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REITs set for rebound ahead

A look at dislocations, CAPEs, and market metrics

Disconnections between broad equity market valuation multiples and REITs, as well as public and private property pricing measures, have increased market uncertainty. However, financial market dislocations have also traditionally presented buying opportunities during periods of correction. Metrics indicating an uptick in REIT transaction activity may also suggest that a property transaction recovery is on the way.

Financial market dislocations happen periodically. When they do, they can be disruptive, potentially causing increased investor anxiety and impeding market activity. These uncouplings, however, typically have silver linings that present buying opportunities for investors.

Today, REITs are facing dual divergences. First, the strength in artificial intelligence-linked tech stock performance has caused equity valuation multiples to soar above similar REIT metrics. Second, the record-length gap between public and private real estate valuations has continued. Looking forward, it's not a question of if, but when, these divergences will end. Based on past cycles, REITs have tended to enjoy relative outperformance as each of these dislocations return to equilibrium.

CAPE-able valuation insights

To better understand these valuation gaps, it helps to look at the metrics investors rely on to gauge long-term market trends.

KEY TAKEAWAYS

DUAL DIVERGENCES
REITs are facing dual divergences due to the strength of public equity valuations and the gap between public and private real estate valuations. REIT performance has been muted while the broad equity markets have soared, and the private-public real estate valuation gap has persisted despite REIT pricing responsiveness.

OUTPERFORMANCE DURING SIGNIFICANT EVENTS
Historically, dislocations between public equity and REIT ratios, and between public and private real estate price multiples, have occurred during significant periods of disruption. During recoveries from these events, data typically shows that REITs outperformed the public equity and private real estate markets.

READYING FOR OPPORTUNITIES
The recent uptick in REIT transactions may signal a revival in broad property market transaction activity, and thus opportunities for REIT investors.

Since 2023, the annualized calendar year total return for the S&P 500 was 21.3%. A closer look at the index reveals that this strong performance has been driven by a group of tech stocks often referred to as the Magnificent Seven — Alphabet (Google), Amazon, Apple, Microsoft, Meta Platforms (Facebook), Nvidia, and Tesla. This portfolio has posted an annualized total return of 63% over the same period and currently accounts for roughly 35% of the S&P 500 equity market capitalization. For some investors, the recent strength of the tech sector brings back memories of the 1999–2000 dot-com bubble and subsequent bust. It also raises concerns that the US equity market may be overvalued.

The cyclically adjusted price-to-earnings, or CAPE, ratio is a popular metric for gauging equity market valuations; it has also been a commonly used predictor of market returns.[1] The CAPE ratio is calculated as the real price divided by the average of inflation-adjusted earnings for the last 10 years. The averaging accounts for potential differences in earnings across the business cycle.

The cyclically adjusted price-to-earnings, or CAPE, ratio is a popular metric for gauging equity market valuations; it has also been a commonly used predictor of market returns.

In general, a high CAPE ratio suggests overvaluation, and vice versa. Historically, a high CAPE ratio has also been associated with lower long-term future stock performance; the reverse is equally true.[2] While it may be an imperfect predictor and may not be an ideal market-timing tool, it is still viewed as a good gauge of expected long-term trends.

