L&B LANDandBUILDINGS

PUBLICLY TRADED REAL ESTATE – MATERIAL OUTPERFORMANCE TO PRIVATE REAL ESTATE

NOVEMBER 2024

Publicly Traded REITs – Superior Historical Returns to Private Real Estate

Listed real estate has generated a 9.9% average annual return the past 30 years, well ahead of private real estate equity at 7.0%. Listed REITs are up nearly 1,600% over the past 30 years, approximately 2.5x the return of private real estate as illustrated in Figures 1 and 2. Long-term outperformance stems from several key fundamental advantages public real estate has over private.

The outlook for the REIT sector is compelling in our view. After a two-year drought during the Fed tightening cycle and over supply in certain property types, the tide has turned as capital markets have re-opened, and construction pipelines have shrunk while a solid economic backdrop is leading to strong demand for quality real estate.

Public real estate companies today have far superior access to capital and at cheaper rates than private competitors, creating a compelling opportunity for well-positioned REITs to deploy capital. There have been three IPOs completed this year, after zero the prior two years, which have raised a total of $6 billion, the highest year of IPO capital raising by real estate companies in 20 years. An acceleration in IPOs is likely over the next few years given a superior cost of capital, creating additional investment opportunities for public equity investors.

Figure 1: 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 Year	34.8%	-8.2%	43.0%
3 Year	3.5%	-1.2%	4.7%
5 year	5.1%	1.9%	3.2%
10 Year	8.0%	5.1%	3.0%
20 Year	8.3%	5.6%	2.7%
30 Year	9.9%	7.0%	2.9%

KEY POINTS

Public Real Estate Historical Returns Superior to Private Real Estate

Public Real Estate Has Clear Advantages Over Private Real Estate

Investors are Underweight Public Real Estate

Public Real Estate Companies Have More and Better Options for Capital Raising

Source: Bloomberg, Land & Buildings; Note: Returns through 9/30/2024. Private market returns represent the NFI-ODCE (NCREIF Fund Index - Open End Diversified Core Equity), an index of 25 open-end commingled funds with over $200B of assets 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).

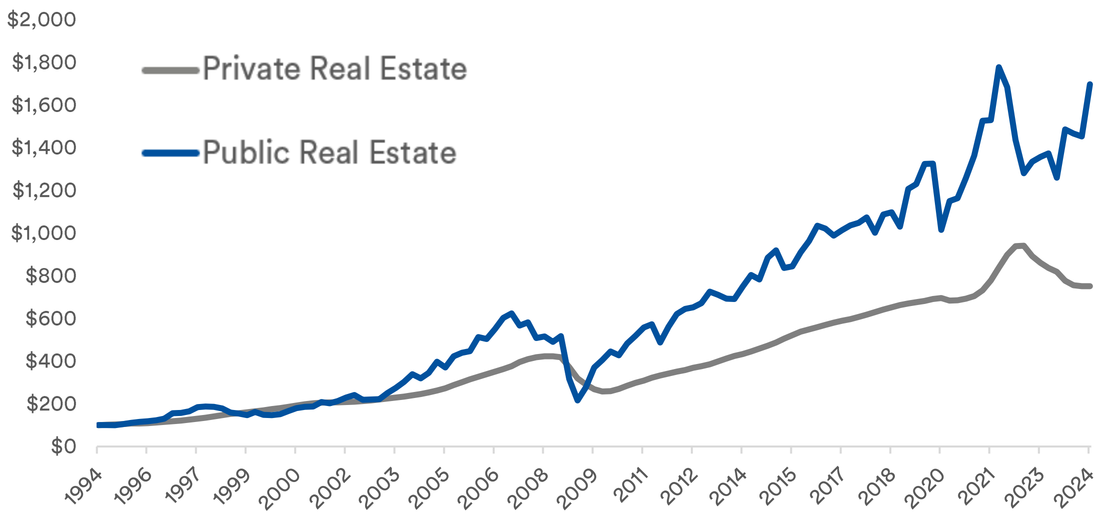
Public Real Estate Has Numerous Advantages Over Private Real Estate

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 better liquidity with daily trading versus multi-year lockups in private real estate.
- **Dynamic alpha generating opportunities** – REITs provide ability for investors to capitalize on under- and over-valuation relative to net asset value (NAV) of underlying real estate with long and short opportunities.
- **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 and greater access** – REITs can take advantage of public or private capital sources including public equity, corporate debt, mortgages, or private joint ventures with institutional investors.
- **Arbitrage opportunities** – The ability for companies to issue equity when at a premium and buy stock when discounted to NAV provides an opportunity for REITs to create NAV accretion unavailable to private companies.
- **Higher quality assets and platforms** – Publicly listed real estate is overweight Class A assets in premier locations. The quality, scale, operational expertise, efficiency, and value creating capabilities of the best REIT platforms may not be replicable privately.
- **Diversification** – Access to a more diversified universe of property types than traditional private real estate.

