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Monthly Insights: February Outlook

Real Estate Sector

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Sector Price Action & Performance Review: Real Estate

The Real Estate stocks executed a likely "dead cat" bounce in January. XLRE price moved from post correction lows mid-month but ultimately failed below October highs at the $43 level. Performance vs. the S&P 500 has stabilized since November, but there remains a distinct lack of upside catalysts for the sector. In fact, longer-dated yields are starting to move higher which historically has put Real Estate equities under pressure.

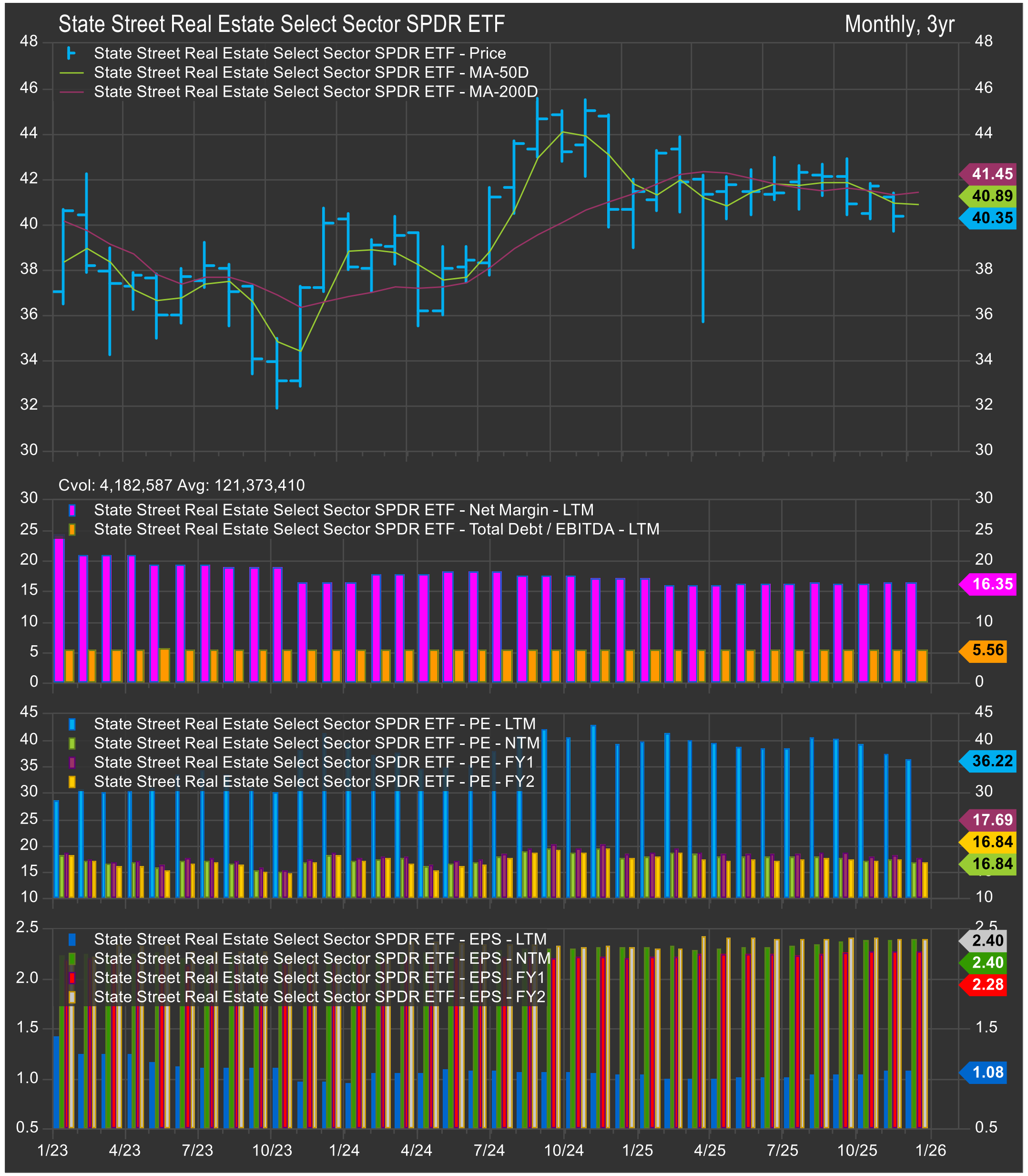
From a technical perspective the sector remains in a longer-term downtrend relative to the S&P 500. The only period of sustained outperformance over the past year came with equities in correction mode through March and April. Our RSI study did get above 70 which is a positive development given the weak longer-term trend, but the buyer has been unable to sustain any momentum, and we are now seeing a MACD sell signal with the relative curve testing 52-wk lows.

