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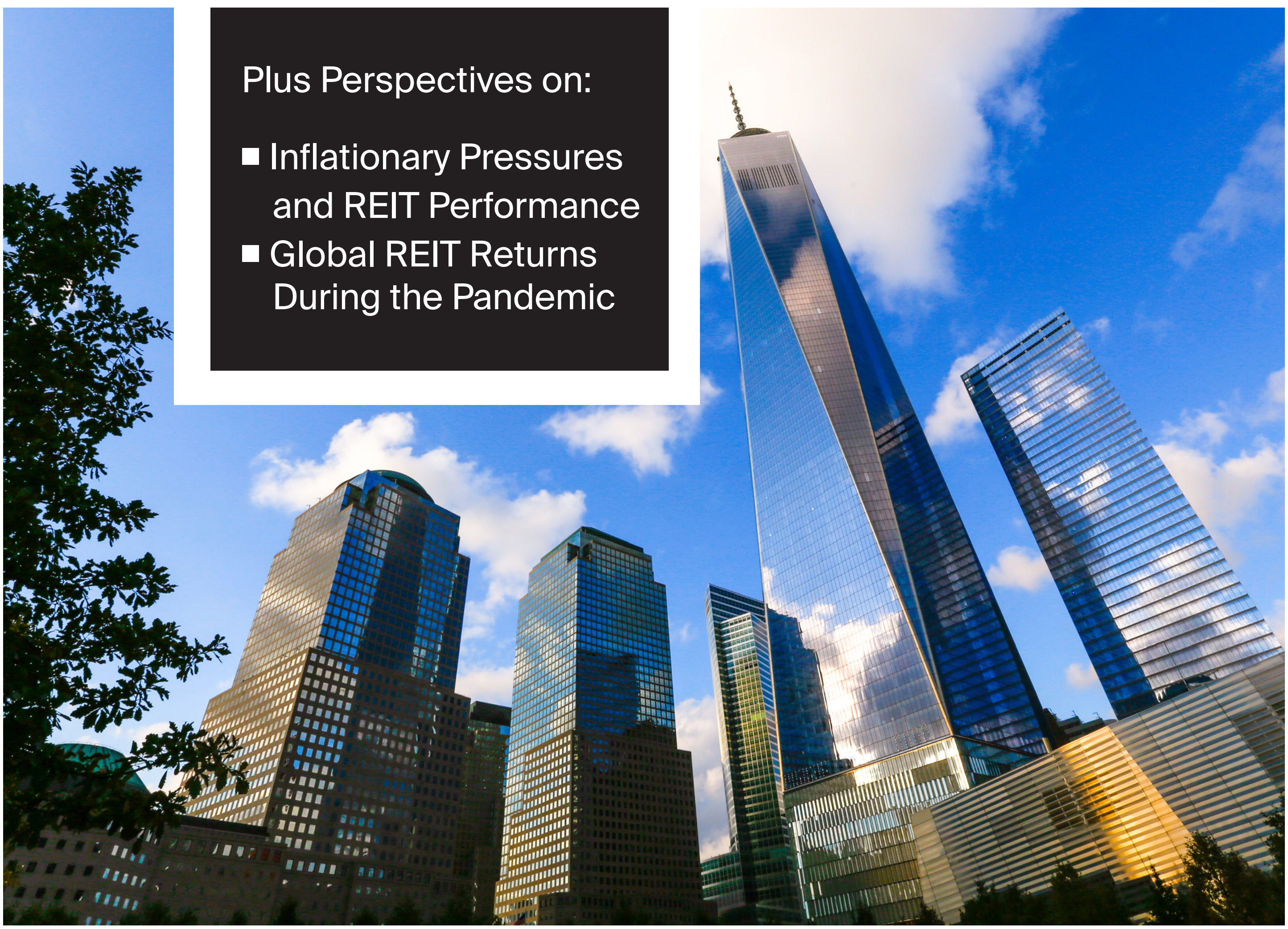
December 2021

2022 Outlook for the Economy, Commercial Real Estate, and REITs

Which pandemic changes are temporary and which are here to stay?



Plus Perspectives on:

- Inflationary Pressures and REIT Performance
- Global REIT Returns During the Pandemic



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Introduction

As the calendar flips to 2022, the world will have endured nearly two years of COVID-19. While there are hopeful signs for a return to normalcy in 2022, recent days have also brought the unhappy possibility of more health-related uncertainty, which may continue economic and social disruption. In this outlook, Nareit's research team provides perspectives on the past 22 months and an outlook for the next 12 to 18 months.

Despite the challenges of COVID-19, 2021 has been a successful year for REITs and REIT investors as the hard-hit, social distancing-sensitive sectors have recovered from 2020 and the digital economy sectors have continued to thrive. As of Dec. 1, 2021, REITs are up nearly 29% for the year with strong performance across sectors. REIT stock total returns since the onset of the pandemic are now in excess of 20%.

The robust recovery speaks both to the unique nature of the COVID-19 crisis for real estate and to the resilience of REITs. Entering the crisis with strong balance sheets and operating performance, REITs and their management teams were able to adapt to the rapidly changed environment creating the conditions for a successful recovery. The stock price recovery has resulted in REITs issuing equity and debt in nearly equal proportions in 2021, fueling property acquisitions that will support future earnings growth. In 2021, there has been important M&A activity, including three data center REIT acquisitions, as both REITs and private funds increase exposure to digital economy real estate and REIT-to-REIT deals that should drive growth through the strategic merging of complementary portfolios.

2022 Outlook for the Economy, Commercial Real Estate, and REITs

John Worth, Nareit

2022 Outlook for the Economy, Commercial Real Estate, and REITs

Assuming COVID-19 variants remain largely in check, this will be a period of economic growth that will drive recovery across a broad range of real estate and REIT sectors. As Nareit's Calvin Schnure summarizes, the coming year is likely to see significant further improvement in overall economic conditions, with rising GDP, job growth, and higher incomes, in a supportive financial market environment where inflation pressures gradually subside and long-term interest rates remain well below their historical norms.

As we hopefully transition out of this period of human loss and economic and social upheaval, the Paul Simon lyric "nothing is different, but everything's changed" resonates. Schnure's outlook considers what we can infer about which of the dramatic changes we have experienced in how we interact with real estate and the built environment are permanent and which are temporary. Most critically, he considers how the increasing digitization of shopping may impact retail and how the future of office use may evolve as firms return to the office and experiment with hybrid and work-from-home arrangements.

Inflationary Pressures and REIT Performance

Another topic of widespread discussion during Nareit's interactions with investors during the latter half of 2021 has been the potential threat of inflationary pressures as the economy works through supply chain challenges. Nareit's Nicole Funari showcases research on how both REITs' stock returns and operational performance have historically performed well during periods of high and moderate inflation. This provides further evidence that REITs can provide effective inflation protection in a diversified portfolio.

