Starlight Capital Global Real Estate 2025 Outlook

January 2025

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Chief Executive Officer and
Chief Investment Officer

2024 Macro and REIT Review

Global REITs experienced another year of volatility, primarily driven by long bond yields and inflation expectations. For the year, REITs underperformed diversified equities significantly however, performance was not uniform throughout the year. Diversified equities significantly outperformed REITs from January through May as investors were skeptical that inflation was fully tamed and that central banks would commence cutting rates. The Bank of Canada ("BOC") kicked off a global rate cutting cycle in June which the Federal Reserve Bank ("Fed") joined in September. From May through October, global REITs significantly outperformed diversified equities as the US 10-year bond yield fell from a peak of 4.7% in April to a trough of 3.6% in September. However, in September US inflation (as measured by CPI) rose from a trough of 2.4% to the December reading of 2.9%. Long bond yields followed suit, with the US 10-year bond yield rising from a trough of 3.6% to 4.6% at year end (peaked at 4.8% in January 2025).

2024 Real Estate Market Relative Performance

	Dec 31/23 - Dec 31/24	May 31/24 - Oct 31/24	Oct 31/24 - Dec 31/24
S&P/TSX Capped REIT Index	-1.94%	11.97%	-6.45%
S&P/TSX Capped Composite Index	21.65%	9.90%	2.90%
Outperformance/Underperformance	**-23.59%**	**2.07%**	**-9.35%**
MSCI US REIT Index	8.75%	16.02%	-3.33%
S&P 500 Index	25.00%	8.68%	3.34%
Outperformance/Underperformance	**-16.25%**	**7.34%**	**-6.67%**
FTSE EPRA Nareit Developed Total Return Index	2.00%	11.06%	-4.67%
MSCI World Index	19.22%	6.55%	1.93%
Outperformance/Underperformance	**-17.22%**	**4.51%**	**-6.60%**

Source: Bloomberg Finance L.P.

President Trump's election win and his legislative priorities (lower taxes, high tariffs, oil & gas and deportations) are all perceived as pro-growth but also inflationary and have contributed to rising long bond yields in North America. Markets have shifted from pricing in four Fed rate cuts in 2025 to pricing in one, with a narrative building that the Fed may be forced to hike rates later this year to finally get inflation to the 2.0% target.

2025 Macro and REIT Outlook

With the current high sensitivity to rates and inflation, we surveyed the large Canadian banks to determine their outlook for policy rates, long bond yields, GDP growth, inflation and currency moves.

2025 North American Macro Forecast		
	Canada	**US**
Policy Rate	2.25% -100 bps	3.50% -75 bps
10 Year Bond Yield	3.00% -30 bps	3.90% -63 bps
Real GDP Growth	1.80%	1.80%
Inflation (CPI YoY)	2.00%	2.40%
USDCAD	$1.4000 -2.40%	

Source: Bloomberg Finance L.P., Canadian bank economic forecasts, as of December 31, 2024.

For 2025 we are generally in agreement on the direction and magnitude of all of the aggregate forecasts with the exception of US GDP growth, which we see as closer to the Q3 2024 mark of 3.1%. Both the OECD and the World Trade Organization forecast US Real GDP growth of 3.3% in 2025. We believe that both the Fed and the BOC will cut rates this year, that long bond yields and inflation will fall and that the US dollar will lose some of its bid.

The appetite for risk-taking appears to have stabilized in anticipation of President Trump taking office. Business leaders continue to characterize Trump's new administration as "pro-growth" and "business-friendly", giving support to the idea that businesses will invest more to drive higher growth. Accordingly, we anticipate that the global risk appetite will rise over the course of the year as the magnitude of Trump's legislative moves take shape (i.e. when will tariffs be implemented, how high and how long?).

For Canada, the path forward is likely to be similar to the previous Trump administration – tariffs and retaliatory tariffs, negotiations and eventually a new trade agreement. The new Canadian Prime Minister should be aware of

Trump's objectives (more Canadian military and immigration spending and more imports of US goods and services) and move swiftly to appease him. Given Trump's focus on energy and inflation, Canada holds significant leverage in this negotiation and should use it to move quickly from the tariff phase to the negotiation phase.

Given the current economic forecast for 2025 (modest global growth, falling long bond yields and inflation, central bank rate cuts and an aging demographic seeking income) we think global REITs should perform closer to the May – October 2024 outperformance (when rates and inflation were falling and US GDP growth was 2.4% - 4.4%), highlighted in the chart below.

