



# **Are the Conditions Right for a New Bull Market in Listed Real Estate?**

## **Bear Market Background**

Listed global real estate experienced a significant 2-year bear market from the beginning of 2022 through most of 2023, with a total return decline of 32%.<sup>1</sup> This bear market was caused by a combination of factors, including rising interest rates, widening credit spreads, deteriorating operating fundamentals, declining valuations, and a capital markets freeze. However, from the bear market low on October 25, 2023 through the end of 2023, global real estate securities (represented by the FTSE EPRA/NAREIT Global Real Estate Index) appreciated 22%, suggesting the possibility of the beginning of a new bull market, despite the recent pullback in early 2024. Perhaps it does, but it remains to be seen whether or not investors come to see this as a sustainable move higher.

## **Is this a Shift From “Doom Loop” to “Virtuous Cycle”?**

At the October 2023 low, value investors saw attractive entry points in the then-current REIT prices. Additionally, many REIT investors believed that the worst was likely over. Investor mindset in December 2023 included the following:

- 1) Most major central banks across the globe were indicating that the cycle of interest rate tightening was nearing completion, after having raised interest rates on average approximately 500 bps.<sup>2</sup>
- 2) The U.S. Federal Reserve was considering pausing their two plus years of quantitative tightening and investors suspected the possibility of multiple rate cuts in 2024.
- 3) In most developed countries, inflation had peaked and was declining quickly due to the lagged effects of tight global monetary policy and the re-opening of supply chains.
- 4) Bank failures in the U.S. were being viewed as more company-specific and less structural in nature.
- 5) Most global economies would emerge from 2023 in shallow recessions and/or experience modest growth.

<sup>1</sup> Source: Bloomberg, Ranger Global Real Estate Advisors.  
Index used FTSE EPRA Nareit Developed Index.

<sup>2</sup> Source: Bloomberg, FactSet

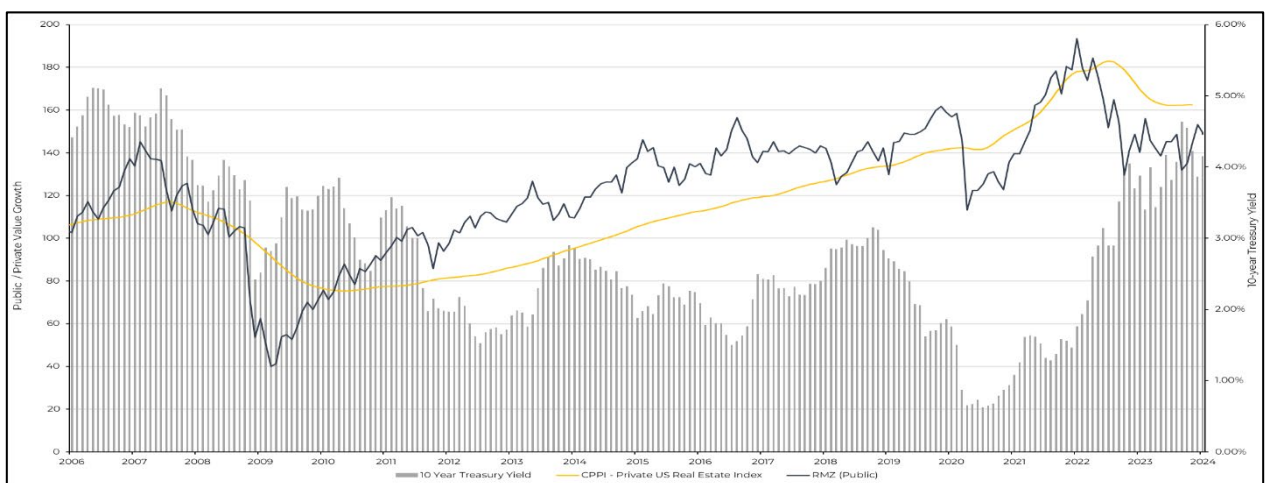
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## Are We in the Early Stages of a Recovery?