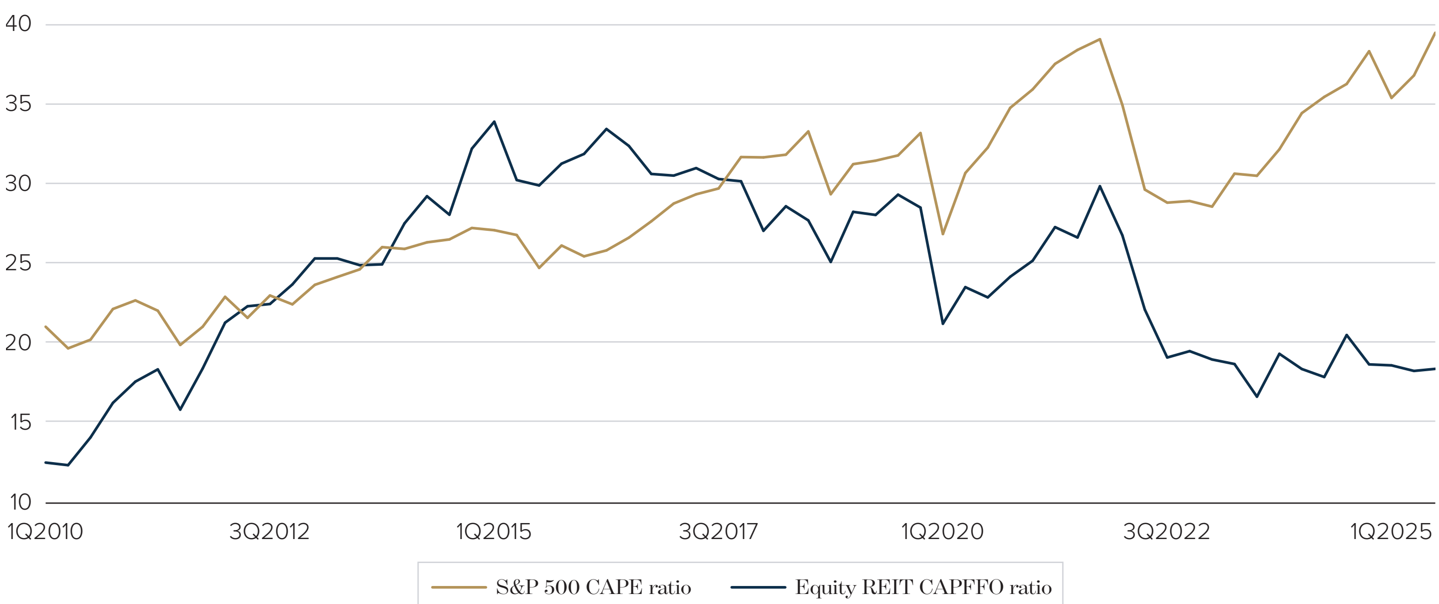
As the broad equity market valuation multiple has soared in recent years, a similar REIT metric has essentially remained flat. 1 displays the S&P 500 CAPE ratio and the cyclically adjusted price-to-funds from operations (CAPFFO) ratio for equity REITs from 1Q2010 to 3Q2025.

Reflecting the impact from the recent tech rally, the S&P 500 CAPE ratio has trended upward since 2023; it stood at 39.5 in 3Q2025. This level was last consistently seen during the dot-com bubble and crash. With this in mind, today's broad equity market can be

1

The equity price multiple has soared while the REIT multiple has remained flat

A high S&P 500 CAPE ratio suggests that the broad equity market is overvalued with neutral to negative expected long-term performance. A flat equity REIT CAPFFO ratio suggests REITs have been overlooked.



Sources: Shiller Data, S&P Capital IQ Pro, Nareit REIT Industry Tracker, FactSet. Data as of 3Q2025.

viewed as overvalued, with neutral to negative prospects for expected long-term performance.

With the equity REIT CAPFFO having essentially remained flat since 2010, it appears that REITs have been overlooked in the current market environment. This underappreciation is notable since REITs have generated solid operational performance that has generally kept pace with inflation and maintained disciplined balance sheets with low leverage. As of 3Q2025, the equity REIT CAPFFO ratio was 18.3, suggesting that REITs may be undervalued and possess a positive outlook for future long-term returns.

Put in a simpler way, 2 focuses on the traditional price-to-earnings (P/E) and price-to-funds from operations (P/FFO) measures. It presents the S&P 500 forward (next 12 months) P/E ratio divided by the equity REIT forward P/FFO ratio, as well as an average of the valuation quotients, from 1Q2006 to 3Q2025.

