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(formerly Cass)

Iberian REIT Conference
Madrid

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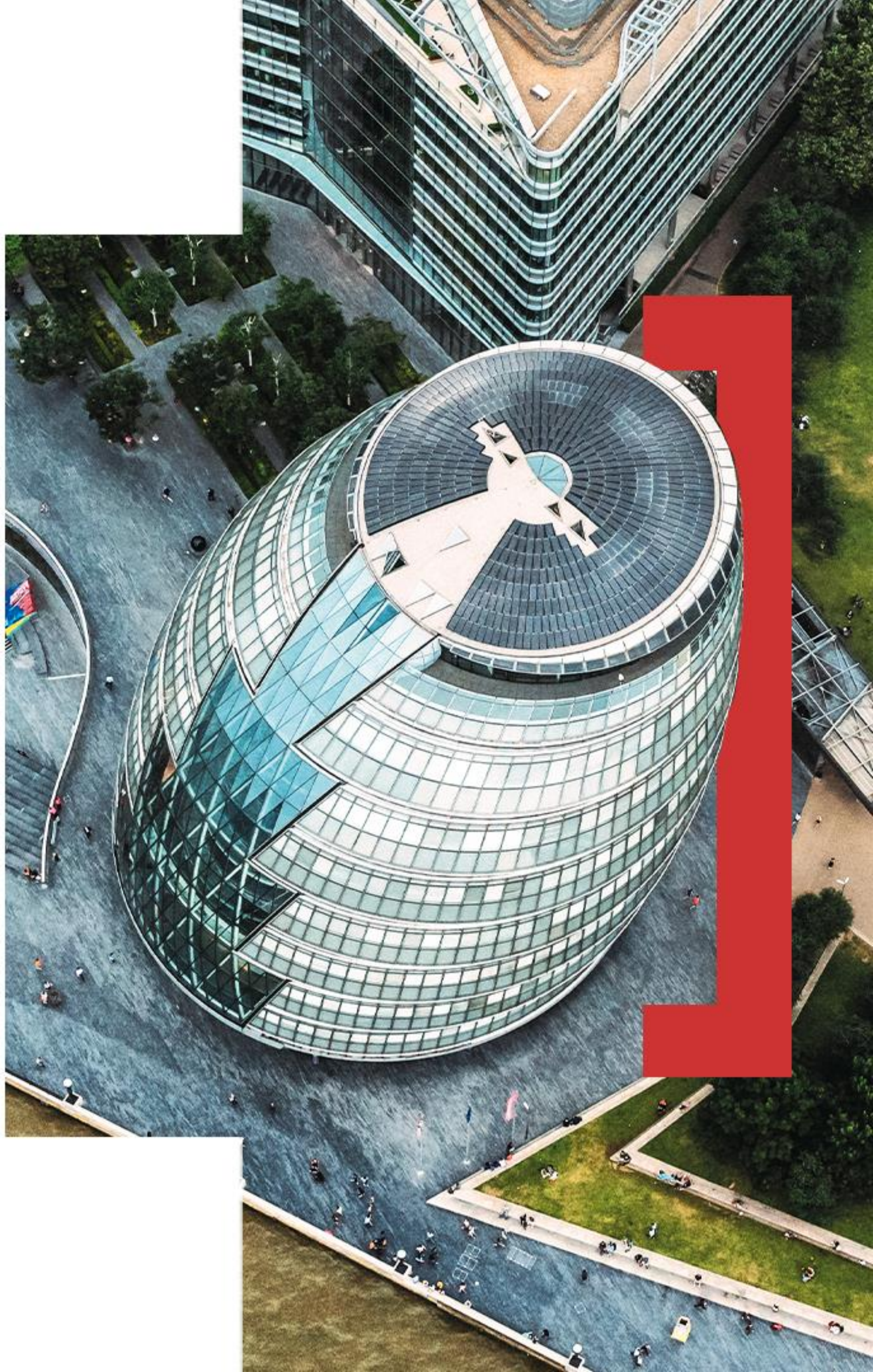
Chairman, EPRA Research Committee

