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Monthly Insights: May

Real Estate Sector

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Sector Price Action & Performance Review: Real Estate

The Real Estate Select Sector SPDR Fund (XLRE) delivered a solid April rebound after a weak March. XLRE closed March 31 at **$40.83** and finished April 29 at **$43.64**, implying a roughly **6.9% month-to-date price gain**. The move was constructive because it came despite a higher-for-longer Federal Reserve (Fed) backdrop and renewed oil-driven inflation concerns, both of which normally pressure Real Estate Investment Trusts (REITs).

Technically, XLRE has repaired some of the damage from March, when State Street's month-end data showed the fund down **6.22%** on market value for the month. The April move pushed XLRE into a stronger short-term range, but the sector remains sensitive to Treasury yields. A sustained move above the **$44–45** area would suggest investors are willing to look through rate pressure and pay for data-center, healthcare, retail, and industrial REIT growth. A break back below **$42** would imply that the April rally was more of a rate-relief move than a durable leadership turn.

XLRE is not a broad commercial real estate index. State Street notes that the fund tracks S&P 500 Real Estate companies in real estate management and development and REITs, while excluding mortgage REITs. The fund is concentrated in **Specialized REITs at 40.33%**, **Health Care REITs at 16.58%**, **Retail REITs at 12.95%**, **Residential REITs at 12.57%**, **Industrial REITs at 9.08%**, **Real Estate Management & Development at 6.14%**, **Hotel & Resort REITs at 1.42%**, and **Office REITs at only 0.92%**. Top holdings include Welltower, Prologis, Equinix, American Tower, Digital Realty, Simon Property Group, CBRE, Ventas, Public Storage, and Realty Income.

The May outlook for Real Estate is **market weight to modest overweight**, but highly selective. The April rebound was encouraging, and XLRE's composition is better than the commercial real estate headlines imply because the ETF is dominated by specialized, healthcare, retail, residential, and industrial REITs rather than office. Still, the sector remains rate-sensitive and capital-intensive.

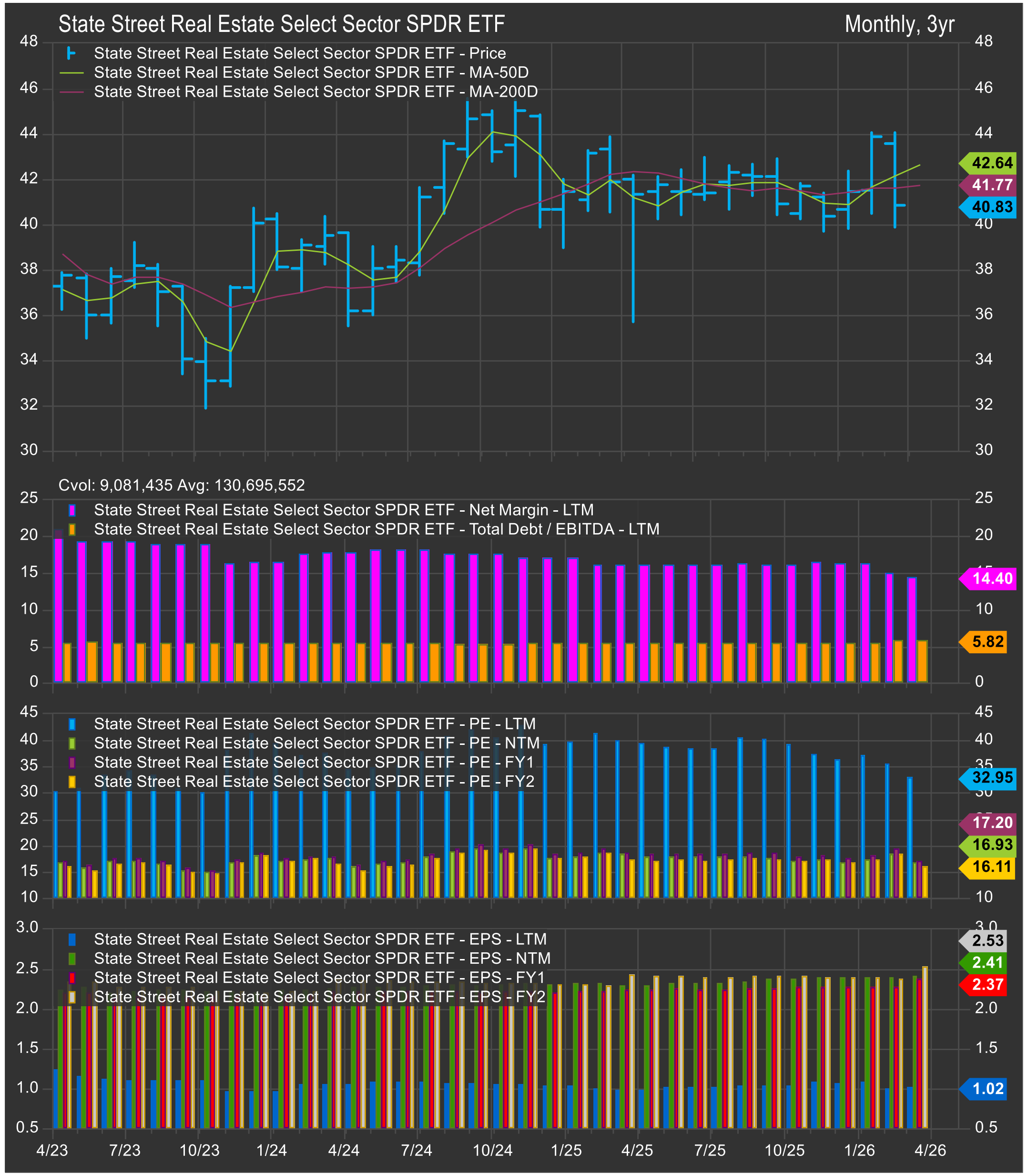
The best-positioned areas are **data centers, healthcare/senior housing REITs, select retail REITs, and high-quality industrial REITs**. Data centers benefit from AI and cloud demand; healthcare REITs benefit from senior housing occupancy and demographics; retail REITs benefit from limited new supply; and industrial REITs benefit from logistics modernization, reshoring, and supply discipline.

