

# U.K. REITS – THE U.S. PERSPECTIVE

## IS SINGLE SECTOR FOCUS KING?

## DOES SIZE MATTER?

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## **U.S. REITS - BACKGROUND**

- **1992 market cap \$10 billion, 1995 \$60 billion**  
**Today \$300 billion+ in 200 public REITs**
- **9% dividend yield in 2000**  
**Today average 4.5% dividend yield (3.2% after tax for higher tax payer)**
- **Typically trade (last 11 years) at average 11 x forward FFO multiples**  
**Today at c.15x**
- **Discounts to NAV for U.S. REITs are not a reliable measure of performance as regular external valuations do not take place and numbers are generally computed by analysts using assumed cap. rates**
- **Over 10 years returns from diversified have lagged retail, office and industrial on an absolute and risk adjusted basis**

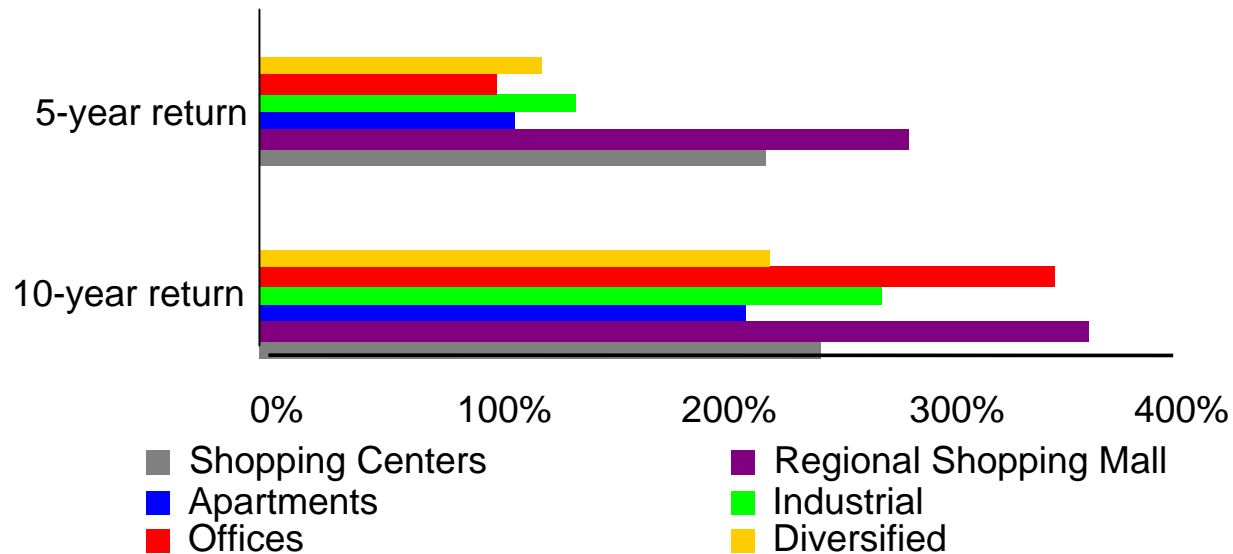
# U.S. REITS - STRUCTURE

**Believe U.K. REITs likely to broadly follow U.S. model: some exceptions**

**U.S. REIT model:-**

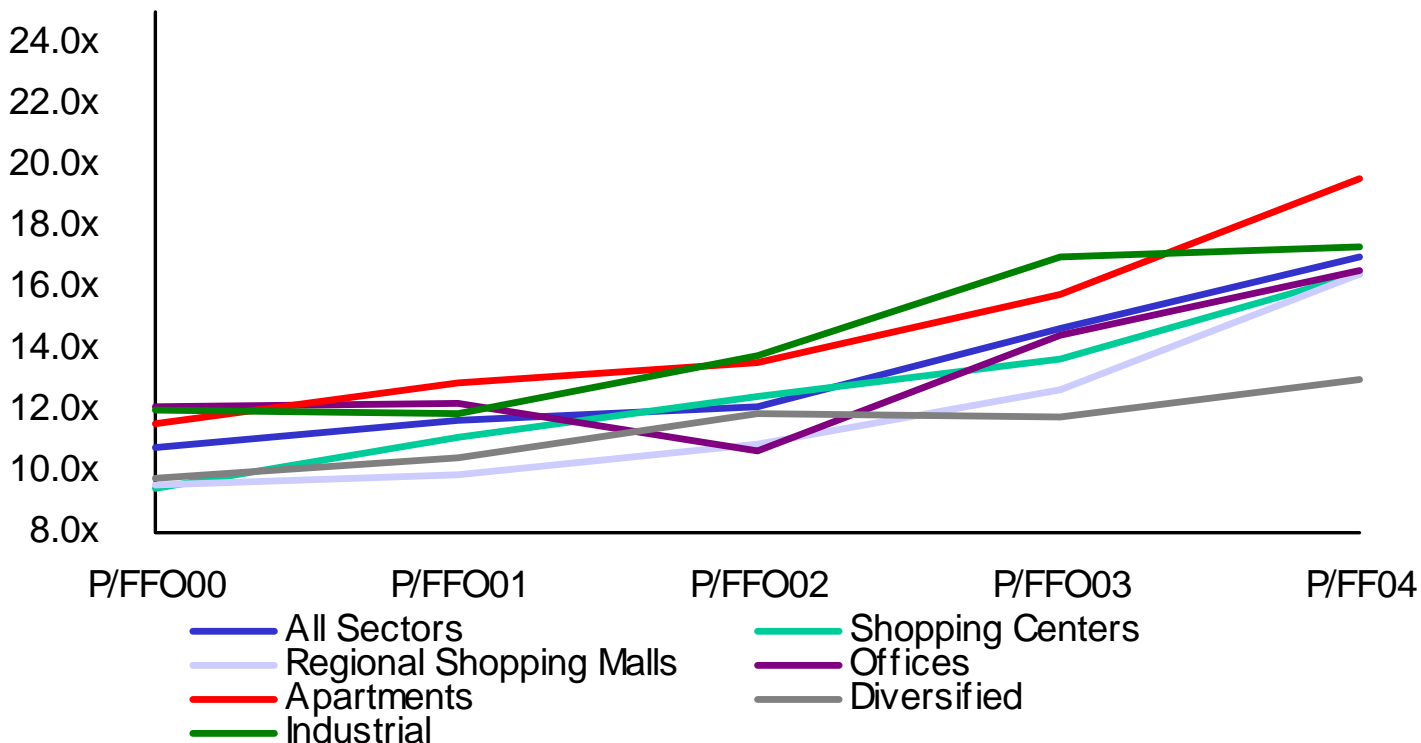
- **Tax exempt for business**
- **Internal management**
- **>50% has to be held by 5 + entities**
- **Income requirement 75% and 95% rules depending on earnings type**
- **Permit overseas assets**
- **Developments generally not permitted**
- **No gearing restrictions**
- **90% distribution requirement**
- **No stamp duty on REIT share trades**

## U.S. REITS - SECTOR PERFORMANCE - RETURNS



**Certain sector specialist REITs (e.g. retail, offices and industrial) have tended to outperform over the longer term.**

