Green Street
www.GreenStreet.com
inquiry@GreenStreet.com

SAMPLE REPORT

Heard on the Beach: Summer Tryouts

Heard on the Beach

Summer Tryouts

June 17, 2025

Green Street

Executive Summary

A dogmatic approach to active investing can be problematic as markets are in constant flux. Time-tested investment strategies need consistent refreshment, while alternative methods should be reviewed for inclusion into the investment strategy.

The use of earnings growth and multiples provides a simple approach, but has generally been a “yes, but…” in Green Street’s REIT valuation methodology. However, earnings growth – with the inclusion of a realistic estimate for capital expenditures – is well-correlated to long-term sector and medium-term intrasector REIT total returns. REITs and REIT sectors that sustainably outperform on AFFO growth tend to outperform on total returns.

Utilizing these findings in investing has its challenges, however. AFFO multiples are not useful predictors of future growth, as higher multiples are not correlated with higher earnings growth. Further, predicting earnings is haphazard while chasing near-term realized AFFO growth is not associated with intrasector outperformance. Other factors affecting REITs, namely balance sheet and capital allocation, are critical elements not readily captured in earnings over the short term.

NAV and IRR-based pricing models help eliminate the variability in chasing earnings, as well as providing a more holistic view of the real estate generating earnings. A bet on earnings growth should thus help supplement these models, not replace them.

Heard on the Beach
June 17, 2025

Summer Tryouts: Active investing necessitates a high degree of pragmatism. The goal of any active manager is to add alpha, which requires a flexible mindset that is constantly reviewing decision-making and resulting performance. Being dogmatic as markets and opportunities to add alpha evolve can be a detrimental character trait.

In this vein, several trading strategies reviewed over the last year have been found to reliably add alpha. Following a momentum-based strategy of buying recent winners appears quite useful in the private real estate market. The opposite strategy – buying recent REIT losers – is generally a sound approach in the public market. These help shade, but do not drive Green Street's recommendations. Green Street's approach to REIT stock picking has been one focused on valuing the underlying real estate in NAV models with an added layer of unlevered return potential and qualitative inputs such as balance sheet health and management capital allocation acumen. It has not been static, however, as over the decades several iterations of pricing models have been utilized, the most recent of which saw a switch from a pure NAV-focused model to one that utilizes intrinsic NAVs and therefore relies on analyst views on the relative prospects of various markets.

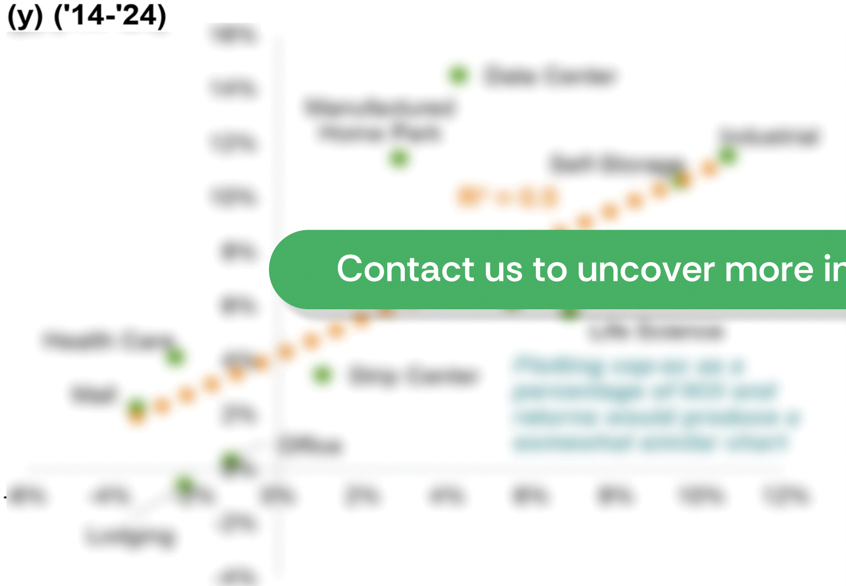
Earnings metrics – while tracked and reported across Green Street's platform – have generally not driven REIT recommendations. Recently, our European colleagues' research on REIT earnings growth highlighted some merit in tracking the metric. The analysis of European REIT earnings finds a high degree of correlation between long-term earnings growth and total shareholder returns at the sector-level, implying potential alpha opportunities for investors in overweighting or underweighting certain sectors based on expected earnings growth. Given the extra difficulty in REIT stock picking on the U.S. side of the Atlantic, any potential advantage should be vetted.