28th March 2022

[bayes.city.ac.uk]

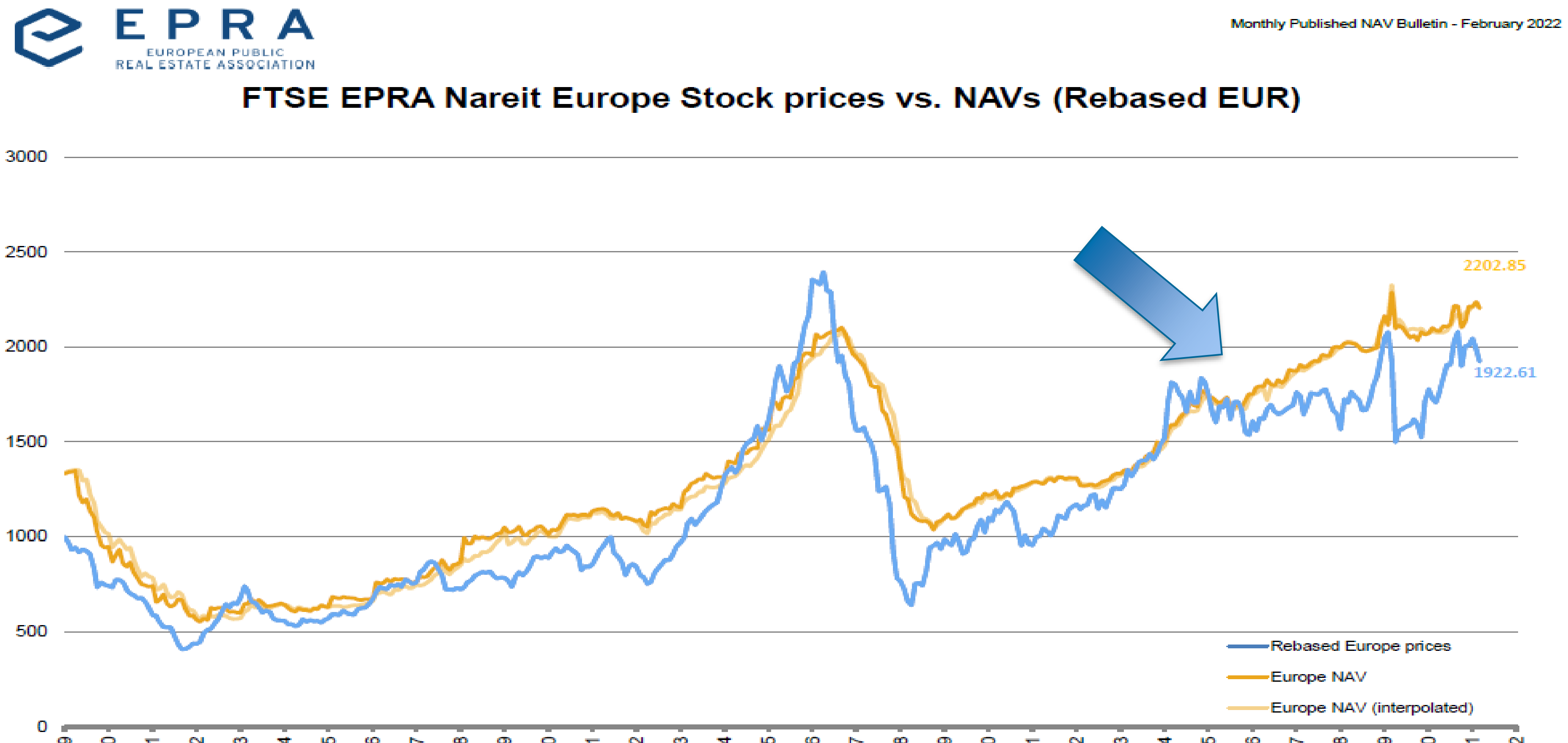


CURRENT TOPICS IN EUROPEAN LISTED REAL ESTATE

- Asset valuation vs Stock Market valuation – Why the disconnect?
- Specialist or diversified - does it makes a difference for premium / discount?
- Stockmarket pricing – Historical perspective and country comparison
- Is NAV the right metric ? Is FFO a better metric for operating and cash flow generating companies?

