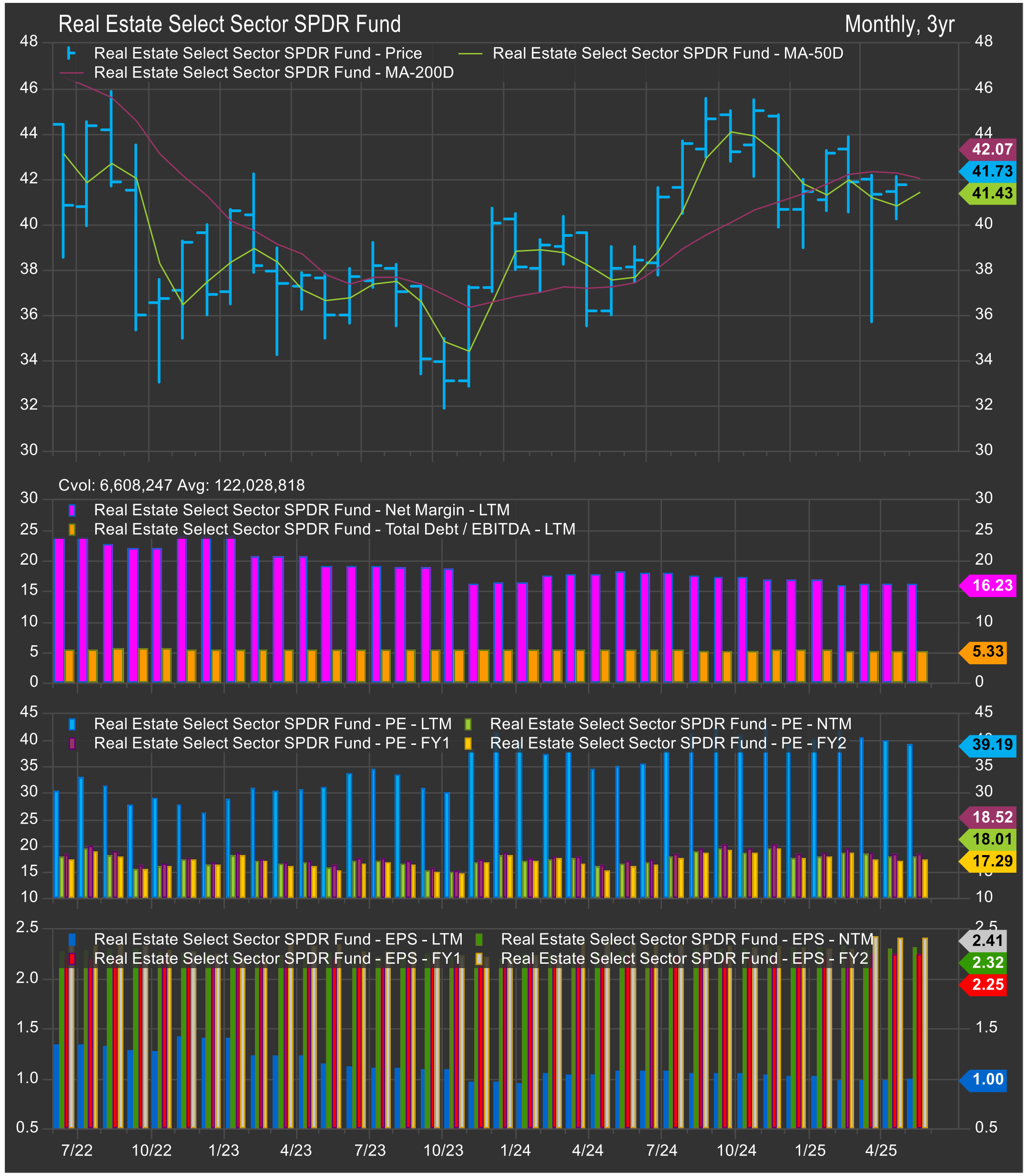
While there have been some improvements in the fundamental narrative around the sector, the technicals remain challenged the XRE has been unable to move above its 200-day moving average while relative performance is testing fresh 52-week lows versus the SP 500 index.

