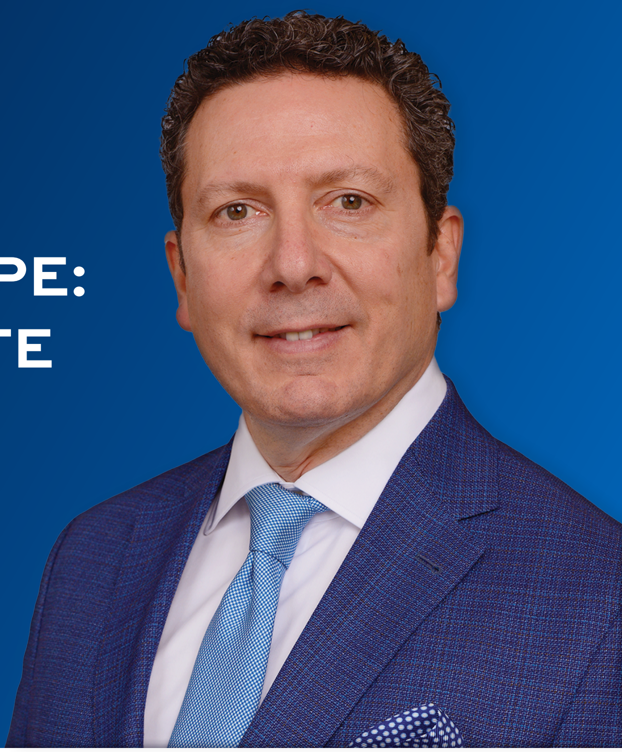
ASSESSING THE LANDSCAPE: A LOOK AT THE REAL ESTATE SECTOR FOR 2024



Dean Orrico, portfolio manager of Middlefield Real Estate Dividend ETF shares his outlook on the sector for 2024.

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The resurgence in equities in the latter months of 2023, and the solid performance thus far in 2024, has initiated investment back into the equity market. This change in investor sentiment should benefit publicly listed real estate investment trusts (REITs), an asset class that has been adversely impacted in recent years. In speaking with **Dean Orrico**, portfolio manager of **Middlefield's Real Estate Dividend ETF (Ticker: MREL)**, anticipated changes in the macroeconomic environment are shaping the outlook stakeholders have for the real estate sector. "As we go into 2024 our view is that rates have plateaued and are likely going lower. We believe you could see as few as two (rate cuts) and as many as five or six (rate cuts) and it's likely somewhere in between," Mr. Orrico says. "What's allowing rates to decline from their peak in October 2023 is a significant reduction in inflation as well as a slowing economy. We don't believe the economy will go into a major recession in 2024 but inflation will gradually decline, and unemployment could tick higher. In this type of economic environment, investors will likely rotate back toward risk-assets, like real estate equities given their high and growing dividends as well as their discounted valuations." said Mr Orrico.

The breadth and depth of the real estate sector are oftentimes underestimated and recent M&A activity has brought it to the forefront once more. In recent years, the growth and opportunities in industrial real estate have become ever-present and deals such as TPG's recent acquisition of 75 per cent interest in Oxford Properties Group's two Class-A industrial business parks in the Greater Toronto Area highlight its material importance. In speaking about this transaction, Mr. Orrico states, "Now that interest rates have peaked and are moving lower, major investors and buyers can now better ascertain valuations as well as secure debt financing for transactions, such as TPG's announced investment in December 2023. Blackstone's announced acquisition of Tricon Residential on January 19, 2024, is further evidence of major investors re-engaging in M&A. Put differently, the fundamentals have been solid for years and the reduction in interest rates is now catalyzing major investment activity." Industrial real estate is a critical infrastructure for the modern economy. It provides the logistics and distribution for E-Commerce and is also benefiting from the desire of companies to improve supply chain resiliency and on-shore critical manufacturing activities that were previously outsourced to foreign countries.

A major variable shaping the Canadian real estate market is population growth, as Canada's population increased by more than 1.2 million in 2023, an incredible number given that it followed a rebound of 825,000 in 2022 after the Covid recession. The growth in population immediately brings to mind the need for housing and why multi-family residential properties remain an attractive investment opportunity, given the significant housing shortfall in Canada. In speaking about Canada's housing shortage, Mr. Orrico states, "New supply is limited due to higher development costs and fees as well as higher interest rates. Moreover, the average purpose-built rental projects take four to five years from beginning construction to full occupancy and many projects which were set to commence in 2022 or 2023 were deferred. These supply constraints and deferrals have occurred while immigration is showing no meaningful sign of slowing." In an effort to expedite the development of multi-family housing, the Government of Canada in September 2023 announced the **unlocking of $20 billion in new financing to build 30,000 more apartments per year**. The actions of the government are tailored towards ensuring builders have the low-cost financing required to build more rental projects. Eligible rental projects must have at least five rental units and can include apartment buildings, student housing, and senior residences. With the Government of Canada signaling to builders that they can rely on this additional financing; more projects will be able to move forward and increase the supply of rental apartments for Canadians. From an investment perspective, Mr. Orrico notes, "These measures support the development economics for new construction by the apartment REITs as well as many of the retail-focused REITs who are actively developing empty lands into rental and/or condominium projects. In light of these factors, the apartment REITs are attractive due to expected increases in rental rates, earnings and dividends for years to come."

A fast-developing area of the real estate market is data centers and towers, the foundational infrastructure for our modern digital ecosystem. With the proliferation of the digital economy and the increasing reliance on wireless technologies, the economic importance of these real estate assets has seen them grow materially within REIT portfolios. In speaking with Mr. Orrico about the characteristics that help qualify these real estate assets as good investments, he stated, "Towers are characterized by long-term leases with high-quality telecom tenants, resulting in steady income streams. REITs with favorable lease terms that include rent escalators are viewed positively in the current environment. The growth of cloud computing and the promising outlook for artificial intelligence are expected to fuel demand for data centers for many years. Data processing and storage is power intensive. As a result, the ability for data center landlords to pass on increasing power costs to tenants through higher rents is an important characteristic today."

For investors looking to add real estate exposure to their portfolio, the **Middlefield Real Estate Dividend ETF (Ticker: MREL)** is an actively managed solution that provides diversified exposure to commercial real estate companies operating in the industrial, data center, retail, healthcare, cell tower, office and residential sectors. Launched in 2011, the fund has consistently stood out from its peers and recently achieved a **Fundata Fund Grade A+ rating for 2023**. It pays monthly distributions and yields 7.5% at the time of this writing. Regarding the fund's positioning for the year ahead, Mr. Orrico stated, "We expect industrial, retail, multi-family/apartments and senior living to generate very attractive returns in 2024. All are experiencing limited new supply with strong levels of demand. In light of the reduction in rates and yields, we expect funds to flow into public REITs as investors look for high and growing dividends paid on a tax efficient basis."

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