



B&I Capital

INTRODUCTION TO REITS

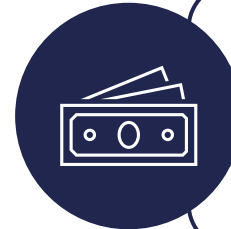
What are REITs?

Real Estate Investment Trusts (REITs) were created in 1960 by the United States Congress to provide more investors with the opportunity to invest in real estate. REITs derive at least 75% of gross income from real property and are tax-efficient when paying at least 90% of their income to shareholders as dividends each year. B&I Capital invests in REITs, which own and operate portfolios of properties.

REITs own income-producing real estate, providing investors with inflation protection as rental income and property values rise



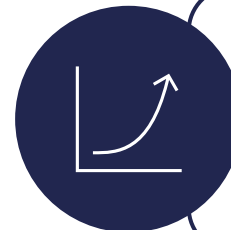
REITs utilize a rent model to provide growing and predictable cash flows



REITs are capable of financing growth through both equity and debt

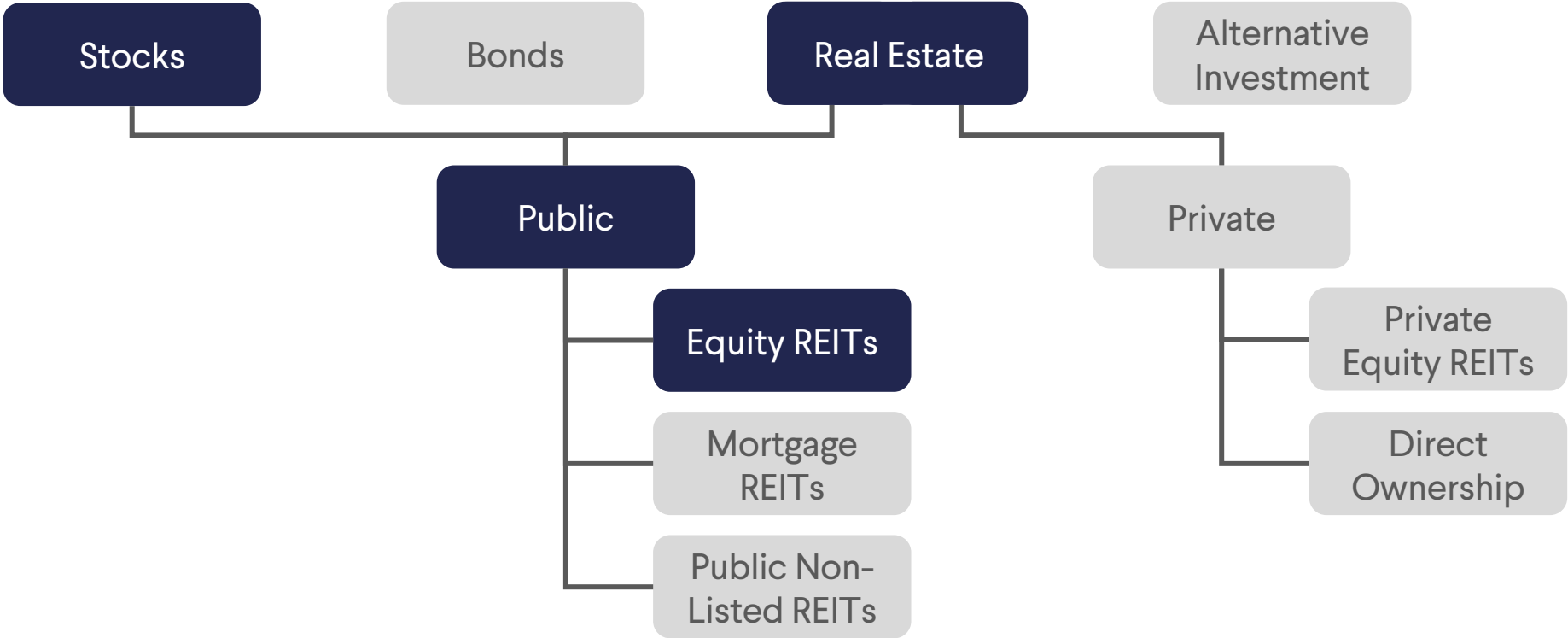


