



# Wise<sup>®</sup> 2017

NAREIT's Law, Accounting & Finance Conference

March 22 – 24, 2017

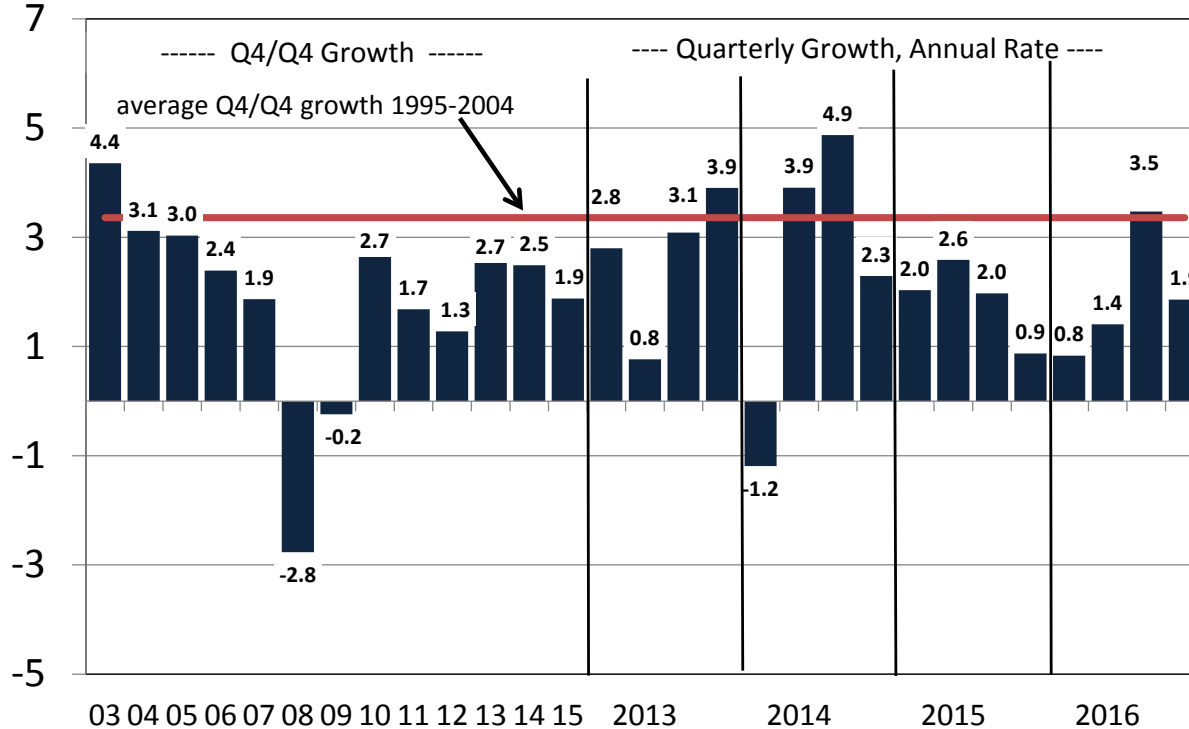
State of the Real Estate  
Markets



# Macroeconomic themes

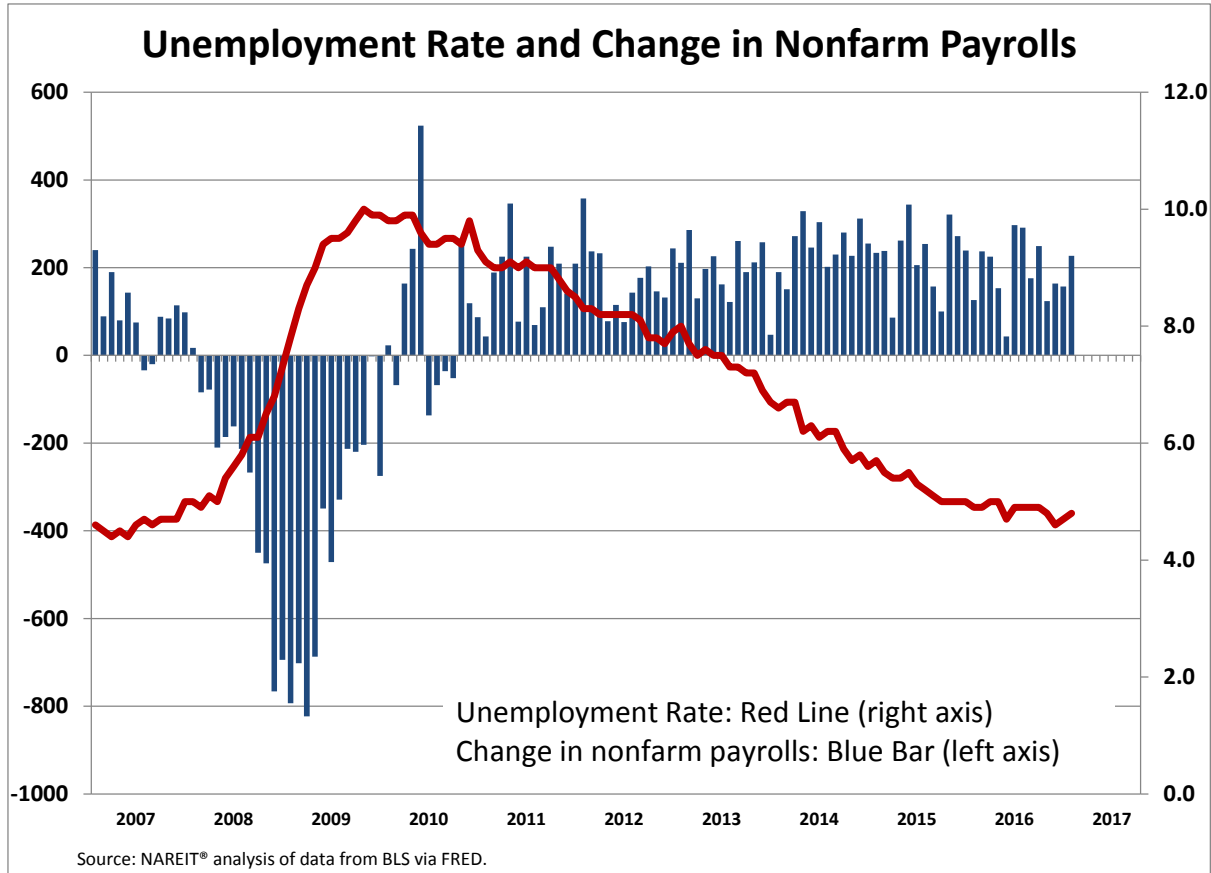
# Macroeconomic fundamentals remain solid

## Growth in Real GDP



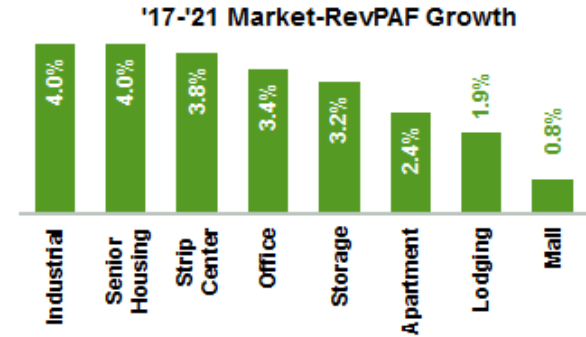
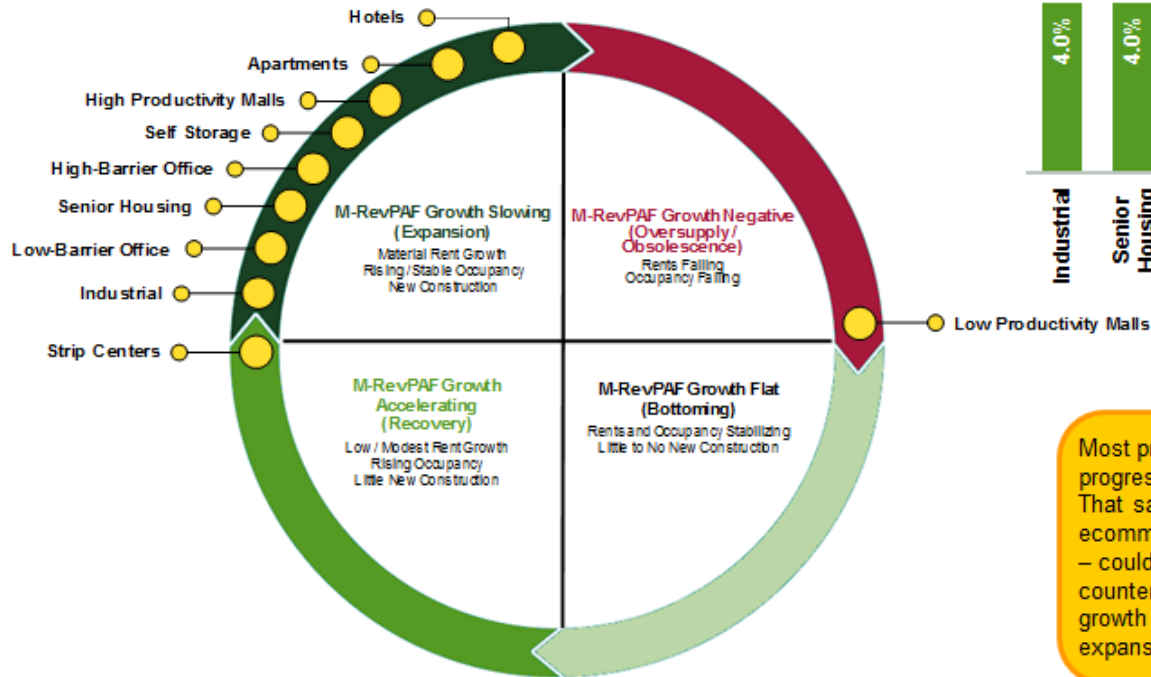
Source: NAREIT® analysis of BEA data via FRED.