Lower rates in the near term have motivated investors to speculate on higher risk areas of the equity market. Given the ongoing reflation, we're expecting real estate stocks to continue to lag As the absolute level of interest rates is still a headwind to structural conversions in the sector..

Modest sector gains masked deeper structural shifts, with rate support helping defensives but broad investor focus remaining elsewhere. Office-to-residential conversions, digital infrastructure, and residential REITs began to gain traction amid weakening office fundamentals and tight housing supply.

We start July out of the Real Estate Sector with an UNDERWEIGHT allocation of -2.04% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Real Estate Sector



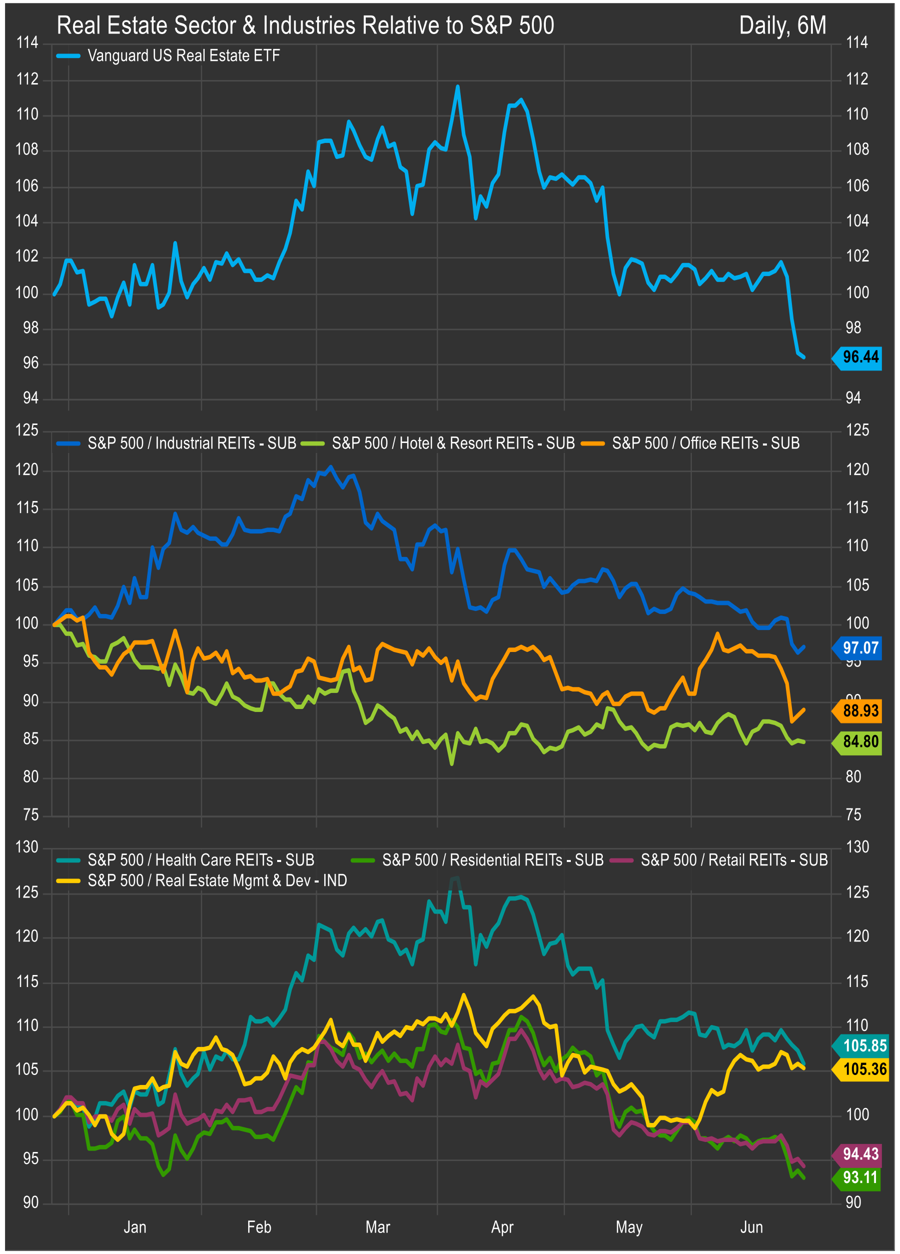
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