REITs are high-yielding investments with the potential for capital appreciation



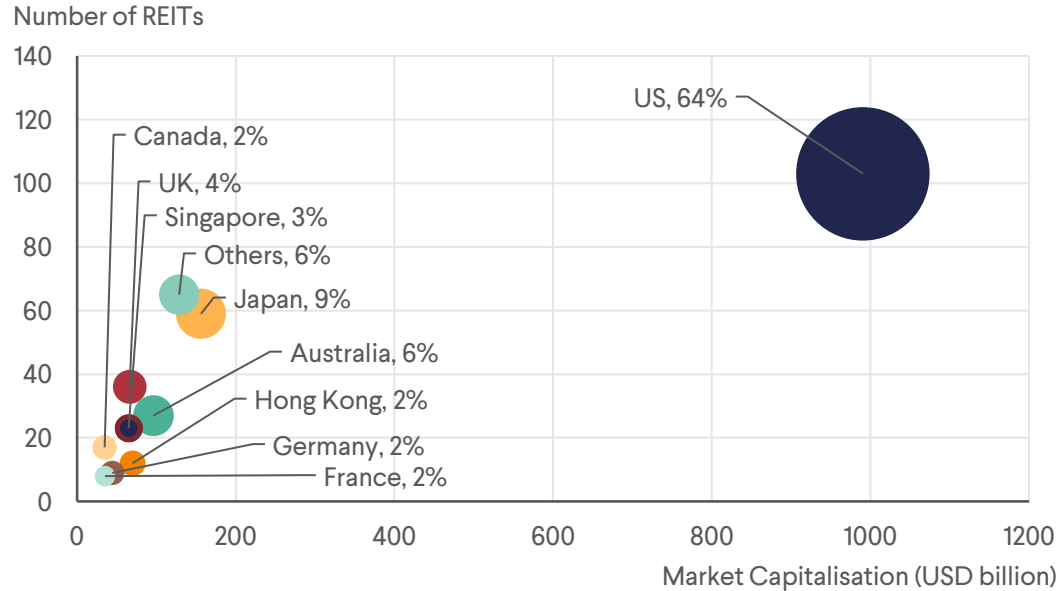
Investment Universe

REITs represent a significant asset class within the investment landscape, offering notable diversification benefits to a portfolio. Despite their low correlation to other asset classes, high dividend yields, daily liquidity, and extensive history, many investors remain underexposed to REITs.

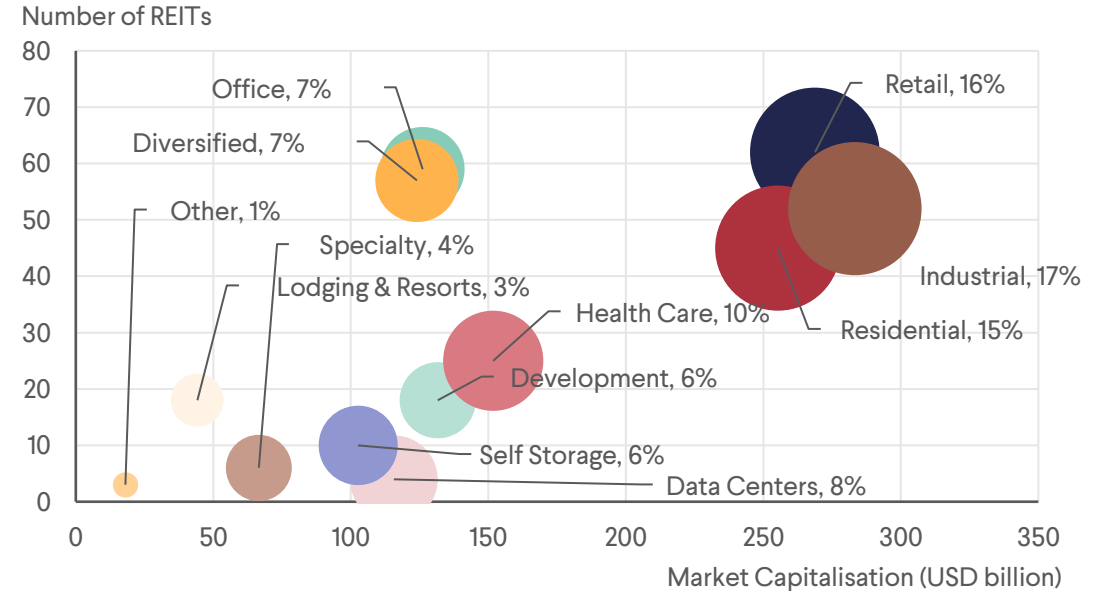


Global REIT Market

Country Breakdown



Sector Breakdown



Source: B&I Capital, FTSE (June 2024)

REITs offer investors exposure to a real estate portfolio and the cash flow resulting from its rental income. The purchase of a share in a REIT also provides access to professional real estate managers at a low cost and spares the investor the challenges of direct property ownership. B&I Capital specializes in global Equity REITs.