# Macroeconomic fundamentals remain solid



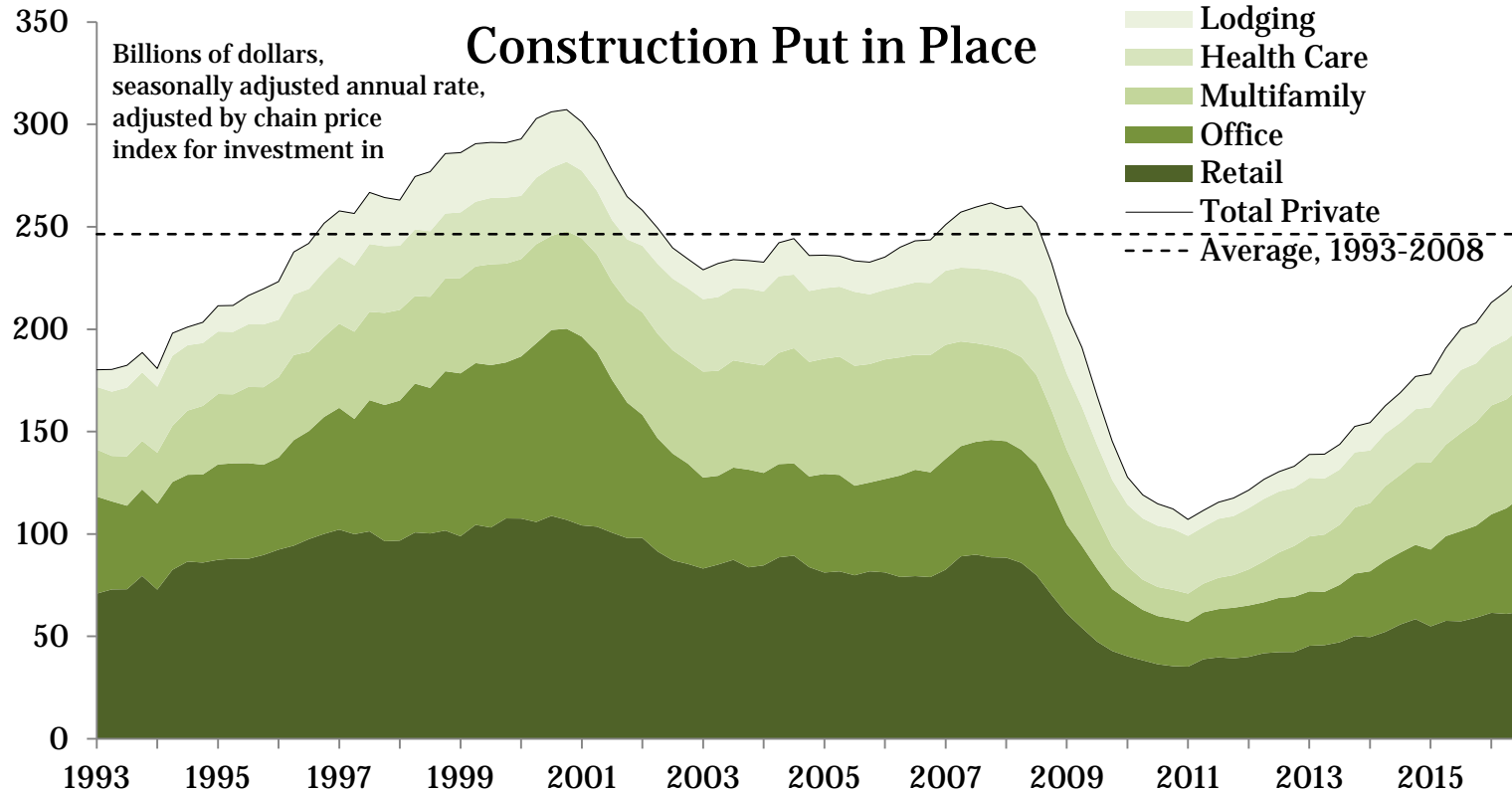
# CRE fundamentals

# Big Picture: Operating Fundamentals



Most property types will see fundamentals progress on this chart in a clockwise manner. That said, burgeoning influences – like ecommerce in the case of lower-quality retail – could actually cause progression in a counter-clockwise motion (i.e. deterioration in growth without ever experiencing an expansion or oversupply).

## Construction activity is growing, but still below long-term trends



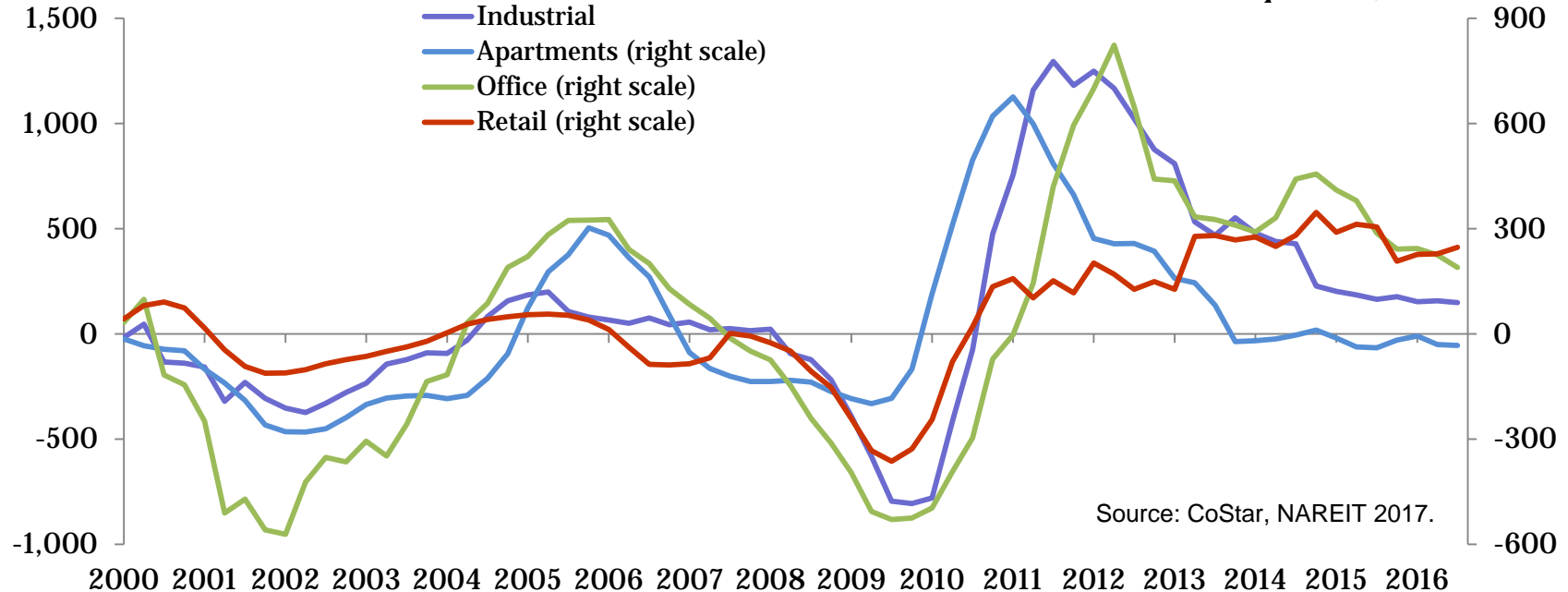
Source: NAREIT® analysis of data from U.S Census Bureau, U.S. Bureau of Economic Analysis, and Haver Analytics.

# Markets are tightening, as growth of demand exceed new supply

Net absorption less completions, trailing four quarters, as a percent of completions, **Industrial**

## Excess Net Absorption Over Completions

Net absorption less completions, trailing four quarters, as a percent of completions, **Apartment, office & retail**

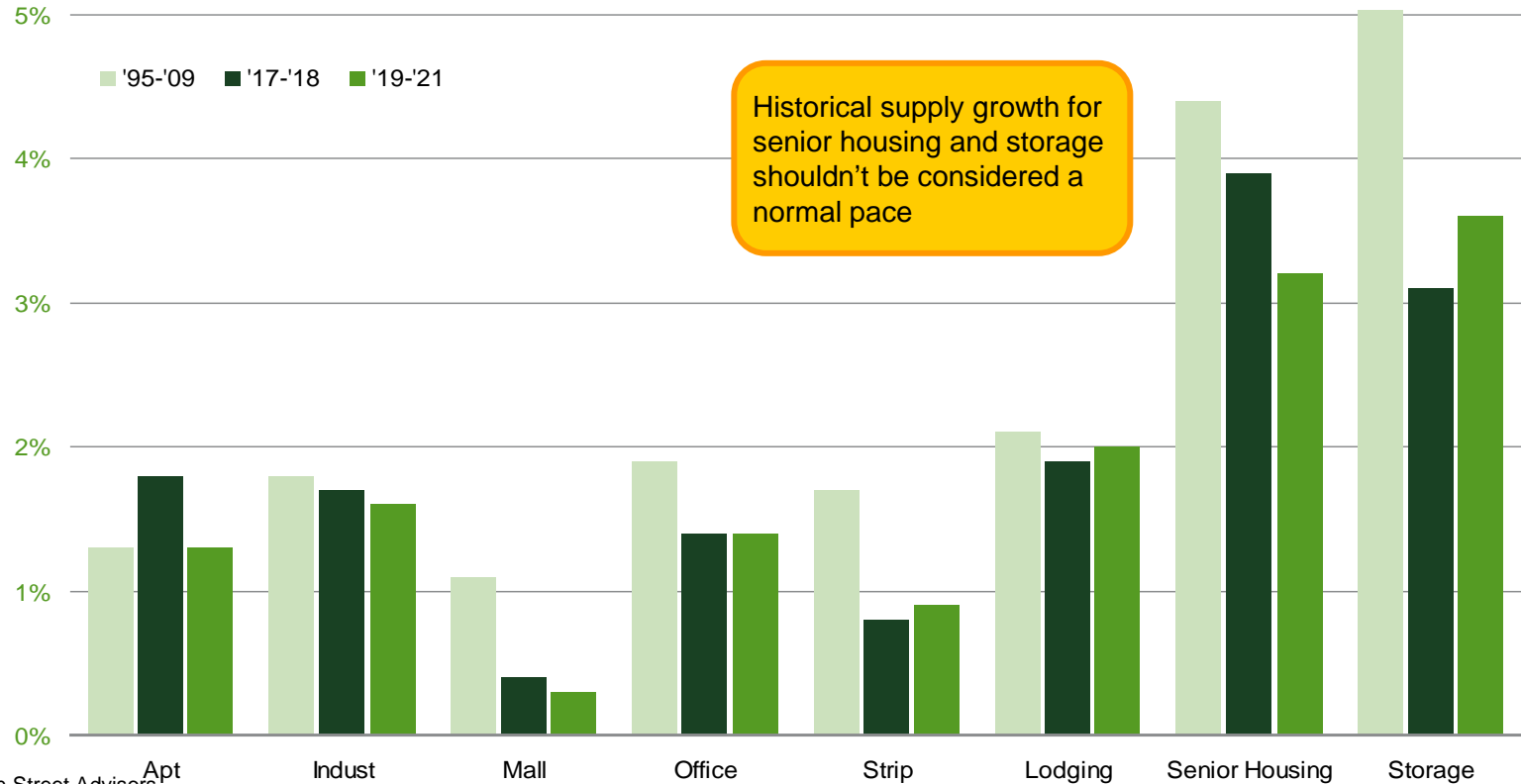


Source: CoStar, NAREIT 2017.



