

REITs

INDUSTRY UPDATE JULY 2024



Contracting Industry

REITs have been consistently profitable over the past 5 years. Increased profit is primarily driven by rising property values in urban real estate markets. However, the industry has become less profitable due to the economic downturn caused by the pandemic. In the next five years, the uncertain interest rate environment will reduce liquidity in the financial markets and hinder industry growth








Reducing Depreciation Costs

Depreciation has historically been and will continue to be an abnormally large expense for the industry. This is due to the large portfolios of properties held by such entities. At the end of 2023, depreciation was the largest cost at an average of 28.5% of revenue. Some REITs are taking initiative to minimize this cost by renovating and upgrading their properties more frequently

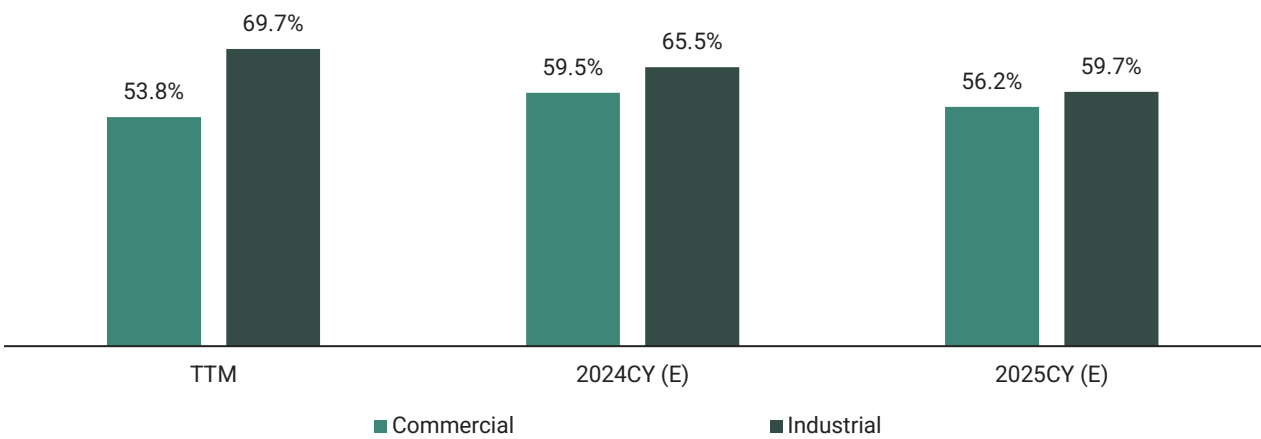
Increased Consolidation

The number of REITs listed on US stock exchanges has declined over the past few years, as private equity investors and large financial institutions acquire smaller REITs. Additionally, rising interest rates will push weaker performing REITs to merge with bigger investment firms. Large REITs and new entrants will drive M&A activity in the coming years to expand their asset portfolio

