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Monthly Insights: September Outlook
Real Estate Sector

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Sector Price Action & Performance Review: Real Estate



The S&P 500 Real Estate sector continued to trade sideways in August while lagging the benchmark which will finish August at or near all-time highs. The sector's technicals remain weak with the 200-day moving average pivoting downwards in May as the sector struggles to attract buyers while the bull market trend remains dominant.

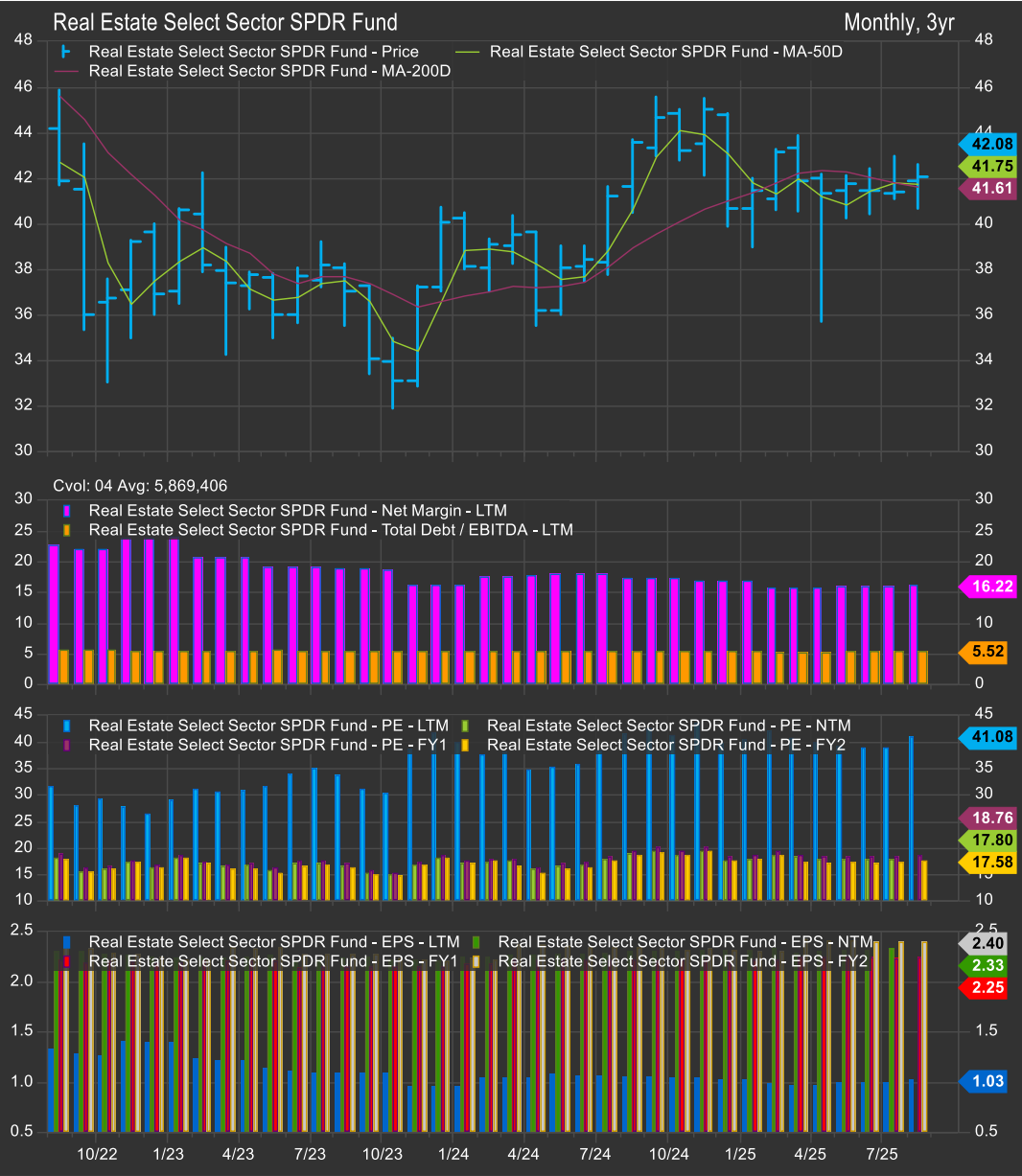
Potential upside for the sector would likely be catalyzed by a defensive shift in positioning on recession fears as we had in Q1. The other potential reflation scenario derives from the Fed's intent to support the economy by lowering the policy rate. In summer of 2024 that precipitated a near-term spike in performance for the sector. The fly in the ointment there is continued potential for upwards cost pressure from tariff implementation in combination with a US economy that is still near full employment despite some recent softening in the data.