# Supply by Sector

### Annual Completions as a % of Existing Stock

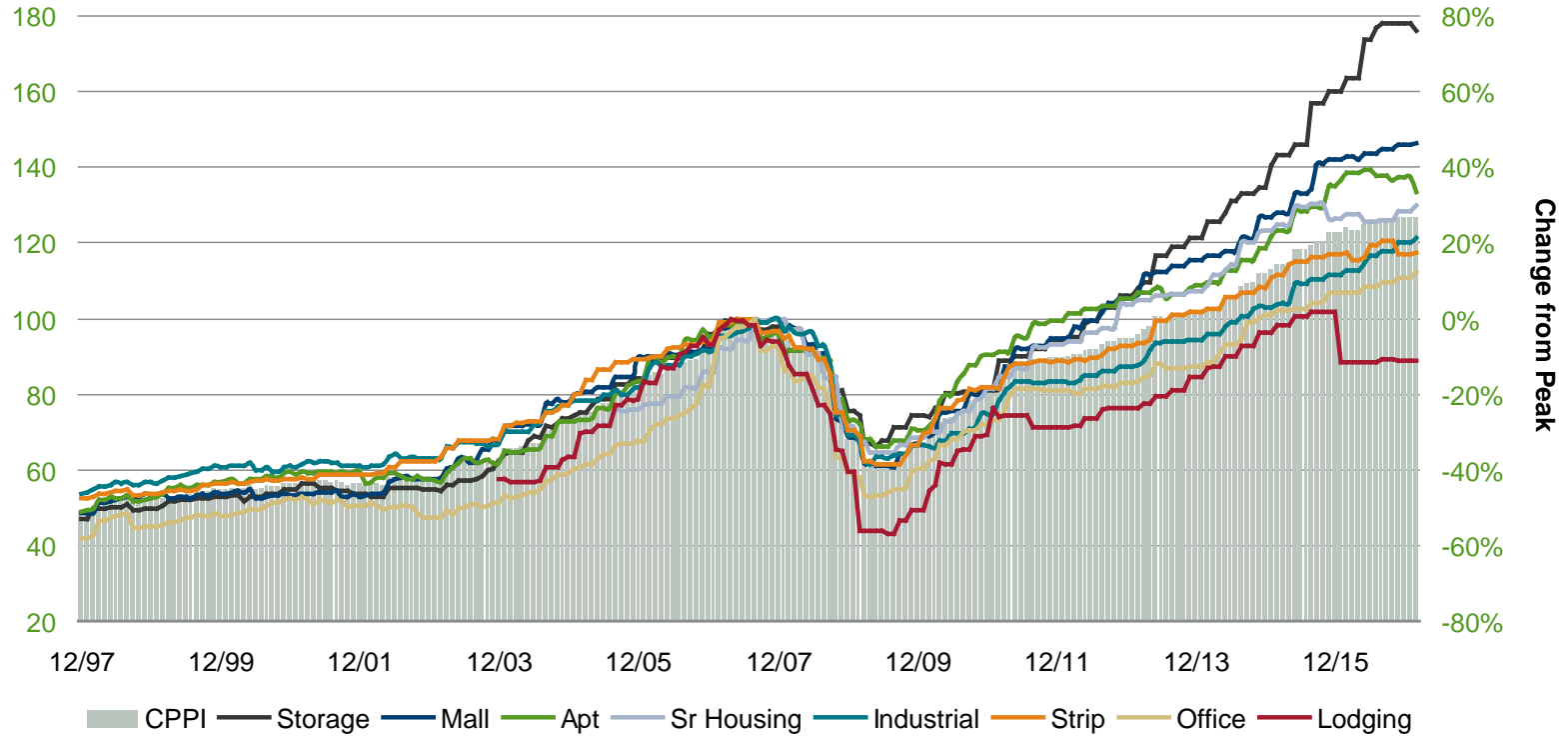


Historical supply growth for senior housing and storage shouldn't be considered a normal pace

Source: Green Street Advisors

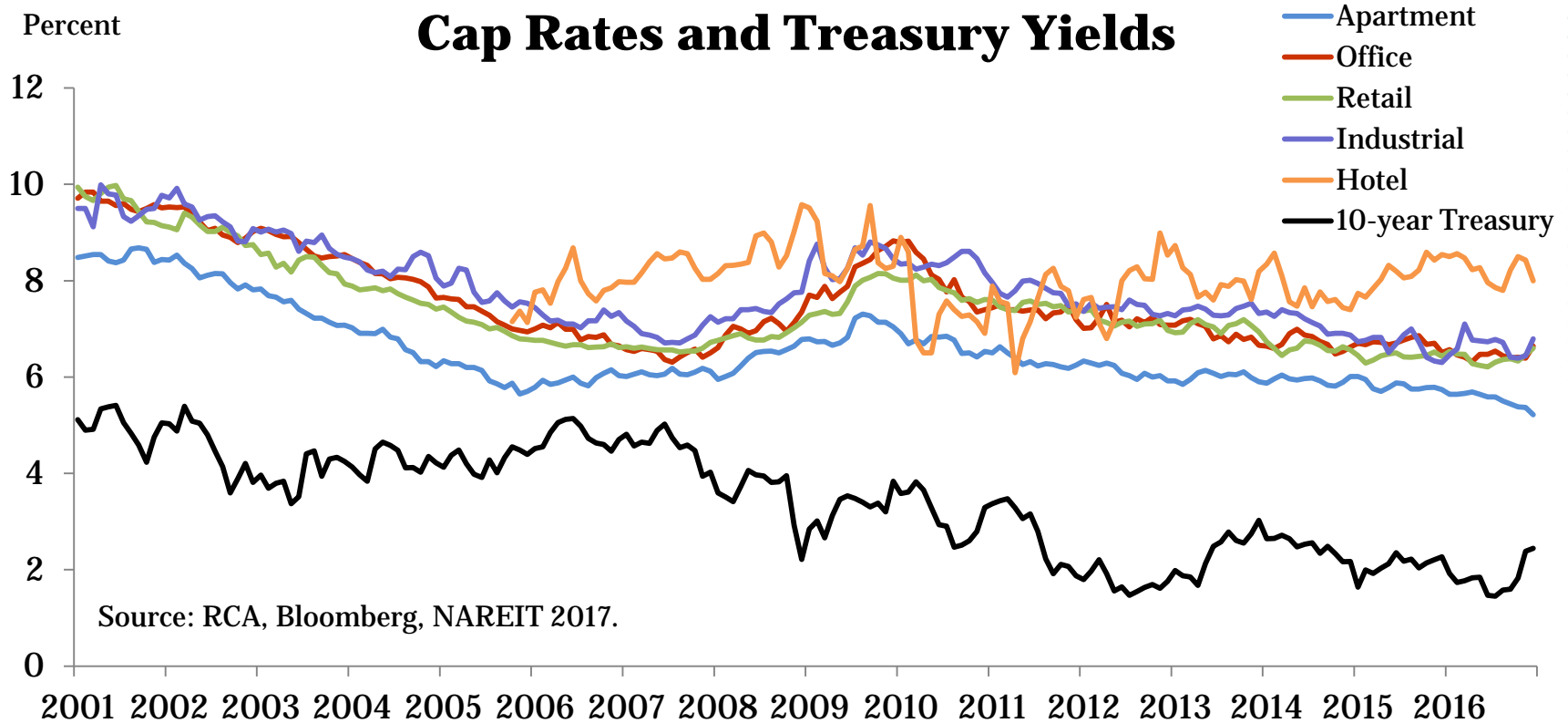
# Property Prices Close to All-Time Highs

### Green Street Commercial Property Price Index



Source: Green Street Advisors

# Cap rates remain low, spreads to Treasuries are still wide.



# Green Street Property Price Forecast

*Expected Direction of Property Prices over next Six-to-Twelve Months*



What a difference a year makes. The outlook for commercial property pricing has vastly improved over the past year.

50% Weight

50% Weight



Investment-Grade Bonds

High-Yield Bonds

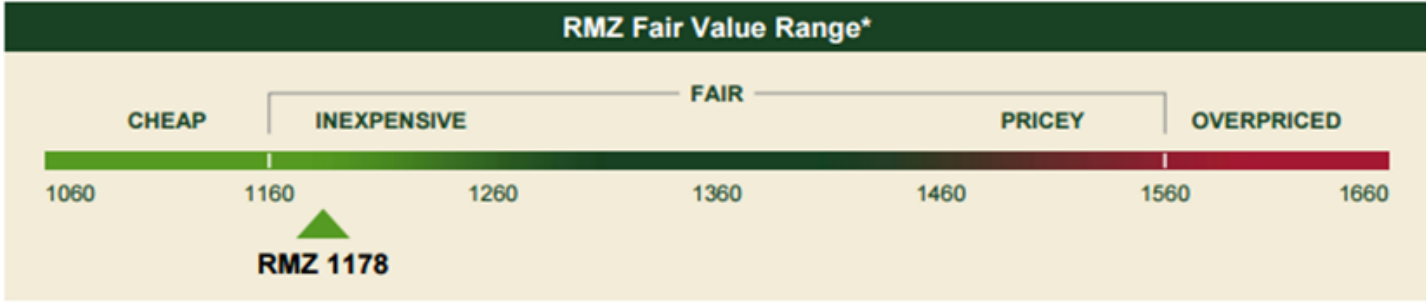
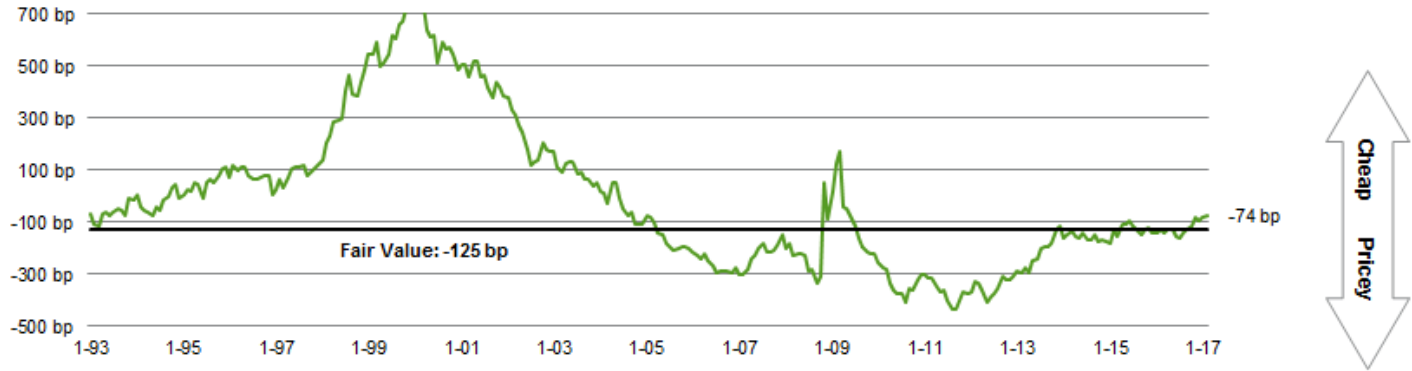
REIT Market Signal