Global REIT and Listed Real Estate Performance During the Pandemic

Of course, COVID-19 was a global crisis and the real estate effects were felt worldwide. Nareit's John Barwick reviews global returns across the crisis highlighting index product enhancements Nareit has recently implemented as well as examining the role government policies and different real estate sector concentrations have played in driving regional returns.

As a final note, in a year where crypto coins, decentralized finance, and NFTs have hit the mainstream, I frequently reflect that for over 60 years, we have enjoyed a successful system of distributed, low-cost, fractionalized ownership of real property—without blockchain—the REIT system. As a measure of that success, today 145 million Americans enjoy the benefits of commercial real estate in their portfolios through the use of REITs and nearly half the population of the earth lives in a region or nation with REITs.

In 2022, Nareit's Research and Investor Outreach team will continue to research and communicate the benefits of REITs in a diversified portfolio, and we wish you a healthy and successful year.

John Worth
Executive Vice President, Research & Investor Outreach
Nareit

2022 Outlook for the Economy, Commercial Real Estate, and REITs

Which pandemic changes are temporary and which are here to stay?

By Calvin Schnure, SVP, Research & Economic Analysis, Nareit

The coming year is likely to see significant further improvement in overall economic conditions, with rising GDP, job growth, and higher incomes, in a supportive financial market environment where inflation pressures gradually subside and long-term interest rates remain well below their historical norms. The emergence of the new Omicron variant of COVID-19 in late November 2021 serves as a reminder that the threat of new waves of infection loom over all aspects of the global economy. Increasing vaccination rates and natural immunity due to prior infection may help contain these risks.

Don't expect commercial real estate markets or the rest of the economy to go back completely to the way they were before the pandemic, however. The pandemic was more than just a shock to aggregate demand. It also changed the way we live our lives, do our shopping, and conduct our businesses. Some of the changes may dissipate over time, while others are likely to be permanent. Nearly every sector of commercial real estate will be impacted one way or another.

As we assess the outlook for commercial real estate in 2022 and beyond, it is helpful to distinguish between these impermanent or cyclical effects and the longer-term structural changes that result from changes in behavior. The following sections first review REIT investment performance to date during the pandemic, and the outlook for economic activity and overall macroeconomic conditions. The final section considers how the pandemic has made deeper changes in how we live our lives and how this affects how we use commercial real estate.

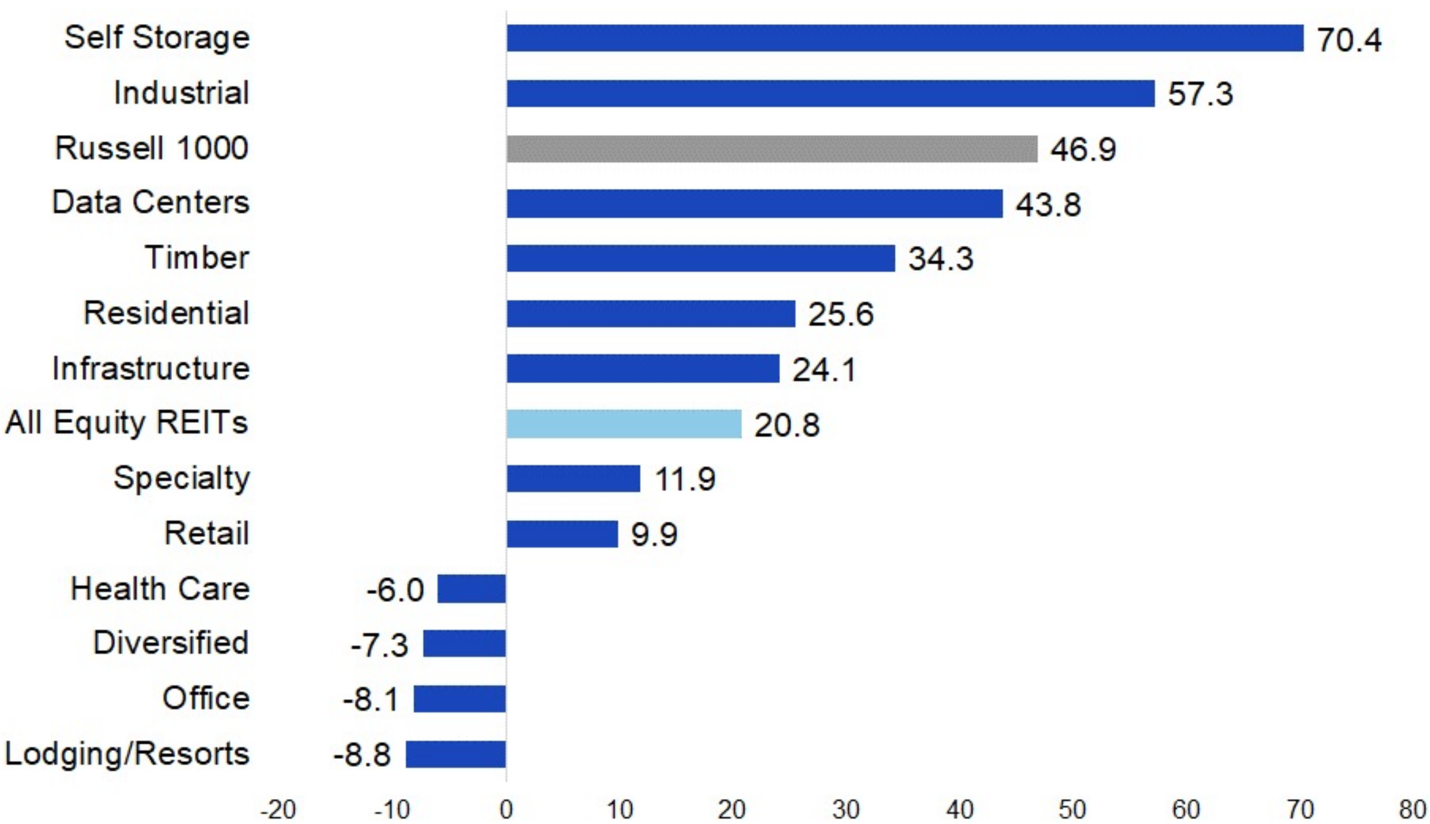
Overall, the year ahead is likely to build on the recovery that is already underway in the macroeconomy and in commercial real estate markets. REITs are likely to perform well in this growth environment.

REIT Returns During the Pandemic

After posting initial declines early in the pandemic, REIT share prices have recovered as the real estate sector has proven to be resilient. REIT sectors that support the digital economy—data centers, infrastructure, and industrial REITs—rebounded most rapidly in the summer of 2020 as online communications and e-commerce purchases replaced in-person interactions during the period of most stringent social distancing requirements. Other sectors recovered more fully after vaccines against COVID-19 were introduced in November 2020.