Tariff input costs are also a potential headwind to office-to-residential conversion projects which have been highlighted as a necessity to re-align the sector with structural demand trends

Management and Development stocks (CBRE, CSGP) are positive standouts, but the average Real Estate stock remains out of favor. We are betting on the sector in September due to the emergence of a dovish Fed and as a hedge against the potential for bearish rotation after investors spent the summer pricing in a constructive outlook on global trade, AI and Fed policy.

We start September with an **OVERWEIGHT allocation of **+2.99%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Real Estate Sector



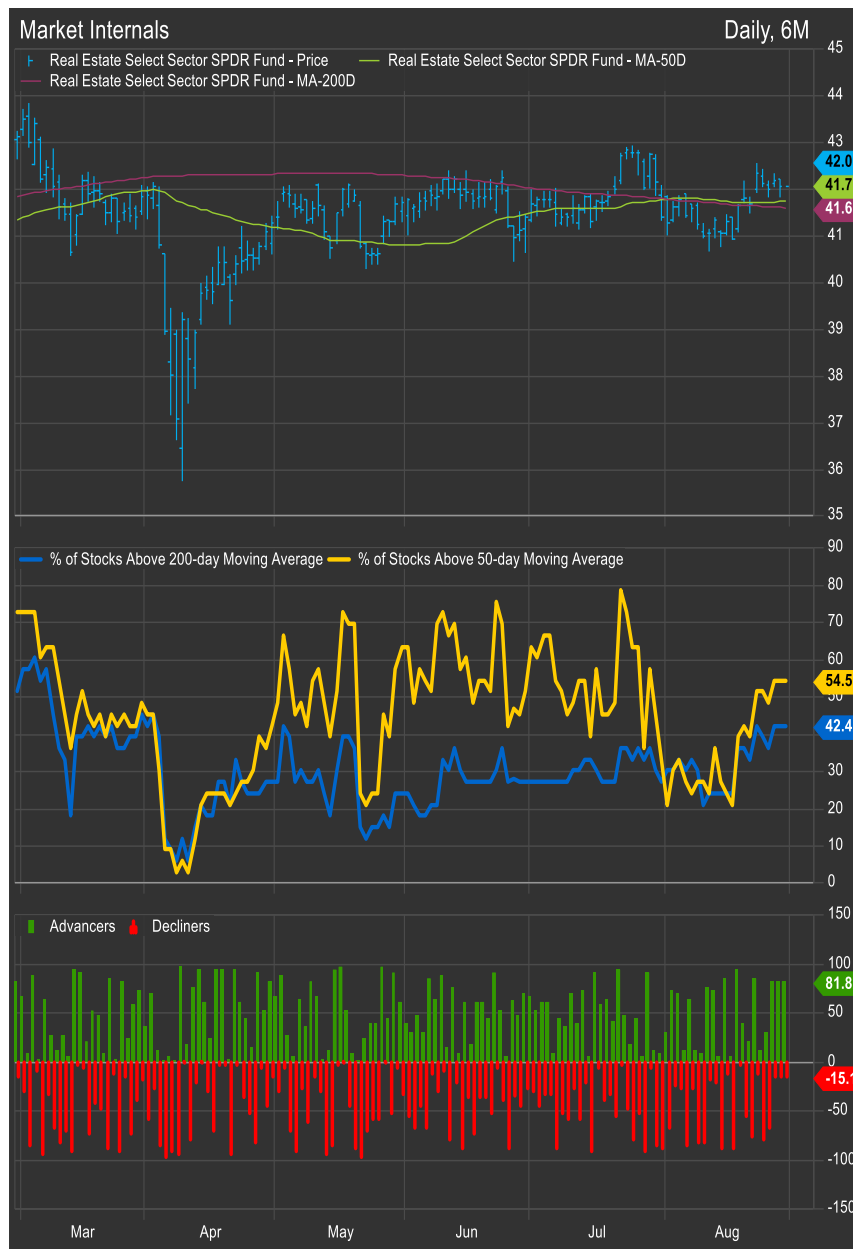
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins finally ticked higher for the sector in August reversing a bearish trend (chart, panel 2)