Office REITs and Tower stocks continue to be the primary drag on the sector, but the recent retracement in Healthcare REITs illustrates the fleeting nature of buyer interest in the space. Industrial and Hotel REITs are acting the best in the near-term, but consensus fundamentals continue to show a disconnect at the sector level between strong forward earnings Growth projections and continued weak present results. We think more negative surprises are ahead for the sector given this setup.

We'd expect the sector to outperform on an index level correction as it did in March-April 2025, but a lack of catalysts, stubbornly high interest rates and continued struggles for large segments of the sector (Towers, Office) has us less than sanguine on the sector to start 2026.

We start January with Real Estate one of our zero-weight sectors resulting in an underweight allocation of -1.82% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Real Estate Sector



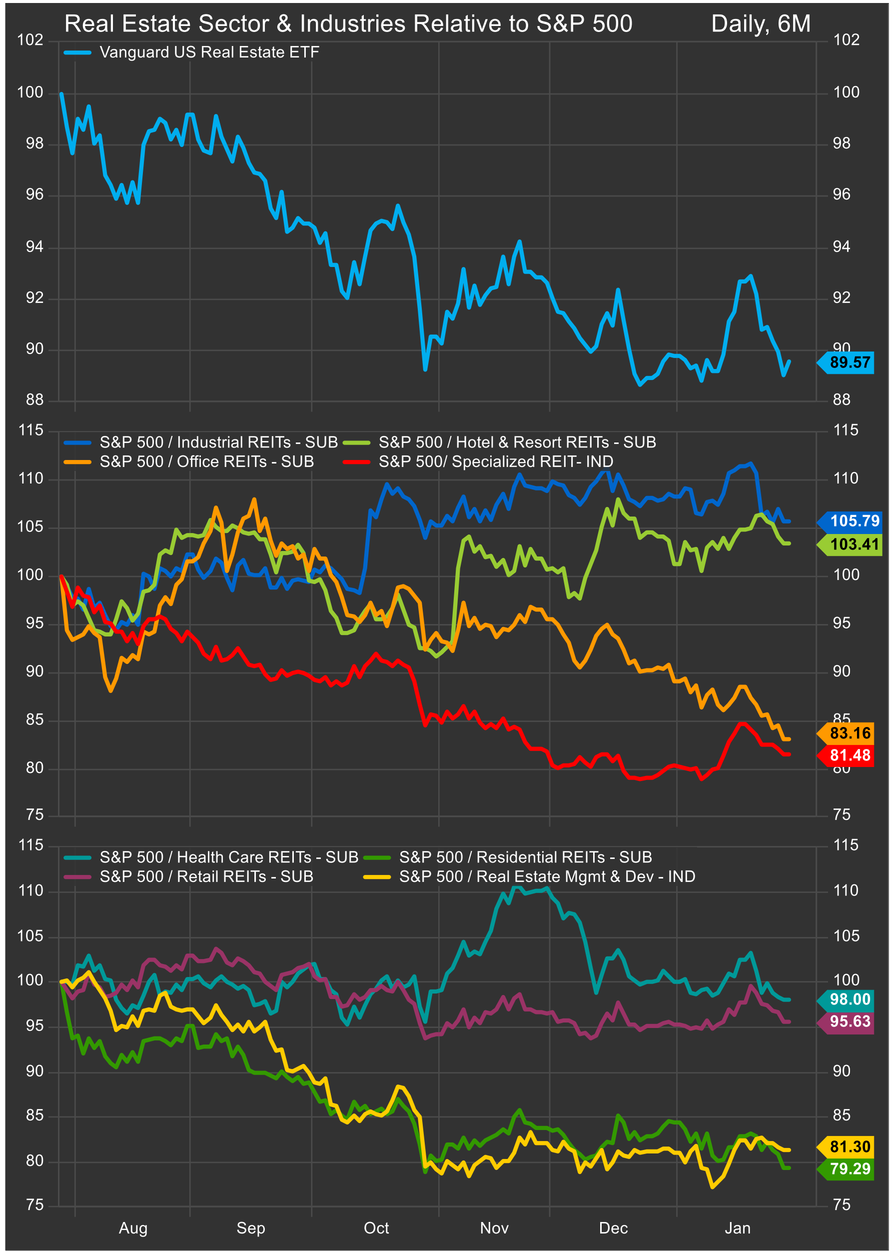
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to remain near worst levels (chart, panel 2) with debt levels stable.