With the equity REIT CAPFFO having essentially remained flat since 2010, it appears that REITs have been overlooked in the current market environment.

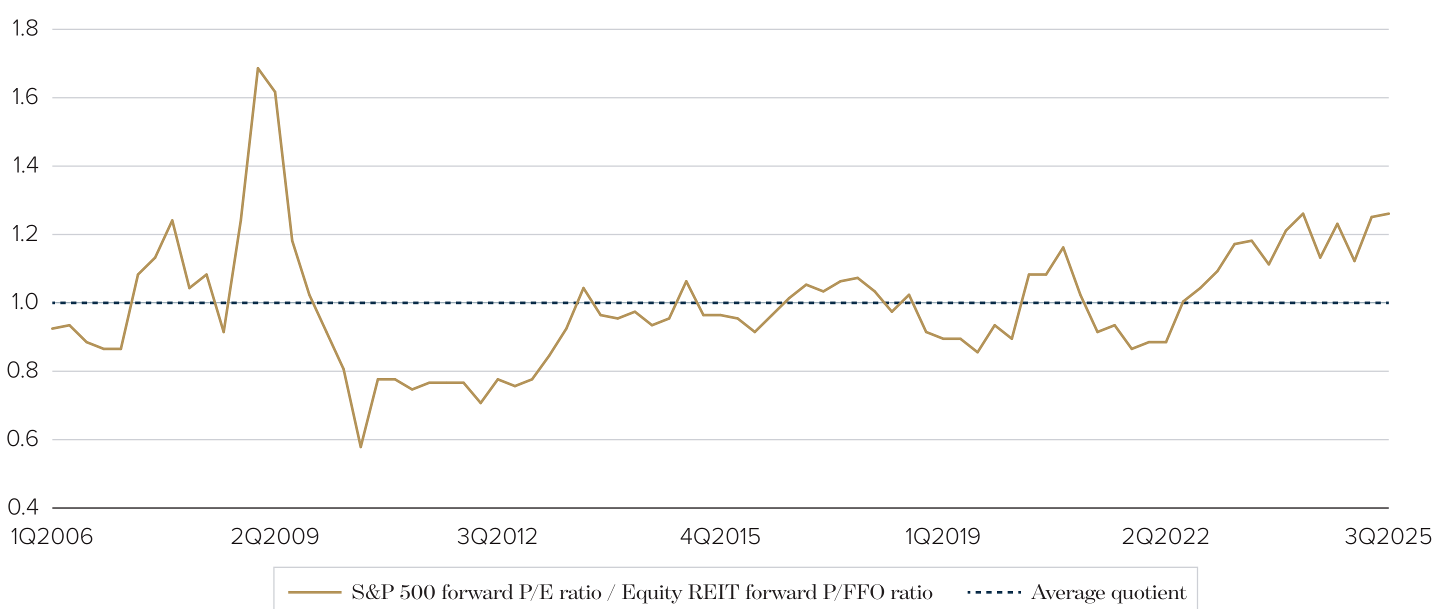
Dislocations between broad equity and REIT valuation multiples have not been common. Historically, REITs have tended to outperform broad equities as the gap between their valuation multiples has closed. Since 2006, there have been three instances where the S&P 500 P/E and equity REIT P/FFO ratios have deviated significantly:

- During the **global financial crisis,** the broad equity-REIT valuation P/FFO ratio reached a peak in 1Q2009. Four quarters later, the FTSE Nareit All Equity REIT Index (FTSE Nareit) realized a total return of 106.7%, where the S&P 500 had a gain of 49.8%. REITs outperformed broad equities by 56.9%.
- During the **COVID-19 pandemic,** the valuation quotient reached a local maximum in 4Q2020. Over the next four quarters, the FTSE Nareit and S&P 500 indices posted total returns of 41.3% and 28.7%, respectively. REITs outperformed broad equities by 12.6%.
- With the **current tech rally,** the broad equity-REIT valuation ratio started to rise in 2022 and it has remained

2

Broad equity and REIT valuation multiples have deviated significantly during times of distress

The S&P 500 P/E and equity REIT P/FFO ratios deviated significantly during the global financial crisis, COVID-19 pandemic, and recent tech rally. Traditionally, divergences are buying opportunities for REIT investors.