Benefits of Owning REITs

Liquidity

- Daily liquidity (unlike other real estate)
- Faster price discovery and mispricing opportunities

Diversification

- REIT portfolios are diversified by asset type, geography, and quality
- Over the long term, REITs show low correlation to stocks and bonds

Stable Cash Flows

- Consistent, attractive dividends from real property cash flows
- Forecasting cash flow and dividend growth easier due to rent model

Professional Management

- Real estate managed by specialized industry leaders with decades of experience
- Investors benefit from shareholder rights, disclosure requirements, and protections

Better Evaluation

- REITs offer enhanced transparency due to capital requirements and mandatory dividend payouts
- REIT valuations consider both the underlying property values and recent comparable real estate transactions

Business Model

Average Lease Duration by Sector



Source: B&I Capital, Bank of America

Predictable Rent Agreements

- **Legal Contracts** ensure rent predictability between real estate owners and tenants
- **Rent Bumps** agreed in contracts lead to consistent rent growth over time

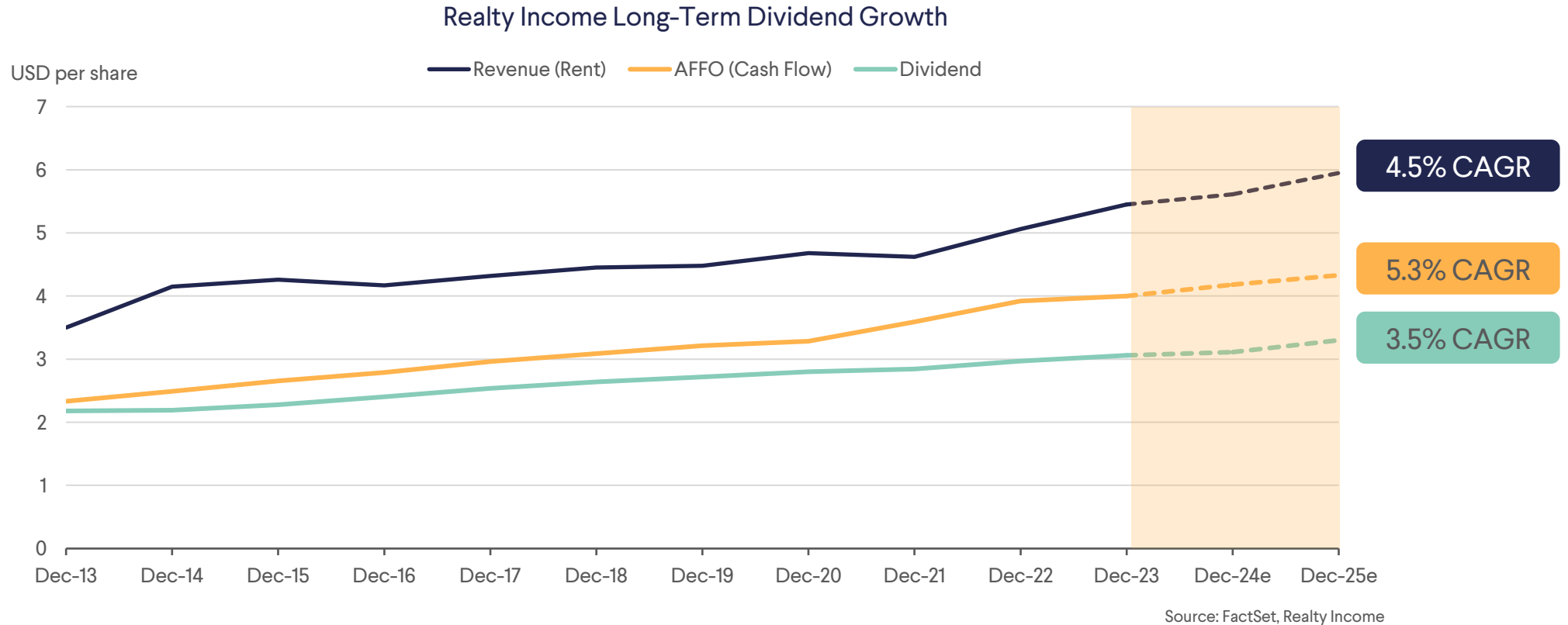
Leverage & Growth

- **Debt Levels** are generally lower compared to private markets
- **Growth Drivers** are in the form of asset acquisitions, portfolio reinvestment, organic rental growth and capital management.

