

2024 Global REIT Market Outlook

2024: Outlook for the Year Ahead

Factors that could bode well for the global REIT market in 2024 and beyond include:

- Uncertainty about the direction of the economy has subsided.
- The timing and extent of central bank policy tightening has clearly peaked and begun to recede.
- Inflation has demonstrably peaked and is on a trajectory towards the Fed's 2% target, even before the economy has experienced the full (lagged) impact of the Fed's tightening measures thus far.
- The Fed has declared that it is close to or at the end of the tightening cycle, which means that it is also closer to its first rate cut, which it has forecasted to occur as early as the middle of 2024.
- Long-term interest rates (7-10 years which serve as the cost of capital benchmark for commercial real estate) peaked at 5% in October and have since declined to below 4% — thus serving as less of a headwind and even a bit of a tailwind for most property types.
- The equity market has passed the point of peak pessimism. The inflection to improved sentiment is yet another bullish factor for stocks.
- Commercial real estate industry fundamentals (i.e., the balance between supply and demand) remain healthy for most property types and even strong for many, including data centers, cell towers, student housing, single-family rental homes, and manufactured home communities — notably, all of which are Specialty property types.

How are Global REITs Positioned vs. the Broad Equity Market?

YTD through December 14, 2023, Global REITs posted a total return of 10.66% vs. the MSCI World Index posting a total return of 22.15%, thus Global REITs underperformed the MSCI World Index by 11.49%. Looking ahead into 2024, the consensus estimated growth of earnings for Global REITs is +4.3%, while the MSCI World Index is projected to have earnings growth of +4.8%¹. The disparity in relative performance in 2023, along

Global REITs represented by the FTSE EPRA Nareit Developed Index and the broad equity market represented by the MSCI World Index.

¹Source: UBS and MSCI. As of December 1, 2023.

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with comparable expected earnings growth in 2024, presents a compelling set-up for REITs to “catch up” by outperforming in 2024.

In addition to their attractive set-up, REITs’ historical record of relative performance bolsters the case for listed real estate outperforming the broad market in 2024. The average annualized return of Global REITs from 2000 - YTD 2023 was 10.2% vs. that of the MSCI World Index of 7.1%² – suggesting that 2024 could see global REITs perform well.

Commercial Real Estate is “On Sale” in the Public Market

All the stress that weighed on the market has driven a sharp sell-off since 2022 which has put commercial real estate on sale in the public market, as evidenced by the large discounts to private market value. Not only are the discounts large, but they are also substantially larger than the long-term historical average. At the end of November 2023, the average discount was 17% below private market value vs. the historical average of -9%.³

Public vs. Private – Arbitrage Opportunity

The difference in valuation methodologies between public real estate and private real estate can create pricing dislocations and thus compelling arbitrage opportunities. Private real estate vehicles report valuations that are based on appraisals, which are by definition backward-looking and smoothed, while public REITs are valued daily by the equity market which looks forward and discounts the market’s expectation for conditions in 3-6 months — as well as reflecting investor sentiment. These short-term differences in returns may eventually converge, as public REITs have historically delivered total returns that exceed those generated by private real estate — in addition to their other benefits of greater liquidity, better diversification, lower leverage, broader access to higher-growth specialty property types, and alignment of interests through high insider ownership. The very large delta in performance since 2022 between public REITs and private real estate vehicles created a wide valuation gap making public REITs an attractive investment opportunity — particularly in comparison to the dated and thus still-high valuations being reported by private real estate vehicles. Indeed, when public REITs have traded at NAV discounts above 10%, they have subsequently outperformed private real estate by more than 1,500 bps per year over the next three years.⁴

Recent M&A Activity in the Public REIT Market

Historically, the combination of such large discounts to private market value, along with enormous pools of capital being raised by private equity funds, has resulted in a

²Source: Bloomberg. As of December 14, 2023.

³Source: UBS, as adjusted by Ranger Global to account for regional nuances of countries as of November 30, 2023. Historical performance is not indicative of future performance.