The more cautious areas are **office, hotels, rate-sensitive residential markets, self-storage, and highly leveraged REITs**. Office remains a narrow prime-asset recovery story. Hotels are vulnerable to fuel and travel risk. Residential is highly market-specific. Self-storage is more tied to housing turnover and consumer activity. Leveraged REITs remain exposed to refinancing risk.

A bullish May scenario would include stable or lower Treasury yields, continued strength in data-center leasing, strong healthcare REIT guidance, resilient retail leasing, and improving transaction activity. A bearish scenario would include a renewed rate shock, widening credit spreads, weak consumer demand, office credit stress, or evidence that AI data-center demand is being constrained by power availability. Overall, Real Estate looks investable, but the right stance is **selective exposure to growth REITs and balance-sheet quality**, not a broad bet on all property types.

We start May with an OVERWEIGHT allocation to the Real Estate Sector of +2.29% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Real Estate Sector



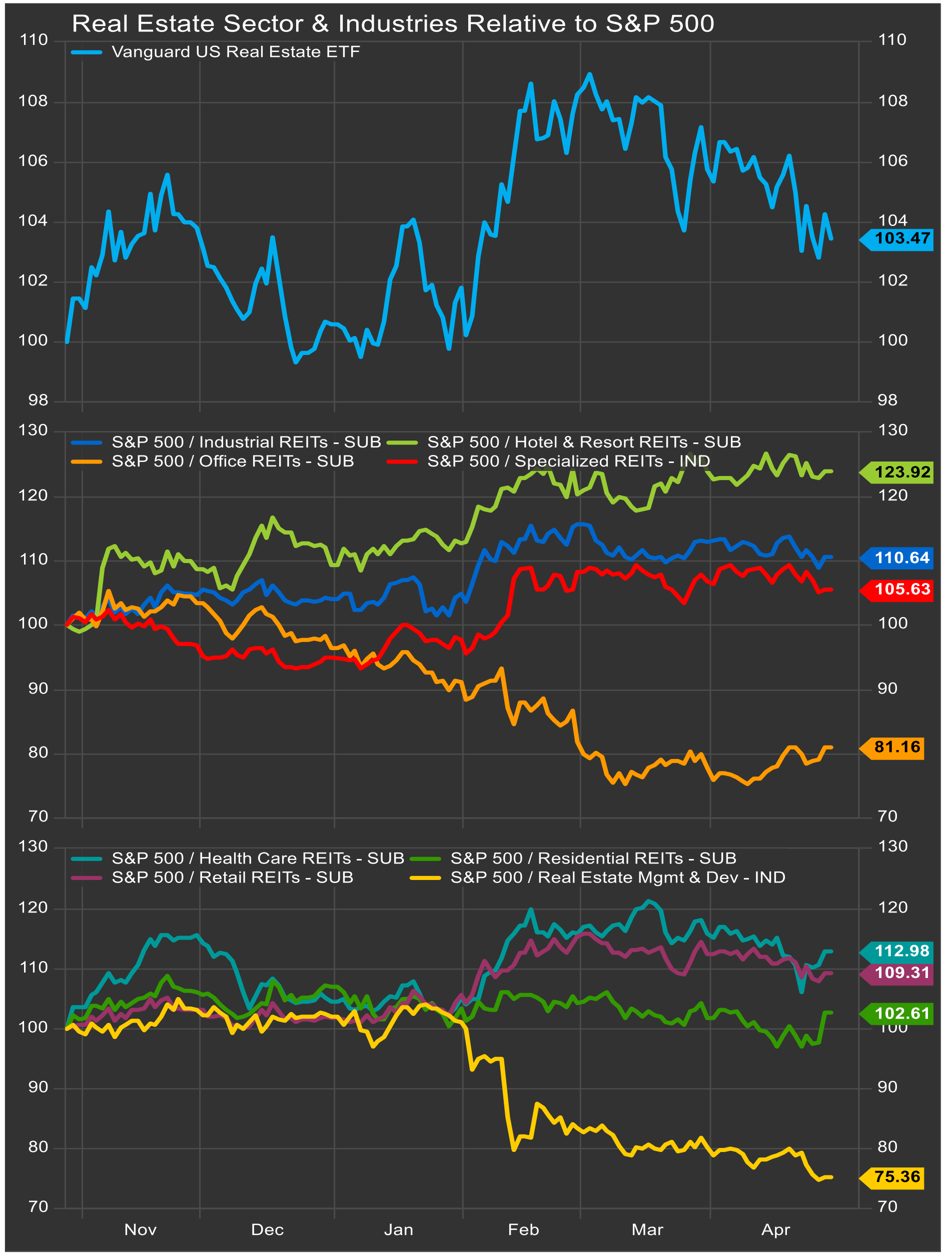
Real Estate fundamentals improved in April, but the sector remains highly bifurcated. The best operating momentum is in **data centers, senior housing, healthcare REITs, select retail, and high-quality industrial/logistics**. The weakest areas remain **office, rate-sensitive residential, lodging, and lower-quality real estate balance sheets**.

The sector's earnings story is better analyzed through **Funds From Operations (FFO)**, **Adjusted Funds From Operations (AFFO)**, **Net Operating Income (NOI)**, leasing spreads, occupancy, and balance-sheet capacity rather than standard earnings per share. At the S&P 500 level, FactSet showed broad earnings momentum in April, with Q1 blended earnings growth at **15.1%** and all eleven sectors reporting year-over-year revenue growth, but Real Estate was not among the leading earnings-growth sectors.

Company-level results showed where the strength is concentrated. Welltower reported normalized FFO of **$1.47 per diluted share**, up **23% year over year**, with **16.4% same-store NOI growth** and **22.1% senior housing operating same-store NOI growth**; the company also raised 2026 normalized FFO guidance to **$6.21–$6.35** per diluted share. Ventas also reported strong senior-housing momentum, with normalized FFO up **9%**, total company NOI up **14%**, and senior housing operating portfolio same-store cash NOI up more than **15%** year over year; it raised 2026 investment expectations to **$3B**, focused on senior housing.