Early March 2016

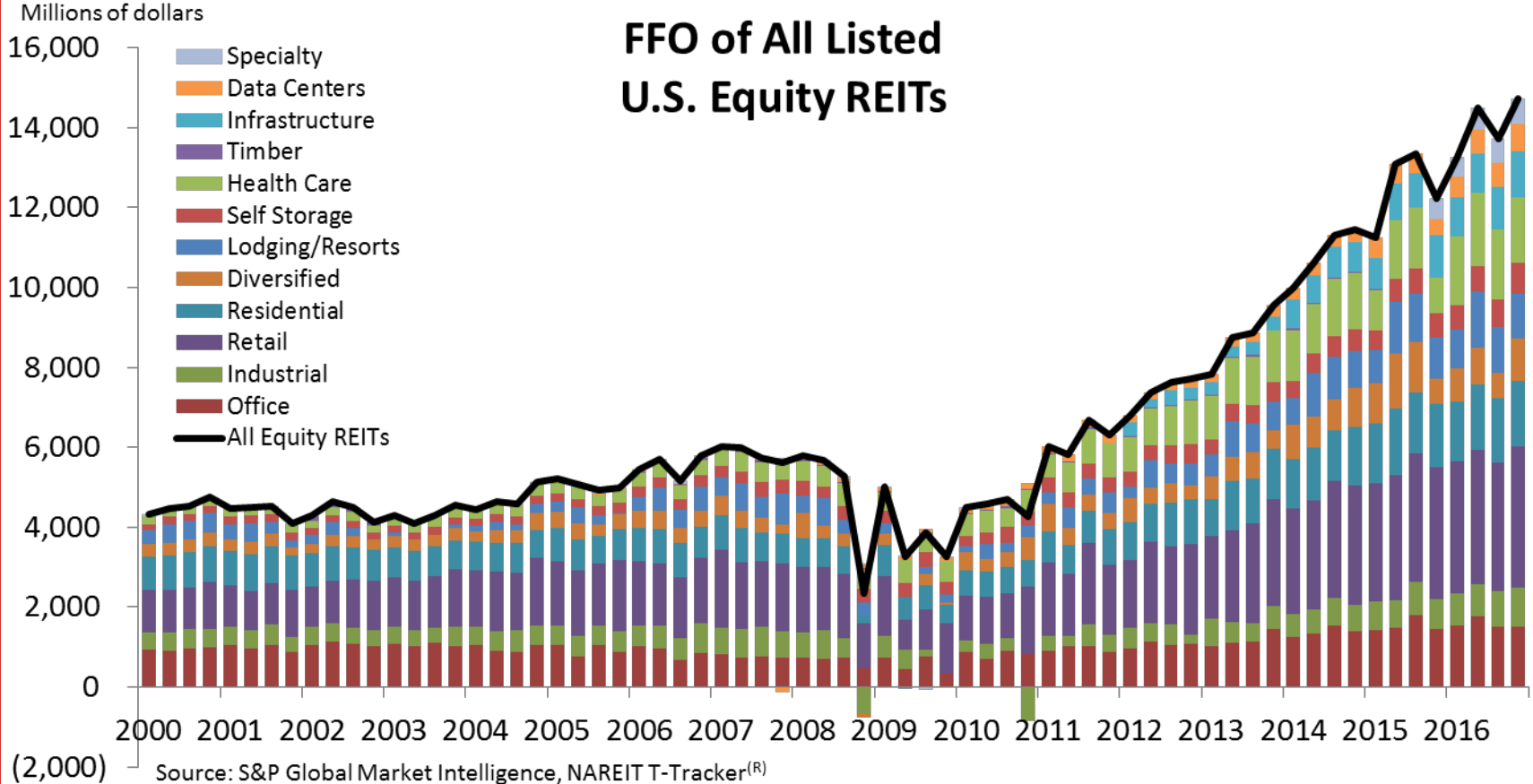
# REITs at the Inexpensive End of a Fair Range

Despite wide swings, over the long-term, REIT and S&P yields have been roughly equal



# REIT operating performance

# Funds from Operations rose 7.4% Q/Q in 2016:Q4



# REIT earnings growth was second-highest of all GICS Sectors



Source: Bloomberg, NAREIT 2017.

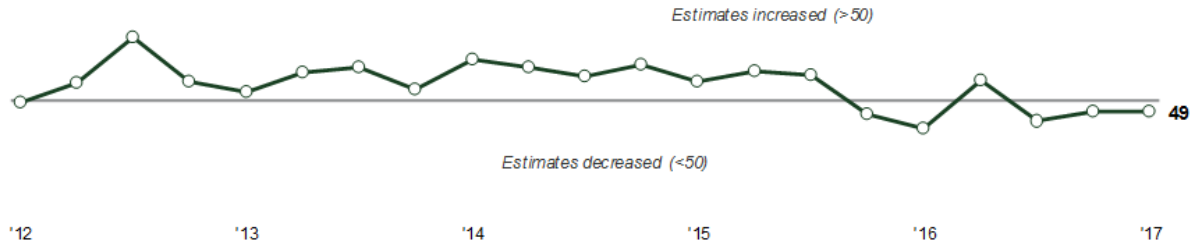


# Recent Changes in NOI

## Surprise Index

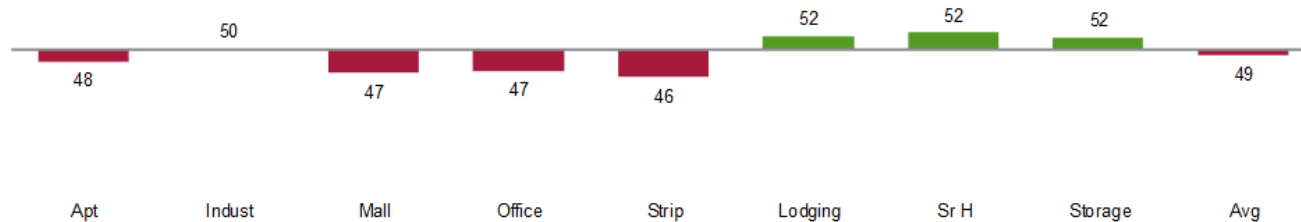
*Growth forecasts have been tweaked down in five of the past six quarters after a long run of positive surprises*

**Surprise Index** (measures changes in NOI estimates)



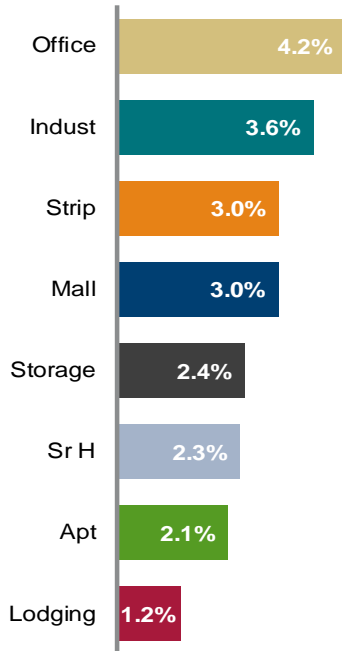
*Retailer BKs have been more painful than expected for strips and malls; estimates little changed elsewhere*