Sources: Nareit, FactSet. Data as of 3Q2025.

elevated since 2023. While it is difficult to time the end of a market dislocation, every broad equity REIT market valuation multiple divergence has historically had a convergence.

Perspectives on real estate values

Price multiples can also provide valuable perspectives on the relationship between private and public real estate values.

Highlighting the dynamic nature of property pricing, 3 shows the private real estate price-to-net operating income (P/NOI) ratio divided by the public real estate P/NOI ratio, as well as an average of the quotients, from 1Q2000 to 3Q2025.

Private real estate P/NOI ratios are the inverses of appraisal cap rates of properties from the National Council of Real Estate Investment Fiduciaries Fund Index–Open End Diversified Core Equity (NFI–ODCE) Index. Public real estate P/NOI ratios are the inverses of REIT implied cap rates from Nareit's quarterly REIT Industry Tracker.

Since 2000, the private-public P/NOI ratio quotient had four major peaks. At these instances, private and public real estate valuation divergences were at their most extreme levels. After reaching a crest, the property pricing multiple quotient tended to plunge. During these declines, REITs materially outperformed private real estate on cumulative total return bases.

- During the **dot-com bust,** the P/NOI ratio quotient reached a peak in 1Q2000 and appeared to hit a nadir eight quarters later. Over this time, FTSE Nareit outperformed NFI–ODCE by 34.1%.
- During the **global financial crisis,** the property price multiple quotient crested in 1Q2009 and reached a trough in 1Q2010. Peak-to-trough, FTSE Nareit outperformed NFI-ODCE by 124.7%.
- The P/NOI quotient reached another peak in 4Q2018. The decline spanned the **COVID-19 outbreak and a brief recession** to 4Q2021. Over this period, FTSE Nareit outperformed NFI-ODCE by 42.3%.
- The 3Q2022 peak coincided with a **surge in the 10-year Treasury yield.** Eight quarters later, FTSE Nareit outperformed NFI-ODCE by 51.0%. The subsequent uptick in the quotient indicates that this dislocation may not yet be over.

Similar to the current broad equity-REIT market P/FFO valuation dislocation, today's private-public real estate valuation divergence has lingered. It has