Industrial and data-center fundamentals were also supportive. Prologis reported Q1 core FFO of **$1.50** per diluted share versus **$1.42** a year earlier, showing steady logistics REIT growth even as the industrial cycle cools from post-pandemic extremes. Equinix raised its full-year outlook after better-than-expected Q1 operating performance and now expects 2026 revenue growth of roughly **10–11%**, AFFO growth of **12–14%**, and AFFO per share growth of **10–12%**.

Industry Performance and Breadth: Real Estate



Industry / Group	Approx. XLRE Weight / Exposure	April Performance Trend	Fundamental Read	Macro / Policy Sensitivity
Specialized REITs	**40.3%**	**Largest and most important XLRE exposure; constructive but mixed internally**	The strongest part of this bucket is data centers, where demand and pricing remain very strong. Towers are steadier but more rate-sensitive, while storage is more consumer and housing-cycle sensitive.	Sensitive to power availability, data-center leasing, cloud capital spending, rates, wireless capex, self-storage demand, and zoning/permitting.
Health Care REITs	**16.6%**	**Strong leadership pocket**	One of the clearest organic growth stories in Real Estate. Aging demographics, limited new supply, and rising occupancy support NOI growth.	Sensitive to labor costs, healthcare policy, senior affordability, reimbursement, interest rates, and acquisition financing.
Retail REITs	**13.0%**	**Resilient; better than legacy narrative suggests**	Retail real estate is healthier than prior cycles because new construction has been limited and better assets have pricing power.	Sensitive to consumer spending, bankruptcies, tenant health, property taxes, redevelopment, and local zoning.
Residential REITs	**12.6%**	**Mixed and rate-sensitive**	Demand is durable, but rent growth varies sharply by market. Coastal and supply-constrained markets are better positioned than oversupplied Sun Belt submarkets.	Sensitive to mortgage rates, job growth, wages, multifamily supply, rent regulation, insurance, and property taxes.
Industrial REITs	**9.1%**	**Constructive but no longer a runaway leader**	Fundamentals are solid, but vacancy has normalized and tenants have more options than in the post-pandemic shortage period.	Sensitive to trade, tariffs, e-commerce, manufacturing, logistics costs, tenant inventories, and development supply.
Real Estate Management & Development	**6.1%**	**Improved with transaction-market recovery**	Highly cyclical but asset-light relative to REIT ownership. Benefits if property transaction activity and lending conditions recover.	Sensitive to capital markets, credit spreads, property pricing, leasing activity, corporate real estate budgets, and global growth.
Hotel & Resort REITs	**1.4%**	**Mixed**	Lodging has operating leverage if travel remains strong, but it is more cyclical than most REIT categories.	Sensitive to leisure and business travel, fuel prices, wages, tourism, conventions, and geopolitical disruption.
Office REITs	**0.9%**	**Small XLRE weight; stabilizing but still challenged**	Recovery is real but uneven. Trophy and prime assets are stabilizing; older commodity office remains structurally impaired.	Sensitive to hybrid work, refinancing, tenant credit, loan-to-value ratios, downtown safety, transit, and conversion policy.
Broad Real Estate / XLRE	**100%**	**Strong April rebound, but rate-sensitive**	Fundamentals are improving, but not uniformly. The sector's quality has improved because XLRE is heavily weighted toward specialized and healthcare REITs rather than office.	Sensitive to Treasury yields, credit spreads, refinancing, property taxes, data-center power policy, housing policy, and transaction liquidity.