**This Quarter's Sector Surprise Indices**

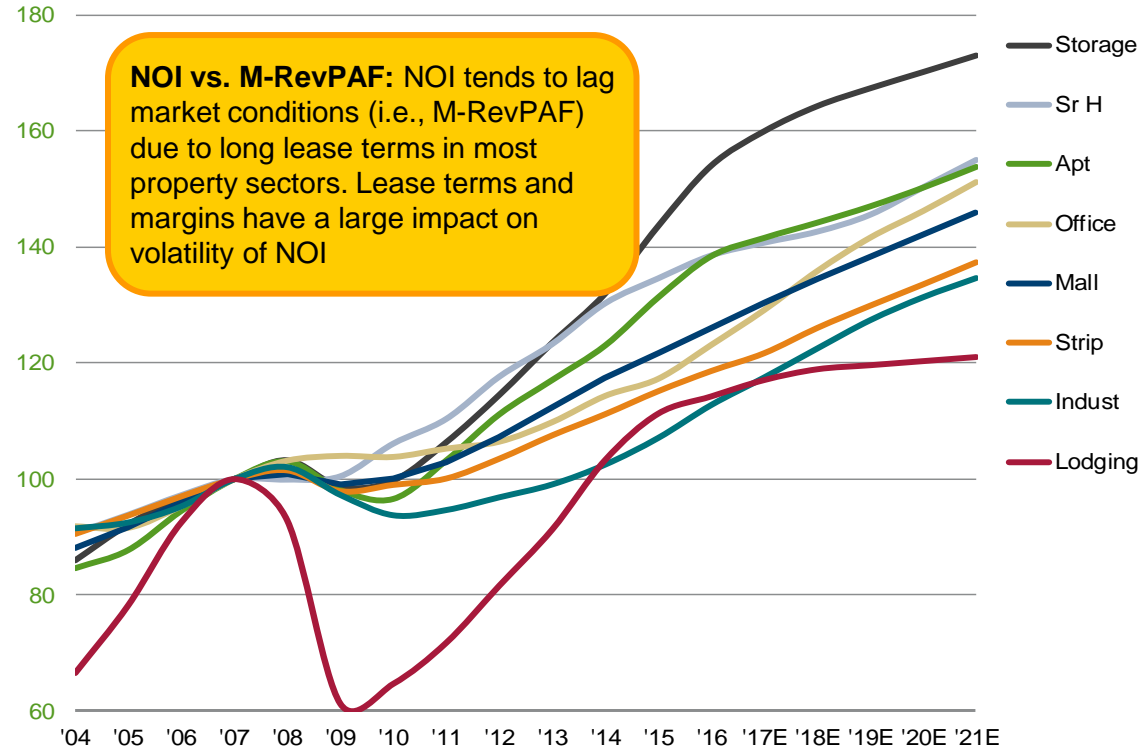


# NOI Forecasts

'17-'21 NOI Growth



Indexed NOI: '07=100

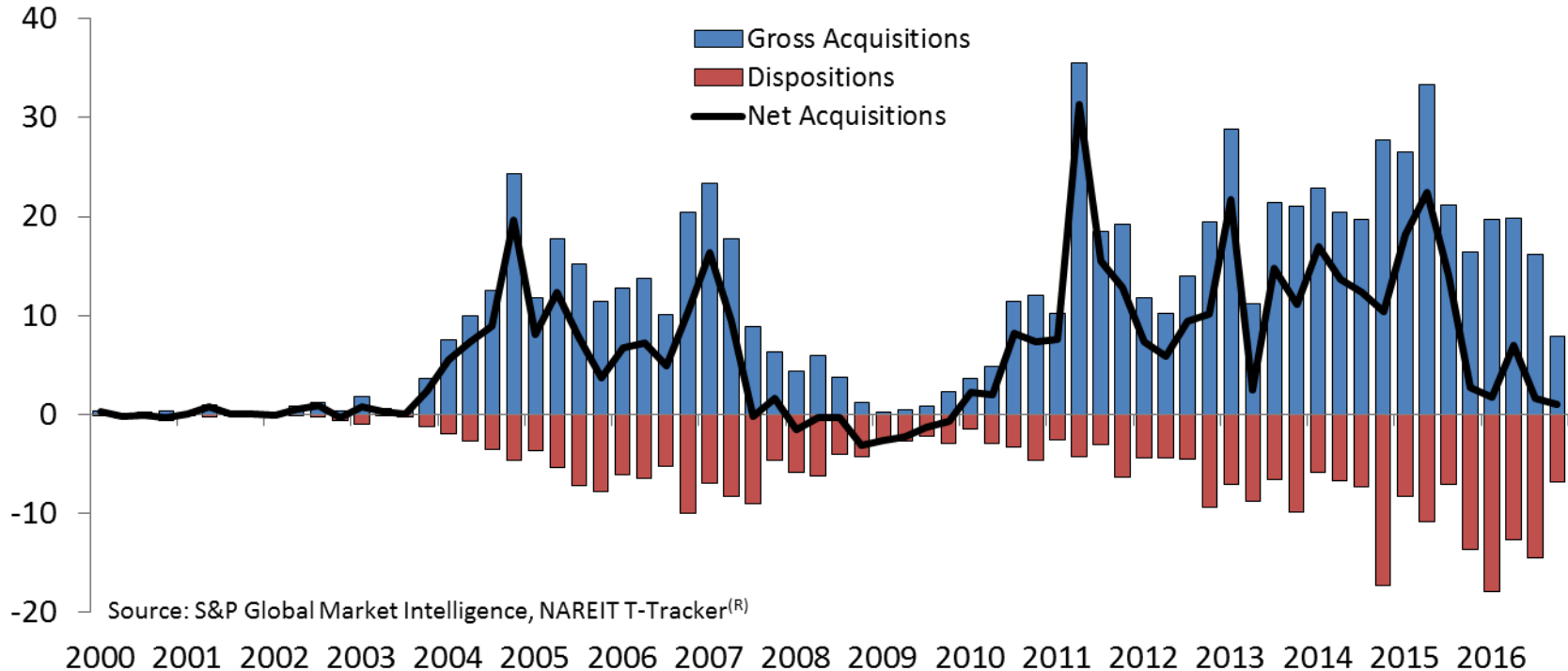


# Net Acquisitions slowed to near-zero in 2016:Q4

Billions of dollars

## Acquisitions and Dispositions

- Gross Acquisitions
- Dispositions
- Net Acquisitions



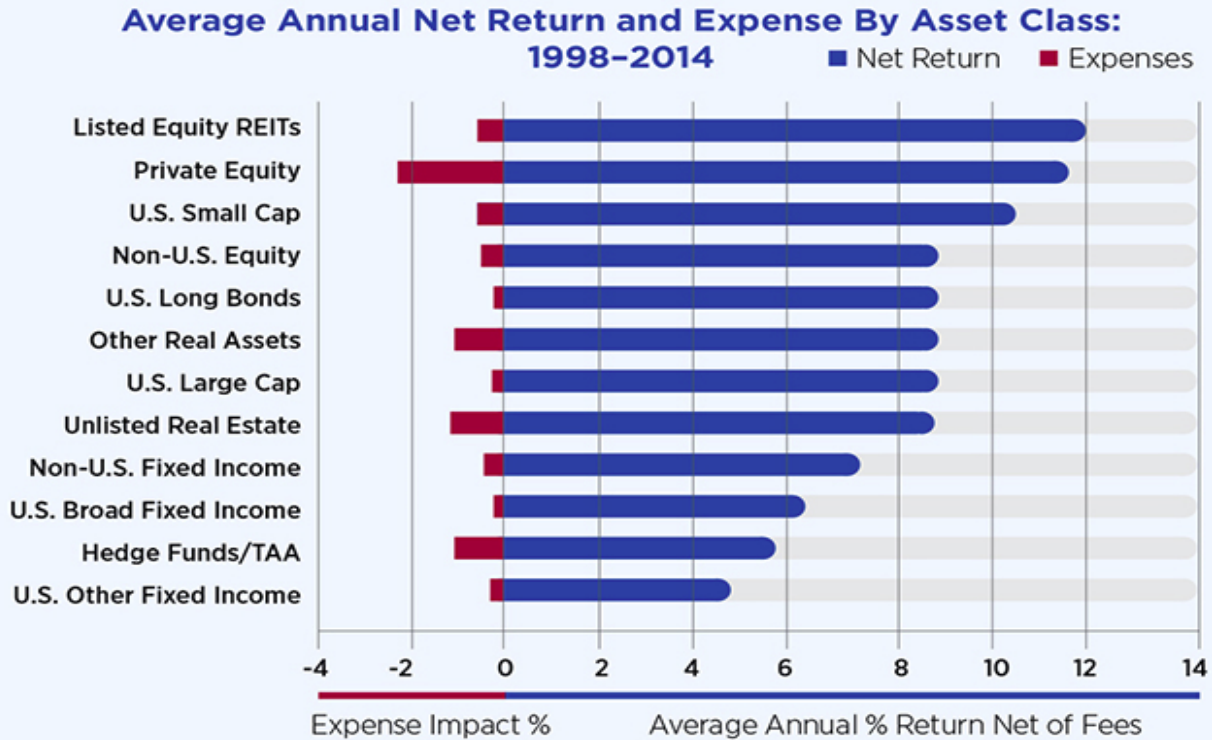
Source: S&P Global Market Intelligence, NAREIT T-Tracker<sup>(R)</sup>



# REIT long-term financial performance

# REITS Outperform Unlisted Real Estate

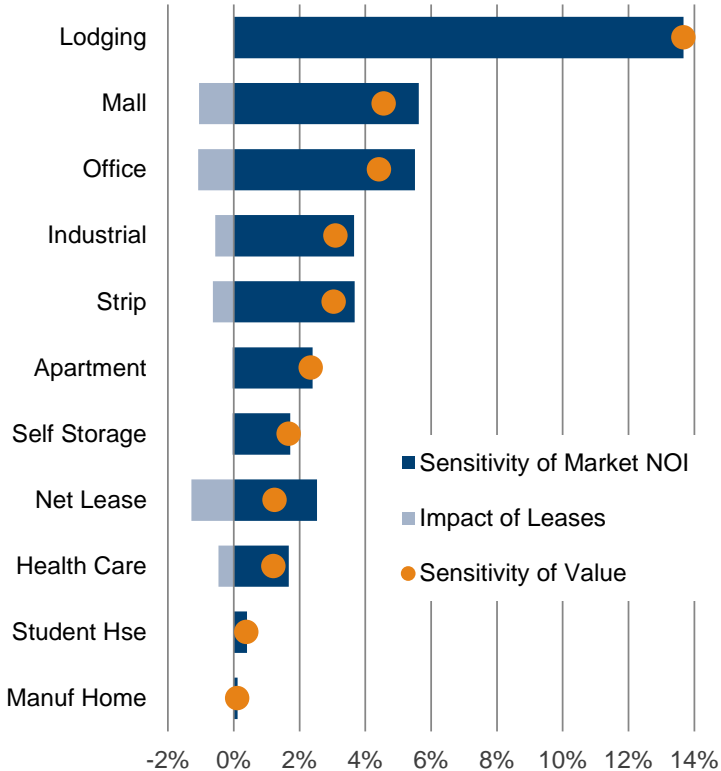
Total Return, 1998-2014



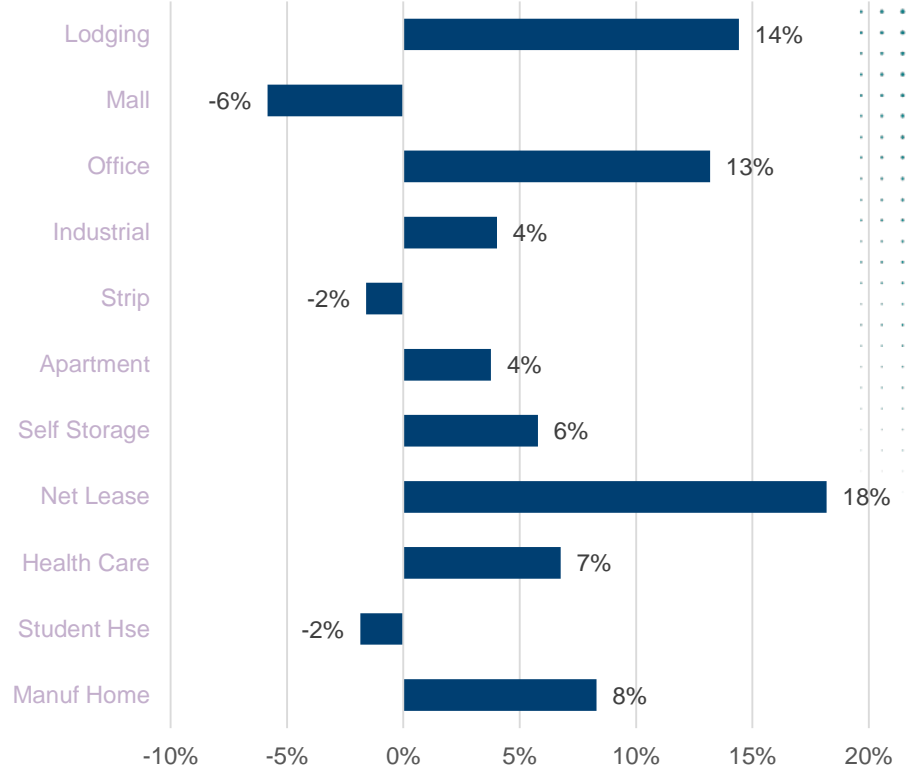
Source: CEM Benchmarking, 2016

# How Sectors React to Differing GDP Growth Scenarios

Theoretical Sensitivity of Value to 1% Change in GDP



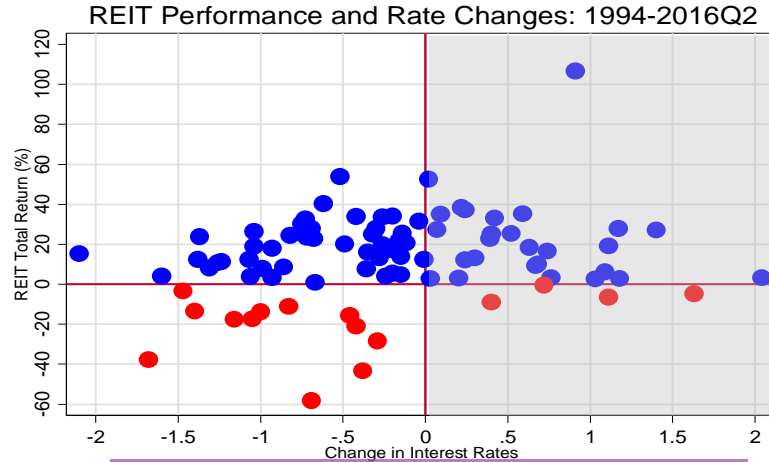
Total Return Since Election (as of 3/7/17)