It is important to understand that the market move that listed global real estate experienced at the end of 2023 is potentially yet another rally in an ongoing bear market. That said, it could also be seen (in hindsight) as the beginning bull market. For reference, REIT bull markets have historically lasted for multiple years. In fact, the last four global listed real estate bull markets lasted, on average, 6.4 years with a total average return of 228% and a CAGR of 22%<sup>3</sup>.

The early stages of a bull market are typically characterized by improving operating fundamentals, as evidenced by growing rents, expanding margins, and growing net asset values. According to UBS, earnings per share growth for global real estate companies is expected to expand from 3.8% in 2024 to 6.7% in 2025<sup>4</sup>. Further, UBS estimates that global real estate securities are currently priced at an average 12% discount to net asset value (NAV), making high-quality commercial real estate substantially cheaper in the public market than it is in the private market.

These nascent improvements in operating fundamentals, coupled with the recent unfreezing of capital markets, increase the likelihood of NAV per share growth from both net operating income improvements and potential cap rate compression.



*Note: The data utilized reflects U.S. private and public real estate only. U.S. REITs comprise approximately 50% of the global market. Source: Bloomberg, Ranger Global Real Estate Advisors, NCREIF*

<sup>3</sup> Source: Bloomberg, FactSet

<sup>4</sup> Source: UBS, Global Valuation Report, 12/31/23

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## Listed Real Estate Leadership

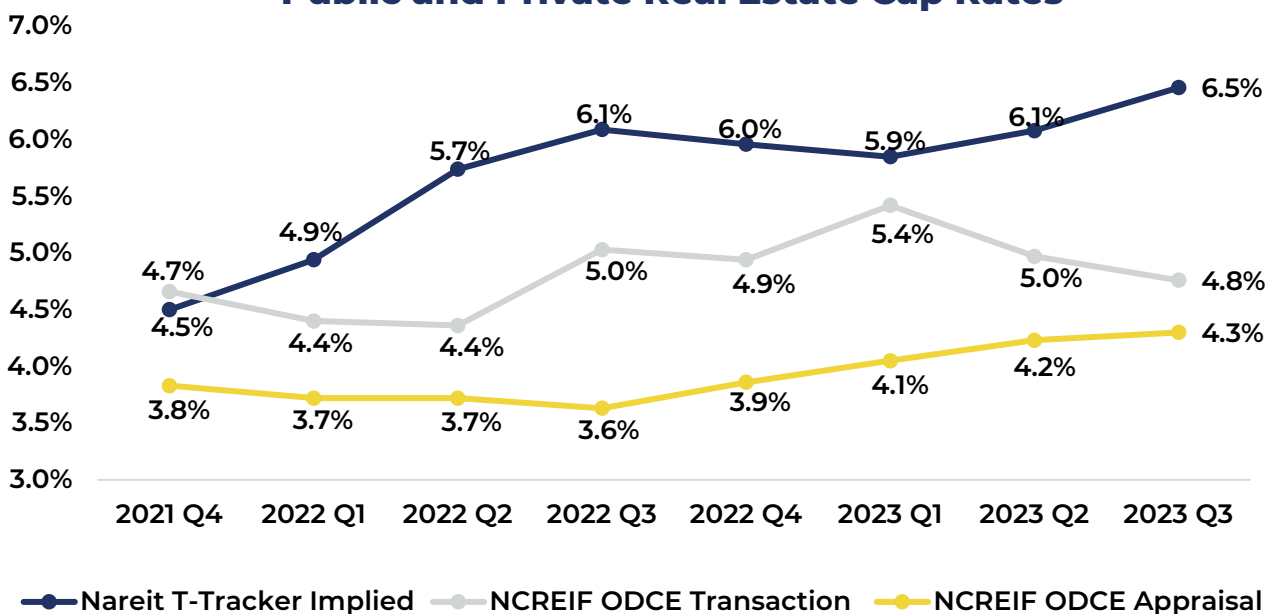
It is true that listed real estate has historically led private market valuations due to the lag in private market appraisal-based valuations compared to publicly-listed real estate's daily pricing. Today, we may be at the point of the cycle where listed real estate will lead private real estate higher.

