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# PUBLICLY TRADED REAL ESTATE – A BETTER MOUSETRAP THAN PRIVATE REAL ESTATE

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## Publicly Traded REITs – Superior Historical Returns to Private Real Estate

The annualized total return of public real estate stocks has averaged 10.5% annually over the past 20 years, well ahead of the returns of private real estate equity at 6.5%. The power of compounding is exhibited in the chart below, with publicly traded REITs up 6-fold since 2001, more than double private real estate returns.

Don't just take Land & Buildings' word for it. A recent study by the University of Florida analyzing public vs. private real estate, and highlighted in August by *Institutional Investor*, noted:

*"Overall, we find that closed-end PERE [private equity real estate] funds have underperformed listed REITs, even before adjusting for risk, leverage, illiquidity, and the uncertain investment timing associated with unfunded capital commitments."*

The study, which was published in the Journal of Portfolio Management's real estate issue, found:

- US public REITs outperformed private equity real estate by 165 basis points annually over a 20-year period
- US public REIT risk-adjusted returns outperformed private equity real estate by 590 basis points over a 20-year period due to private real estate illiquidity, financial leverage, and opportunity cost

### Public REITs Have Consistently Delivered Superior Annualized Returns vs. Private Real Estate Over The Past 30 Years

| | Trailing Period | Public Real Estate | Private Real Estate | Public REIT Outperformance |
|---|---|---|---|---|
| 1 | 1 Year | 32.8% | 7.0% | 25.8% |
| 3 | 3 Year | 12.0% | 4.5% | 7.5% |
| 5 | 5 year | 8.1% | 5.5% | 2.6% |
| 10 | 10 Year | 10.3% | 8.5% | 1.8% |
| 20 | 20 Year | 10.5% | 6.5% | 3.9% |
| 30 | 30 Year | 11.1% | 6.5% | 4.6% |

Source: Bloomberg, Land & Buildings; Note: Returns through 6/30/2021. Private market returns represent the NFI-ODCE (NCREIF Fund Index - Open End Diversified Core Equity), an index of 38 open-end commingled funds pursuing a core investment strategy. Private returns are on a net basis, estimated by reducing reported gross returns by 1% per year. Public REIT returns reflect the FNERTR Index (FTSE NAREIT All Equity REITs Index).

## KEY POINTS

Public Real Estate Historical Returns Superior to Private Real Estate

Public Real Estate Has Clear Advantages Over Private Real Estate Including Sector Diversity & Liquidity

Public Real Estate Well Positioned to Benefit from Economic Expansion

Public Real Estate Today Trading Cheap to Bonds

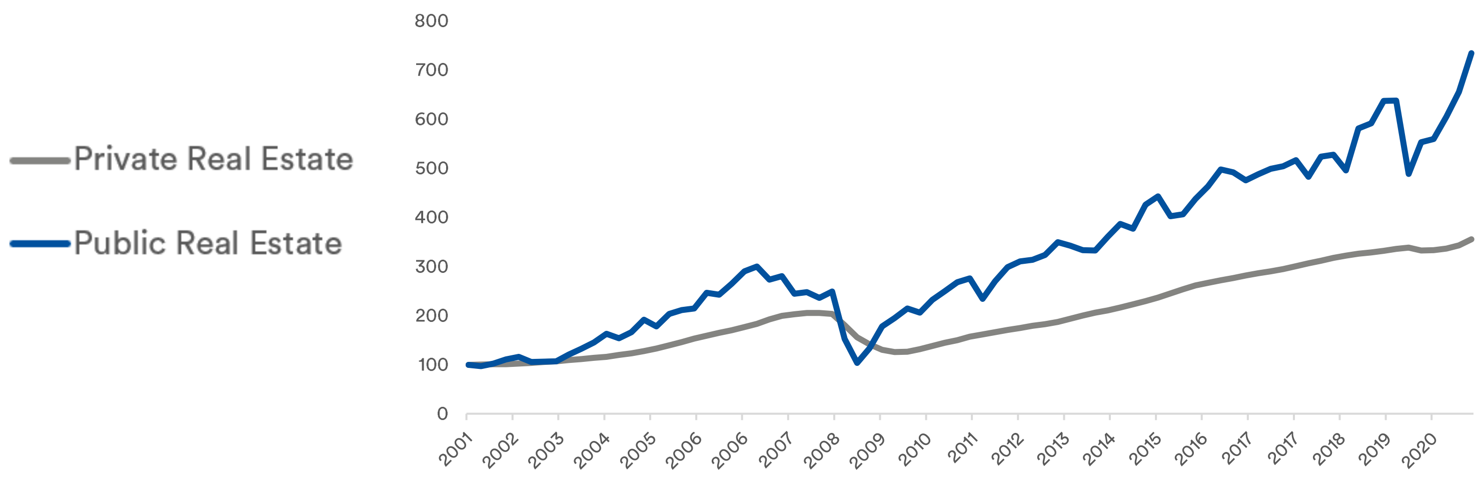
## Public Real Estate Has Numerous Advantages Over Private Real Estate