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
SBAC	SBA Communications Corp. Class A	Consolidation	23,078.1	1.34	15.5	1.65	0.75	18.1
BXP	BXP Inc	Downtrend	9,387.3	1.62	-7.7	3.40	1.43	4.4
AVB	AvalonBay Communities, Inc.	Consolidation	25,526.9	1.75	2.8	2.81	0.71	3.2
INVH	Invitation Homes, Inc.	Consolidation	16,868.4	1.84	3.5	3.07	0.71	2.8
IRM	Iron Mountain, Inc.	Bullish Reversal	33,502.1	2.29	12.2	2.15	1.24	2.4
ESS	Essex Property Trust, Inc.	Consolidation	17,272.1	2.15	4.6	2.82	0.75	0.8
SPG	Simon Property Group, Inc.	Bullish Reversal	65,861.3	1.41	7.2	3.17	1.39	0.4
HST	Host Hotels & Resorts, Inc.	Bullish Reversal	14,392.8	0.94	11.7	3.01	1.04	0.1
EQR	Equity Residential	Consolidation	24,410.1	2.26	3.8	3.10	0.69	0.1
EQIX	Equinix, Inc.	Bullish Reversal	106,158.3	3.01	20.7	1.38	0.81	-0.4
PSA	Public Storage	Consolidation	52,161.7	1.46	2.9	2.94	1.10	-0.5
CBRE	CBRE Group, Inc. Class A	Consolidation	43,023.5	0.87	-10.6	0.00	1.59	-0.7
DLR	Digital Realty Trust, Inc.	Bullish Reversal	66,860.7	4.44	10.2	1.81	0.85	-1.2
CPT	Camden Property Trust	Downtrend	11,093.7	3.52	-1.4	2.89	0.89	-1.7
FRT	Federal Realty Investment Trust	Consolidation	9,709.2	1.81	7.7	2.90	0.65	-1.7
PLD	Prologis, Inc.	Bullish Reversal	131,938.6	1.90	6.1	2.17	1.52	-2.4
CCI	Crown Castle Inc.	Downtrend	37,601.8	1.76	-2.9	3.55	0.84	-2.5
MAA	Mid-America Apartment Communities, Inc.	Downtrend	15,169.4	1.86	-2.7	3.39	0.70	-2.7
WELL	Welltower Inc.	Uptrend	150,093.0	3.55	9.5	1.05	0.48	-2.7
EXR	Extra Space Storage Inc.	Consolidation	29,783.0	1.41	-1.3	3.37	1.58	-2.8
UDR	UDR, Inc.	Downtrend	11,800.6	3.35	-1.6	3.44	0.80	-3.0
REG	Regency Centers Corporation	Bullish Reversal	14,703.4	1.54	7.1	2.70	0.55	-4.1
VICI	VICI Properties Inc	Consolidation	30,626.5	0.47	-1.8	4.60	0.62	-4.5
VTR	Ventas, Inc.	Bullish Reversal	41,636.3	4.71	9.8	1.70	0.43	-4.6
KIM	Kimco Realty Corporation	Bullish Reversal	16,050.8	1.42	7.5	3.15	0.84	-5.1
AMT	American Tower Corporation	Downtrend	83,200.4	1.28	-3.2	2.88	0.79	-5.9
O	Realty Income Corporation	Bullish Reversal	59,257.2	1.77	1.4	3.72	0.71	-7.0
WY	Weyerhaeuser Company	Consolidation	17,896.3	2.86	-5.2	2.44	1.20	-8.1
DOC	Healthpeak Properties, Inc.	Downtrend	11,158.9	3.42	-10.5	5.55	1.01	-14.9
CSGP	CoStar Group, Inc.	Downtrend	15,095.8	1.18	-41.9	0.00	1.11	-21.7
ARE	Alexandria Real Estate Equities, Inc.	Downtrend	7,042.2	6.27	-28.3	5.11	1.59	-23.0

SBAC bucked the trend among tower stocks and posted a strong quarter. Office REITs were stable while residential and management plays led the sector lower.

Data Centers (EQIX, DLR) remain top ideas in the near-term and retail exposures have seen some improvement in 2026.

Metrics:

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

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

Economic & Policy Drivers: Real Estate Sector

Real Estate's macro setup is improving, but the sector remains one of the most rate-sensitive parts of the equity market. The April rally suggests investors are beginning to reward subsectors with visible growth, especially senior housing and data centers. However, the Fed, credit markets, refinancing costs, property taxes, power availability, and local regulation remain major drivers of May performance.

1. Rates and the Fed remain the most important sector variable

The Fed held its benchmark rate steady at **3.5%–3.75%** on April 29 in a highly divided decision, with policymakers split over inflation risks, the easing bias, and whether a rate cut was appropriate. That matters directly for Real Estate because REITs depend on capital-market access, debt refinancing, equity issuance, and investor demand for dividend yield.