⁴Source: Green Street Advisors, The Volatility Opportunity, July 26, 2022.

surge of M&A activity. Under such conditions, private equity funds and sovereign wealth funds seek to buy commercial real estate “on the cheap” in the public market. Over the last 18-months or so, there have been 14 such transactions and the portfolio benefited by owning five of those 14 companies. Also notable, the combined aggregate consideration for all 14 transactions was \$96 billion and the observed premium to the last sale price averaged 30.8% - reflecting the buyers’ willingness to pay an additional premium in respect of public REITs owning portfolios of generally higher quality assets and in better locations.⁵

Conclusion

Despite the lingering macroeconomic uncertainty and geopolitical stress capturing headlines, our outlook for the global real estate market is increasingly constructive. Real estate fundamentals and earnings growth remain healthy in most property sectors amidst an environment characterized by low supply, paired with high construction costs.

Our high conviction, benchmark-agnostic investment approach allows us to be highly focused on identifying and owning only the 50 highest-quality companies in our investable universe. We have high confidence in our fundamental research as well as in the management teams of the companies we own. While global capital markets continue to experience transitory periods of market distraction by non-fundamental factors, we believe our portfolio is well positioned as investor attention inevitably returns to fundamentals.

⁵Source: Bloomberg

About the Author

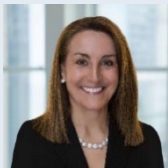


Andrew J. Duffy, CFA® is Co-Founder, Managing Partner, Chief Investment Officer and Senior Portfolio Manager of Ranger Global Real Estate Advisors. Mr. Duffy has over 30 years of experience as an investor in global real estate securities. From 2009 to 2016, Mr. Duffy was the President of Ascent Investment Advisors, LLC. He has been the Senior Portfolio Manager of the Easterly Global Real Estate Fund (“JARIX”) since its inception in 2009.

Prior to 2009, Mr. Duffy was a Managing Director with Citigroup Principal Strategies, where he established and managed the proprietary liquid global real estate investment business which included a long-short portfolio of global real estate securities. Previously, he was the Co-Portfolio Manager of the Hunter Global Real Estate Fund, and from 1999 until 2006, a Portfolio Manager at TIAA-CREF, where he established the liquid global real estate investment business and team, ultimately managing over \$3.5 billion in global real estate equity and debt securities. Between 1993 and 1999, he was a Senior Research Analyst at Eagle Asset Management, where he launched and managed a dedicated real estate securities investment program with responsibility for fundamental analysis, securities selection and portfolio construction. Prior professional experience includes serving as a Partner at Raymond James & Associates where, as an investment banker, he managed public offerings and advised on mergers and acquisitions.

Mr. Duffy received a Bachelor of Science degree from the United States Military Academy at West Point in 1979 as a Distinguished Graduate (top 5% of his class), and a Master of Business Administration degree from the Harvard Business School in 1986. He earned the Chartered Financial Analyst designation in 1995.

Contact Us



Jennifer Vaccaro (U.S.)

Director, Institutional Sales and Client Service
(203) 972-3550

jvaccaro@rangerglobalre.com



Aaron Ochstein, CFA® (International)

Head of International Sales
(727) 204-7375

+44 740 5684489

aochstein@rangerglobalre.com

 **RANGER GLOBAL**

Ranger Global Real Estate Advisors, LLC is an independent, SEC-registered investment advisor focused exclusively on the active management of portfolios of liquid global real estate securities on behalf of institutional and individual investors. The Chief Investment Officer, Andrew J. Duffy, CFA, is a West Point graduate and a former U.S. Army Ranger with over 30 years of REIT investment experience. The hallmarks of our investment strategy are concentrated portfolios with significant overweight to higher growth, high-quality companies, including Ranger's pioneering investment across Specialty property types, as well as highly favorable upside and downside market capture, making our portfolios attractive either as a standalone investment or as a complement to a private real estate portfolio.