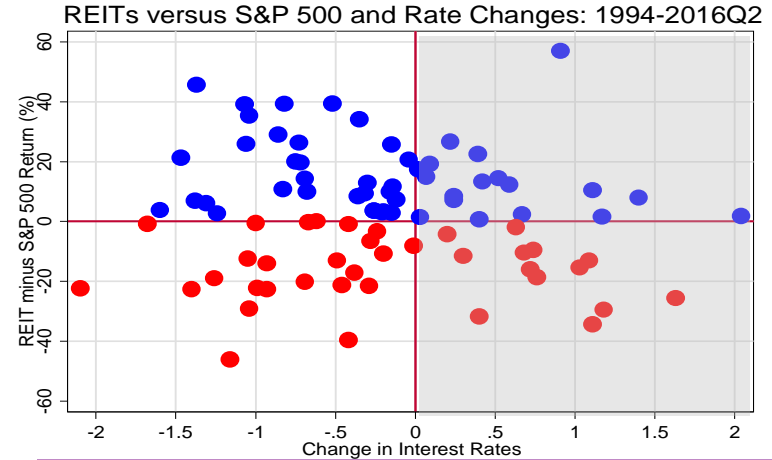
# Interest rates



# REIT Returns Have Been Strong and Outperformed the Broader Stock Market during Periods of Rising Interest Rates



Positive REIT returns in 87% of rising rate periods

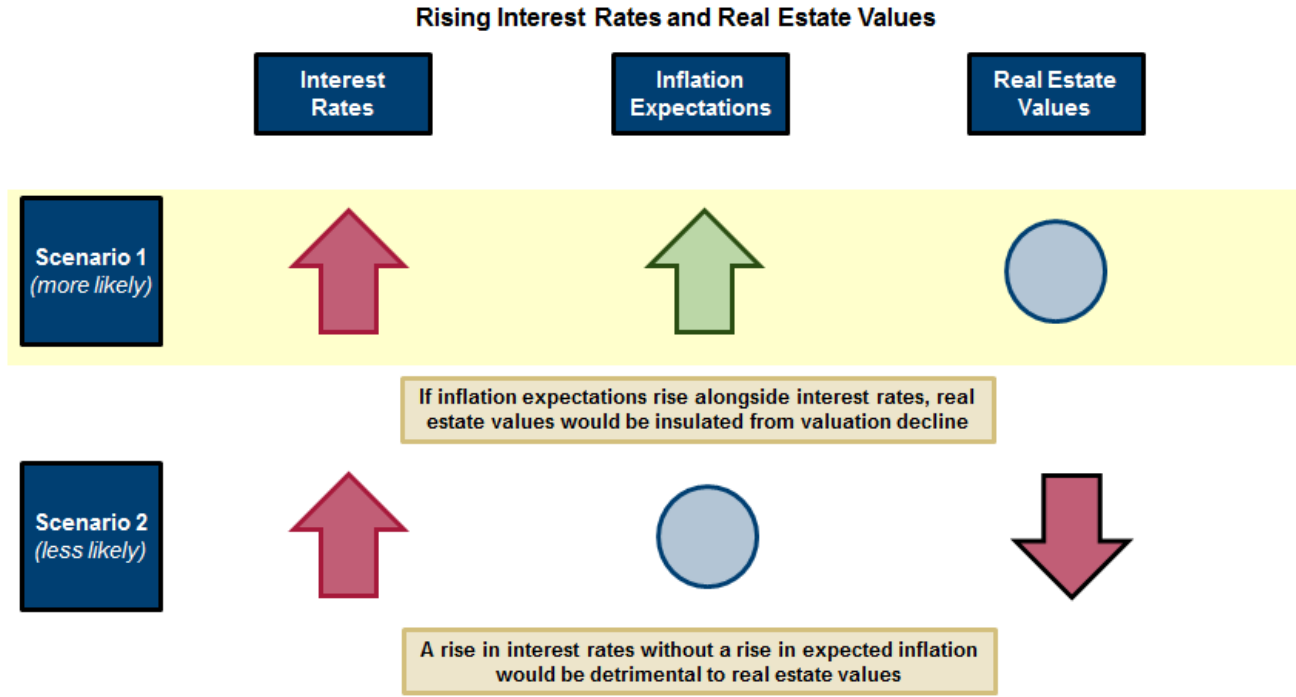


REIT returns exceed S&P 500 in 58% of rising rate periods

- ◆ Interest rates typically increase because macroeconomic conditions are strengthening.
- ◆ Strong macro conditions result in higher occupancy rates, stronger rent growth, increased funds from operations (FFO), higher property values, and stronger income distributions. Resulting in strong REIT equity returns.

Source: NAREIT® analysis. NAREIT All Equity REIT and S&P 500 total returns indices via FactSet, GDP and 10 Year Treasury Constant Maturity Rates via FRED. Quarterly intervals of 12 month rolling returns, rate changes and GDP growth.

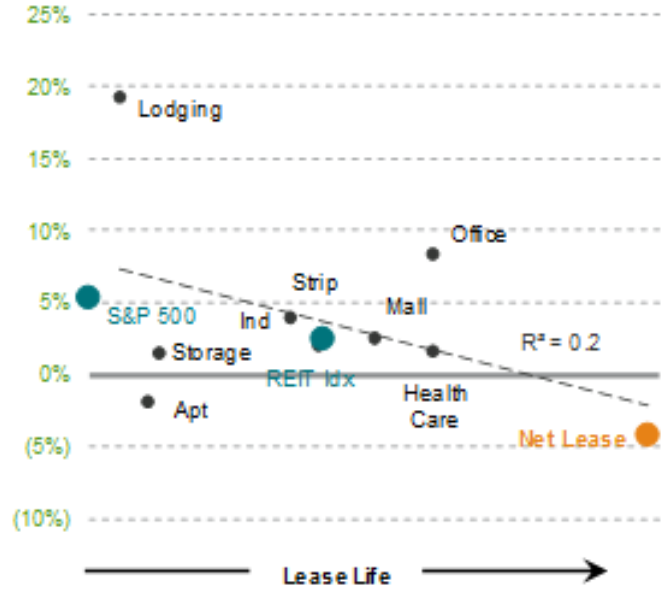
# Interest Rates



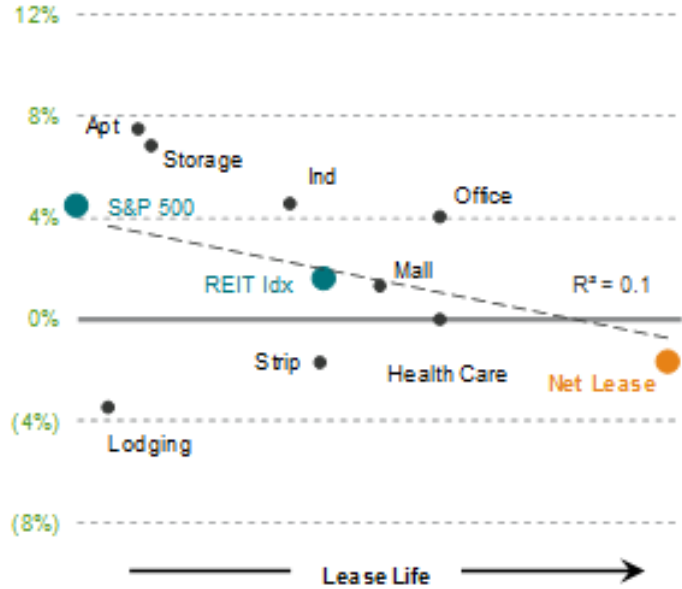
# Interest Rates – Sector-by-Sector

Short-Term 100+ bps Baa Rated Bond Spikes That Have Occurred During the Modern REIT Era