The first step in determining if U.S. REIT earnings growth and/or multiples is a useful sector or stock picking tool is to identify the most relevant form of earnings. Nareit defined Funds from Operations ("FFO") – equal to net income with depreciation added back and excluding any gains/losses on sales – receives the most attention on earnings calls, supplementals, and management guidance. As a yardstick, however, the exclusion of cap-ex presents a challenge as real estate is a cap-ex intensive business. The inclusion of cap-ex results in a more useful metric, Adjusted Funds from Operations ("AFFO").

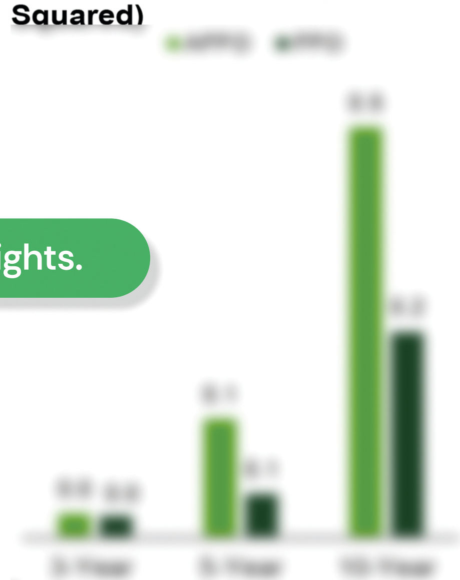
Green Street has spent decades highlighting the persistent underappreciation of cap-ex in real estate underwriting. Normalized cap-ex estimates, based on regular research into the topic, are thus included in our AFFO calculations and not the figures provided by management, which are subject to timing mismatches, definitional differences, and subjectivity of what counts as cap-ex. Other adjustments need to be made to earnings as well, namely the impact of equity compensation, non-cash real estate revenues, special dividends, stock splits, and spin-offs.

Cap-ex Rules the Day: Pre-cap-ex measures of earnings growth (FFO) are not helpful in explaining sector-level returns as cap-ex differentials are meaningful across high (office, lodging) and low (self-storage, man. homes) cap-ex sectors. Earnings metrics that incorporate normalized estimates of cap-ex are highly correlated with long-term sector-level total returns.

Absolute Annual AFFO Growth* (x) and Total Returns (y) ('14-'24)



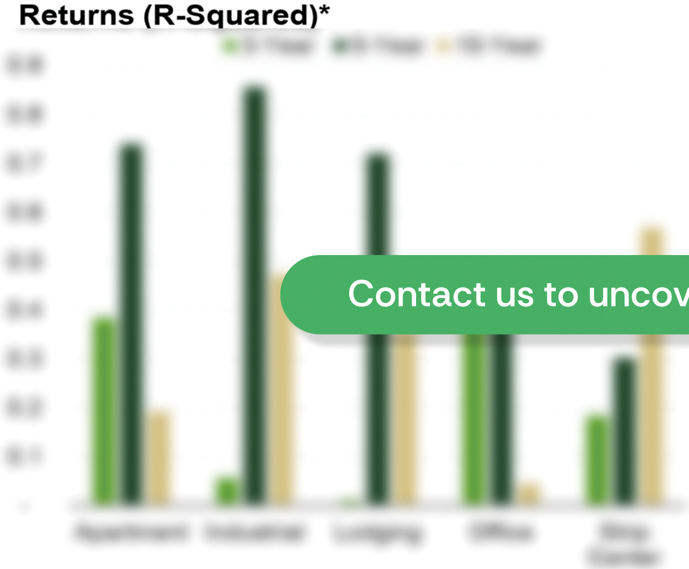
Sector-level Returns (R-Squared)



*Adjusted for corporate events including special dividends, share splits, and spin-offs.