Higher rates pressure the sector through several channels. First, they raise debt refinancing costs. Second, they reduce the relative attractiveness of REIT dividend yields versus bonds. Third, they pressure property values through higher capitalization rates. Fourth, they make external growth harder because acquisitions must clear a higher cost of capital. The best-positioned companies are those with low leverage, staggered debt maturities, strong liquidity, and internal growth that does not depend on issuing equity at unfavorable prices.

2. Property prices are stabilizing, but high Treasury yields cap upside

Private real estate pricing has stopped falling, but the recovery remains gradual. Green Street's Commercial Property Price Index increased **0.4% in March**, and the all-property index rose **2.6% over the prior twelve months**. However, Green Street also framed the environment as one where elevated Treasury yields are keeping pricing in check.

That is a fair description of the sector's current state. Real estate values are no longer in free fall, and liquidity is improving, but the sector has not returned to a low-cap-rate environment. A durable REIT rerating likely requires either lower Treasury yields, stronger rent growth, or clearer evidence that property transaction volumes are recovering.

3. Mortgage rates are still a constraint on residential activity

Residential real estate is still constrained by elevated mortgage rates. Freddie Mac reported that the 30-year fixed-rate mortgage averaged **6.23%** as of April 23, down from **6.30%** the prior week and **6.81%** a year earlier. Mortgage Bankers Association (MBA) data showed the average 30-year fixed rate ticking up to **6.37%** for the week ending April 24, with refinance applications falling and purchase applications rising modestly.

This is mixed for Real Estate. High mortgage rates hurt housing turnover, which weighs on housing-linked services and discretionary spending, but they can support apartment demand by keeping households in rentals longer. For residential REITs, the important variable is local supply. High mortgage rates support rental demand, but oversupplied multifamily markets can still experience weak rent growth.

4. Housing supply data are mixed

March housing data were better on starts but weaker on permits. Reuters reported that single-family housing starts rose **9.7%** to a 13-month high, while building permits fell **3.8%** month-over-month and **7.9%** year-over-year. Multifamily starts also rose, but multifamily permits fell sharply.

For REIT investors, the message is that supply risk is still uneven. Existing multifamily deliveries may continue to pressure certain Sun Belt apartment markets, but weaker permits suggest future supply should slow. That is constructive for apartment landlords over a longer horizon, but not enough to justify a blanket overweight in May.

5. Data centers remain the sector's strongest structural growth driver

Data centers are the clearest secular growth theme in Real Estate. CBRE said U.S. data-center demand is reaching unprecedented levels, 2026 is on track to set a new record for leasing activity, vacancy is near historic lows, and pricing is at all-time highs. CBRE also noted that new supply is becoming harder to deliver because large AI campuses require substantial power, substations, and sometimes new transmission or generation capacity.

For XLRE, this directly supports Equinix and Digital Realty. The key macro shift is that data-center real estate is no longer mostly about fiber and location; it is increasingly about **power access**. CBRE noted that power cost and delivery speed now outweigh connectivity in site selection, and the ability to secure very large power deliveries in less than 36 months is becoming a decisive advantage.

The risk is that AI capital spending becomes too aggressive or that utilities, regulators, and local communities slow interconnections. But for May, data-center REITs remain one of the highest-quality growth sleeves in Real Estate.

6. Healthcare and senior housing are benefiting from demographics and limited supply

Healthcare REITs are another major bright spot. Welltower and Ventas both showed strong senior housing results, with occupancy, revenue per occupied room, and operating leverage driving above-sector growth. Welltower's 22.1% senior housing operating same-store NOI growth and Ventas's more-than-15% senior housing operating portfolio NOI growth show that the demand recovery still has runway.

The macro drivers are favorable: aging demographics, limited new senior housing supply, improved move-in activity, and operating leverage as occupancy rises. The policy risks are more manageable than in acute healthcare, but labor costs, state regulation, resident affordability, insurance, and healthcare reimbursement still matter indirectly.

7. Retail real estate is supported by scarce supply

Retail REITs have a better setup than the old "malls are dead" narrative suggests. CBRE expects retail availability to remain near historic lows in 2026, with limited new construction because of financing constraints, high costs, and limited land availability. That scarcity supports rent growth and leasing spreads for high-quality assets.