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 on earnings and consensus estimates for robust forward EPS Growth.** At face value, out year valuation levels seem appropriate

Industry Performance and Breadth: Real Estate



Real Estate Industries (chart, left): Hotel and Industrial REITs gained in January.

Office REITs, Specialized REITs (particularly tower stocks) and Residential REITs have been a drag on the sector

We saw some uptick among Real Estate Sector Internals (chart, right): Market internals have improved in the very near-term, but we need to keep in mind this is a sector so weak that its 50-day moving average is BELOW its 200-day already

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
ARE	Alexandria Real Estate Equities, Inc.	Consolidation	9,463.9		-10.5	3.7	1.57	13.2
IRM	Iron Mountain, Inc.	Consolidation	27,265.2	1.60	-5.3	2.2	1.36	11.7
WY	Weyerhaeuser Company	Consolidation	18,778.4	3.79	5.8	2.1	1.40	9.0
DOC	Healthpeak Properties, Inc.	Consolidation	11,918.4	2.28	-1.9	4.7	1.14	6.3
EQIX	Equinix, Inc.	Support	80,134.6	2.18	0.2	1.5	1.15	6.1
O	Realty Income Corporation	Consolidation	55,258.7	1.48	2.1	3.5	0.77	5.7
DLR	Digital Realty Trust, Inc.	Consolidation	56,062.9	4.02	-5.3	1.9	1.11	4.5
PSA	Public Storage	Consolidation	48,052.3	1.09	-5.5	2.9	1.11	4.3
EXR	Extra Space Storage Inc.	Consolidation	29,111.9	1.15	-5.4	3.1	1.49	4.1
CBRE	CBRE Group, Inc. Class A	Bullish Reversal	50,442.0	0.91	4.2	0.0	1.41	2.1
HST	Host Hotels & Resorts, Inc.	Bullish Reversal	12,681.0	0.82	8.4	3.2	1.33	1.2
AMT	American Tower Corporation	Support	83,100.7	1.04	-7.3	2.5	0.88	0.8
REG	Regency Centers Corporation	Consolidation	12,885.4	1.16	-2.3	2.6	0.64	0.5
UDR	UDR, Inc.	Consolidation	12,039.6	2.49	-1.4	3.1	0.75	0.2
KIM	Kimco Realty Corporation	Consolidation	13,868.9	1.09	-5.8	3.2	0.97	-0.2
VICI	VICI Properties Inc	Consolidation	29,809.1	0.39	-8.9	4.1	0.60	-1.6
PLD	Prologis, Inc.	Bullish Reversal	118,086.9	1.54	1.7	2.2	1.68	-2.0
FRT	Federal Realty Investment Trust	Consolidation	8,611.5	1.39	0.0	2.9	0.78	-2.1
CPT	Camden Property Trust	Consolidation	11,407.7	3.74	-0.7	2.6	0.88	-2.6
WELL	Welltower Inc.	Uptrend	126,243.2	2.53	1.2	1.0	0.55	-2.9
SPG	Simon Property Group, Inc.	Consolidation	59,990.7	1.08	1.8	3.0	1.39	-2.9
EQR	Equity Residential	Downtrend	23,117.6	1.70	-5.0	3.0	0.68	-3.4
CSGP	CoStar Group, Inc.	Downtrend	27,633.2	1.91	-18.2	0.0	0.92	-3.5
MAA	Mid-America Apartment Communities, Inc.	Downtrend	15,508.6	1.56	-4.5	3.0	0.66	-3.6
CCI	Crown Castle Inc.	Downtrend	36,967.8	1.19	-12.8	3.7	0.98	-4.6
VTR	Ventas, Inc.	Bullish Reversal	35,662.1	4.64	3.9	1.7	0.55	-4.8
SBAC	SBA Communications Corp. Class A	Downtrend	19,621.7	0.85	-10.0	1.6	0.80	-5.2
INVH	Invitation Homes, Inc.	Downtrend	16,067.3	1.35	-10.2	2.9	0.78	-5.3
AVB	AvalonBay Communities, Inc.	Downtrend	24,491.7	1.35	-9.2	2.6	0.72	-5.5
ESS	Essex Property Trust, Inc.	Downtrend	15,809.9	1.64	-8.6	2.7	0.69	-6.2
BXP	BXP Inc	Downtrend	10,165.8	1.44	-12.4	2.8	1.37	-7.3