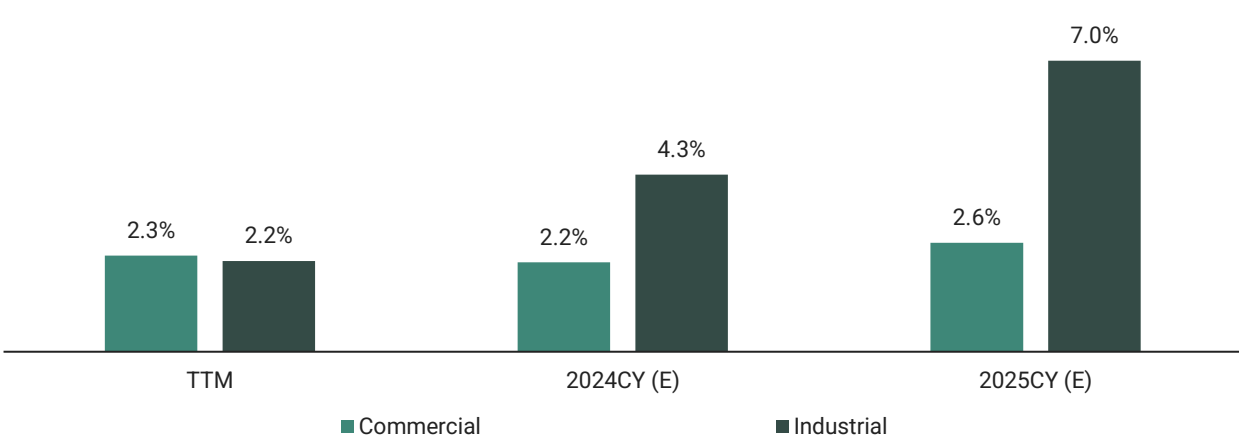
REIT HEADLINE TRANSACTIONS

TARGET	ACQUIRER	ACQUISITION SYNOPSIS
		On July 16 th , 2024, Comrit Investments 1 LP entered a bid to acquire an additional 3.5% stake in CIM Real Estate Finance Trust Inc, for \$37.2 million. Comrit Investments currently owns around 7 million shares of CIM Real Estate Finance Trust Inc. as of May 6 th , 2024. As of March 2024, CIM Real Estate Finance Trust Inc. owned 192 properties, which are primarily core commercial real estate assets
	 	On June 10 th , 2024, CIBanco and the Blackstone Real Estate Income Trust, Inc. made an offer to acquire FIBRA TerraFina for \$2.7B USD. This is an all-cash offer, which includes a premium of 21% over the unaffected price per TerraFina certificate at the close of trading in Dec 2023, and a 5% premium to TerraFina's closing share price on June 7, 2024. The intention is to acquire up to 100% of outstanding TerraFina certificates to invest in the Mexican industrial real estate sector
		In March 2024, Physicians Realty Trust was acquired by Healthpeak Properties for \$2.64 billion. Physicians Realty Trust acquires, develops, and leases healthcare properties to primarily physicians and hospitals. The transaction will help Healthpeak Properties further their focus on healthcare discovery and delivery, although the company also invests in Information Technology and Financial Services