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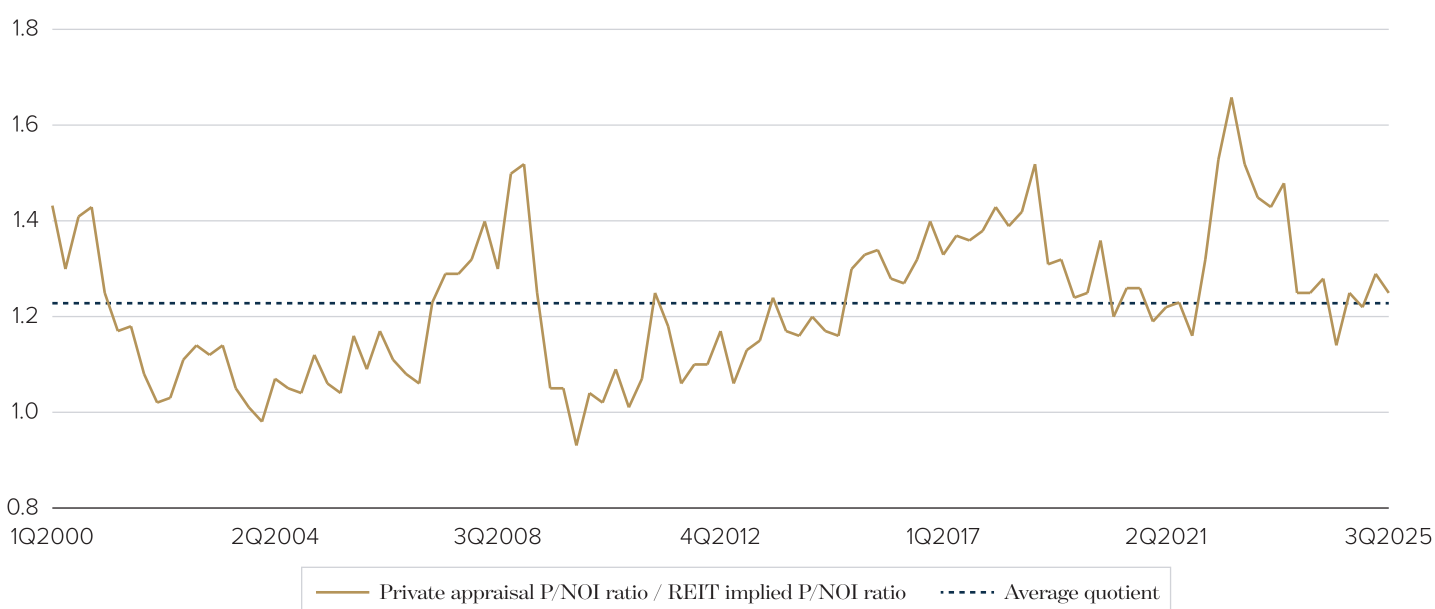
Public and private real estate price multiples have also materially diverged during periods of disruption

Since 2000, property price multiples experienced four major divergences. As pricing moved back to equilibrium, REITs have tended to outperform private real estate.



Sources: S&P Capital IQ Pro, Nareit REIT Industry Tracker, NCREIF, FactSet. Data as of 3Q2025.

now reached the previous record of 12 quarters. While REIT pricing has meaningfully reacted to financial market movements, private real estate pricing has been less responsive.

4 shines a light on the current state of the private-public real estate valuation adjustment process. It shows Nareit REIT implied P/NOI ratios, as well as private real estate appraisal and transaction P/NOI ratios focused on properties from NCREIF ODCE funds, from 4Q2021 to 3Q2025.

With the 2022 surge in the 10-year Treasury yield, the REIT P/NOI ratio declined markedly. In contrast, the private appraisal P/NOI ratio was essentially unphased. The appraisal P/NOI ratio did not begin its series of modest and measured declines until the 4Q2022, but it seems that appraisers and portfolio managers had abandoned their mark-to-market property valuation processes by 2Q2024. At that time, REIT and private transaction P/NOI ratios started their synchronization. As of 3Q2025, REIT and private transaction ratios continued to be aligned, but the appraisal P/NOI ratio remained dislocated and elevated.

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The gap between the appraisal and market-based — i.e., REIT and private transaction — pricing metrics has been stubbornly slow to close. Although this dislocation has impeded the price discovery process and limited transactions, it has increased the appeal of REITs, which offer investors access to high-quality, well-located properties at attractive prices. The current pricing gap also suggests that there still may be more fuel in the tank for REIT outperformance in 2026.