The public REIT real estate structure is a better mousetrap than private real estate, which has likely contributed to the superior performance, specifically:

- **Better liquidity –** REITs provide substantially better liquidity versus multi-year lockups in private real estate funds.
- **Dynamic alpha generating opportunities –** REITs provide unique opportunities to capitalize on under and over valuation relative to net asset value of underlying real estate.
- **Alignment of interest between shareholders and management –** The vast majority of REITs are internally managed and advised, eliminating the inherent conflict in private real estate.
- **Lower cost of capital –** As a public entity, REITs can take advantage of public or private capital sources including public equity, corporate debt, mortgages, or private joint ventures with institution investors.
- **Higher quality assets and platforms –** Publicly listed real estate is significantly overweight Class A assets in highly attractive locations and submarkets. The quality, scale, operational expertise, efficiency, and value creating capabilities of the best REIT platforms may not be possible to replicate in the private markets.
- **Better investment alternatives –** REITs provide access to a more diversified property universe than traditional private real estate funds.

Public real estate has many advantages over private real estate including better alignment of interests, superior liquidity, higher quality assets and access to greater investment alternatives

### Growth of $100 Over Last 20 Years: Public Real Estate $735, More Than Double Private Real Estate

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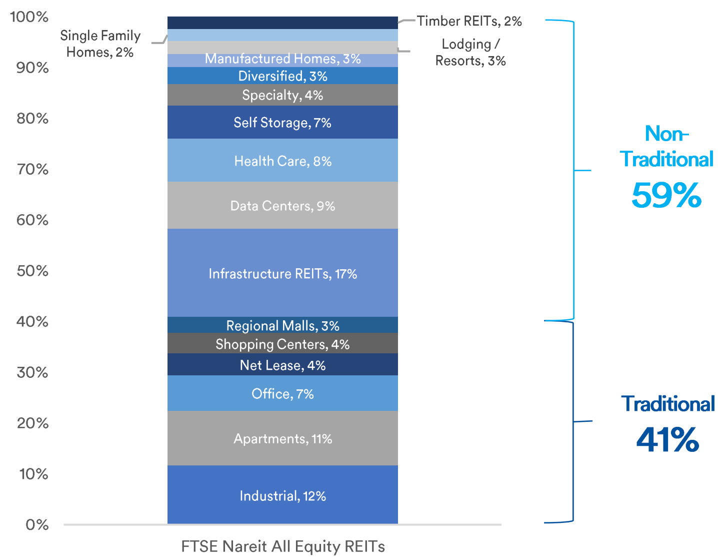
## Public Real Estate Provides Opportunity to Invest in Full Spectrum of Real Estate

Publicly traded real estate offers a large, liquid, and diverse alternative set of investment opportunities to private real estate, which is overly concentrated in traditional and, today, often challenged real estate including office and retail.

As seen in the chart to the right, just 41% of US REITs are in so-called traditional real estate sectors. REITs instead have large weights in property types with attractive secular tailwinds including technology infrastructure like cell towers or healthcare assets such as senior housing and life science.

