

Neuberger Berman US Real Estate Securities Team

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Market Context

We believe US equity markets will remain volatile until there is evidence that the number of new US coronavirus cases has definitively peaked. Until we reach this point it is difficult to appropriately frame the impact the virus will have on US economic activity. Once the number of new cases peaks we can then focus on the shape of the recovery in US economic activity. We will remain defensively positioned until we can better assess the ultimate impact of the current situation.

Investment Implications

We were biased towards defensive positioning (higher quality assets, REIT with below average financial leverage, sectors with secular vs cyclical growth characteristics) leading into the sell-off and have since become more defensive oriented (eliminating hotel exposure, reducing exposure to global warehouse REITs and reducing exposure to the regional mall sector). We have sought to increase exposure in select REITs with the strongest balance sheets in the sector, as well as increase cash allocations. We anticipate the Hotel, Regional Mall, Industrial and Healthcare REIT sectors will likely experience the greatest negative impact from the COVID-19 pandemic. We have an underweight bias to all of these REIT sectors. As corporations deploy business continuity plans with increasing numbers of employees working from home, this should reinforce the importance of a robust nationwide technology infrastructure. The Data Center and Infrastructure sectors could experience a longer term benefit if corporations decide to increase the capacity of, or improve the performance of their remote access platforms.

We remain defensively oriented in terms of positioning and have a bias towards overweight exposures to sectors benefiting from secular growth drivers (Data Centers, Cell Towers, Apartments, Manufactured Homes, Single Family Rentals) and an underweight bias towards more cyclically driven sectors (Hotels, Retail, Office). We are also defensive in our stance on exposure to REITs with higher quality assets and below average financial leverage.

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