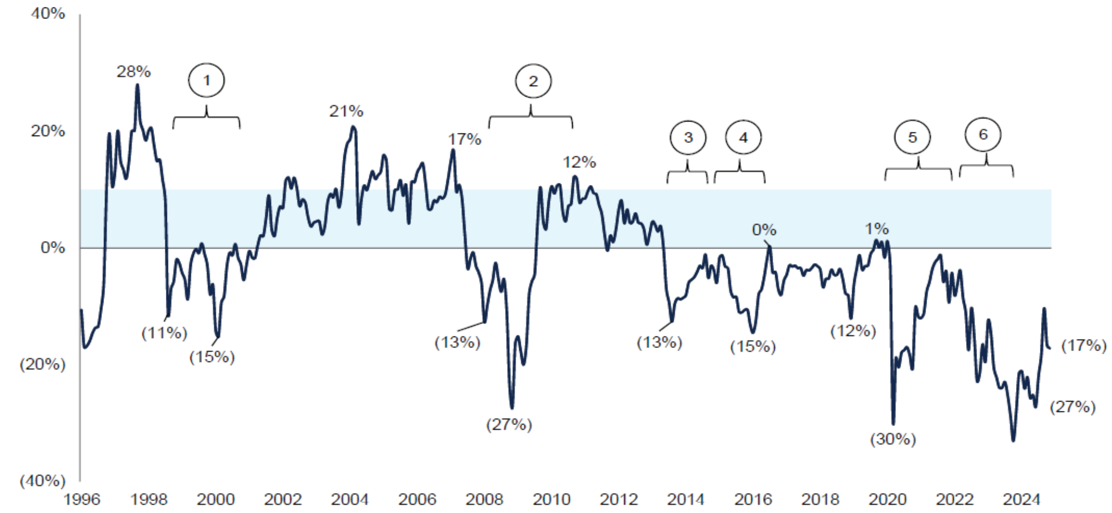
Source: Bloomberg Finance L.P.

Global REIT Valuations and Total Return Outlook

Canadian REITs are trading at a collective 17.0% discount to NAV, which has historically been an attractive entry point to generate long-term total returns. For 2025 the expectation is for Canadian REIT NAVs to rise 7.0%, mainly due to same property NOI growth of ~3.5% and continued rate cuts by the BOC. The sector currently trades at 13.0× 2025 forecasted Funds From Operations ("FFO") and we expect FFO growth of ~3.0% in 2025. The sector currently yields 5.5% with ~38.0% of that treated as return of capital in 2023. The sector Adjusted Funds From Operations ("AFFO") payout ratio is ~75.0% and Canadian REITs currently have a collective Loan to Value ("LTV") of 48.0%.

For 2025 total returns will be a function of the yield (5.5%) plus internal growth (3.0%) and any change in the trading multiple (-17.0% discount to NAV, 7.0% NAV growth, falling interest rates). Coming off of two consecutive years of 20.0%+ total returns for diversified equities, we believe Canadian REIT total returns should mean revert back to outperformance, with analysts forecasting total returns of 20.0%+ in 2025.

Group average premum/(discount) to estimated NAV (Jan-1996 to Nov 2024)[1]



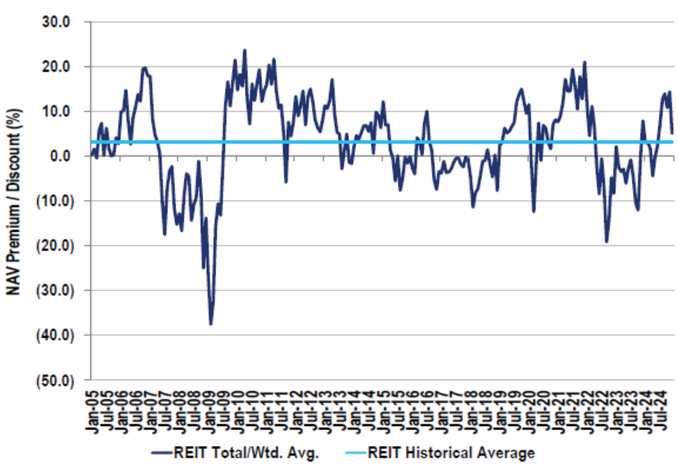
1) Tech bubble; 2) GFC & recovery; 3) Taper tantrum & recovery; 4) 2015 "sell Canada" theme & recovery; 5) COVID-19 pandemic; 6) Aggressive BoC tightening cycle

Notes: Priced as of November 20, 2024. 1) Shaded area spanning 100% of NAV to 110% of NAV to 110% of NAV is referred to as our "band of fair value." Given the degree of subjectivity involved in determining NAV, we generally view a fair-trading range as being NAV-parity up to a 10% premium. The group-average P/NAV ratio is derived via simple (unweighted) data from 32 REITs/REOCs. Source: Bloomberg, FactSet. RBC Capital Markets estimates.