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

Industry Performance and Breadth: Real Estate



Real Estate Industries (chart, left): June saw most real estate sector industries retreat continuing to retrace gains from Q1 2025

Management and development stocks (CBRE & CSGP) Led the sector in June as they are historically offensive exposures

Residential and Retail REITs broke to new relative lows for the year

We saw some uptick among Real Estate Sector Internals (chart, right): Real estate sector internals are skewed by a weak longer-term trend. Even so, most stocks haven't been able to move above their 50-day moving average while less than 30% of stocks are above their 200-day moving average

This is a weak picture for the sector despite rates moving lower in the near term

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
CBRE	CBRE Group, Inc. Class A	Bullish Reversal	41,549.9	0.86	1.2	0.0	1.40	7.7
CSGP	CoStar Group, Inc.	Retracement	34,071.6	2.97	-1.9	0.0	0.87	3.8
IRM	Iron Mountain, Inc.	Bullish Reversal	30,183.0	1.91	4.4	2.0	1.18	1.0
ARE	Alexandria Real Estate Equities, Inc.	Support	12,692.2	1.48	-21.9	4.8	1.30	0.4
VICI	VICI Properties Inc	Consolidation	34,110.5	0.48	-2.7	3.6	0.77	-1.2
AMT	American Tower Corporation	Consolidation	101,951.1	1.33	-1.2	2.1	0.81	-1.6
ESS	Essex Property Trust, Inc.	Consolidation	18,376.2	1.72	-9.6	2.4	0.71	-2.4
O	Realty Income Corporation	Consolidation	51,502.6	1.61	-3.6	3.7	0.76	-2.4
HST	Host Hotels & Resorts, Inc.	Downtrend	10,932.9	0.82	-3.1	3.6	1.54	-2.8
CCI	Crown Castle Inc.	Consolidation	43,828.9	2.48	-5.3	3.1	0.93	-2.9

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
EQIX	Equinix, Inc.	Downtrend	76,798.7	2.12	-15.1	1.6	1.14	-15.8
MAA	Mid-America Apartment Communities, Inc.	Consolidation	17,307.0	1.50	-14.5	2.7	0.74	-9.5
PSA	Public Storage	Consolidation	50,854.0	1.14	-9.1	2.8	0.93	-8.1
VTR	Ventas, Inc.	Consolidation	28,382.5	3.90	-10.8	2.0	0.86	-7.3
CPT	Camden Property Trust	Consolidation	12,153.9	3.02	-11.4	2.4	0.84	-6.5
EQR	Equity Residential	Consolidation	25,589.2	1.79	-10.7	2.7	0.75	-6.4
PLD	Prologis, Inc.	Retracement	98,007.5	1.43	-9.4	2.5	1.52	-6.1
EXR	Extra Space Storage Inc.	Consolidation	30,953.1	1.25	-7.2	3.0	1.14	-5.7
INVH	Invitation Homes, Inc.	Downtrend	20,055.7	1.57	-9.3	2.3	0.78	-5.5
REG	Regency Centers Corporation	Consolidation	12,805.1	1.20	-9.6	2.7	0.98	-5.5