**A Recent Rate Event:  
Nov. 8 '16 to December 8 '16\***

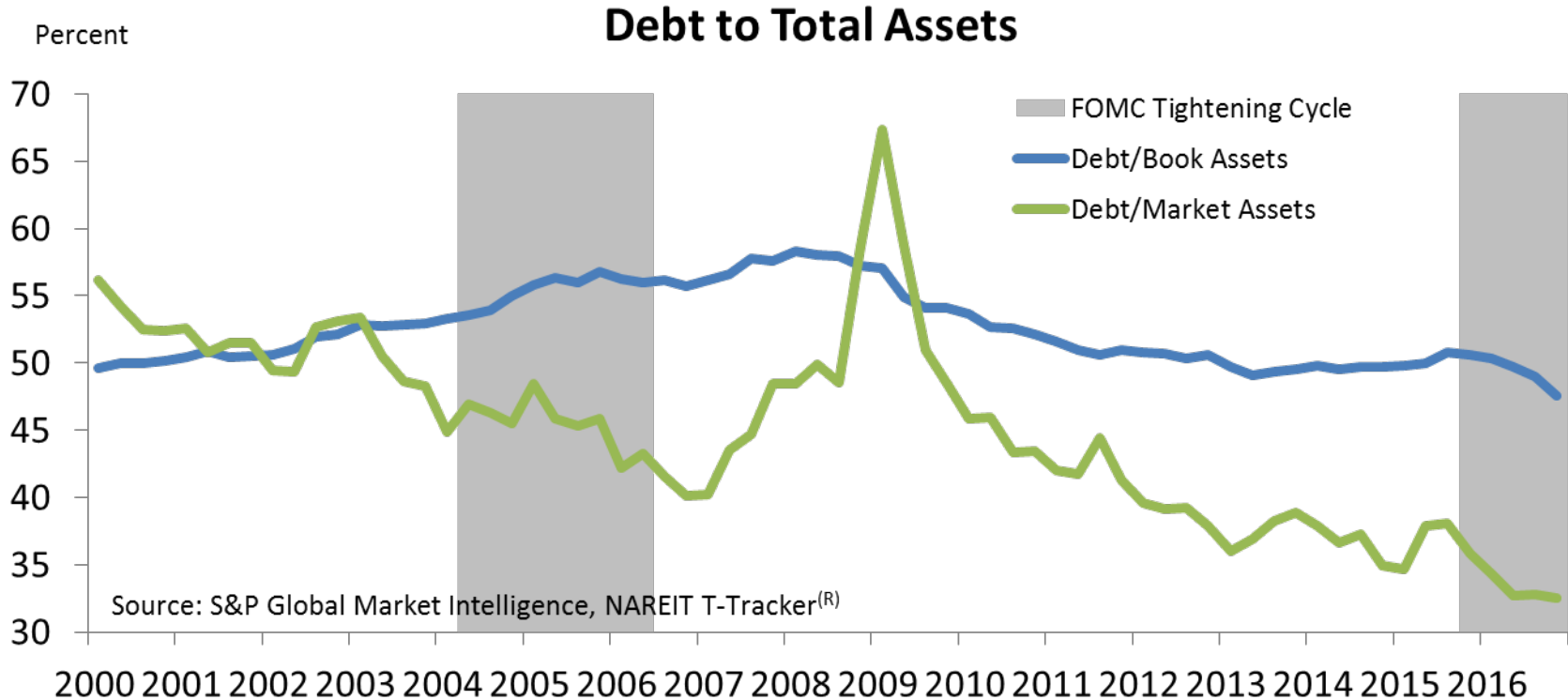


**Average of the  
Previous Eight 100-bp+ Spikes**



\*Baa rated bonds increased 37 bps from November '16 to December '16

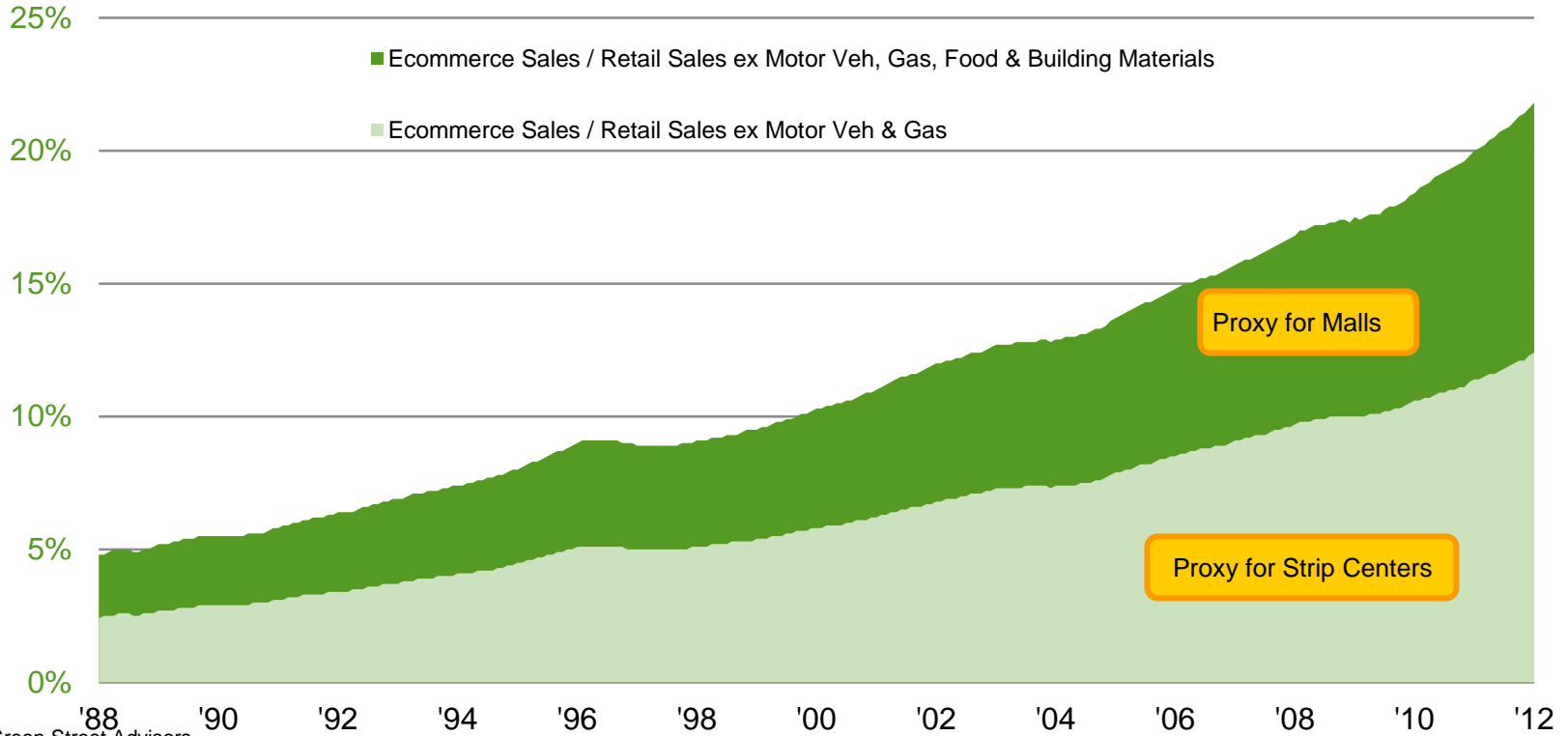
# Weighted average debt ratios of All Equity REITs are lowest in nearly two decades.