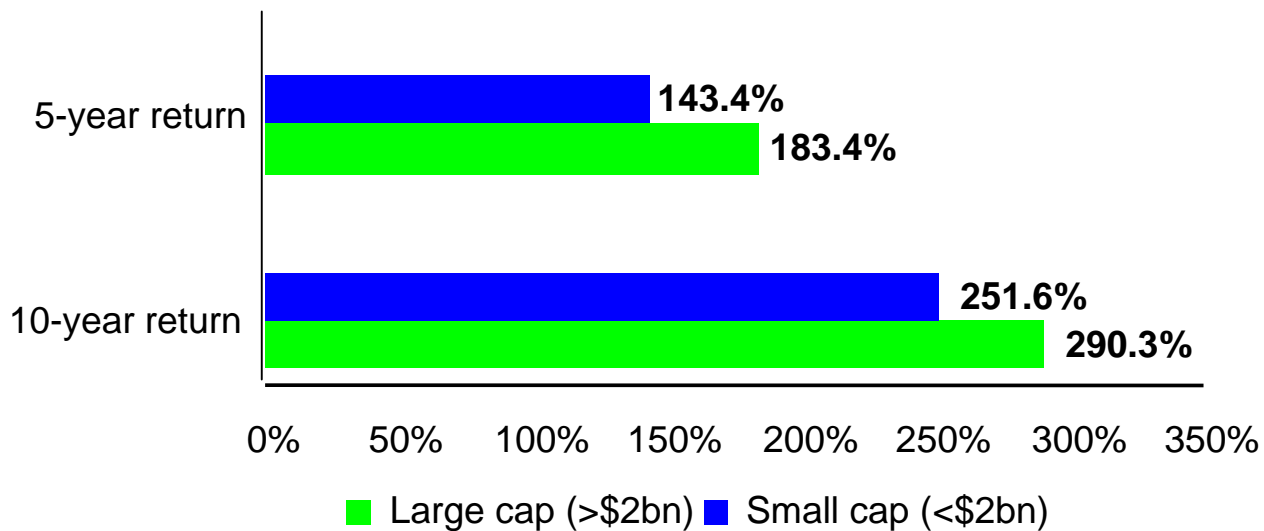
# U.S. REITS - SECTOR PERFORMANCE - FFO MULTIPLES\*



**Although valuation multiples have increased for all since 2000, diversified REITs have tended to lag since 2003.**

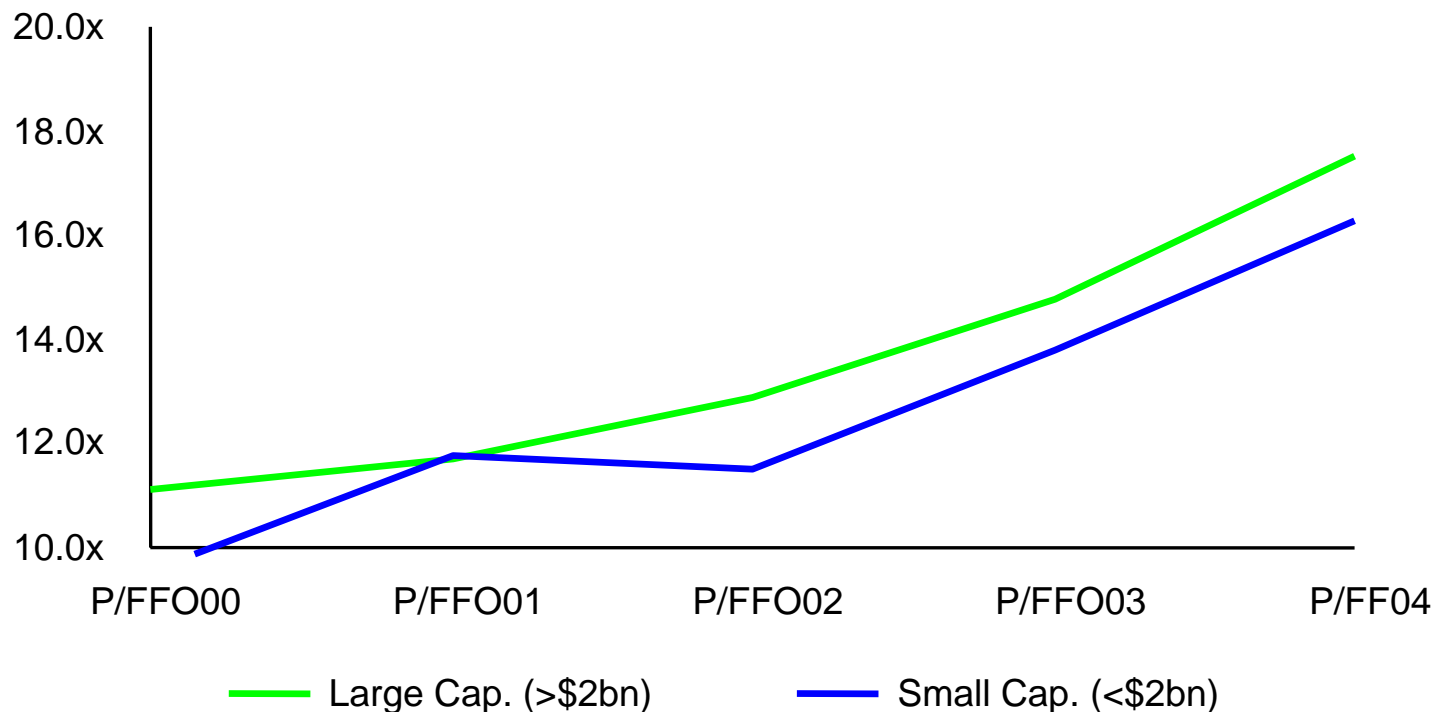
\* AFFO (adjusted funds from operations): adjusts for three items: 1) non-revenue recurring maintenance capital expenditures, 2) straight line rents if applicable, 3) and land sales if applicable.

## U.S. REITS – DOES SIZE MATTER? - RETURNS



**There has been a slight, but consistent, outperformance of larger US REITs.**

## U.S. REITS – DOES SIZE MATTER? – FFO MULTIPLES



**Large cap REITs have generally traded on slightly higher P/AFFO valuation multiples.**

# CONCLUSIONS

**Be careful with statistics!**

- **“Diversified” make up <10% of Citigroup’s sample by market cap. (sample 39 companies, total market cap >\$170 billion). And the U.S. has several mixed office/industrial companies outside the diversified category.**
- **In the U.S. as REIT markets have matured a consistent trend towards sector specialisation. New vehicles have to differentiate themselves.**
- **The NAV premia of diversified REITs have declined relative to single sector, though the numbers should be treated with caution.**
- **Anecdotally single sector is king but single sector is much more dominant than in the UK (or Europe)**

**..... and it really depends on which single sector. Retail and industrial have more recently out performed diversified which have a lead over offices.**

**On FFO multiples diversified have fallen behind the other sectors.**

- **Minimum size is undoubtedly important for investors: risk spread, economies of scale, market dominance, liquidity**

**But there is no absolute hurdle**

- **Inevitably focused proactive well-run companies over time provide the highest returns and attract the best ratings. C’est la vie!**