With 59% of the $1.4 trillion in REIT equity market capitalization in non-traditional asset classes, the public markets offer a superior venue to own a diversified real estate portfolio.

### Public Real Estate Provides Venue to Earn Strong Returns on Non-Traditional Assets



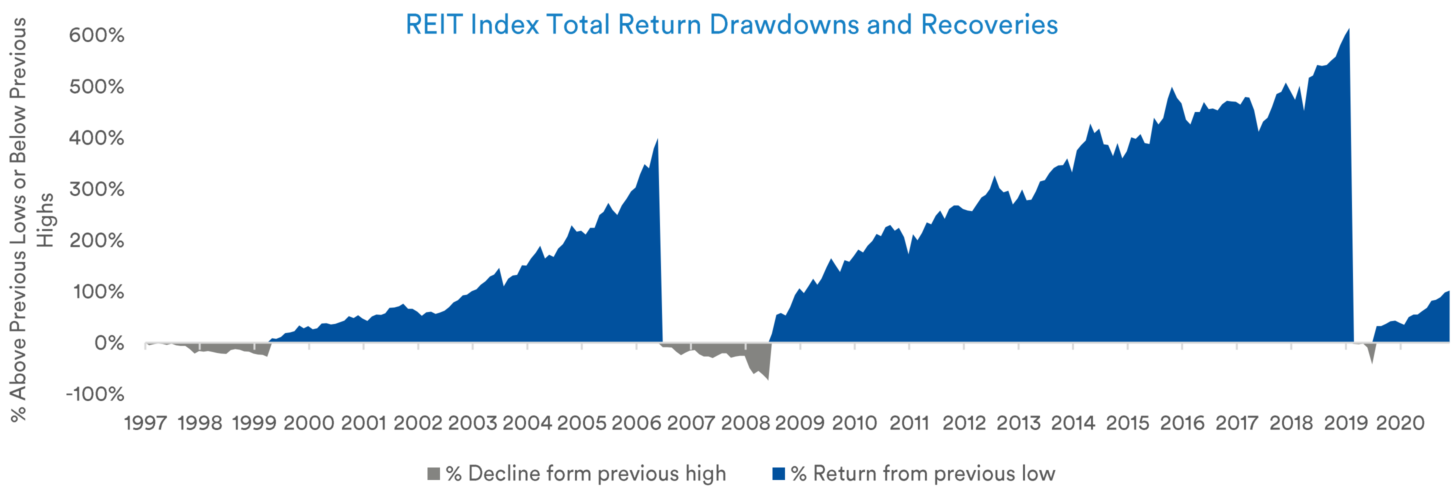

Source: NAREIT

## Economic Expansion Underway – Public Real Estate Well Positioned

The post-COVID economic recovery is well underway and real estate is a prime beneficiary. Many property types are rapidly approaching or exceeding pre-pandemic rent levels, occupancies, and profitability. A trio of pent-up demand, fiscal stimulus and accommodative monetary policy have the economy on strong footing. A rising tide is lifting nearly all boats. Public real estate is expected to generate 9% earnings growth in 2022 as demand continues to outstrip supply for nearly all property types.

REITs materially outperformed the S&P 500 during periods of economic expansion in the 2000's and 2010's, posting returns of 400% and 600% respectively. If we are at the beginning of another sustained economic expansion, history indicates absolute returns could be several hundred percent more this cycle.