Individual stock returns skewed mildly positive in January for the sector

Data centers, Residential and Commodity related names were among the leaders while IRM has also started to show accumulation after a bearish retracement for most of 2025

Tower stocks remain weak while HC REITs have seen profit taking after recent outperformance

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

Macro and Policy Backdrop

U.S. large-cap real estate stocks entered late January on the defensive as macro and policy forces continued to work against the sector. The dominant headwind remains **financial conditions**, not property-level fundamentals. Despite periodic rallies in equities, **long-end Treasury yields remain elevated**, real yields are still restrictive, and rate volatility has not fallen far enough to sustainably re-rate REIT cash flows.

The Federal Reserve's January pause did little to improve the setup for Real Estate. While the Fed acknowledged moderating inflation and stabilizing labor markets, policymakers reiterated a **wait-and-see stance**, reinforcing expectations that policy will remain restrictive longer than REIT investors would prefer. Market pricing for 2026 rate cuts has flattened materially, limiting the scope for valuation multiple expansion across yield-sensitive assets.

Government policy uncertainty has compounded the problem. Tariff escalation threats, renewed government shutdown risk, and a White House affordability push aimed at housing, healthcare, and consumer costs have **kept political risk embedded in Real Estate valuations**. These dynamics have reinforced investor preference for sectors with either structural growth (Technology) or inflation pass-through (Energy, Materials), leaving Real Estate crowded out in asset allocation decisions.

Capital Flows and Relative Positioning

From a flow perspective, Real Estate has increasingly acted as a **funding source** rather than a destination. Capital has rotated toward momentum, AI-linked growth, and cyclical beneficiaries of a "run-it-hot" policy backdrop. Even on days when equities broadly stabilize, XLRE has struggled to attract incremental inflows unless rates are falling meaningfully.

Importantly, this underperformance is **not evenly distributed**. A narrow group of AI-adjacent real estate assets—particularly data-center and digital infrastructure REITs—has continued to absorb capital, while the bulk of the sector remains tethered to interest-rate direction and balance-sheet sensitivity.

Earnings and Fundamentals

Fundamental conditions across most REIT subsectors remain stable but uninspiring. Leasing activity is generally adequate, credit metrics are not deteriorating, and dividend coverage remains intact. However, **earnings growth is insufficient to offset valuation pressure from higher discount rates**. Rent growth is slowing in several segments, expense pressures remain sticky, and refinancing risk continues to loom as large portions of sector debt mature into a higher-rate environment.

In short, Real Estate is not broken—but it is **uncompetitive** relative to the other 10 GICS sectors under current macro conditions.

February Outlook: Recommended Sector Tilts

Overweight

Data Center and Digital Infrastructure REITs

This remains the only area of Real Estate with a compelling relative case. AI-driven demand, multi-year capacity constraints, and long-duration contracted revenues provide a growth profile that can partially insulate valuations from rate pressure. These names behave more like infrastructure-backed growth assets than traditional REITs and should continue to outperform both XLRE and the broader REIT universe.

Market Weight

Industrial / Logistics REITs

Fundamentals are sound, but upside is capped without a sustained decline in long-term yields. Performance is likely to track rates more than operating momentum, making this a tactical hold rather than a conviction allocation.

Underweight (Structural Laggards)

Residential, Healthcare, Net Lease, Retail, and Diversified REITs

These subsectors remain the most exposed to restrictive financial conditions and policy uncertainty. Pricing power is limited, balance-sheet sensitivity is elevated, and earnings growth lacks the torque to compete with growth-oriented or cyclical sectors. These groups are likely to **lag the S&P 500 and most other GICS sectors into February**.

U.S. Real Estate is likely to remain a bottom-tier GICS sector into February.

Absent a decisive drop in long-end yields or a clear Fed pivot, XLRE lacks the catalysts needed to close the performance gap with Technology, Industrials, Financials, or Energy. Outside of AI-linked real estate, the sector offers **income without momentum and stability without growth**—an unattractive mix in the current macro regime.

Until financial conditions ease meaningfully, Real Estate should be viewed as a **selective exposure, not a core allocation**, and in aggregate remains more likely to **lag than lead** the U.S. equity market.

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.