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

Figure 2: Growth of $100 Over Last 30 Years – Public Real Estate Nearly $1,700, More Than Double Private Real Estate



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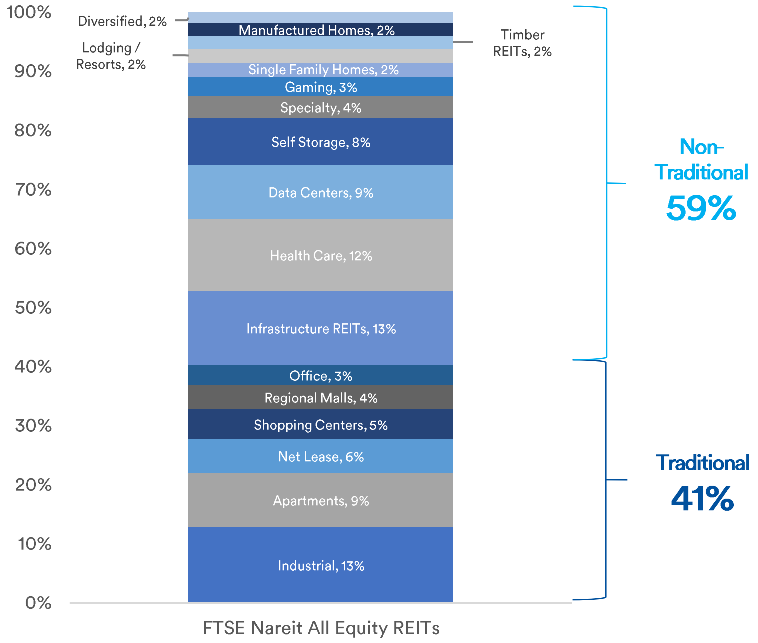
Public Real Estate Provides Opportunity to Invest in Full Spectrum of Real Estate

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 such as office.

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 data centers and cell towers or healthcare assets such as senior housing.

With 59% of the $1.3 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.

Figure 3: Public Real Estate Provides Venue to Earn Strong Returns on Non-Traditional Assets



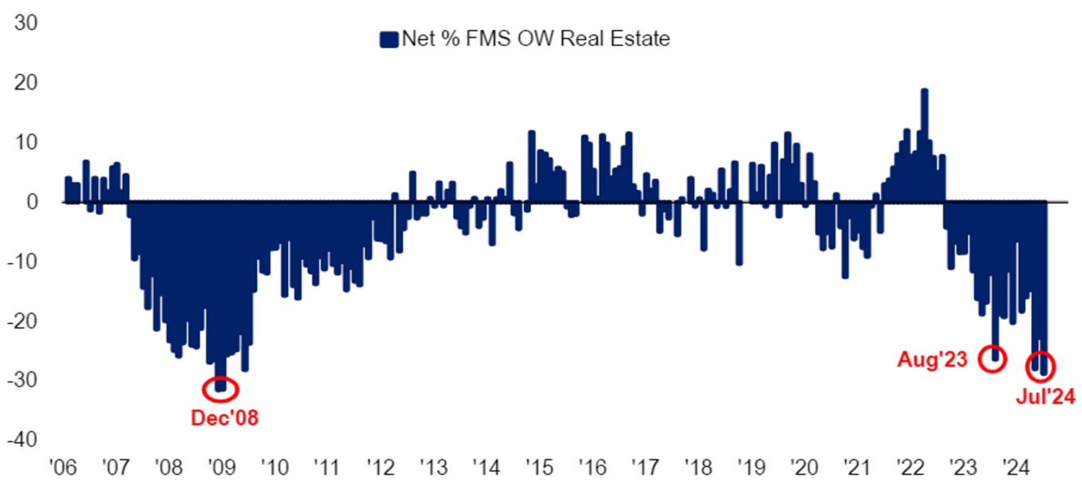
Source: NAREIT

Public Real Estate is Under-Owned Today

A Bank of America survey comprising institutions that manage more than $500 billion of assets revealed that real estate equities reached their most underweight level since the fourth quarter of 2008 during the third quarter of this year.

The depths of the Great Financial Crisis was, needless to say, an extraordinary buying opportunity. History does not need to repeat itself, just rhyme, for today's entry point to be highly attractive.