Some sectors remain below pre-pandemic levels, including lodging/resorts, office, diversified, and health care REITs (chart 1.1). Other sectors, however, have had double-digit returns. Some sectors have delivered exceptional returns, including industrial REITs, with total returns of 57% through November 2021, and self-storage REITs—which have had a surge of demand due to strong housing markets and home sales, plus additional need for space during the pandemic—with investment returns exceeding 70%.

Chart 1.1:
U.S. REIT Property Sector Performance
Pandemic-to-date Total Return through November 2021



Source: FTSE, FactSet, Nareit

Macroeconomic Outlook

Macroeconomic fundamentals are sound, and except for a few significant obstacles in the near term, growth is likely to continue at above-trend pace in 2022. Job growth has been impressive, averaging 555,000 per month in 2021 through November, reducing the unemployment rate to 4.2%. With total payroll employment still 7 million below the pre-pandemic trend, the job market and the overall economy have considerable running room ahead.

Bolstering the outlook is the fact that all major sectors of the U.S. economy are in a stronger financial position than they were at a similar point following past recessions. Household aggregate net worth has risen to a record high of $142 trillion as of mid-2021, up 21% from 2019 due to rising stock prices and housing prices. Debt levels are also more sustainable than they had been in the past. Debt service represents 13.8% of disposable personal income, according to the Federal Reserve, compared to over 17% in 2008-2009. (These aggregate statistics do not reflect the unevenness of the recovery across different groups in the country, which has resulted in significant inequalities. These inequalities are an important concern, but it is the more favorable aggregate position that largely drives consumer spending and GDP growth). In addition, nonfinancial corporations and commercial banks are in much stronger financial positions today than they were in 2009-2010.

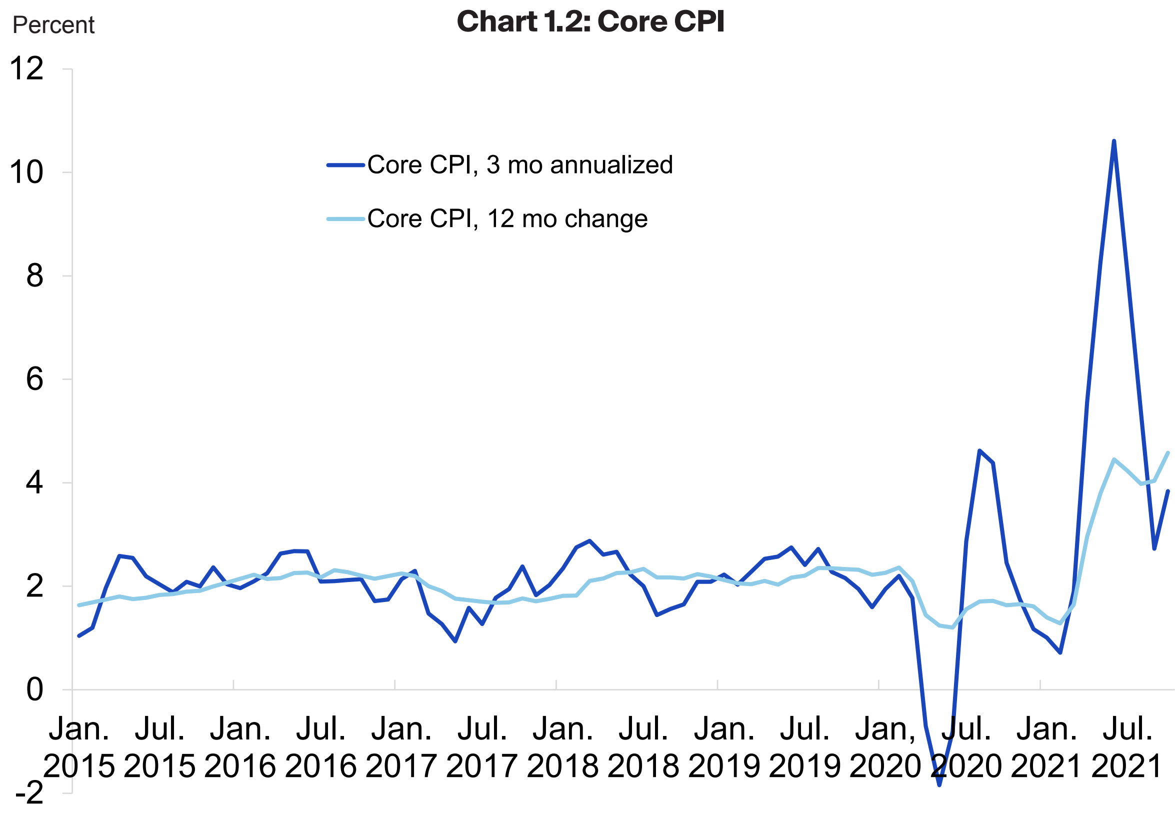
Three obstacles are challenging the outlook over the near-term: ongoing high levels of COVID-19 infections, production and supply chain bottlenecks, and an elevated inflation rate. First, the pandemic continues to hold back many types of economic activity that involve face-to-face interactions, including employees' return to the office, business travel, and many forms of entertainment. Second, the supply chain issues are well known, and have restricted auto production and availability of many types of goods. Finally, the CPI has risen 6.2% over the past 12 months, well above the Federal Reserve's target, raising the possibility of higher interest rates to slow the economy to prevent it from overheating. Labor shortages, especially in a few sectors like hotels and restaurants, have limited some businesses' ability to reopen fully. Most of the inflation pressures have resulted, however, from shortages of key components due to production and supply chain disruptions, and there is little evidence to date that inflation is being driven by higher labor costs.

Yet these three obstacles are interrelated and are likely to ease significantly in the year ahead. COVID-19 infections have not only dampened demand for conferences and theaters, but also have limited the ability to operate ports, logistic centers, and production operations. A reduction in the pandemic, along with new investment in ports and transportation networks, will help ease the bottlenecks that are driving inflation.

Indeed, there are signs that inflation is not ramping steadily higher, but may in fact have peaked several months ago, when supply chain bottlenecks intensified in May-June 2021. Focusing on the 12-month change in inflation can obscure the rapid changes that have occurred during the pandemic. One gets a more accurate view of current inflation by looking at the three-month annualized change in the CPI. By this measure, core inflation surged to a 10.6% annualized rate in the three months through June, but subsequently has slowed to between 3% and 4% (chart 1.2).

Key risks to the outlook: Future variants of COVID; supply chain problems may linger.