LTM 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

Out year valuations have contracted as companies have guided forward earnings higher. There still seems to be a disconnect between the bearish present trend and consensus estimates for robust forward EPS Growth

Industry Performance and Breadth: Real Estate



Real Estate Industries (chart, left): Real Estate Mgmt & Development remain leadership over the intermediate-term, but we can see that the Fed's dovish pronouncements and some mid-month rotation has resulted in a near-term bid for laggard industries with Office, Hotel and Retail categories perking up after 2+ months of correction

We saw some uptick among Real Estate Sector Internals (chart, right): Market internals for the sector collapsed in July, but with the Fed now positioned to support equities there's a potential life line for lower vol. stocks

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	Uptrend	48,513.3	0.96	14.6	0.0	1.40	8.9
SPG	Simon Property Group, Inc.	Bullish Reversal	58,169.8	1.08	0.7	3.2	1.42	5.0
FRT	Federal Realty Investment Trust	Consolidation	8,651.6	1.20	-2.6	2.9	0.97	4.9
HST	Host Hotels & Resorts, Inc.	Consolidation	11,942.6	0.87	3.0	3.3	1.39	3.4
WELL	Welltower Inc.	Uptrend	112,047.6	3.04	1.3	1.1	0.87	2.7
KIM	Kimco Realty Corporation	Consolidation	15,155.7	1.21	-1.7	3.0	1.14	1.2
DOC	Healthpeak Properties, Inc.	Support	12,439.1	2.52	-6.2	4.5	1.05	0.7
PLD	Prologis, Inc.	Support	104,574.1	1.63	-4.9	2.4	1.56	0.6
VTR	Ventas, Inc.	Consolidation	30,845.0	5.15	-4.4	1.9	0.84	0.6
REG	Regency Centers Corporation	Consolidation	13,157.2	1.23	-6.8	2.6	0.89	0.2

There hasn't been a lot of stock level momentum in the Real Estate sector, but CBRE is as close as it gets to a bullish Mo. Stock

Healthcare REITs have acted the best at the industry level while Fed easing is seen as a tailwind to retail (SPG)

To the downside, specialized REITs remain under pressure with tower stocks leading the decliners in August

Low vol. sectors remain out of favor and are in the portfolio as a tactical hedge against defensive rotation