The key risks of investments in REITs are:

- Tenants might break their leases, but future lower cash flows are offset by legal protection and tenant deposit
- Negative rent reversion at lease expiration is possible but uncommon
- Real estate supply and demand, balance sheet, cost of capital, overpaying for acquisitions

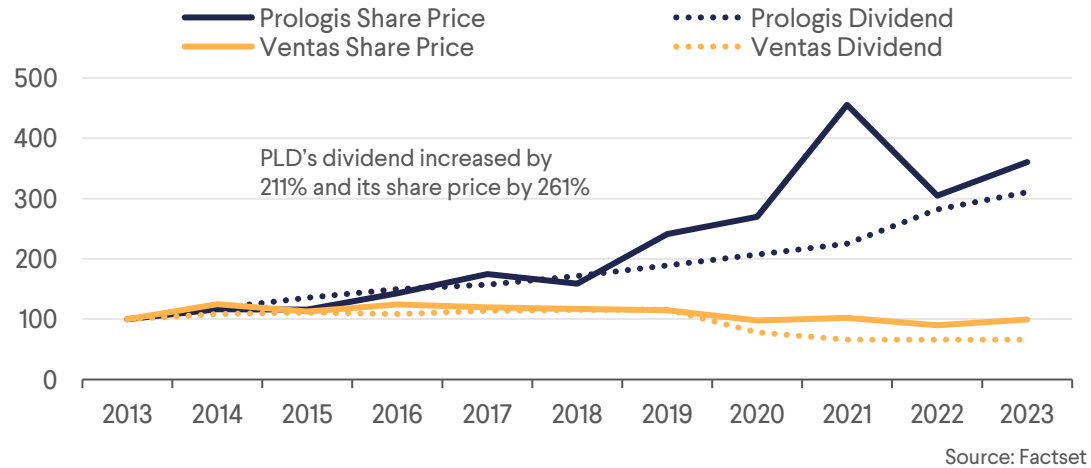
Stable Income Growth – an example using Realty Income



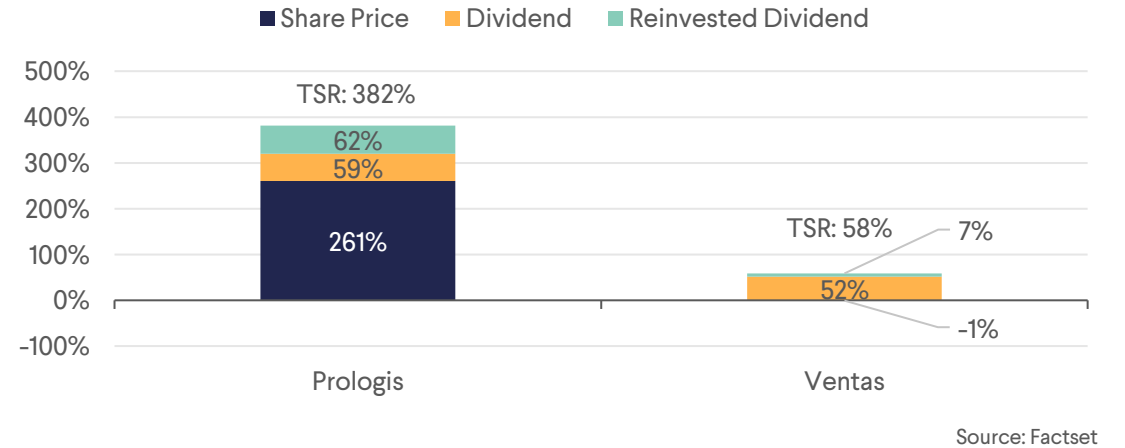
- Revenue is the rent derived from tenant contracts. AFFO is rent minus expenses and capex, a proxy for shareholder free cash flow
- Dividends are supported by revenue and AFFO, offering investors safety and stable growth. For instance, Realty Income's peak-to-trough revenue during the GFC declined by less than 1%
- Realty Income's last 10-year total shareholder return is 9.6% p.a.