Chart 1.2: Core CPI



Source: BLS, Haver Analytics, Nareit

Commercial Real Estate—Temporary vs Structural Changes from the Pandemic

Retail, E-Commerce, and Digital Real Estate

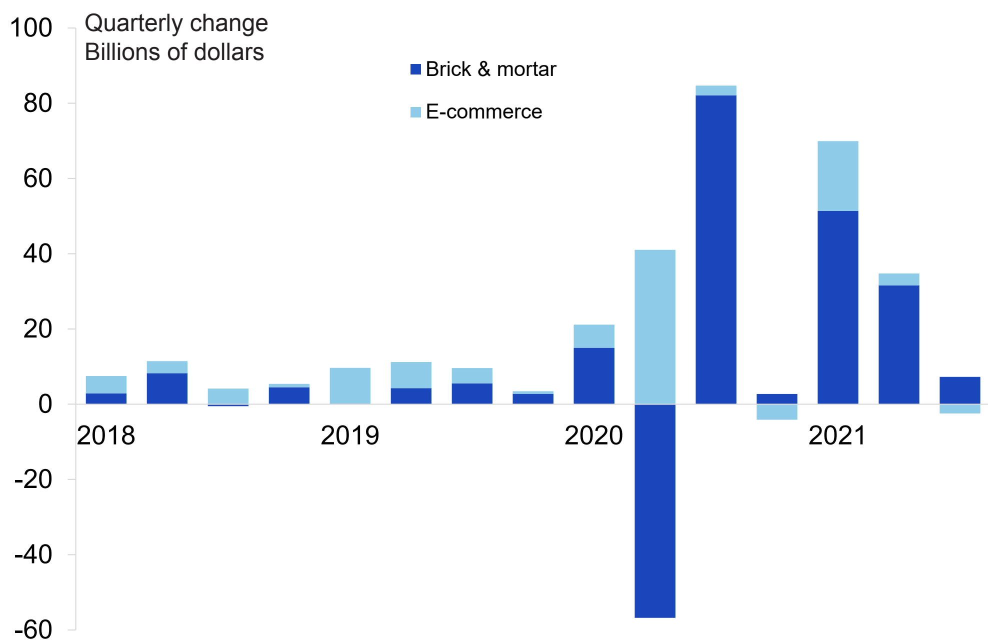
The rise of e-commerce had been changing the way consumers shop long before the pandemic began. Online sales surged even higher in the early months of the pandemic, as shopping centers and malls shut down due to social distancing restrictions. Sales through brick-and-mortar channels fell $57 billion in the second quarter of 2020, while e-commerce sales rose a record $41 billion (chart 1.3).

Brick-and-mortar sales came back with a vengeance as stores reopened, however, more than reversing their earlier decline with an $82 billion gain in the third quarter. What is most surprising, though, is that e-commerce sales didn't fall with the rebound in brick-and-mortar sales, but rather have continued to build on their earlier increases.

Consumers have demonstrated that they still appreciate in-store shopping for certain items, even as they prefer the convenience of online purchases for others. In particular, shoppers often want to check the size and fit and appearance for clothing, shoes, and other fashion items, or they may simply enjoy visiting shops and seeing the displays as a break from mouse-clicks online.

This consumer preference for "more of both" will likely boost the recovery of the brick-and-mortar retail sector in 2022, and also support the continuing long-term growth of REIT sectors that support the digital economy, including industrial/logistics, data centers, and infrastructure/communications towers.

Chart 1.3: Retail Sales



Source: Census, Haver Analytics, Nareit

Cyclical factors: The temporary decline in brick-and-mortar retail sales early in the pandemic.

Permanent or structural factors: An ongoing role for in-store purchases for many items, together with online purchases of others.

What to watch for: Upside potential in retail as new tenants sign leases to fill vacant space.

Office

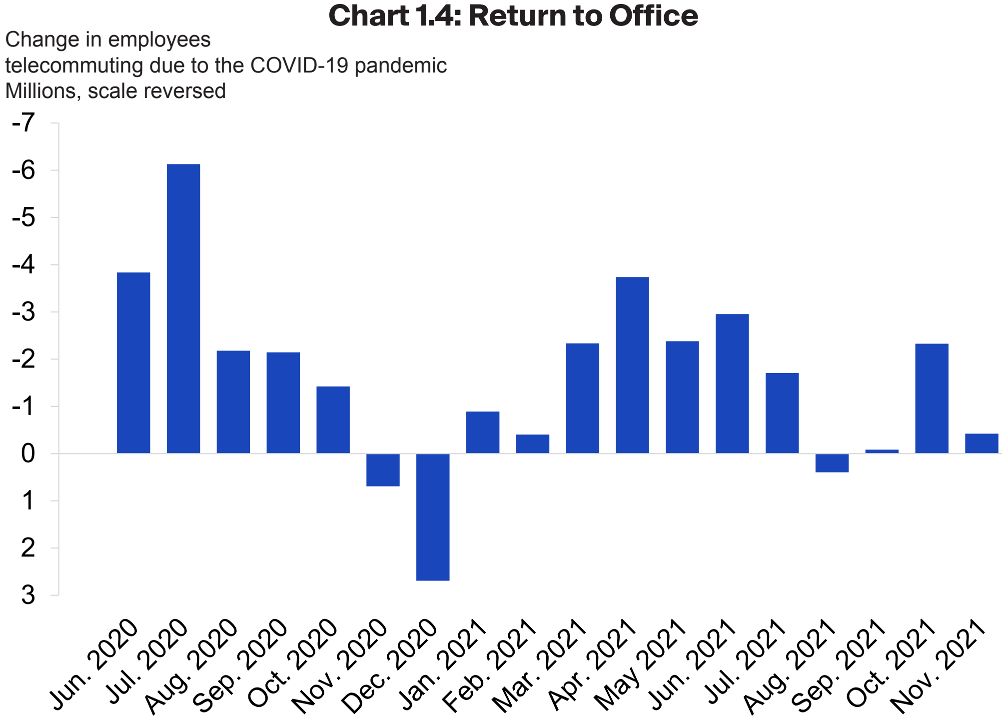
For the state of the office, it is important to ask the right question. Most attention to date has been focused on how quickly employees return to the office. To be sure, the slow pace back to the office by employees who have been working from home has been troubling, but in large part the delays have been the result of continued high infection rates.

There has been, in fact, significant progress on the return-to-office. In May 2020, 46 million employees reported that they were working from home due to the pandemic. There has been a steady flow over the past 18 months of millions of workers returning to the office, although this trend was briefly interrupted by the surge in cases of COVID-19 in November-December 2020 and again by the Delta variant last summer (chart 1.4). Nearly two-thirds of employees who had reported they were working from home in May 2020 had returned to the office by November 2021, although the pace of return has varied month-to-month according to the rate of vaccinations and infections.

These trends show that workers are coming back, but the pace at which they return to the office still depends on the pandemic. Recent new leases signed by major technology companies confirm that offices are an essential part of the business model. As COVID-19 cases decline, workers will continue to come back.