Although the chart on the previous page is focused on the relationship between private and public real estate valuations in the U.S. markets, we believe that the same data holds true in global markets.

## Private Real Estate Owners Behind the Markdown Curve

Private real estate owners have been slow to adjust the value of their real estate assets downwards during the most recent market downturn, in contrast to the immediate repricing that occurs in the listed real estate markets. The following chart illustrates this lag with greater implied capitalization rates for listed real estate when compared to private real estate.

### Private Real Estate Cap Rates Are Adjusting Slowly Public and Private Real Estate Cap Rates



Source: Nareit, Ranger Global Real Estate Advisors, NCREIF

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While implied capitalization rates for listed real estate companies decline with stock price appreciation, the lagged private market capitalization rates begin to expand to catch up with the more realistic cap rates of public companies. As a result, listed real estate companies trading at NAV premiums become the logical buyers of direct real estate sold by private equity and other direct real estate investors, oftentimes at very attractive valuations.

## Next Stage of Listed Global Real Estate Bull Market – Laggards Catch Up

As more capital is attracted to listed real estate, fund flows begin to turn positive, and valuations continue to improve. The underperforming real estate companies may begin to receive M&A premiums as these companies are increasingly viewed as takeover targets. As of December 31, 2023, 80% of global listed real estate securities trade at NAV discounts.<sup>5</sup>

### Listed Real Estate Cycles Average ~6.4 Years Historically



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## **Global Real Estate Bull Market Likely Not Synchronized**

Real estate and capital market cycles differ across the globe and the “Equity Growth Story” will likely appear over various time periods in different countries. As such, a publicly-traded global real estate portfolio is well-positioned to participate in these equity growth stories as they arise in different markets. Already there have been a number of equity offerings in the U.S., Canada, Europe, UK, Japan, and Singapore, which suggests the possibility of incremental capital raising there, and elsewhere around the world, as 2024 unfolds. A strong active REIT manager with a solid long-term track record has the ability to create a global portfolio that can opportunistically take advantage of these pricing dislocations around the world as they present themselves.

## **Are the Conditions Right for a REIT Bull Market?**

For a listed real estate bull market to truly begin, management teams must recognize their cost of capital advantage, and execute upon value-additive external growth. Additionally, capital markets must continue to remain open and with interest rates which are accretive to the growth story. Finally, exogenous shocks to global markets must prove to be transitory. Ranger Global is cautiously optimistic that there is potential for M&A expansion in 2024-2025 and we could be witnessing the initial stages of a global listed real estate bull market.



## About the Author



**Todd A. Voigt, CFA®** is a Portfolio Manager focusing on the selection and management of international holdings at Ranger Global Real Estate Advisors. Mr. Voigt has more than 28 years of experience in the global real estate securities industry. From 2014 through 2016, he served as the Portfolio Manager for a long-short real estate fund at WMD Asset Management. Previously, he spent six years at Cohen & Steers Capital Management, where he served as the Portfolio Manager for multiple global real estate securities hedge funds and UCITS, and eleven years at Cliffwood Partners, where his responsibilities included portfolio management and stock selection for global real estate securities hedge fund strategies and the short side of a 120/20 strategy.

Mr. Voigt graduated from Claremont McKenna College in 1995 with dual degrees in Mathematics and Economics. He earned the Chartered Financial Analyst designation in 2001.

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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 and Disclosures

## Defined Terms

**FTSE EPRA/NAREIT Global Real Estate 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

Past performance is not a guarantee nor a reliable indicator of future results. As with any investment, there are risks. There is no assurance that any portfolio will achieve its investment objective. The portfolio is subject to stock market risk, which is the risk that stock prices overall will decline over short or long periods, adversely affecting the value of an investment. Risks of one's ownership are similar to those associated with direct ownership of real estate, such as changes in real estate values, interest rates, cash flow of underlying real estate assets, supply and demand and the creditworthiness of the issuer. International investing poses special risks, including currency fluctuations and economic and political risks not found in investments that are solely domestic.

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