### Robust REIT Returns During Economic Expansions




Source: Bloomberg, Note: Data as of 8/31/21

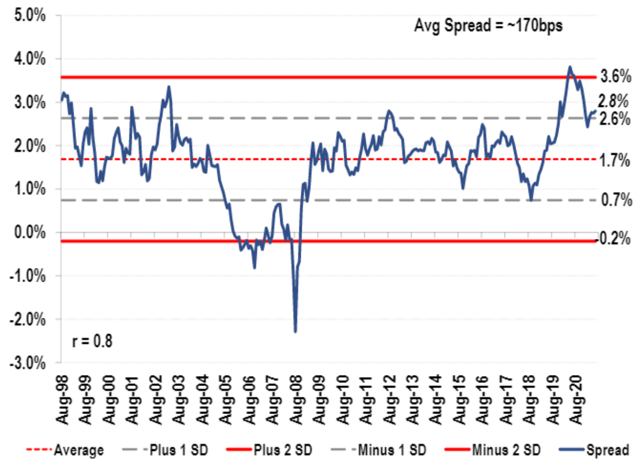
## Public Real Estate Cheap to Bonds

The structurally lower interest rate environment ushered in by an accommodative Federal Reserve will lead to further cap rate compression (higher valuations) for the best positioned property types, in our view.

Implied cap rate (property yields) spreads to US BBB Corporate Bond Yields are well above their historical averages despite the strong growth prospects for real estate. The nearly 100bps excess spread relative to the cost of debt is historically wide.

A wall of capital seeking yield is compressing cap rates for well-positioned real estate assets, leading to rapidly increasing private market values and public REIT NAVs.

### REIT Implied Cap Rates Trading at Historically Wide-Spread to BBB Corporate Bonds

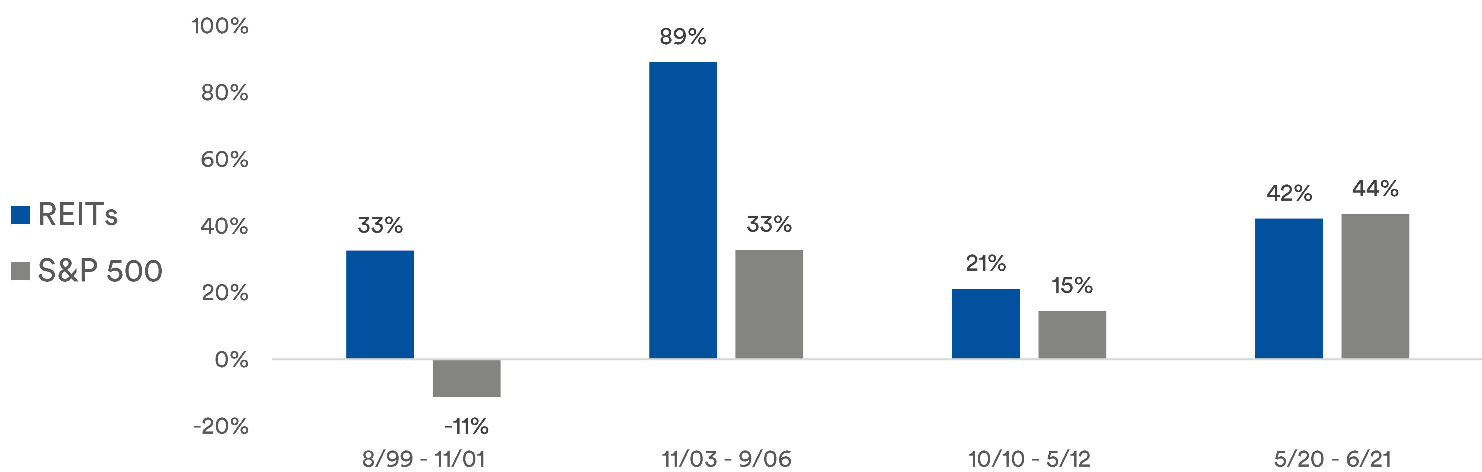



Source: Citi

## Higher Inflation = Strong REIT Returns

REITs have historically posted outsized returns during periods of rising inflation as rents are reset to higher market levels, replacement costs rise, and asset values increase. REITs have generated an average total return of 46% in the four periods of sustained rising core inflation since the modern REIT era began in 1994, outperforming the S&P 500 average return of 20%. This limited data set supports investor's intuition: REITs are an effective inflation hedge.

### REITs Generated Outsized Returns When Inflation Sees Sustained Rise




Source: Land & Buildings, Bloomberg, Note: Data as of 6/30/21

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