The longer-term outlook for office markets, however, depends less on exactly when workers return, and more on whether or not new work patterns result in a significant decline in the square footage per worker. In particular, the peak space needs for the days when all employees are in the office for teamwork and communication will drive overall demand for office space. A hybrid model where the office remains the hub of business activity but with a flexible work-from-home policy may utilize comparable amounts of floor space as before the pandemic, but with less density on any given day.

Chart 1.4: Return to Office



Cyclical vs structural factors: The office will remain the hub of business activity, but many employers will allow flexible WFH on a long-term basis.

Key risk: Office redesign may reduce space requirements.

Key upside: Peak space needs; workers prefer their own desks, files, photos, and coffee mug.

Residential

Across the country, all types of residential housing are experiencing a record surge in demand amidst limited supply. Vacancy rates in multifamily markets are at record lows, driving rent growth to double-digit increases. Housing markets are experiencing surging prices for home purchase and large increases in rents for single-family rentals. Manufactured housing, long considered a more affordable option than traditional construction, is also experiencing strong demand.

Two factors are primarily responsible for these tight conditions. First, there was a supply shortfall even before the pandemic began. New construction of both homes and apartments fell following the housing crisis of 2008-2009, and for most of the past decade remained well below the level needed to keep up with population growth. Second, the pandemic fed a desire for more space, especially as people worked or studied from home all day. People who previously had shared a home or apartment with roommates or family members suddenly wanted a place of their own.

There is no end in sight for these tight conditions in housing and apartment markets, as the supply shortfall is estimated to be in the millions of housing units. Construction has increased, but shortages of labor, materials, and available land given zoning restrictions will keep the new supply from filling the gap for at least several years. In the meantime, rents and prices will remain high.

Cyclical vs structural factors: The surge in house prices and rents will likely slow in the year ahead. With significant supply shortfalls, however, tight markets for both homes and apartments will persist far into the future.

What to watch: Affordability problems worsening, leading to financial strains and also limiting future rent and price increases.

Other Property Sectors

- Lodging/resorts have benefited from a full recovery in leisure travel, but business travel remains depressed. International travel also has been impacted by the pandemic, reducing the flow of foreign tourists. Look for further improvements in business travel as offices reopen and conference schedules resume.

Cyclical vs structural changes: Business travel should have a cyclical rebound as the pandemic eases. Some business travel and convention activity may remain online, however, so there may be a long-term structural result that the recovery is not complete.

- Self-storage has had a banner year in 2021, building on its strong performance in 2020. Strong housing markets and greater mobility in an era where some employees continue to work-from-anywhere all fuel demand for storage. There may be some downside risk if a reduction in employees who are working from home decreases the need to clear out spare rooms in homes and apartments.

Cyclical vs structural changes: Self-storage is riding a longer-term wave that is likely to remain robust due to strength in housing markets.

- Health care began a cyclical recovery in late 2021 as occupancy moved higher in senior housing (both assisted living and independent living) and in skilled nursing. Longer-term structural issues include costs of protecting against infection in residential settings, but also strong demographic demand ahead as the Baby Boomer generation ages.

Key risk: COVID-19 infections.
Key upside: Long-term demographics.

Inflationary Pressures and REIT Performance

By Nicole Funari, VP, Research, Nareit

Inflationary pressure to the macroeconomy from the effects of supply chain interruptions will likely lead to moderate inflation levels over the next year, rising above the Fed's target of 2.5% but likely well below historically high levels seen in the 1970s and early 1980s. (See Calvin Schnure's section for more discussion of Nareit's view on inflation).

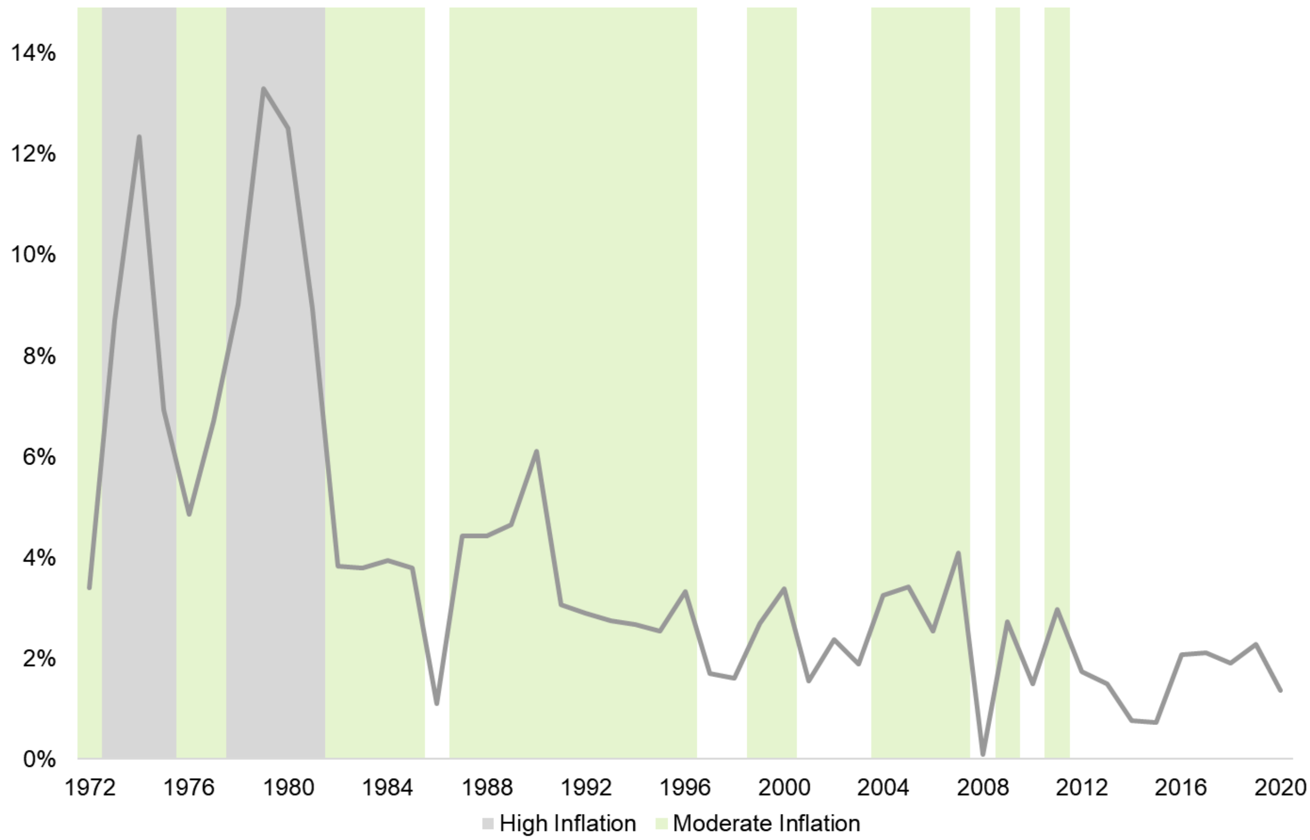
For investors looking for inflation protection in their portfolio, REITs have historically performed well during periods of moderate inflation in terms of market returns and operating fundamentals. REIT returns and operating performance have been higher on average in moderate inflation periods compared to low inflation periods. Early indications from the past two quarters suggest REITs are likely to perform well if we enter into a sustained inflationary environment.

