REITs are expensive relative to stocks, bonds and real estate
Fairly Valued
REITs are attractively valued relative to stocks, bonds and real estate

### HISTORICAL AVERAGE:

- 2.3% premium to NAV
- 117 bps to UST, (120) bps to BBB
- 1.16x ratio S&P 500 P/E to REIT P/AFFO

### Annualized Return

- 9/97: 33.5% premium to NAV
- 12/99: 27.0% discount to NAV
- 1/07: 12.3% premium to NAV
- 3/09: 20.0% discount to NAV
- 4/10: 30.0% premium to NAV
- 5/18: 7.0% discount to NAV

### Listed RE Relative Valuations

<table>
<thead>
<tr>
<th>Multiples vs. General Equities</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yields vs. Bonds</td>
<td></td>
</tr>
<tr>
<td>Premium to NAV</td>
<td></td>
</tr>
</tbody>
</table>

(Red means listed RE is more richly valued by this metric versus long-term averages, green means it is relatively inexpensive versus those averages.)

Source: AEW Research
As of May 31, 2018. Past performance is not indicative of future results.
Focused on the Future of Real Estate

REIT PREMIUM/DISCOUNT TO NAV

- There have been 30 M&A deals totaling $63B announced or completed over one-year ending 6/26/18, up from 22 deals totaling $35B in the prior one-year period.
- Retail REITs led the one-year M&A activity with roughly $14B in transactions, followed by diversified ($13B) and residential ($12B).
- 15 REITs in 1Q18 announced new share repurchase programs or increases to existing plans, following 31 REIT repurchase announcements in 2017.

Source: Green Street Advisors
As of May 31, 2018. Past performance is not indicative of future results.
REIT dividend yields briefly surpassed Moody's BAA yields in February before the sector rallied; they remain tighter to corporate bonds than usual.

- On average, REIT dividend yields have been halfway between BAA yields and 10 year Treasury yields.
- Low payout ratios and earnings growth both mean REIT dividend growth should continue to be solid.

Source: NAREIT, Bloomberg
As of May 31, 2018. Past performance is not indicative of future results.
MULTIPLE COMPARISON
REITS vs. General Equities

- Since 2011, REIT multiples have been flat to down slightly while stock multiples have trended up.
- REIT multiples may never look as discounted relative to other stocks as they did in the tech bubble era.

Source: Evercore ISI, FTSE Russell
As of May 31, 2018. Past performance is not indicative of future results.
Most traditional institutional property types trading at discounts to underlying NAV in public market.

Source: Green Street, June 2018
Focused on the Future of Real Estate

DIRECT PROPERTY = TREASURIES, LISTED = BAA

CASH YIELDS, FOUR QUARTER MOVING AVERAGES

- Listed property yields now comparable to Baa bonds
- Direct property cash yields now comparable to Treasuries

Source: NCREIF, Moody’s
STRONGEST NOI GROWTH OF THE CYCLE IS BEHIND US

ANNUAL NOI GROWTH

- Positive but slower NOI growth expected over the next two-to-three years

Source: NCREIF, Green Street
Noi Growth and Cap Rates

- **Apartment NOI Growth**
  - Source: Green Street, NCREIF

- **Apartment Cap Rate**
  - NPI Apartment Properties
  - Apartment REITs

- Cap rate spread between listed and direct markets roughly at average for the past two decades.
PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Industrial NOI Growth

Source: Green Street, NCREIF

Industrial Cap Rates

- Comparable industrial property pricing in both markets
Focused on the Future of Real Estate

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Office NOI Growth

Office Cap Rate

- Office property cap rates nearing 6% in public market

Source: Green Street, NCREIF
PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Shopping Center NOI Growth

-6.0%  -4.0%  -2.0%  0.0%  2.0%  4.0%  6.0%  8.0%


- Shopping centers trading at large discount to NAV in listed market

Source: Green Street, NCREIF

Shopping Center Cap Rates

-6.0%  -4.0%  -2.0%  0.0%  2.0%  4.0%  6.0%  8.0%  10.0%  12.0%


- Shopping centers trading at large discount to NAV in listed market

Source: Green Street, NCREIF
Focused on the Future of Real Estate

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Mall NOI Growth

Mall Cap Rates

- Mall NOI growth holding up better in REIT-owned properties

Source: Green Street, NCREIF
CONCLUSIONS

- U.S. REITs are attractively valued relative to other yield assets and direct property

- Traditional institutional property types least favored in public market

- Implied property cap rates from current REIT valuations much higher than private market

- History suggests that public market over-adjusts and ultimately moves back towards private market pricing
Focused on the Future of Real Estate

Michael J. Acton, CFA, is Director of Research for AEW Capital Management, L.P. with responsibility for directing the activities of AEW Research, the firm’s highly regarded in-house research group. Mike joined the firm in 1990 and has more than 30 years of experience as an economic analyst and forecaster and is a standing member of the firm’s Investment Committee and Management Committee. The resources of AEW Research are an integral part of AEW’s investment process and Mike works closely with senior professionals in all areas of the firm to develop investment strategies that match clients’ risk/reward objectives with market opportunities. Mike is also a member of the firm’s Compliance Committee and Risk Management Committee. Prior to joining AEW, he was with DRI/McGraw-Hill where he managed the Metropolitan Area Forecasting Service. He is a graduate of Bates College (B.A.) and a CFA charter holder.

Russell Devlin is an economist in AEW Research, the firm’s in-house research group. Russ devotes the majority of his time to providing research support to the firm’s public market activities. His role is (i) to interpret the results of AEW Research forecasts with respect to factors affecting real estate securities investing; (ii) to conduct additional research (both directly and using third-party resources) into areas of particular interest or concern to the REIT team, and (iii) to develop and maintain specific tools that provide insights useful in portfolio construction and ongoing management. He is also responsible for maintaining the information database and reporting infrastructure used by AEW Research, and developing and maintaining many of AEW’s proprietary research tools. Russ joined the firm in 1998 and has 22 years of experience as an economic analyst and forecaster. Prior to joining AEW, he was with DRI/McGraw-Hill’s Industry Forecasting Service. Russ is a graduate of the Massachusetts Institute of Technology (B.S.) and the University of Minnesota’s Humphrey Institute (M.A.). He is a CFA charterholder.

Caroline Clapp is a Vice President and is the firm’s real estate securities product specialist. She works within both the AEW Investor Relations and AEW Real Estate Securities teams. Caroline serves as a liaison between the AEW Real Estate Securities team and its clients with the goal of providing superior client service. She also produces various analytical exhibits and articles for industry publications. Prior to joining AEW in 2006, Caroline was a Financial Analyst with Entergy Corporation. Caroline is a graduate of the Freeman School of Business at Tulane University (B.S.) and has a Master of Science in Finance degree (M.S.) from Boston College. She is a CFA charterholder.

QUESTIONS?

Please feel free to contact Mike, Russ or Caroline regarding any of the information contained herein

michael.acton@aew.com or 617.261.9577
russ.devlin@aew.com or 617.261.9221
caroline.clapp@aew.com or 617.261.9289