Importance of Dividend Growth

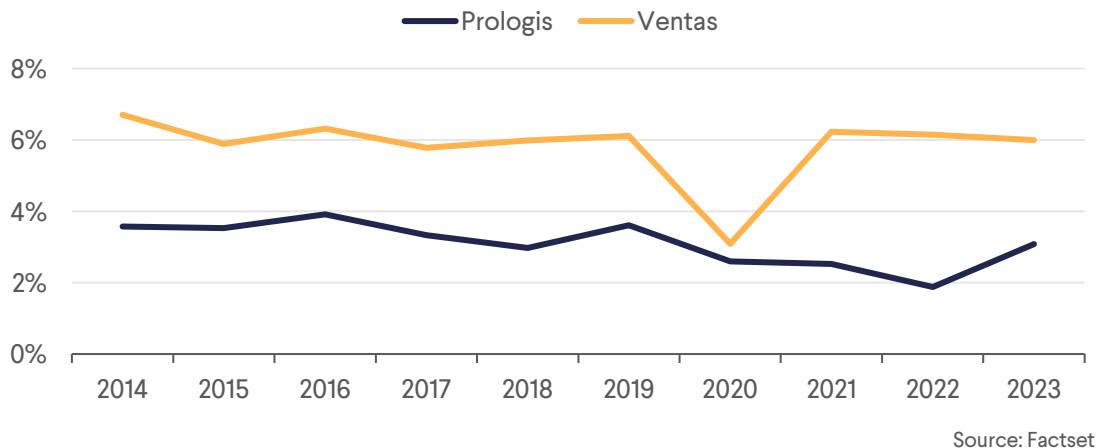
Rebased Share Price and Dividend



Total Shareholder Return Components



Dividend Yield



- Long-term Total Shareholder Return (TSR) is anchored to dividend growth
- Dividend growth helps validate the REIT business model and its ability to create value
- Prologis' TSR is significantly higher than Ventas' despite a lower dividend yield because of compounding dividend growth
- High dividend yields are a potential "value trap"

Asset Class Correlation

Correlation between Aggregate Asset Classes (1998-2021)

	US Large Cap Equities	US Small Cap Equities	Non-US Equities	Hedge Funds / TAA	Private Equity	US Broad Fixed Income	US Long Duration FI	US Other Fixed Income	Non-US Fixed Income	Unlisted Real Estate	US Listed Equity REITs	Other Real Assets
US Large Cap Equities	-	0.92	0.88	0.89	0.87	0.06	-0.22	0.62	0.47	0.50	0.55	0.24
US Small Cap Equities		-	0.88	0.78	0.90	0.07	-0.28	0.67	0.51	0.55	0.62	0.13
Non-US Equities			-	0.85	0.86	0.09	-0.29	0.70	0.59	0.53	0.55	0.01
Hedge Funds / TAA				-	0.79	0.16	-0.20	0.71	0.51	0.45	0.50	-0.10
Private Equity					-	0.21	-0.16	0.72	0.54	0.59	0.56	0.09
US Broad Fixed Income						-	0.75	0.58	0.73	0.25	0.30	-0.22
US Long Duration FI							-	0.04	0.34	-0.05	-0.02	-0.02
US Other Fixed Income								-	0.79	0.63	0.67	-0.27
Non-US Fixed Income									-	0.40	0.51	-0.20
Unlisted Real Estate										-	0.90	0.03
US Listed Equity REITs											-	-0.03
Other Real Assets												-

Source: CEM Benchmarking (October 2023)

- Over the long-term, US Equity REITs have a very high correlation to private real estate
- Yet, in same period, US REITs performed much better than private real estate (annual net returns of 10.7% vs 8.7%) but with similar volatility (18.9% vs. 17.9%)
- Over the long run, REITs have a low correlation with equities