REITs provide reasonable protection against inflation because rents are not as sticky as other prices. Long-term leases typically have inflation protection built-in, and shorter-term leases are based on current price levels. Also, REITs keep a portfolio of leases, a portion of which are negotiated every year, so even REITs with longer-term leases have opportunities to reprice. Finally, as owners of real assets, REITs typically enjoy an appreciation in portfolio value along with the price level.

The U.S. had periods of high inflation in the 1970s and 1980s when it was as high as 13% annually, but since 1990, the inflation rate has rarely gone much over 3%. Chart 2.1 on the following page shows the years of high, moderate, and low inflation.

Nicole Funari, Nareit

Chart 2.1:
Annual Inflation Rate, All Urban Consumers, Not Seasonally Adjusted

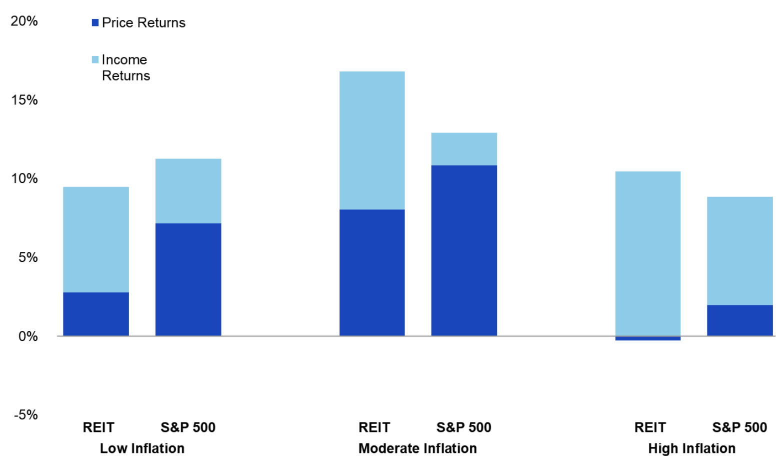


Source: Nareit analysis of prices for the FTSE Nareit All Equity REIT Index and S&P 500 Index; 1972-2020; inflation measured for all items, all urban consumers.

As shown in chart 2.2, REITs have outperformed the S&P 500 during periods of both high and moderate inflation, while slightly underperforming during low inflation periods. Over the full sample, REITs outperform the S&P 500 in 56% of 12-month periods with high inflation and over 80% of 12-month periods when inflation is high and rising.

Chart 2.2 shows REIT dividends outpace the higher price returns on the S&P 500 during periods of moderate inflation leading total returns on REITs to exceed the S&P by 3.9 percentage points. In periods of low inflation, REIT returns slightly lagged the broader stock market. REIT returns have been resilient through many separate periods of moderate inflation. Comparing the latest data, for the 12-month period through October, REIT total returns of over 45% far outpace the CPI growth of 6.2%.

Chart 2.2:
REIT Returns Compared to S&P 500 Returns During Different Inflation Periods



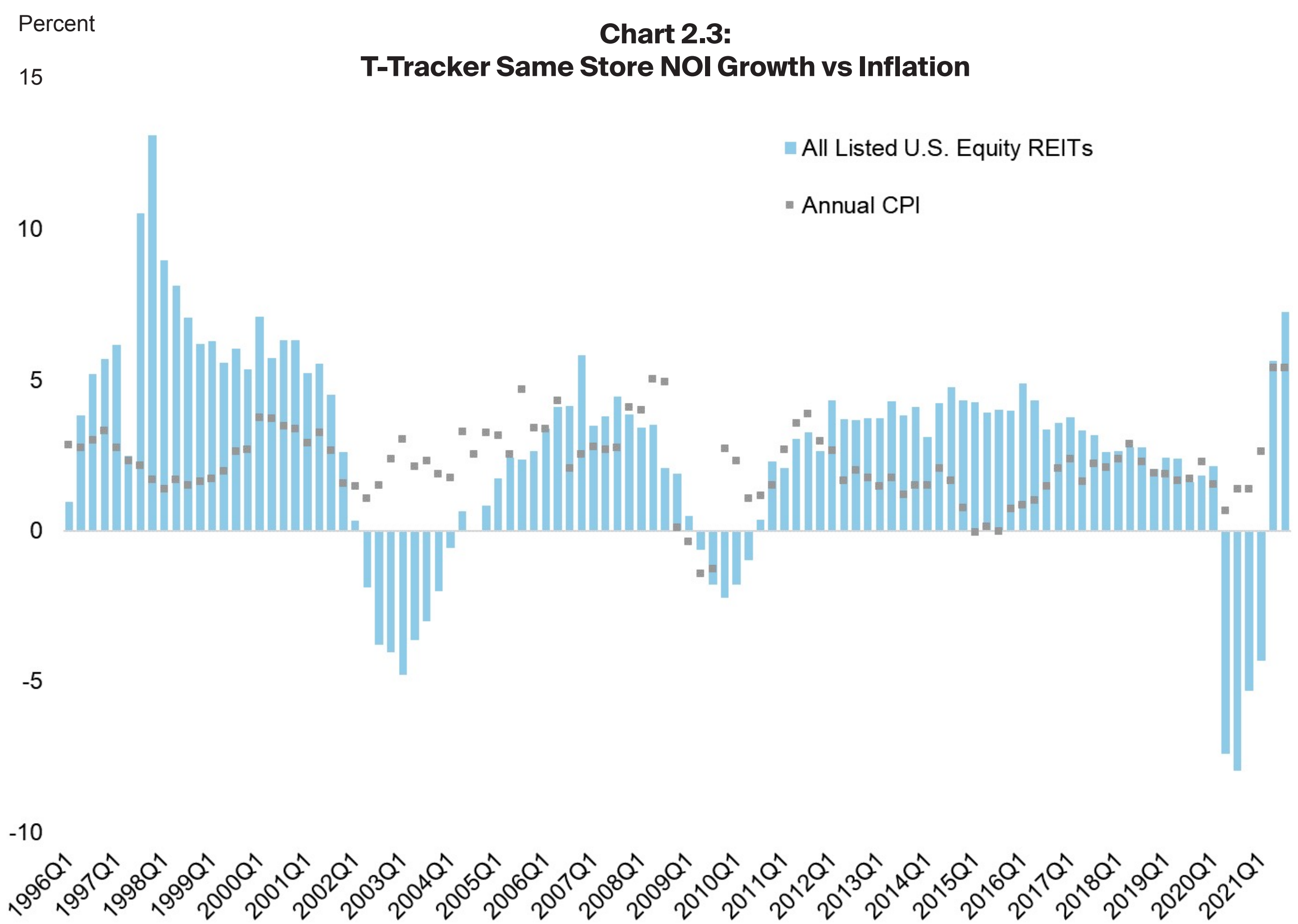
Note: Low inflation includes the years where inflation was 2.5% or lower, moderate inflation is between 2.5% and 6.9% (one standard deviation over the average), and high inflation is for years with inflation of 6.9% and higher.
Source: Nareit analysis of prices for the FTSE Nareit All Equity REIT Index and S&P 500 Index; 1972-2020; inflation measured for all items, all urban consumers.