# Longer term trends

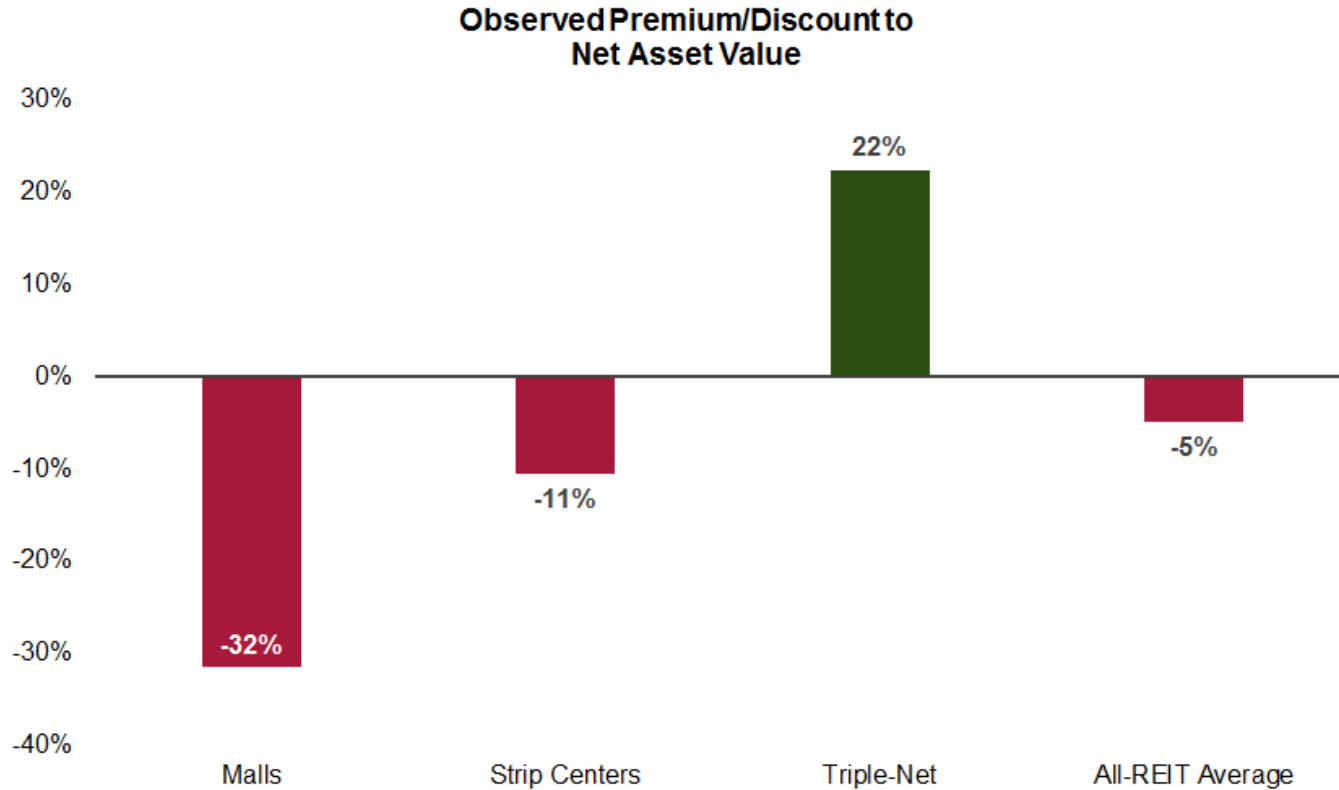
# Drivers of Change: Ecommerce

## Ecommerce Market Share

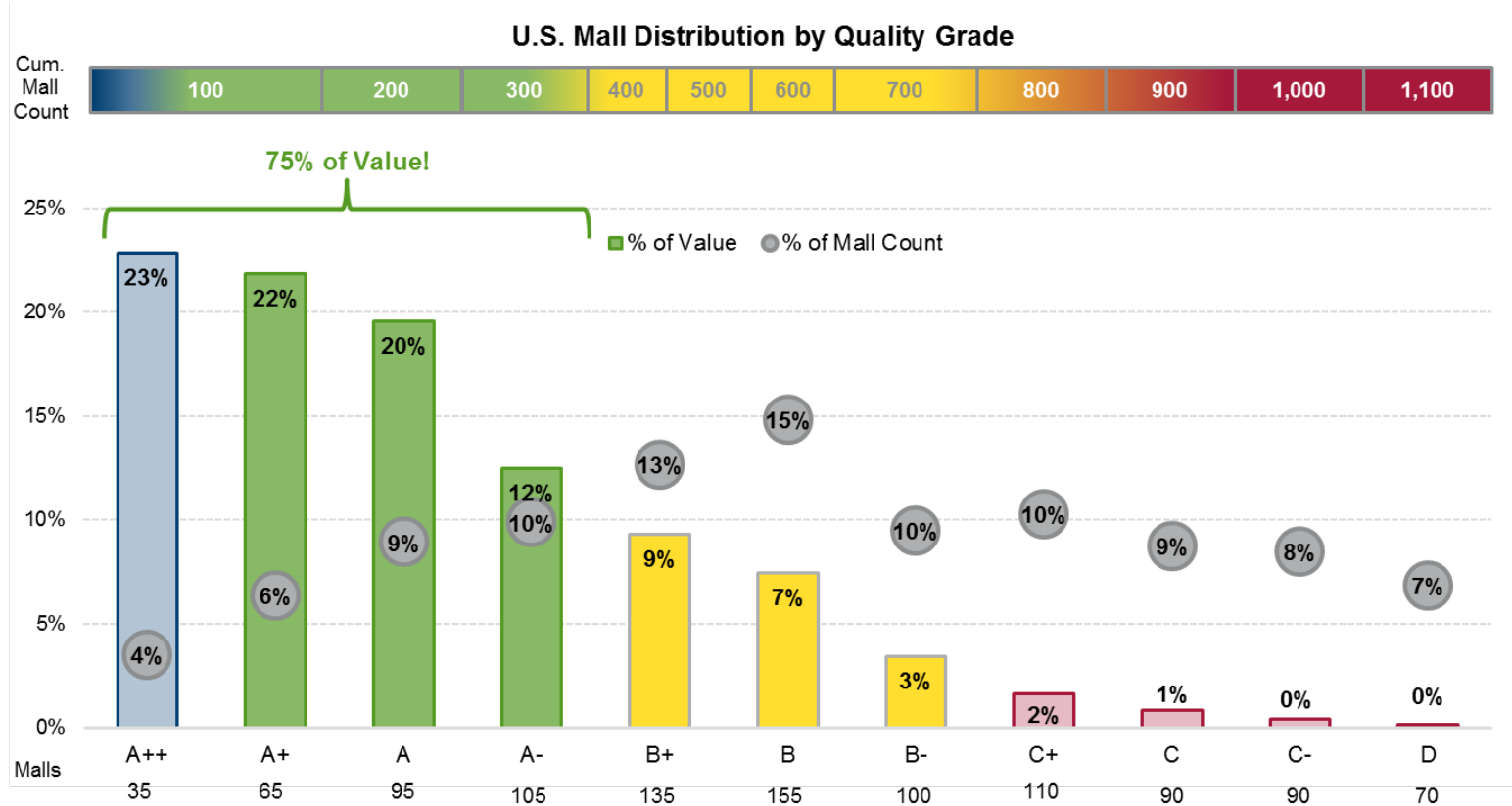


Source: Green Street Advisors

# REIT Investors and Retail Real Estate's Future

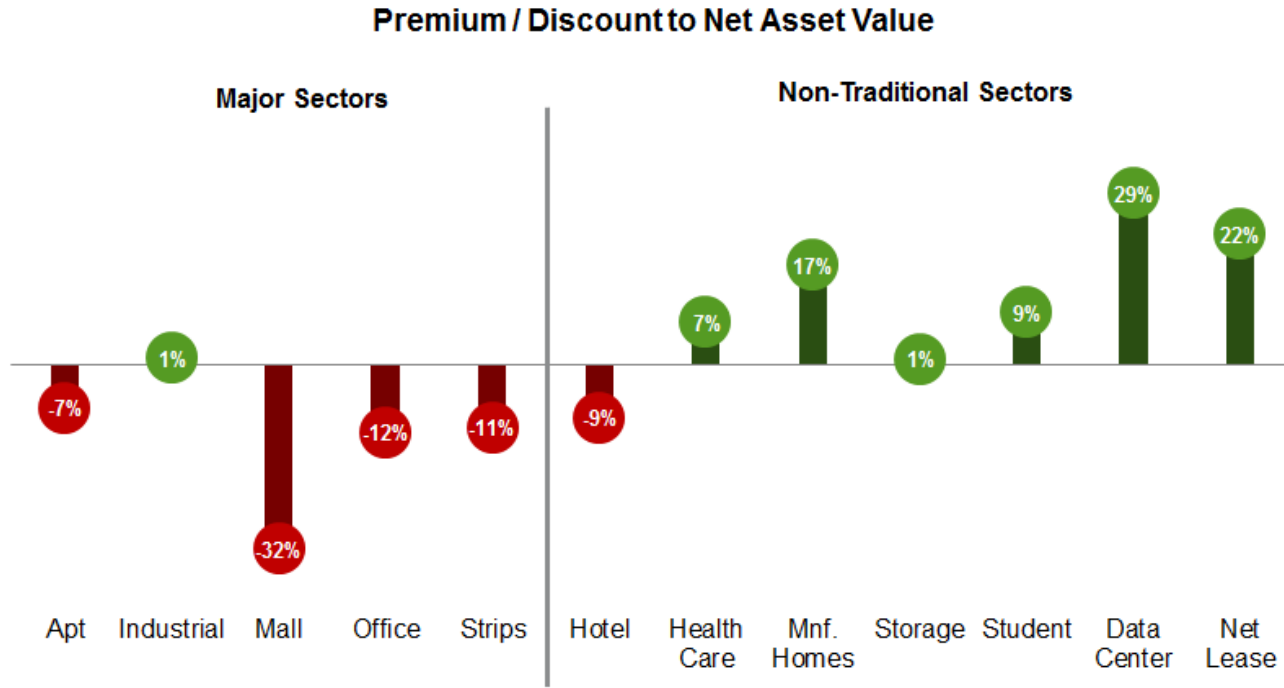


# Retail: Value is in the "A"s



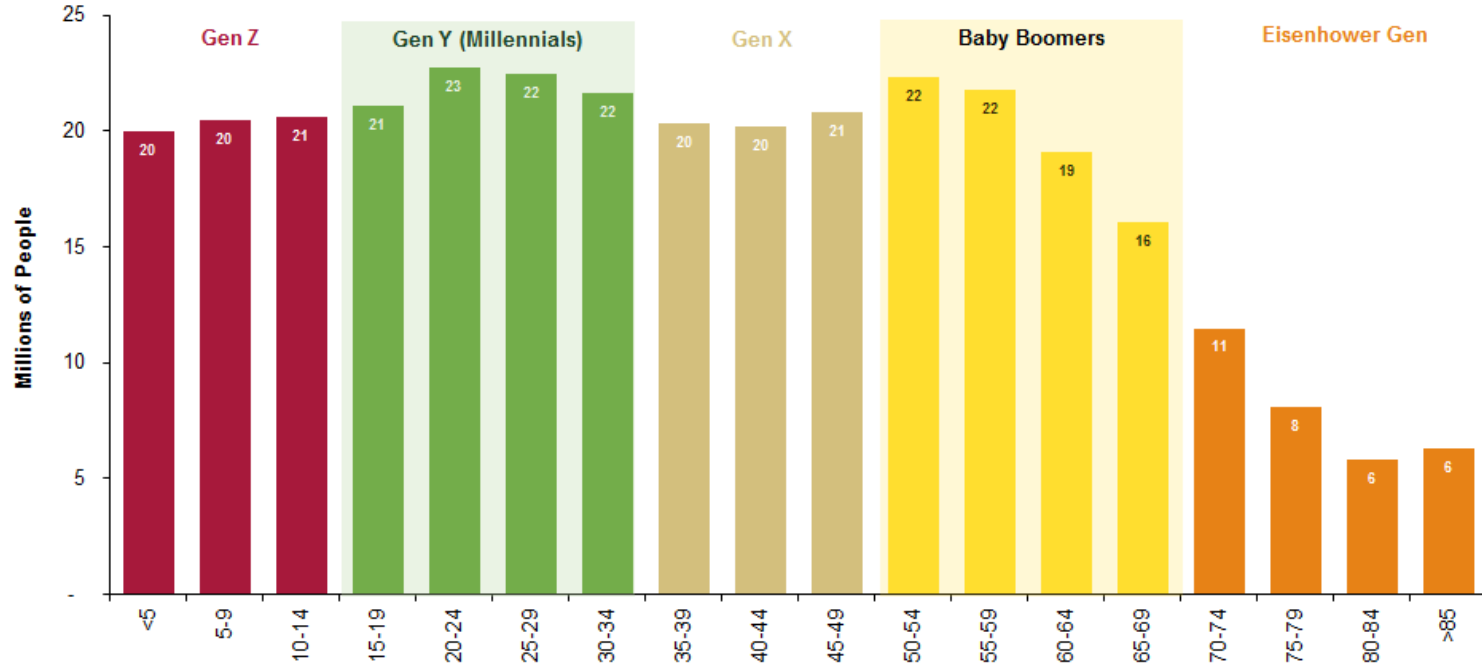


# Niche Draws Attention



# Drivers of Change: Demographics

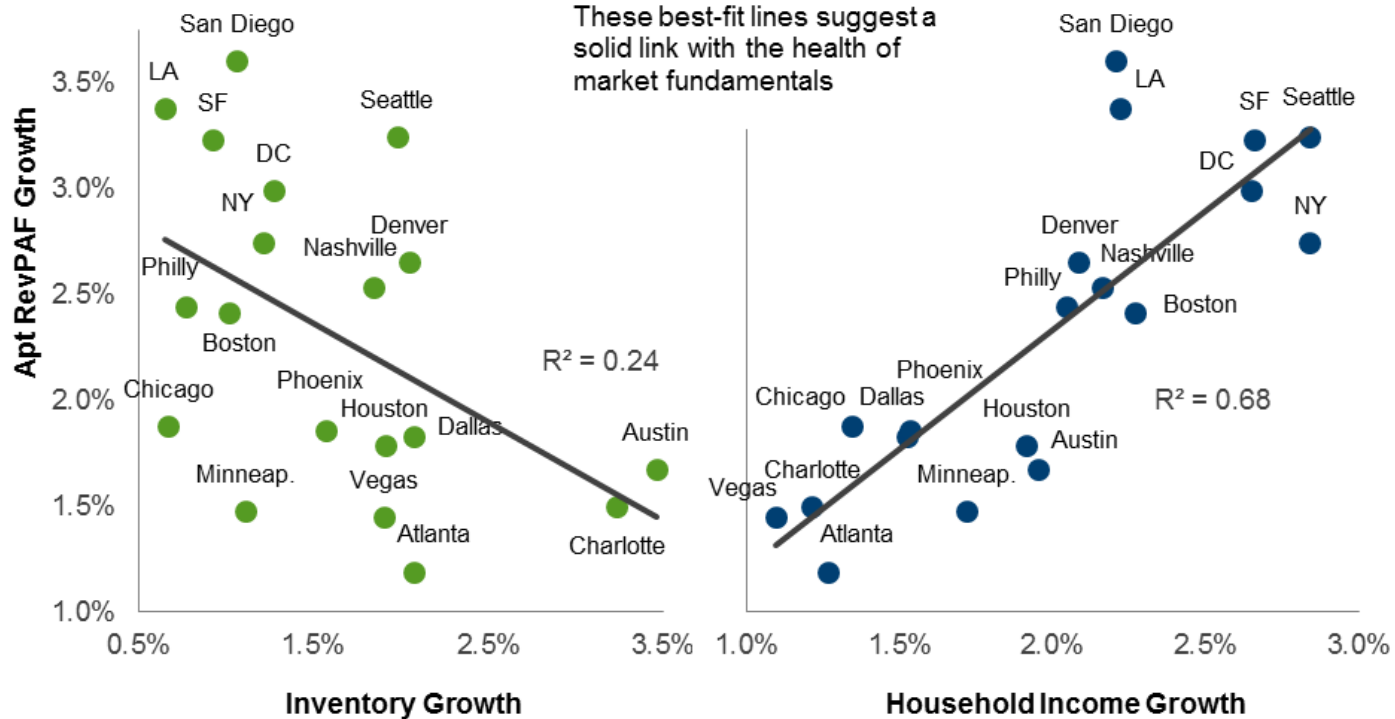
### The Generations by Age Cohort Based on Census Projections



Source: Green Street Advisors

# Drivers of Change: Income Growth

Apartment RevPAF Growth '99-'16 vs. Growth in Inventory & Median Household Income



# Disclaimer

NAREIT is the worldwide representative voice for REITs and listed real estate companies with an interest in U.S. real estate and capital markets. Members are REITs and other businesses that own, operate and manage income-producing real estate, as well as those firms and individuals who advise, study and service those businesses. NAREIT is the exclusive registered trademark of the National Association of Real Estate Investment Trusts, Inc.®, 1875 I St., NW, Suite 600, Washington, DC 20006-5413. Follow us on [REIT.com](http://REIT.com).

Copyright© 2017 by the National Association of Real Estate Investment Trusts, Inc.® All rights reserved.

This information is solely educational in nature and is not intended by NAREIT to serve as the primary basis for any investment decision. NAREIT is not acting as an investment adviser, investment fiduciary, broker, dealer or other market participant, and no offer or solicitation to buy or sell any security or real estate investment is being made. Investments and solicitations for investment must be made directly through an agent, employee or representative of a particular investment or fund and cannot be made through NAREIT. NAREIT does not allow any agent, employee or representative to personally solicit any investment or accept any monies to be invested in a particular security or real estate investment.

All REIT data are derived from, and apply only to, publicly traded securities. While such data are believed to be reliable when prepared or provided, such data are subject to change or restatement. NAREIT does not warrant or guarantee such data for accuracy or completeness, and shall not be liable under any legal theory for such data or any errors or omissions therein. See <http://reit.com/TermsOfUse.aspx> for important information regarding this data, the underlying assumptions and the limitations of NAREIT's liability therefore, all of which are incorporated by reference herein.

Performance results are provided only as a barometer or measure of past performance, and future values will fluctuate from those used in the underlying data. Any investment returns or performance data (past, hypothetical or otherwise) shown herein or in such data are not necessarily indicative of future returns or performance.

Before an investment is made in any security, fund or investment, investors are strongly advised to request a copy of the prospectus or other disclosure or investment documentation and read it carefully. Such prospectus or other information contains important information about a security's, fund's or other investment's objectives and strategies, risks and expenses. Investors should read all such information carefully before making an investment decision or investing any funds. Investors should consult with their investment fiduciary or other market professional before making any investment in any security, fund or other investment.