Ranger Global is majority-owned by its employees and minority-owned by our strategic partner, QuadReal Property Group, a Canadian-based private real estate manager with approximately \$74 billion (CAD) in assets under management. We seek to maintain an entrepreneurial culture which aligns the interests of our clients with those of our employees and stakeholders.



QuadReal Property Group is a global real estate investment, operating and development company headquartered in Vancouver, British Columbia, managing total assets of approximately \$74 billion (CAD). From its foundation in Canada as a full-service real estate operating company, QuadReal has expanded its capabilities to invest equity and debt in both the public and private markets around the globe. As an operating and development company, the firm is also able to invest across the entire life cycle of properties, from pre-development through to stabilization. QuadReal's flexible business strategy enables the firm to invest directly, via programmatic partnerships, and through operating companies in which it holds an ownership interest.

QuadReal, its operating companies, and partners share in their investment convictions, business values, and the commitment to take performance to the next level. QuadReal works with its partners to accelerate their growth and together cultivate value by unlocking innovation and sharing joint expertise. In addition to capital, QuadReal provides its partners with the in-house expertise of the broad-based QuadReal Resources Group.

QuadReal employs over 1200 real estate professionals located across Canada as well as in Hong Kong, London, New York, and Los Angeles. QuadReal seeks to deliver strong investment returns while creating sustainable environments that bring value to the people and communities it serves. Now and for generations to come.

Defined Terms

Core Real Estate: Ranger Global defines Core as property types that are more highly correlated to GDP growth and typically fall into Office, Industrial, Retail, and Multi-Family Property types.

Specialty Real Estate: Ranger Global defines Specialty as a disparate group of non-core property types which typically exhibit a number of distinctive investment characteristics:

- Specialty property types generally operate in an environment of favorable supply-demand dynamics, conveying superior pricing power to landlords;
- Specialty property types typically generate higher growth rates than core property types;
- Demand for Specialty property types is generally a product of idiosyncratic demand drivers that are un-correlated to GDP growth

Examples of Specialty property types include: Data Centers, Cell Towers, Student Housing, Medical Office, Self-Storage, Manufactured Home Communities, Timber, Outdoor Advertising, Single-Family Rental, Life Science/Lab Space, Leisure and Infrastructure. The universe of Specialty real estate companies is expanding quickly and constantly evolving.

FTSE EPRA Nareit Developed Index: an Index comprised of publicly-traded real estate securities in developed countries worldwide which have met certain financial criteria for inclusion in the Index. Each company must derive the bulk of its earnings through the ownership, management or development of income-producing commercial real estate.

Disclosures

Global Real Estate Composite: The Composite focuses on investing in a diversified portfolio of publicly-traded, global real estate securities, such as real estate investment trusts (“REITs”) and real estate operating companies. The Composite includes all discretionary, fee-paying portfolios invested in the Global Real Estate strategy. The strategy aims to maximize total returns from long term capital growth and income. Performance results are calculated on a total return basis and include dividends and interest and unrealized capital gains and losses. Gross returns reflect the deduction of trade-related costs including applicable withholding taxes. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight portfolio returns. All of the Composite’s valuations and returns are computed and stated in U.S. dollars. Past performance does not guarantee future results. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. An investor should consider the investment risk objective, charges and any expenses carefully before investing in the strategy. This data is for general information only and is not intended to provide specific investment advice or recommendations for any purchase or sale of any security. Certain information contained herein is based on outside sources believed to be reliable, but their accuracy is not guaranteed. Source: Ultimus Fund Services, LLC; Bloomberg.com; FactSet. Annualized returns for periods greater than one year. You cannot invest directly in an index. The Index (“RUGL”) is the FTSE EPRA Nareit Developed Index, which is comprised of publicly-traded REIT securities in developed countries worldwide which have met certain financial criteria for inclusion in the Index. Each company must derive the bulk of its earnings through the ownership, management or development of income-producing commercial real estate. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the highest institutional segregated portfolio management fee which is 0.75% per annum.