Stock Picking Limits: AFFO growth differences between similar REITs are meaningful in explaining relative returns over a three- and five-year period but drop in relevance for short (<1 year) and longer time periods (> ten years). Other variables, such as capital allocation, and differing trajectories on M-RevPAF (the combination of rent and occupancy) meaningfully affect share prices but are only captured in earnings over the medium term.

Intrasector AFFO Growth and Relative Returns (R-Squared)*



Forward AFFO Multiples and Growth

*Intrasector r-squared influenced by relatively small sample sizes intrasector. Source: Bloomberg, Green Street

The simplicity of earnings growth is alluring, but requires a variety of extra steps to become truly useful within a valuation framework. An open mind towards long-term, post-cap-ex earnings growth is warranted given the connections to cross sector and intrasector returns, but the difficulty in forecasting earnings and lack of near-term correlation render it difficult in implementation. At best, it serves as a sanity check towards more holistic approaches to REIT valuation, rather than a full substitution.

Danny Ismail, CFA
Evan Lustick

SAMPLE REPORT

Heard on the Thames: There Can Be Miracles When You Believe

Heard on the Thames

There Can Be Miracles When You Believe

June 17, 2024

Green Street

Executive Summary

Nothing captures the attention of a real estate investor more when talking up fundamentals than "same-store" growth. This percentage theoretically encapsulates the evolution in property net rental income which, absent movements in valuation cap rates, should match asset performance in the long term. One would think that the definition of same-store NRI growth ("Like-for-Like" in Europe) is simple, straightforward, and consistent across property sectors and over time. It would be reasonable to assume that *eventually* the rate of cumulative growth in LfL rents and LfL values would overlap. The European REIT market provides a unique petri dish to examine if this hypothesis stands the test of time as companies report both metrics.

Over the past decade, reported LfL rents have outpaced LfL valuations by ~150 bps p.a. across the 20 European sectors under coverage. European REITs seem to be communicating with their LfL rent growth disclosures that they can walk on water. A more agnostic observer would conclude that REIT management teams catholically employ an overly aggressive approach to their definition of reported LfL rent changes.

A REIT's accounting return (Current Value Net Income, or CVNI) is a more objective proxy of real estate portfolio performance over time. Correlation of total shareholder returns with CVNI growth is higher than with LfL rent growth. CVNI is thus a better yardstick of operating acumen than the LfL rent growth disclosure provided by REITs.

Heard on the Thames
June 17, 2024

There Can Be Miracles: *The Usual Suspects* is one of the greatest crime thrillers of the '90s. The final movie scene shows the protagonist leaving police custody, released on bail after convincing the interrogating detective of an elaborate story that absolves him of any responsibility for the crimes allegedly committed. A voiceover is heard saying "*The greatest trick the Devil ever pulled was convincing the world he didn't exist*". The final plot twist – whereby the viewer realises that the suspect's entire police interview was made up on the fly – is a memorable scene in contemporary film history.

Fiction and art exist in the REIT space too. REITs tend to sum up operational performance via the disclosure of "Like-for-Like" (LfL) net rental income growth. It supposedly encapsulates organic income growth from a pool of stabilised properties. "Stabilised" just means that these assets have not undergone significant redevelopment from one period to the next. The pool of such assets is also not meant to include any new / recently delivered developments still in their lease-up phase, nor those just vacated and earmarked for major refurbishment capex works in the months ahead.

Green Street has long held a sceptical stance on LfL rent disclosure. The list of flaws is long. It starts with inconsistencies over time and across REITs and ends with "one-off" adjustments that are anything but one-off. The extent of definitional gymnastics maximises in periods of operational stress. The end result is a reported LfL rent growth time series that is flattering and smoothed. Our findings highlight those European REIT sectors where the deviation in reported growth between LfL rents and LfL values – adjusted for LfL cap rate shifts – is greatest. A persistently positive delta in the annualised reported growth rates of the two is nothing short of a ***LfL Rent Miracle***.