Asset Class Returns

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR
REIT US 28.0%	REIT Europe 18.8%	Sm Cap 21.3%	EM 37.8%	REIT Asia 4.5%	Lg Cap 31.5%	Sm Cap 20.0%	REIT US 41.3%	Cash 1.6%	Lg Cap 26.3%	Lg Cap 12.0%
REIT Europe 25.7%	REIT US 2.8%	HY Bond 17.5%	Int'l Stk 25.6%	Cash 1.8%	REIT Europe 29.7%	EM 18.7%	Lg Cap 28.7%	HY Bond -11.2%	Int'l Stk 18.9%	REIT US 8.0%
REIT Asia 15.3%	Lg Cap 1.4%	REIT Asia 13.2%	Lg Cap 21.8%	HG Bond 0.0%	REIT US 28.7%	Lg Cap 18.4%	REIT Europe 18.3%	HG Bond -13.0%	REIT Europe 17.4%	Sm Cap 7.2%
Lg Cap 13.7%	HG Bond 0.6%	Lg Cap 12.0%	Sm Cap 14.7%	HY Bond -2.3%	Sm Cap 25.5%	Int'l Stk 8.3%	Sm Cap 14.8%	Int'l Stk -14.0%	Sm Cap 16.9%	Int'l Stk 4.8%
HG Bond 6.0%	Cash 0.0%	EM 11.6%	REIT Europe 13.4%	REIT US -4.0%	Int'l Stk 22.7%	HY Bond 7.5%	Int'l Stk 11.8%	REIT Asia -15.9%	HY Bond 13.5%	HY Bond 4.7%
Sm Cap 4.9%	Int'l Stk -0.4%	REIT US 8.6%	REIT Asia 10.6%	Lg Cap -4.4%	REIT Asia 21.8%	HG Bond 6.1%	REIT Asia 6.4%	Lg Cap -18.1%	REIT US 11.4%	REIT Europe 4.4%
HY Bond 2.5%	REIT Asia -2.8%	HG Bond 2.7%	REIT US 8.7%	REIT Europe -7.7%	EM 18.9%	Cash 0.6%	HY Bond 5.4%	EM -19.7%	EM 10.3%	REIT Asia 3.9%
Cash 0.0%	Sm Cap -4.4%	Int'l Stk 1.5%	HY Bond 7.5%	Sm Cap -11.0%	HY Bond 14.4%	REIT US -5.1%	Cash 0.0%	Sm Cap -20.4%	HG Bond 5.5%	EM 3.1%
EM -1.8%	HY Bond -4.6%	Cash 0.3%	HG Bond 3.5%	Int'l Stk -13.4%	HG Bond 8.7%	REIT Asia -7.2%	HG Bond -1.5%	REIT US -25.0%	Cash 5.1%	HG Bond 1.7%
Int'l Stk -4.5%	EM -14.6%	REIT Europe -4.5%	Cash 0.8%	EM -14.3%	Cash 2.2%	REIT Europe -10.0%	EM -2.2%	REIT Europe -36.5%	REIT Asia -1.2%	Cash 1.2%
		B&I Global 5.9%	B&I Global 12.9%	B&I Global -4.4%	B&I Global 31.7%	B&I Global -3.6%	B&I Global 23.1%	B&I Global -30.4%	B&I Global 11.4%	B&I Global 4.2% *
B&I Asian 19.6%	B&I Asian -2.6%	B&I Asian 6.7%	B&I Asian 17.4%	B&I Asian 0.8%	B&I Asian 24.0%	B&I Asian -5.5%	B&I Asian 4.8%	B&I Asian -14.9%	B&I Asian -3.5%	B&I Asian 4.0%

REIT US	FTSE NAREIT All Equity Index	Int'l Stk	MSCI EAFE Index
REIT Asia	FTSE EPRA NAREIT Developed Asia	EM	MSCI Emerging Markets Index
REIT Europe	FTSE EPRA NAREIT Developed Europe	HG Bond	Barclays U.S. Aggregate Bond Index
Large Cap	S&P 500 Index	HY Bond	BofAML US High Yield Master II Index
Small Cap	Russell 2000 Index	Cash	3 Month Treasury Bill Rate

Source: novelinvestor.com, FTSE, B&I Capital (December 2023)
* Since inception 30 November 2015

Real Estate Key Terms



AFFO

Adjusted Funds From Operations measures a REIT's operating performance and is a proxy for cash flow



ABR

Annualized Base Rent calculates the contractual rent to be paid by tenants over a 12-month period



NAV

Net Asset Value represents the value of underlying real estate, net of debt, and can be estimated based on similar transactions



Cap Rate

This metric is used to understand the value of a transaction. There are several ways to measure cap rates, but a common approach is dividing Net Operating Income by Real Estate Value



Leverage Ratio

Several ratios are used to represent leverage, but the most common is Net Debt-to-EBITDA