Operating performance shows a pattern similar to returns. Same store net operating income (SSNOI) from [Nareit's T-Tracker] gives a conservative estimate of REIT growth during different periods of inflation. SSNOI doesn't include growth from acquisitions and the data exclude some of the highest growth property sectors of the last decade—lodging/resorts, timber, infrastructure, data centers, and specialty.

Chart 2.3 shows annual SSNOI growth outpaced annual inflation in 63% of quarters from the first quarter of 1996 to the third quarter of 2021. There are no periods of high inflation in this time period, and the average inflation is under the Fed target at 2.2%. REIT operating income is consistently higher during periods of higher inflation, SSNOI growth averaged 2.5% during low inflation periods compared to 3.0% in periods of moderate inflation.

While past performance is not always predictive of the future, we can see that in the current environment REIT operating income is more than keeping pace with price level increases. In the two most recent quarters when CPI jumped over 5%, SSNOI outpaced the uptick in annualized inflation by 23 basis points in the second quarter of 2021 and 187 basis points in the third quarter.

Chart 2.3:
T-Tracker Same Store NOI Growth vs Inflation



Source: Nareit T-Tracker, Bureau of Labor Statistics, 1996Q1-2021Q3.

Global REIT and Listed Real Estate Performance During the Pandemic

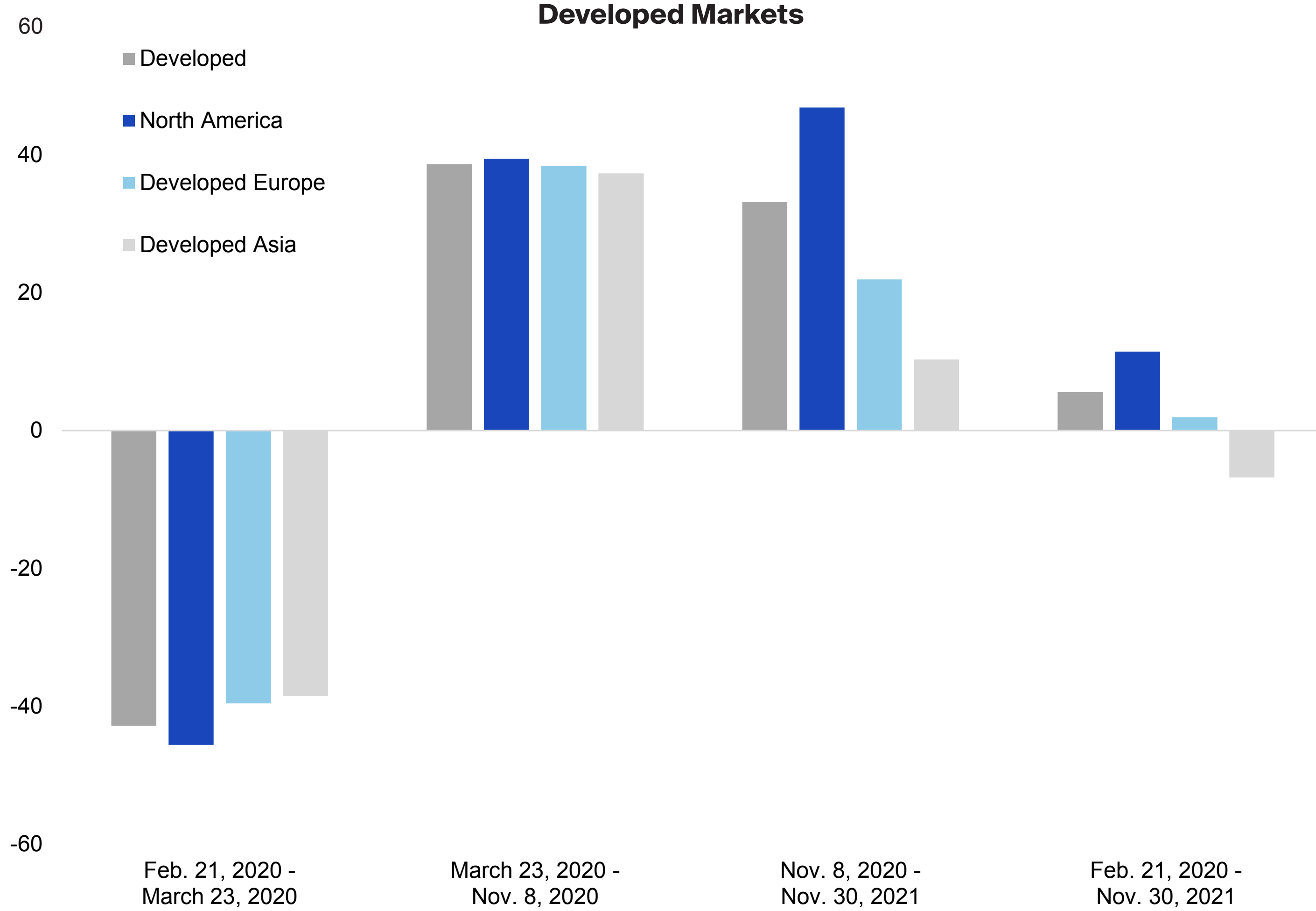
By John Barwick, VP, Index Management & Industry Information, Nareit

The global footprint of REITs and listed real estate allows real estate investors to geographically diversify easily and with low transaction costs. Today, there are 40 countries and regions with REIT regimes and 40 countries with REITs or listed real estate represented in the FTSE EPRA/Nareit Global Index providing a wide geographic distribution of real estate returns. Like other equity investments, REITs and publicly-listed real estate around the world were hit hard by the onset of the COVID-19 pandemic, but have generally rebounded strongly with the development of therapeutics to fight the virus. Not all property sectors or regions were impacted as negatively, nor have they bounced back uniformly. As previously noted, work from home trends and e-commerce behavior at the beginning of the pandemic benefited the digital economy sectors of the real estate market.