Similar to the utilities sector momentum names within the real estate sector have begun to reemerge as leadership for example CBRE and IRM have been strong outperformers in the previous bull trend and both have perked up recently

Among the laggards EQIX led to the downside On a disappointing earnings report despite renewed optimism per AI data center plays

The rest of the sector continued to struggle as investor risk appetite directed flows to higher beta exposures in June

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 Relief Offers Temporary Support:** The sector saw some lift mid-June as weaker-than-expected **ADP private payrolls** (+37K vs. 130K expected) and a contractionary **ISM Services** reading pulled long-dated Treasury yields lower. On June 5, 30-year yields fell 10–11 bps, helping interest rate–sensitive REITs. Despite this, investor flows largely favored growth and AI sectors, sidelining traditional income plays like real estate.

- **Policy Uncertainty Weighs on Capex & Valuations:** Ongoing negotiations around the GOP **reconciliation bill**, projected by the CBO to add $2.42T to the deficit, created uncertainty around funding costs and real estate tax policy. Investors remained cautious given unresolved issues surrounding **SALT caps, Medicaid, and IRA tax credits**, and concerns over **Section 899**, which could indirectly impact international REIT capital flows. Additionally, tariff-induced inflation pressures raised concerns around construction and redevelopment costs.

- **Office-to-Residential Conversions Gain Momentum:** A key structural trend during the month was renewed focus on **office-to-residential conversions**, particularly in dense urban cores. As demand for traditional office space remains muted and vacancy rates persist, developers and REITs are increasingly exploring adaptive reuse strategies. Regulatory support at the municipal level (e.g., zoning flexibility, tax credits) has begun to gain traction, especially as housing shortages continue to pressure residential affordability.

- **REIT Strategy Shifts Reflect Changing Demand:** REITs are evolving beyond traditional asset classes. June saw growing interest in **data center, logistics, and life sciences–oriented REITs**, while **retail and hospitality REITs** remained under pressure. Weak leasing commentary from sectors exposed to discretionary spending (e.g., regional malls, hotels) highlighted ongoing macro softness, while stable fundamentals in healthcare, infrastructure, and residential segments provided relative outperformance. **AI-driven demand** for space and power capacity is boosting capex for digital and utility-adjacent REITs, particularly in Tier 1 metro markets.

- **Macro Support from Lower Rates:** The market is now pricing in nearly **60 bps of Fed rate cuts** by year-end. If confirmed by Friday's **nonfarm payrolls** (125K est.) and future inflation prints, this should provide renewed tailwinds for yield-sensitive sectors like real estate. A continuation of the June Treasury rally would be particularly constructive for **mortgage REITs and high-leverage property owners**.

- **Conversions and Redevelopment as Growth Drivers:** Expect to see increased capital allocation and press coverage around **office-to-residential conversions**, which are now viewed as a viable long-term strategy for asset repositioning. This trend may benefit diversified REITs with urban land portfolios, as well as construction-related service REITs that can capitalize on conversion demand.

- **Digital & Infrastructure REITs in Focus:** Investor interest is shifting toward **non-traditional REITs**—particularly those exposed to **data centers, wireless towers, and AI infrastructure**. With earnings from **AVGO** and other tech majors reaffirming digital demand, expect continued rotation toward these subsectors, even as legacy commercial assets face muted growth.

- **Earnings Watch – Leasing, Margins, Capex:** July earnings season will be critical in gauging tenant health and margin resilience. Watch for updates on **occupancy trends, lease renewals, and cost inflation**, particularly in residential and logistics. Capex guidance and commentary on permitting or tariff costs will be key indicators of investment appetite and risk-adjusted returns.

- **Regulatory Wildcards:** Tax treatment changes within the reconciliation bill, if passed in July, could affect **pass-through income rules, depreciation schedules**, and interest deductibility. Additionally, local-level incentives for conversions and ESG-related reporting shifts could begin to reshape capital allocation models within the REIT universe.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.