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
AMT	American Tower Corporation	Consolidation	95,181.4	1.26	-12.9	2.2	0.92	-13.1
SBAC	SBA Communications Corp. Class A	Consolidation	22,348.8	0.96	-16.2	1.4	0.82	-12.1
CCI	Crown Castle Inc.	Consolidation	43,612.3	1.90	-8.3	3.1	0.91	-11.7
IRM	Iron Mountain, Inc.	Consolidation	27,133.6	1.66	-12.0	2.2	1.28	-9.1
ESS	Essex Property Trust, Inc.	Consolidation	17,235.8	1.52	-12.6	2.5	0.62	-8.3
EXR	Extra Space Storage Inc.	Consolidation	30,048.7	1.20	-12.2	3.0	1.15	-7.7
MAA	Mid-America Apartment Communities, Inc.	Consolidation	16,907.4	1.48	-14.1	2.8	0.73	-6.3
DLR	Digital Realty Trust, Inc.	Consolidation	57,886.5	2.97	-7.0	1.9	1.27	-6.2
CSGP	CoStar Group, Inc.	Bullish Reversal	37,895.5	3.11	5.2	0.0	0.87	-5.4
AVB	AvalonBay Communities, Inc.	Downtrend	27,639.4	1.32	-12.5	2.4	0.69	-5.4

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

Macro & Policy Drivers

Rates & Fed Policy: Curve steepening persisted in August, with front-end yields falling on dovish Powell and Waller comments while long-end yields moved higher. Market pricing ~55 bp of cuts by year-end. Elevated long-dated yields weigh on REIT valuations and financing costs.

Tariffs & Inflation: Tariff-related inflation pressures could lift input costs for commercial and residential construction, complicating cap rates and NOI assumptions. Offsetting this, softer shelter inflation from declining FHFA and Case-Shiller indices provides some relief for residential affordability metrics.

Housing Data:

July New Home Sales: 652K SAAR, slightly above consensus but down from June's upwardly revised 656K.

Pending Home Sales: Weaker in July, suggesting rate-sensitive buyers remain cautious.

Mortgage Rates: 30-year fixed mortgage eased to ~6.56%, lowest in 10 months, potentially improving affordability at the margin.

Credit Conditions: Consumer credit stress ticked up in August, with delinquencies creeping higher, raising questions for multifamily rent collections and retail REIT tenant health.

Earnings Trends

Retail REIT Exposure: Tariff focus on **furniture** (Trump's 50-day probe) raised uncertainty for mall and lifestyle center REITs with exposure to WSM, RH, ARHS, and W. ETD and LZB (domestically sourced) seen as relative winners.

Commercial Real Estate (CRE): Office fundamentals remain under pressure with leasing muted, but industrial/logistics REITs benefiting from capex related to onshoring, supply-chain reshoring, and AI data-center demand.

Housing-Linked Retailers: WSM, RH, and ARHS underperformed after tariff news. Home improvement retail (HD, LOW) trends stable, but broader housing turnover remains soft.

Demand & Structural Themes

AI & Data Centers: Strong secular demand for hyperscale and AI-driven compute buildout

continues to support data-center REITs, despite concerns over power grid constraints.

Residential REITs: Pressure from rising supply in multifamily markets and ongoing affordability challenges, though some relief from falling mortgage rates.

Industrial REITs: Continued demand for logistics, though moderation in freight volumes flagged in August. Elliott reportedly took a large stake in Rexford (REXR), highlighting activist interest in industrial REIT space.

Outlook for September

Monetary Policy: The September FOMC meeting is expected to deliver a 25 bp cut, which could provide modest relief to REIT funding costs and help stabilize housing activity. However, the steep yield curve suggests higher long-term borrowing costs will persist.

Housing Activity: Pending-home sales softness in July may spill into early September. Watch mortgage applications closely for signs of improvement as rates edge down.

Tariffs: Furniture tariff probe could see formal measures announced in September, adding pressure to retail REIT tenants and potentially dampening consumer spending on housing-related categories.

Data Centers: Nvidia's results and AI infrastructure commentary may renew focus on hyperscale demand and power availability, reinforcing strength in industrial and specialized REITs.

Credit Conditions: Rising consumer delinquencies and cautious bank lending standards may begin to affect tenant health more broadly in September, particularly in retail and residential segments.

Election Dynamics: With tariffs and Fed independence in focus, real estate could remain sensitive to shifting policy rhetoric into fall.

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.