US REITs are trading at a collective +5.2% premium to NAV with a 3.7% dividend yield. For 2025 the expectation is for US REIT NAVs to rise 9.0%, mainly due to same property NOI growth of ~3.9% and continued rate cuts by the Fed. The sector currently trades at 21.0× 2025 forecasted AFFO and we expect AFFO growth of ~4.9% in 2025. The sector AFFO payout ratio is ~74.0% and US REITs currently have a collective Debt to Gross Asset Value of 34.7%.

For 2025 total returns will be a function of the yield (3.7%) plus internal growth (4.9%) and any change in the trading multiple (+5.2% premium to NAV, 9.0% NAV growth, falling interest rates). Coming off of two consecutive years of 20.0%+ total returns for diversified equities, we believe US REIT total returns should mean revert back to outperformance, with analysts forecasting total returns of 10.0-15.0% in 2025.

Historical Premium/Discount to Net Asset Value (NAV)



Source: Citi Research and FactSet.

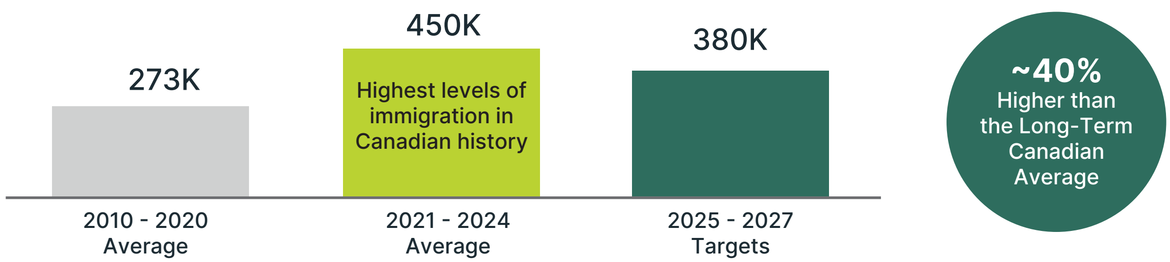
Global REIT Sectors of Focus

We favour real estate sectors with strong, secular demand trends, preferably with muted supply growth. These factors should drive high occupancies and consistent rent growth and result in long-term NAV appreciation and cash flow growth. For 2025 there are several sectors that meet these criteria.

Canadian Multi-Residential

Since 2019, Canada's population has grown ~9.0%, adding over 3.3 million people. During this period, home prices have increased by 35.0%, ownership affordability has reached a 40-year low and surging rental demand has driven vacancy rates to record lows. In October 2024, the Federal government announced new and lower immigration targets for 2025-2027. These new, lower targets remain ~40.0% higher than the long-term average and with only 137,000 purpose built rental units forecasted to be developed through 2027, there will be eight new Canadians for every new purpose-built rental unit.

Annual Canadian Immigration



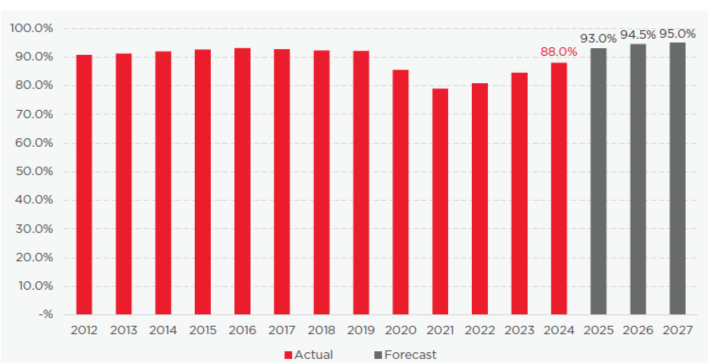
Source: Statistics Canada.

CMHC estimates that the housing shortfall in Canada will reach 3.5 million by 2030 based on the current run rate of development and household formation. The Parliamentary Budget Officer estimates that the housing shortfall will require 3.1 million net housing units completed by 2030, or 436,000 completions per year. This compares to the current run rate of ~240,000 units completed per year. In Q3 of 2024, Canadian apartment REITs collectively enjoyed 98.0% occupancy with 15.0% rent growth on turnover (new tenants, 21.0% of tenants) and 5.0% rent growth on renewal (retained tenants, 79.0% of tenants). These numbers resulted in 9.8% Net Operating Income ("NOI") growth and a 65.1% NOI margin.