For these sectors, reported LfL rent growth – combined with the implied uplift in values due to compressing reported yields – persistently exceeds reported LfL value growth. REIT management teams in sectors exhibiting the greatest LfL Rent Miracle estimates are likely to be employing overly aggressive proprietary methodologies to come up with their reporting of LfL rent growth to investors. Caveat emptor.

Admittedly, LfL valuation growth prints are not without their own flaws. For example, it is common to include properties undergoing development. This is the case where schemes have been ongoing for over two years, in effect including all ground-up, and many brownfield, projects. Especially in recent years developments of prime assets have outperformed their older stabilised stock from a valuation standpoint as flight to quality has been a powerful occupational trend across traditional property sectors.

Consequently, LfL asset growth performance has been inflated versus the pool of properties that forms the basis for deriving reported LfL rent growth figures. This helps explain why the ***LfL Rent Miracle*** is low in Continental industrial, which includes developers VGP and CTP.

The LfL Rent Miracle can perpetuate for a reason most management teams would ideally not want to openly advertise. Structural obsolescence. Insofar as LfL rents and start/end LfL cap rate changes do not fully capture the erosion in the quality of properties that comes with the natural passage of time, one would expect LfL rents to outpace LfL valuations, resulting in an expanding ***LfL Rent Miracle***. Looking at the ranking of the LfL Rent Miracle across property types, it is no coincidence that higher-than-average maintenance cap-ex reserve sectors (e.g., Retail, Office, German Residential) end up at the left side of the top chart on page four, while lower-than-average capex sectors (e.g., Industrial, Self-Storage, Nordic Residential and Net Lease) are placed on the right-hand side. Bought growth via capex is a common flaw of reported LfL rent growth. Seasoned investors and long-time readers of Green Street research will not be surprised to see just how well maintenance cap-ex reserves explain the differing miracle estimates.

This analysis also generates further intra-sector questions. Is the Nordic office sector's more offensive capex stance, which evidently leads to more acquired LfL rent growth than in the U.K., Swiss or Continental office sectors, warranted? Are our structural maintenance cap-ex reserve estimates for the health care sector high enough? Several intra-sector company-level discrepancies that have been uncovered and are hard to justify will be explored in greater detail by our sector specialists in due course.

Green Street pays attention to reported LfL growth metrics but crucially relies on other measurements to assess management quality vis-à-vis operational acumen. A key input is the sum of growth in Green Street spot Net Asset Value (NAV) and dividend income per share. Current Value Net Income ('CVNI') is based on our proprietary spot valuation work, which is a lead indicator of reported book values by around 9-12 months. CVNI growth correlates strongly with total shareholder returns in the short term and exceptionally highly in the very long term. It suggests that underlying operating fundamentals, rather than exogenous factors, drive REIT equity returns in the long run. By contrast, cumulative reported LfL rent growth is a poor predictor of total returns over long time periods.

Reported LfL rent growth will continue to portray a persistently biased picture of underlying operating and valuation reality. This will be true as long as the methodology behind calculating LfL rents is based on fluid guidelines thought up by REIT executives intent on self-promotion rather than following intuitive rules that are consistent across the industry, transparent, and ideally even signed-off by external auditors.