The risk is the consumer. If higher gasoline prices, tariffs, and weak sentiment pressure discretionary spending, weaker tenants could struggle. But high-quality centers with grocery, services, luxury, restaurants, and necessity-based tenants should remain resilient.

8. Industrial is normalizing, not breaking

Industrial REITs are no longer in the extraordinary shortage environment of 2021–2022, but fundamentals remain constructive. CBRE expects industrial leasing activity to rise slightly in 2026, supported by renewals, reshoring, third-party logistics, and tenant upgrades into newer facilities. Vacancy is expected to stabilize in the mid-6% range due to limited speculative completions.

The nuance is that older buildings are more exposed. CBRE noted that older industrial space saw more than **100 million square feet** of negative absorption last year, while first-generation facilities in key markets remain more attractive. For investors, Prologis-quality portfolios remain attractive, but the group should be treated as a selective overweight rather than a broad cyclical chase.

9. Office is stabilizing, but recovery is narrow

Office remains the weakest structural category, though the data are no longer uniformly negative. CBRE reported that Q1 office net absorption totaled **6.9 million square feet**, the highest Q1 total since 2020, and that vacancy fell 10 basis points to **18.6%** while prime vacancy fell 80 basis points to **12.7%**. CBRE also noted that office construction completions were the lowest quarterly total since it began tracking the metric in 1990, which should help supply discipline.

The problem is quality dispersion. Prime office in strong markets is improving, but older commodity office remains exposed to hybrid work, weak tenant demand, refinancing risk, and conversion uncertainty. Since office is less than 1% of XLRE, the ETF is shielded from the worst of this risk, but office remains important for banks, credit markets, and investor sentiment toward commercial real estate.

10. Transaction liquidity and real estate services are improving

Real estate services and management companies benefit when leasing, lending, and property sales recover. CBRE's office report said total office investment volume is expected to increase **20% in 2026**, and loan-to-value ratios for permanent office loans rose to **61.4%** in Q1 from **58.4%** in Q4, indicating improved lender appetite for high-quality assets.

This supports CBRE-style exposure within XLRE. The group is more cyclical than regulated or lease-based REIT income, but it can outperform when transaction markets reopen.

11. Local regulation, taxes and insurance are rising cost risks

Real Estate is also exposed to local policy. Property taxes, insurance, zoning, rent regulation, building-performance standards, and development permitting affect cash flows across property types. These risks are especially important for apartments, office, senior housing, and coastal assets.

Insurance is increasingly important in weather-exposed markets. Rising premiums can pressure NOI if landlords cannot pass costs through. Property taxes can also rise even when tenant demand slows, particularly in municipalities facing budget pressure. These are not always visible in headline rent growth, but they matter for margins and valuation.

12. Power, permitting and infrastructure policy are now Real Estate issues

Data-center growth makes power policy a direct Real Estate driver. The ability to secure electricity, interconnection, backup generation, and utility approvals now determines which markets can attract large AI campuses. This creates opportunities for data-center REITs but also exposes them to utility regulation, local opposition, and environmental permitting.

In practice, the best data-center real estate will be in markets where power is available, utilities are cooperative, and local governments support development. Markets with transmission delays, water concerns, or customer-bill backlash may see slower supply growth despite strong demand.

Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

Valuation Adjusted Earnings Growth

Higher scores with positive momentum preferred

Valuation Adjusted Earnings Growth (simple mean)

Relative Earnings Growth Multiple (vs. Benchmark)

Divided by

Rel. Valuation Multiple (vs. Benchmark)

Relative Earnings Growth Multiple:

Company Earnings Growth:

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings

Divided by

Benchmark Earnings Growth:

Benchmark consensus mean EPS NTM / Restated Annual Benchmark EPS

Relative Valuation Multiple

Company NTM P/E / Index NTM P/E

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Volatility Adjusted Income (simple mean)

Dividend Yield Multiple

Divided by

3yr Beta Vs. S&P 500

Dividend Yield Multiple

Stock Dividend Yield (Consensus NTM)

Divided by

S&P 500 Dividend Yield (Consensus NTM)

Appendix: Metric Interpretation/Descriptions

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings * weight of each company in the universe 1-n

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.