North American Seniors' Housing

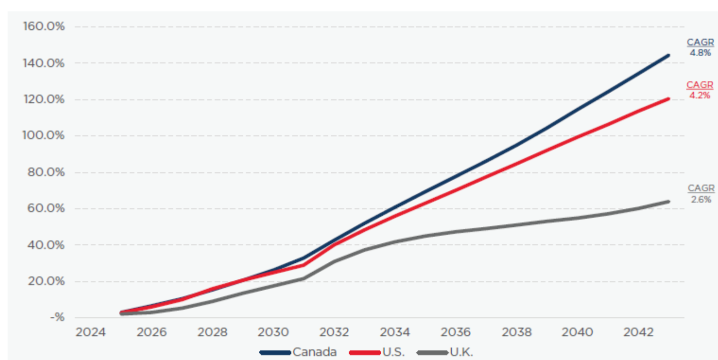
Statistics Canada notes that Canada's age 75+ population is set to more than double by 2034, fueling unprecedented demand for seniors' housing. CMHC estimates that ~200,000 units of seniors' housing will need to be added in Canada over the next decade to satisfy this increase in demand. This compares to less than 73,000 new suites developed over the last decade.

Occupancy Forecast



Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report (Time period adjustment (t-1) for historical CMHC survey data lag).

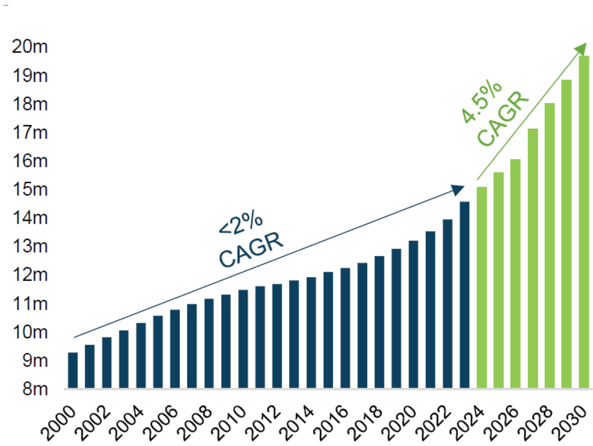
Projected Cumulative Growth in population age 80+



Source: Canada: Statistics Canada. Table: 17-10-0057-01. Projection scenario M4: medium-growth 7. June 2024. U.S. Census Bureau: 2023 National Population Projections Datasets. November 2023. U.K.Office for National Statistics. 2021-based. Interim National Population Projections. January 2024.

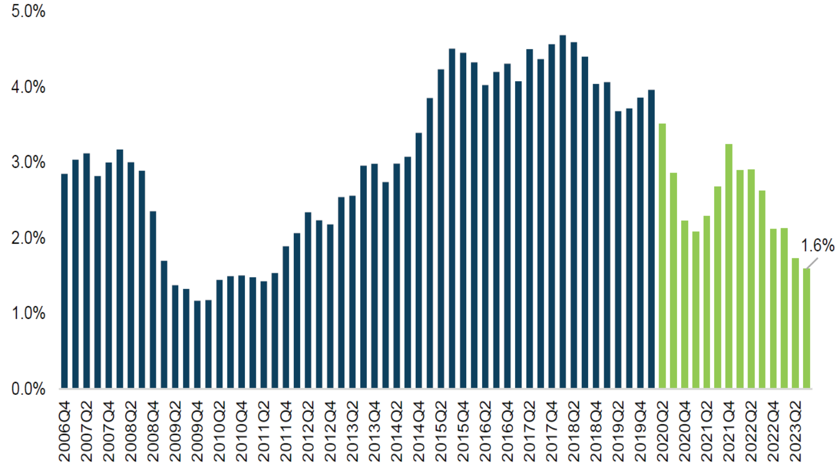
The situation is the same in the US where the first wave of Baby Boomers turned 80 in 2024 and the age 65+ population will grow by 44.0% by 2032. CBRE estimates that ~800,000 units of seniors' housing will need to be added in the US by 2030 to satisfy this increase in demand. This comes at a time when seniors' housing development starts have fallen to 1.6% of existing inventory. In 2023 US seniors' housing construction starts totaled 14,000 units or 1.3% supply growth, well below pre-pandemic 4.0%+ levels.

U.S. 80+ Year-old Population



*U.S. Census Data.

Seniors Housing Primary Markets - Rolling 4-Quarter Starts as a % of Inventory



*U.S. Census Data.