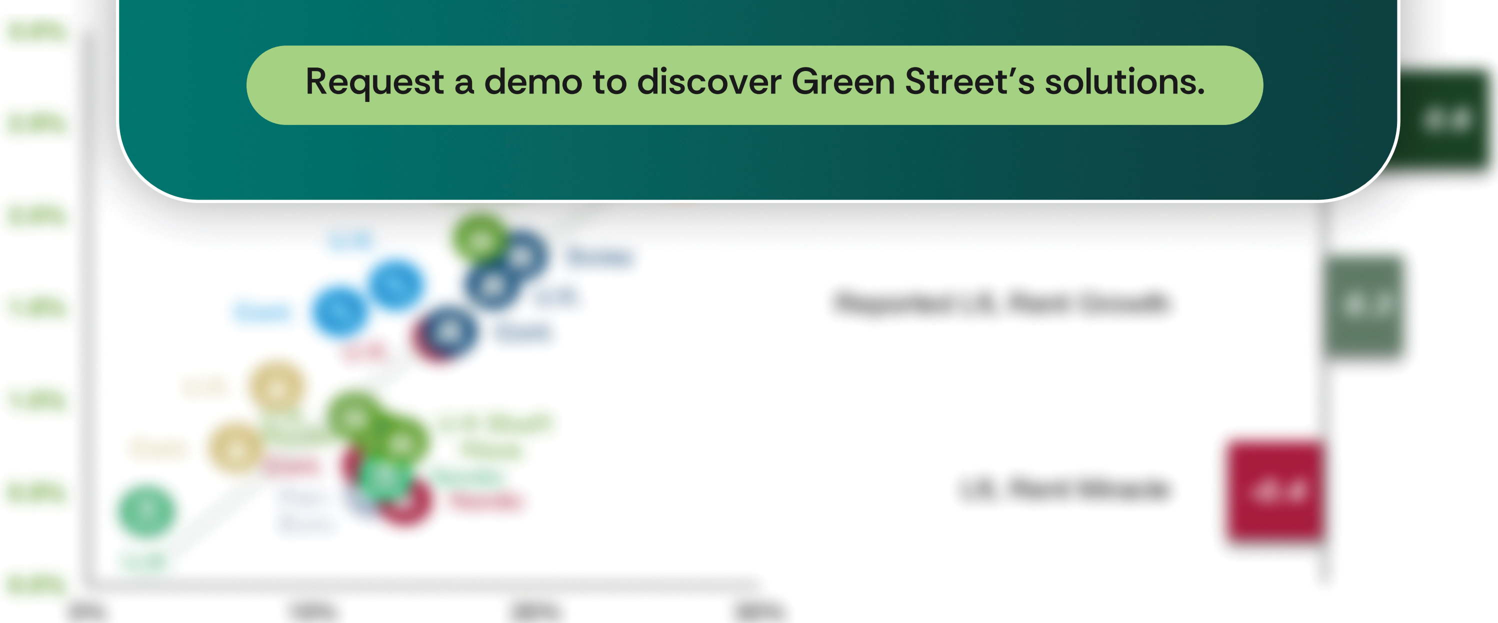
Praise The Lord! In a dry, statistics-obsessed parallel REIT universe where definitional gymnastics are anathema and auditors must sign off on LfL reported metrics, the chart below would show random observations around the y axis. In the real world of real estate entrepreneurial flare and self-promotion, reported LfL rent growth is consistently inflated relative to the (audited) evolution of property values. Higher cap-ex sectors report stronger than warranted LfL rent growth.

LfL Rent Miracle[1]

(1) Implied

(2) Shorte … rdic Net Lease, 6;

Worldl … nting returns … rivers such as … 'Cap-Ex'). Th



(1) CVNI correlation based on trailing 12-month period. LfL Rent Growth and LfL Rent Miracle correlations are based on trailing 10-yr CAGR. All data at European GPA Sector level. Note: Cap-Ex reserve presented as an annualised sinking fund of NRI.

Source: Bloomberg, company disclosures, Green Street

EMPOWERING THE GLOBAL REAL ASSETS INDUSTRY

One Platform. Complete Perspective.

Power your investment, portfolio, and risk strategies with Green Street. Our proprietary platform – **Data & Analytics, Research, News** – and **Advisory Services** deliver predictive analytics, actionable intelligence, and forward-looking expert insight across public and private markets within the global real assets industry.

Private Market Research/Data

Verified comps, forecasts, and trends that deliver clarity in opaque markets.

Public Market Research/Data

Deep REIT intelligence, company grading, and dynamic charting tools.

Retail Insights

Granular insights into retail sector performance, foot traffic, and tenant trends.

Valuation Tools

Automated models for asset-level and portfolio-wide valuation accuracy.