The digital economy has been recently a focus of Nareit, along with index partners FTSE Russell and EPRA. During the past few years, the index partners introduced a new U.S. tech-focused index (the FTSE Nareit New Economy Index), debuted a new global index with a broadened scope that includes communications towers and timberlands (the FTSE EPRA/Nareit Global Extended Index series), and broadened the coverage of the investable data center market by modernizing the ground rules for the existing global index to clarify that interconnection revenue is considered relevant real estate revenue.

As shown in chart 3.1 on the following page, during the first two phases of the pandemic, global regions responded rather uniformly, with North America declining -45.6%, Europe declining -39.6%, and Asia declining -38.5% from Feb. 21, 2020 – March 23, 2020. From March 23, 2020 – Nov. 8, 2020, the regions rebounded

Chart 3.1:
Cumulative Total Return Performance During the Pandemic Era
Developed Markets



Source: FTSE Russell, EPRA, Nareit.

similarly with total returns of 39.5% for North America, 38.4% for Europe, and 37.3% for Asia. From Nov. 8, 2020 – Nov. 30, 2021, the regions begin to show notable divergence. Over this period, North America posted a total return of 46.9%, compared to 21.9% for Europe, and 10.3% for Asia.

Table 3.2 on the following page provides detail at the sector level that offers some insight into comparative regional performance. In North America, the five highest weighted sectors are all positive over the course of the pandemic, with total returns of 18.2% for residential, 12.4% for infrastructure, 49.8% for industrial, 4.1% for retail, and 21.4% for data centers. Conversely, in Asia, the three highest weighted sectors are negative over the course of the pandemic, posting total returns of -8.7% for diversified, -8.9% for office, and -6.4% for retail. Europe's results were mixed with diversified as the highest weighted sector posting a -5.0% total return over the course of the pandemic, and the next two highest weighted sectors, residential and industrial, posting positive returns of 8.2% and 61.4%, respectively.

Retail and office serve as another useful comparison across regions. In the U.S. and Asia, the retail stock recovery began during the March to November 2020 period, while the European retail sector did not begin recovering until after the November 2020 vaccine-driven reopening recovery. Retail is the fourth-largest sector in North America and overall has turned modestly positive

Table 3.2:
FTSE EPRA/Nareit Global Real Estate Index Series

Index / Property Sector	Number of Constituents	Regional Sector Weight[1]	Total Return (%) Period Feb. 21, 2020 - March 23, 2020	March 23, 2020 - Nov. 8, 2020	Nov. 8, 2020 - Nov. 30, 2021	Feb. 21, 2020 - Nov. 30, 2021
	Nov. 30, 2021					
Developed			(42.8)	38.6	33.2	5.6
North America			(45.6)	39.5	46.9	11.5
Developed Asia			(38.5)	37.3	10.3	(6.8)
Developed Europe			(39.6)	38.4	21.9	2.0
North America						
Residential	22	16.6%	(44.1)	35.4	56.3	18.2
Infrastructure	4	15.5%	(28.5)	39.7	12.4	12.4
Industrial	16	13.5%	(35.2)	61.6	43.2	49.8
Retail	28	12.9%	(54.6)	27.9	79.1	4.1
Data Centers	4	9.0%	(24.7)	43.0	12.7	21.4
Health Care	17	7.8%	(50.6)	44.2	24.5	(11.3)
Office	20	7.1%	(43.2)	12.4	38.0	(11.9)
Self Storage	5	6.7%	(30.9)	52.1	60.7	68.8
Diversified	12	2.6%	(54.0)	33.3	46.2	(10.3)
Timberland	4	2.4%	(51.1)	91.4	37.6	28.7
Lodging/Resorts	10	2.2%	(56.2)	24.4	57.3	(14.3)
Europe						
Diversified	30	28.2%	(43.3)	27.5	31.3	(5.0)
Residential	19	25.5%	(29.2)	61.9	(5.6)	8.2
Industrial	7	12.6%	(33.9)	69.3	44.3	61.4
Office	15	10.8%	(44.5)	25.3	23.9	(13.7)
Industrial/Office	10	7.9%	(47.7)	66.1	56.4	35.9
Retail	16	6.9%	(46.2)	(25.3)	54.5	(37.9)
Health Care	5	3.5%	(32.4)	33.9	10.4	(0.0)
Self Storage	3	2.8%	(43.3)	66.2	55.3	46.3
Lodging/Resorts	1	0.4%	(72.8)	70.5	34.0	(37.8)
Asia						
Diversified	52	58.4%	(38.5)	35.3	9.6	(8.7)
Office	19	13.7%	(40.3)	25.1	22.0	(8.9)
Retail	17	9.0%	(40.5)	35.3	16.3	(6.4)
Industrial	14	8.9%	(31.7)	63.6	2.8	14.9
Industrial/Office	9	3.8%	(34.5)	63.3	(6.3)	0.2
Residential	5	2.8%	(29.2)	36.5	3.3	(0.2)
Lodging/Resorts	5	1.5%	(59.3)	88.4	3.6	(20.6)
Data Centers	1	0.5%	(24.7)	63.4	(18.2)	0.6

Notes:
[1]Regional sector weights are based on market cap representation in the Developed Extended index series.
Green shaded sectors are represented in the Developed Extended index series.
Source: FTSE Russell, EPRA, Nareit.

since the beginning of the pandemic, but remains well below the pre-pandemic level in Europe, while remaining moderately lower in Asia. Despite different patterns of work from home and office attendance, globally the office sector has posted relatively consistent returns across regions. As the office sector has lagged many other sectors, the difference in regional weight is important—in Asia, office is the second largest sector comprising 14% of the region; it comprises 11% in Europe; and 7% in North America.

Further worth noting is that industrial performed well in all regions, with an extraordinarily strong performance in North America and Europe, where it makes up approximately 13% of each region, and approximately 9% in Asia. Similarly, residential turned in a strong performance in North America and Europe as one of the largest sectors in each region. Results were flat in Asia where residential makes up only 3% of the market. An additional takeaway from a review of sector performance is that the diversified sector performed similarly negatively across all regions; it is the largest sector in Asia and Europe, while making up only 3% of the North American market.

Finally, infrastructure represents approximately 16% of the Developed Extended index in North America, but is not yet represented in other regions; similarly, data centers are 9% in North America, less than 1% in Asia, and are not represented in Europe, while self-storage has performed well in North America and Europe, but is not represented in Asia.

An important takeaway from global returns over the pandemic period has been the benefit of broad diversification across property sectors along with the reminder that REITs and publicly listed real estate serve as foundational components of a well-balanced, diversified portfolio.