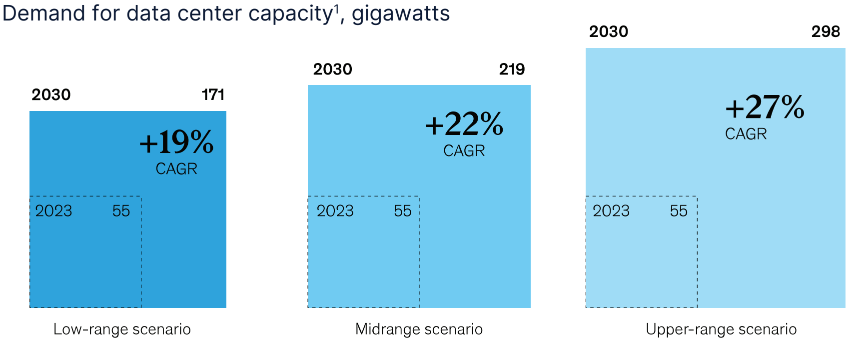
We like the fundamentals for seniors' housing with rising demand and occupancies and limited new supply. Longer term, we prefer seniors' housing over long-term care based on greater growth potential and preferential access to lower cost debt.

Datacentres

McKinsey estimates that global demand for data center capacity could rise at an annual rate of 22.0% percent from 2023 to 2030 to reach an annual demand of 219 gigawatts (GW). A less likely yet still possible scenario sees demand rising by 27% to reach 298 GW. This contrasts with the current demand of 60 GW, raising the potential for a significant supply deficit. To avoid a deficit, at least twice the data center capacity built since 2000 would have to be built in less than a quarter of the time.

Global demand for data center capacity could more than triple by 2030

Demand for data center capacity[1], gigawatts



[1]Three scenarios showing the upper-, low-, and midrange estimates of demand, based on analysis of AI adoption trends; growth in shipments of different types of chips (application-specific integrated circuits, graphics processing units, etc) and associated power consumption; and the typical compute, storage, and network needs of AI workloads. Demand is measured by power consumption to reflect the number of servers a facility can house.

Source: McKinsey & Company.

Microsoft announced they will be investing US $80.0 billion in fiscal year 2025 for datacentre developments to support AI development. OpenAI, Inc., Oracle Corporation and SoftBank Group Corp. announced the creation of a joint venture called Stargate to invest US $500 billion in new AI datacentres in the US. There is a significant opportunity for datacentre REITs focused on the hyperscale market to generate significant development gains partnering with these firms to supply the needed datacentres.

The Starlight Global Real Estate Fund is a concentrated portfolio of 19 high-quality real estate companies with a track record of increasing their distributions annually. In 2024 the portfolio generated 19 distribution increases with an average increase of 5.9%. The Starlight Global Real Estate Fund, Series F's current distribution rate is 7.1%, and 80.3% of it was taxed as return of capital in 2023.[1]

We invite you to partner with us.

Starlight Capital

[1] As of December 31, 2024

Investment Management Team

Dennis Mitchell, MBA, CFA, CBV
Chief Executive Officer and Chief Investment Officer

Dennis Mitchell joined Starlight Capital in March 2018 as Chief Executive Officer and Chief Investment Officer. He has over 20 years of experience in the investment industry and has held executive positions with Sprott Asset Management, serving as Senior Vice-President and Senior Portfolio Manager, and Sentry Investments, serving as Executive Vice-President and Chief Investment Officer.

Mr. Mitchell received the Brendan Wood International Canadian TopGun Award in 2009, 2010, and 2011 and the Brendan Wood International 2012 Canadian TopGun Team Leader Award. He also received the Afroglobal Television Excellence Award for Enterprise in 2020 and the Black Business and Professionals Association's Harry Jerome President's Award in 2021.

Mr. Mitchell holds the Chartered Financial Analyst and Chartered Business Valuator designations and earned a Master of Business Administration from the Schulich School of Business at York University in 2002 and an Honors Bachelor of Business Administration degree from Wilfrid Laurier University in 1998. Mr. Mitchell currently sits on the Board of the Toronto Foundation and is Co-Founder and Director of the Black Opportunity Fund.

About Starlight Capital

Starlight Capital is an independent Canadian asset management firm with over $1 billion in assets under management. We manage Global and North American diversified private and public equity investments across traditional and alternative asset classes, including real estate, infrastructure and private equity. Our goal is to deliver superior risk-adjusted, total returns to investors through a disciplined investment approach: Focused Business Investing. Starlight Capital is a wholly-owned subsidiary of Starlight Investments. Starlight Investments is a leading global real estate investment and asset management firm with over 360 employees and $28B in AUM. A privately held owner, developer and asset manager of over 66,000 multi-residential suites and over 7 million square feet of commercial property space. Learn more at www.starlightcapital.com and connect with us on LinkedIn at www.linkedin.com/company/starlightcapital/

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