EBITDA MARGINS



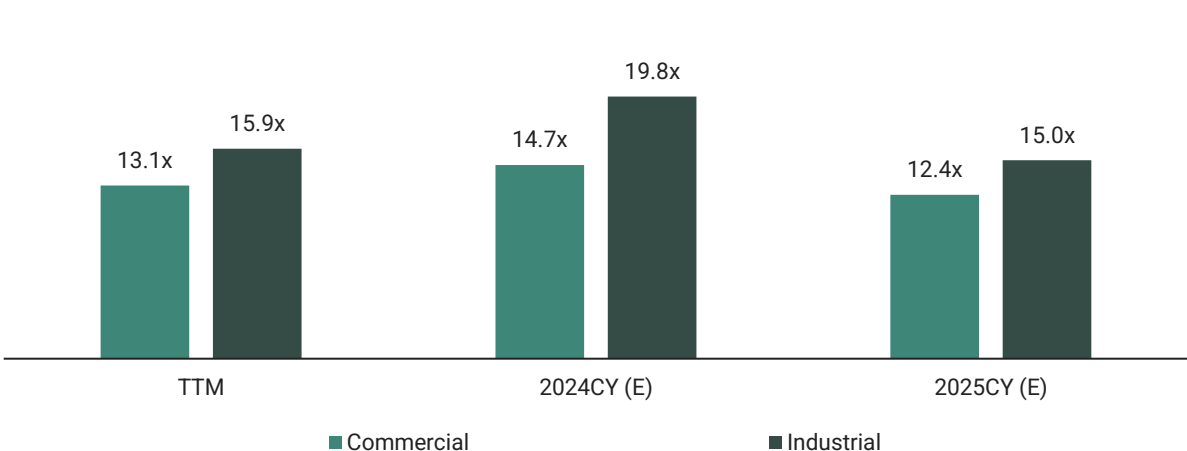
REVENUE GROWTH



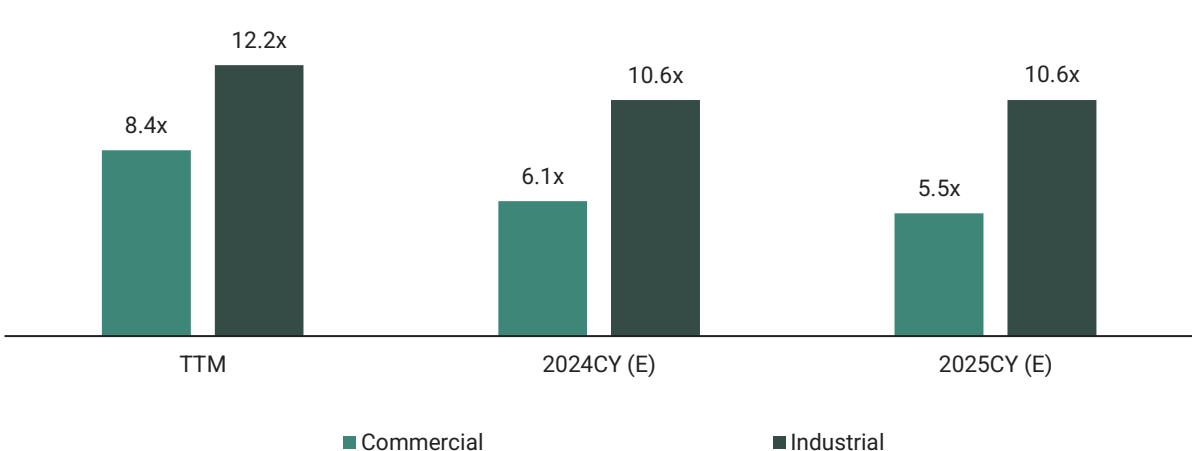
TRENDS TO WATCH

- Rise of data centers as a REIT asset class:** Data centers will likely continue as a significant asset class in the next few years. Companies are increasingly moving data operations to the cloud as the cost of acquiring servers and data centers has become cheaper
- Increasing interest in ESG REITs:** Investors are becoming more conscious of environmental, social, and governance (ESG) factors when making investment decisions to create a more diversified portfolio and to achieve social and environmental goals required by regulatory bodies and stakeholders
- Fears of hyperinflation and recession:** The inflation and high interest rate environment can decrease property values, as the price of mortgages and other loans increase, making it harder for REITs to sell their properties with a good return. A recession could cause reduced demand for rental properties, creating a drop in the occupancy rate and lower revenue

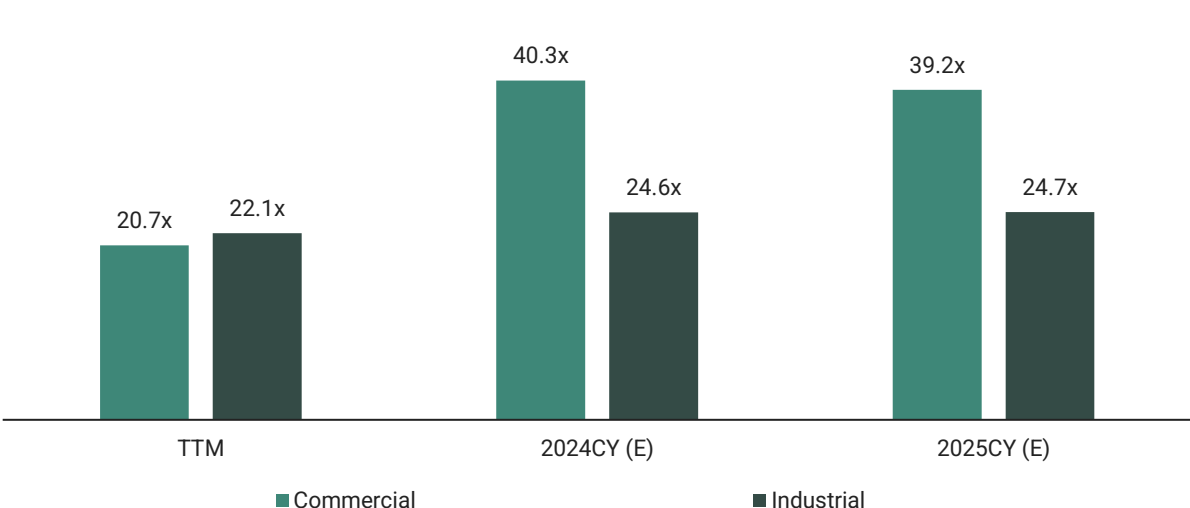
ENTERPRISE VALUE / EBITDA



ENTERPRISE VALUE / REVENUE



PRICE / EARNINGS



Sources: Pitchbook, IBISWorld, S&P CapIQ

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