Figure 4: During 3Q24 Investors Were the Most Underweight Real Estate Equities Since the Great Financial Crisis

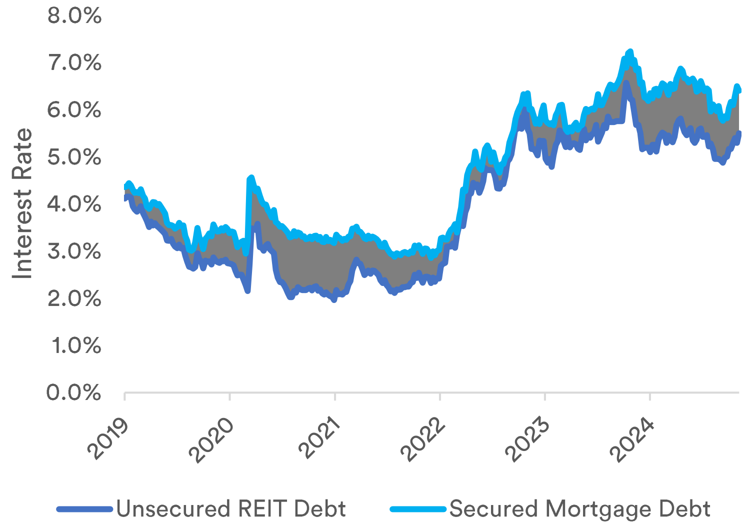


Source: BofA; Note: Data reflects the BofA Global Fund Manager Survey of institutional investor positioning over under/overweight the liquid real estate sector.

Public Real Estate Companies Have More and Better Options for Capital Raising

Public real estate companies have access to multiple financing options unavailable to private real estate companies, including public equity and public unsecured debt. Over time unsecured debt available to public companies has consistently been at lower rates than conventional secured mortgage debt, averaging 70 bps lower interest rates over the past year. Today, well capitalized public companies can raise debt capital in the unsecured market in the 5% range, about 100bps lower than mortgage debt. When equity capital is attractive, public companies can raise capital various ways including block issuances overnight as well as issuing equity through an at-the-market (ATM) program where companies can opportunistically issue equity daily.

Public Unsecured Debt is Consistently Cheaper Than Secured Mortgage Debt



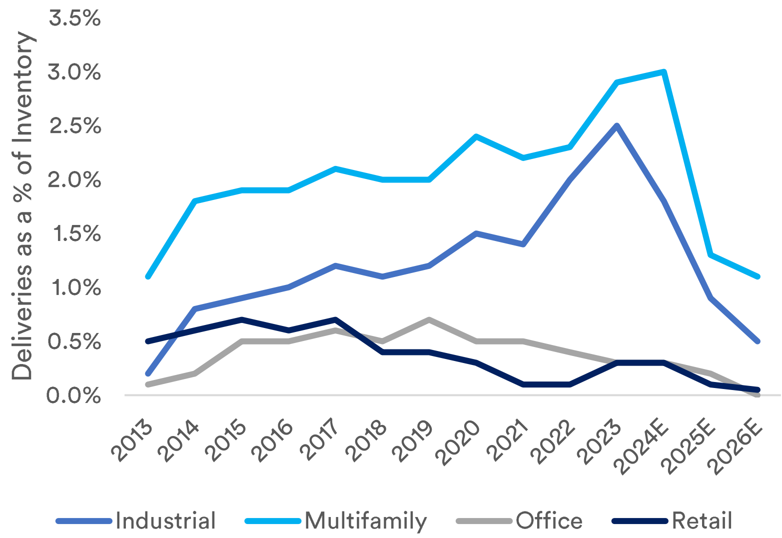
Source: Green Street

Declining New Supply to Benefit Real Estate

Across most property types, new construction deliveries are poised to fall in 2025 and 2026 as tighter capital markets resulting from Fed tightening led to a significant slowdown in construction starts. Industrial and multifamily development deliveries are expected to fall by more than 50% in 2025 from peak levels, which should lead to improved pricing power, occupancy, and earnings growth as the current elevated development deliveries are absorbed.

Improved supply/demand fundamentals, reduced interest rate refinancing headwinds and accretive investment opportunities should lead to an acceleration of earnings growth for public real estate companies, from an average of 2% growth in 2024 to 5% in 2025 and 6% in 2026 according to consensus estimates. Land & Buildings focuses its investments in companies with outsized growth potential outpacing the averages cited above and in deeply discounted listed real estate companies.

Development Deliveries Poised to Fall in 2025/2026



Source: J.P. Morgan, Green Street

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