Data Integrations

Seamless access via Excel, API, and Snowflake to power your workflows.

INDUSTRY EXPERTISE

CRE

Infrastructure

Retail

GLOBAL PERSPECTIVE

U.S.

Canada

U.K.

Europe

Asia

THE GREEN STREET DIFFERENCE

Trusted insights.
Unbiased advice.
Real results.

Celebrating 40 years of trusted CRE intelligence, insight, and innovation, Green Street has been enabling smarter investment decisions since 1985. Our industry-leading data, forecasts, and predictive analytics, empower real assets decision-makers with a long-standing proven track record.

Industry-Leading Coverage

Consistent, cross-market analysis spanning public and private CRE markets across ~20 sectors globally

Precision Valuation & Forecasting

Proprietary NAV tools uncover relative value with market-leading accuracy

Public-Private Market Expertise

Unique comparative insights for capital allocation across publicly-listed REITs and private assets

Market Influence & Credibility

Since 1985, the benchmark for independent, predictive CRE intelligence

Green Street's Disclosure Information

This report does NOT constitute investment advice nor is it provided in the capacity of a fiduciary.

The information contained in this report is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is produced solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

Issuers of this Report US and EEA: This report has been prepared by analysts working for Green Street (Green Street US) and/or Green Street (U.K.) Limited (Green Street UK). Green Street US is the parent company of Green Street UK.

This report is issued in the European Economic Area (EEA) by Green Street UK. Green Street US accepts no responsibility for this report to the extent that it is read by persons based in the EEA. Green Street Advisors (UK) Ltd is registered in England, (Company number. 6471304), and its registered office is 3rd & 4th Floors, 25 Maddox Street, London W1S 2QN. Green Street Advisors (UK) Ltd is authorized and regulated by the Financial Conduct Authority in the United Kingdom (FRN 482269).

Green Street US relies on the Limited Connection Relief for services provided to our clients located in Australia.

Green Street UK is exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services; and is regulated by the FCA under UK laws, which differ from Australian laws.

Green Street, along with its research professionals, are not registered as an advisor or dealer in any category with a securities regulator in Canada and any advice provided is not a solicitation to offer or sell or trade in specific securities or to provide tailored advice to any person in Canada.

Swiss recipients: the funds, the REITs, the investment companies and any collective investment schemes referred to in these reports may not have been registered with the Swiss Financial Market Supervisory Authority (FINMA) and no Swiss representative or paying agent has been appointed. This report is provided in Switzerland for the use of the addressees only and may not be distributed, copied, reproduced, or passed on to any third parties.

Green Street reserves the right to update the disclosures and policies set out in this document at any time.

Other Important Information

Automated Valuation Model: The valuation estimates do not constitute an appraisal of the properties or portfolios and should not be relied upon in lieu of an appraisal or underwriting process. The estimated values are based upon data collected from public record sources, client inputs, and Green Street proprietary metrics and models. The accuracy of the methodology used to develop the valuation estimates are based on available data and are not guaranteed or warranted. The condition of the properties and current market conditions can affect the validity of the valuation estimates and custom reports generated. Any valuation estimate and custom report generated does not include a physical inspection of the properties or a visual inspection or analysis of current market conditions by a licensed or certified appraiser, which is typically included in an appraisal.

Management of Conflicts of Interest: Conflicts of interest can seriously impinge the ability of Green Street employees to do their job. In that spirit, Green Street adheres to the following policies regarding conflicts of interest:

- Green Street employees are prohibited from actively trading the shares of any company in our coverage universe.
- Green Street employees do not serve as officers or directors of any of our subject companies.
- Neither Green Street nor its employees/analysts receive any compensation from subject companies for inclusion in our research.
- On occasion, Green Street analysts may be contacted by companies within the firm's coverage universe regarding potential employment opportunities. Additional disclosure will be made when appropriate.
- Green Street's Advisory business services investors seeking to acquire interests in publicly traded companies. Green Street may provide valuation services to prospective acquirers of companies which are the subject(s) of Green Street's research reports.