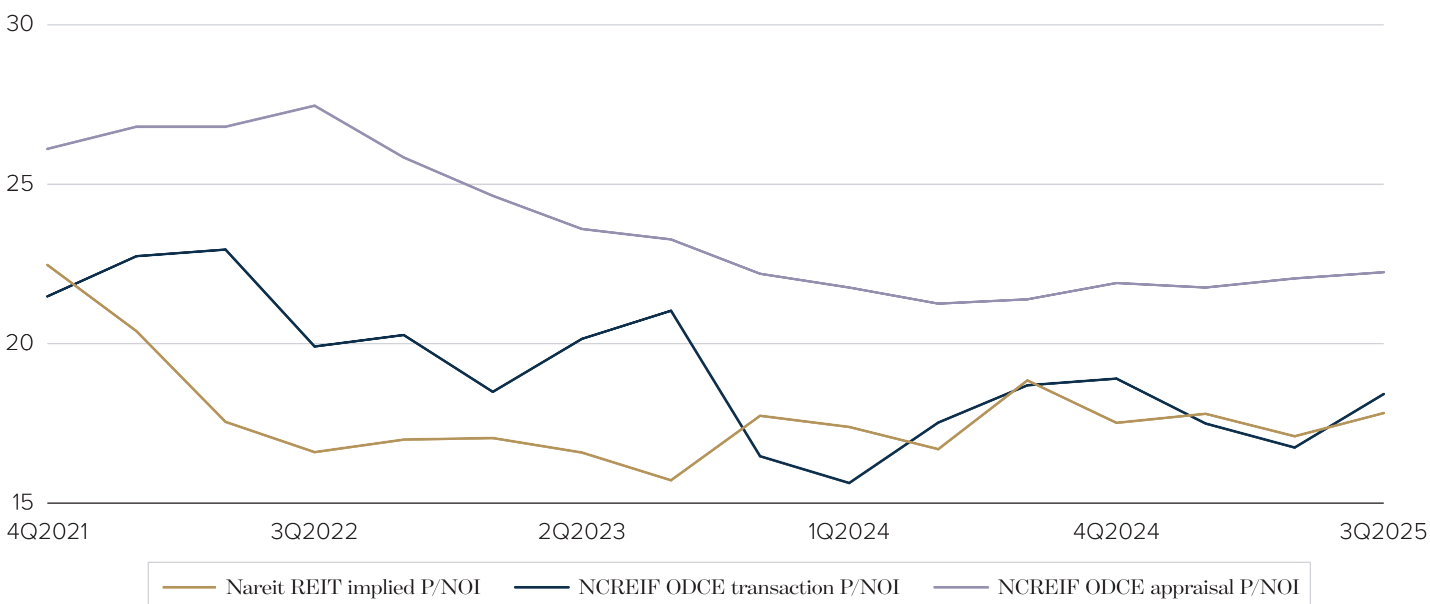
Harbinger of a property transaction revival?

As appraisal and market-based real estate values become more aligned, activity in the property transaction market is expected to return. US public equity

4

REIT pricing has reacted to financial market movements, but private real estate valuations have been less responsive

The appraisal P/NOI ratio, which relies on the property valuation process, remains dislocated and elevated, while market-based REIT and transaction ratios have aligned.



Sources: S&P Capital IQ Pro, Nareit REIT Industry Tracker, NCREIF. Data as of 3Q2025.

REITs offer a unique lens to view property transaction activity. As capital allocators, REITs are not typically dependent on the private real estate capital fundraising cycle and so they tend to execute transaction strategies that reflect market conditions and real estate cycles.

5 shows REIT rolling four-quarter gross acquisitions, dispositions, and net acquisitions for the last 20 years. These aggregate measures include property purchases and/or sales from all 13 REIT property sectors (with the exception of timberland, which does not report its transaction activities).

REITs have been active property buyers and sellers throughout real estate cycles. History shows that REIT transaction activity accelerated when private-public real estate valuations were aligned and capital costs were lower, but declined markedly across consistent periods of valuation divergence and higher costs. Although REITs generally have been net buyers of real estate, they have consistently pruned their property portfolios in good and bad times. The recent uptick in REIT transaction activity may be a harbinger of the market's return to normalcy and end of prolonged valuation divergence.

Dual divergences present opportunities

Each divergence offers a potential opportunity for REIT relative outperformance in 2026. A return to pricing equilibrium in the stock market will likely result in REITs outperforming broad equities. As private and public real estate values converge, REITs are also expected to outperform private real estate.