ASSET VALUATION VS STOCK MARKET VALUATION : WHY THE DISCONNECT ?

We know from EPRA research that listed returns are driven by real estate returns – 80% over a 3 year period . However, <u>at times</u> the two markets can be priced very differently. We call this the **Parallel Asset Pricing Model .** Until 2015/6 the two were closely correlated and then a decoupling occurred…….



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ASSET VALUATION VS STOCK MARKET VALUATION : WHY THE DISCONNECT ?

Why the disconnect? Three main reasons :

First Reason- Property investors aren't necessarily the price setters

There are three broad types of equity investor :

1) Active real estate specialist (Cohen & Steers, Janus Henderson)
2) Active generalist (Legal & General, Prudential etc)
3) Passive funds

Of these three groups, only the first one is <u>acutely</u> concerned with pricing relative to the underlying assets. For most companies they do not represent a sufficiently large % of the register to be the price-setters.

Therefore generalist valuations and fund flows/sentiment normally tend to drive short term pricing rather than sector arbitragers..

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ASSET VALUATION VS STOCK MARKET VALUATION : WHY THE DISCONNECT ?

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The **Second reason** relates to the **timing difference** between an historic asset valuation and an equity valuation that is looking 18 months ahead .

At times when values are broadly stable the asset and equity market valuations are closely correlated . However, when there are structural shifts or material uncertainty then the impact of the timing difference is exacerbated .

The structural shift towards e-commerce which started in 2015/6 led to sharp divergences in retail valuations between the two markets, whilst the uncertainty long term impact of WFH is currently affecting office asset owners.

The specific and sharp pandemic related decoupling (resulting in the existential threat of tenants not paying rents and with no legal remedy for landlords) of 2020 has now been reversed.