The private-public real estate valuation dislocation has impeded the price discovery process and stunted transaction activity. The recent uptick in REIT net acquisitions, however, may signal that transaction activity in the broad property market may be poised to accelerate. When it does, REITs will be ready for action.

[1] Although John Campbell and Robert Shiller introduced the concept of the CAPE ratio in their Winter 1998 article in *The Journal of Portfolio Management*, its roots can be traced back to Benjamin Graham and David Dodd's seminal work *Security Analysis* published in 1934.

[2] CAPE measures across sectors or countries are typically not directly comparable without some form of normalization, i.e., adjustment. Analysts have noted that the metric has become more pessimistic over the past couple of decades, predicting more corrections than have come to fruition.

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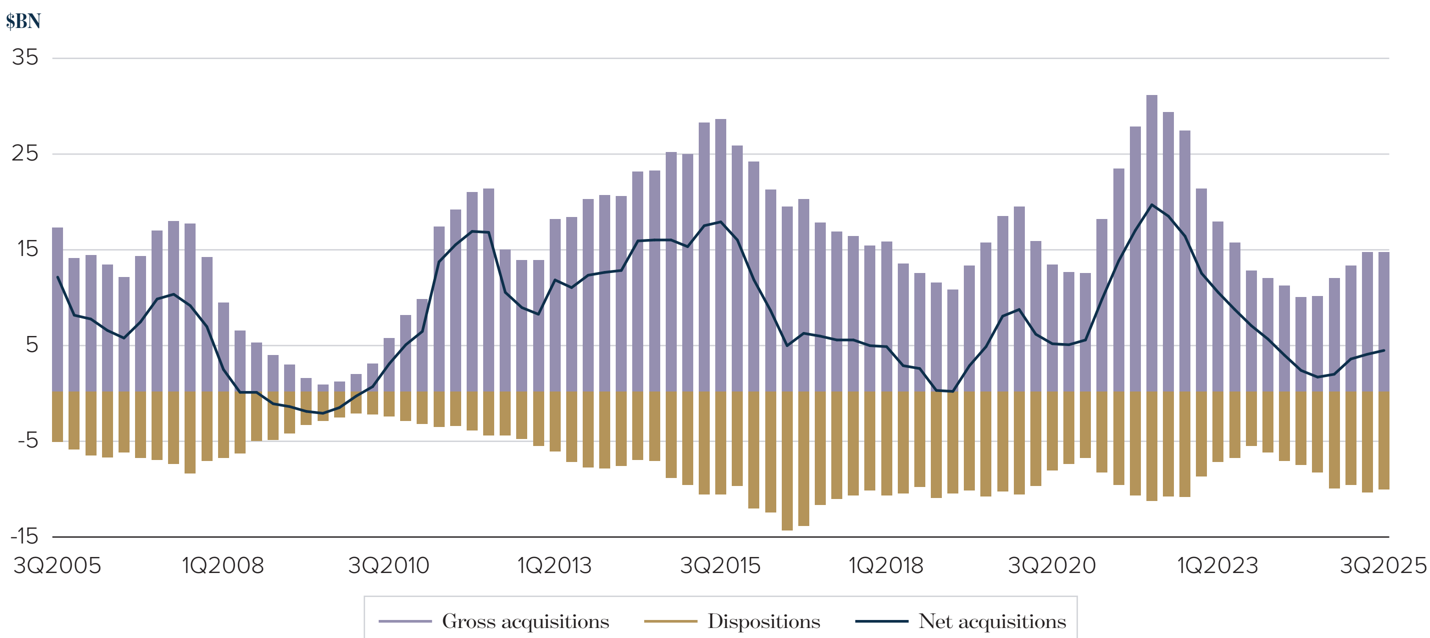
REITs have experienced a recent increase in transaction activity

The recent uptick in REIT rolling four-quarter gross acquisitions, dispositions, and net acquisition transaction activity may be a harbinger that the market is on the edge of returning to normalcy.



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