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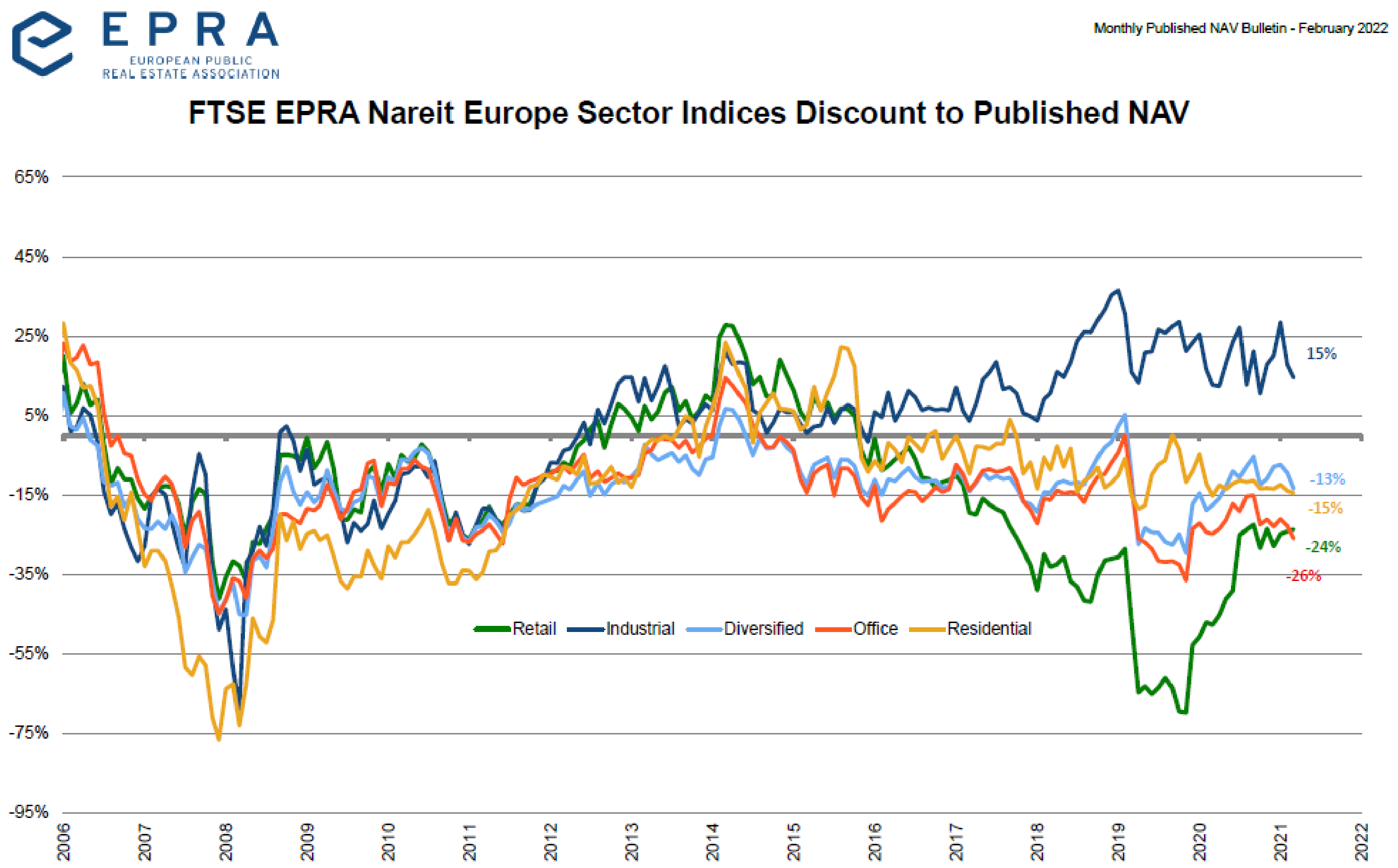
ASSET VALUATION VS STOCK MARKET VALUATION : SECTORAL DIVERGENCE

- The third and final reason lies in the fact the sector is no longer treated as a single category , but comprises vastly divergent valuations (+15% premium for industrial to 25% discount) for office and retail around comparable NAVs.



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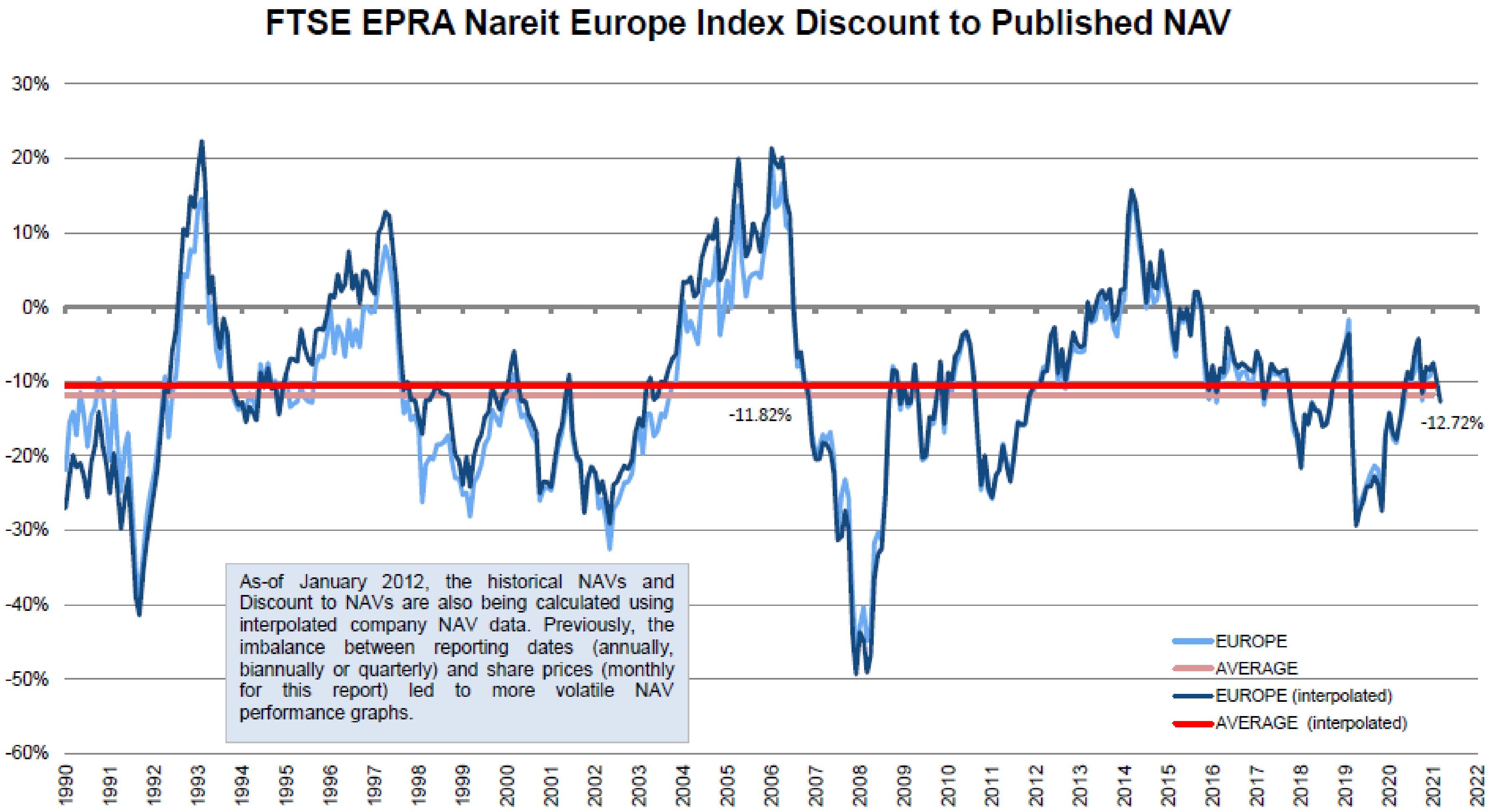
PREMIUM OR DISCOUNT – WHERE ARE WE RELATIVE TO HISTORY ?

Overall, very close indeed to the long term (32 year) average!



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PREMIUM OR DISCOUNT – COUNTRY VARIATIONS

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IS NAV THE RIGHT METRIC ?

- For investors who buy listed real estate for capital growth – absolutely NAV is the right metric

- However, a number of solutions based investors are buying listed real estate for other reasons e.g. income, inflation protection, low volatility, capital preservation, secure income stream. For these investors other metrics such as dividend yield/growth are key and they are not averse to paying a premium to NAV.

- For investors in operational assets (e.g. self-storage) then a multiple of AFFO may be more appropriate.

- For listed vehicles that also have a Fund Management operation then a Sum of the Parts valuation is appropriate

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SUMMARY

- We are now appear to be in an era when the investment case for specific REITs has to be made , as opposed to an argument for an overall investment in the sector.

- Valuations are very sector , and in some cases, country specific.

- The rise of passive funds has meant that real estate specialists are not necessarily the price setters.

- This could lead to more prolonged disconnects between REIT valuations and direct valuations

- The use of listed real estate to provide a specific solution (inflation, income, liquidity) is becoming far more prevalent.

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