Green Street publishes research reports covering issuers that may offer and sell securities in an initial or secondary offering.

Green Street US generally prohibits research analysts from sending draft research reports to subject companies. However, it should be presumed that the analyst(s) who authored this report has(/have) had discussions with the subject company to ensure factual accuracy prior to publication and has(/have) had assistance from the company in conducting due diligence, including visits to company sites and meetings with company management and other representatives.

Terms of Use

EEA and UK Recipients: For use only by Professional Clients and Eligible Counterparties: Green Street Advisors (UK) Ltd is authorized by the Financial Conduct Authority to issue this report to "Professional Clients" and "Eligible Counterparties" only . This report is not for the use of "Retail Clients". This report is provided in the United Kingdom for the use of the addressees **any other person who receives this report should not act on the contents of this report.**

Green Street

European Team

Research 3rd and 4th Floors, 25 Maddox Street, London W1S 2QN +44 (0)20 3793 7000		
Leadership	Cedrik Lachance, Director of Research	clachance@greenstreet.com
Head of Research - Europe & APAC	Peter Papadakos, Managing Director	ppapadakos@greenstreet.com
Health Care	Alexander Totomanov, CFA, Analyst	atotomanov@greenstreet.com
Office	Adam Shapton, Senior Analyst	ashapton@greenstreet.com
Residential/PBSA/Self-Storage/Hotel	Andres Toome, Senior Analyst	atoome@greenstreet.com
Retail/Industrial/Net Lease	Edoardo Gili, CFA, Senior Analyst	egili@greenstreet.com
Data Centre & Tower	David Guarino, Managing Director	dguarino@greenstreet.com
Data Management	Sadie Baldwin, Senior Associate Bhavin Karsan, Senior Associate	sbaldwin@greenstreet.com bkarsan@greenstreet.com
Data & Analytics	Andrew McCulloch, CFA, Chief Analytics Officer	amcculloch@greenstreet.com
Market Analytics	Marie Dormeuil, Senior Analyst	mdormeuil@greenstreet.com
Sales 3rd and 4th Floors, 25 Maddox Street, London W1S 2QN +44 (0)20 7290 6555		
Sales	Michael Richardson, Chief Sales Officer Aaron Ling, Vice President	mrichardson@greenstreet.com aling@greenstreet.com
Advisory Services 3rd and 4th Floors, 25 Maddox Street, London W1S 2QN +44 (0)20.3793.7000		
Advisory Services	Andy Simmons, Managing Director	asimmons@greenstreet.com

North American Team

Research 100 Bayview Circle, Suite 400 Newport Beach, CA 92660 +1.949.640.8780		
Leadership	Cedrik Lachance, Director of Research	clachance@greenstreet.com
Strategic Research	Peter Rothemund, CFA, Co-Head of Strategic Research Daniel Ismail, CFA, Co-Head of Strategic Research	prothemund@greenstreet.com dismail@greenstreet.com
Debt Research/Ground Lease	Harsh Hemnani, CFA, Senior Analyst	hhemnani@greenstreet.com
Company & Sector Research	Michael Knott, CFA, Managing Director, Head of U.S. REIT Research	mknott@greenstreet.com
Data Centers/Towers	David Guarino, Managing Director	dguarino@greenstreet.com
Industrial/Malls	Vince Tibone, CFA, Managing Director	vtibone@greenstreet.com
Lodging/Gaming	Chris Darling, CFA, Senior Analyst	cdarling@greenstreet.com
Net Lease/Self-Storage	Spenser Glimcher, Managing Director	sglimcher@greenstreet.com
Office	Dylan Burzinski, Analyst	dburzinski@greenstreet.com
Residential/Health Care	John Pawlowski, CFA, Managing Director	jpawlowski@greenstreet.com
Strip Center	Paulina Rojas-Schmidt, Senior Analyst	projasschmidt@greenstreet.com
Canadian Research	Fred Blondeau, Managing Director, Head of Canadian Research Gaurav Mathur, Analyst Thomas Shen, Associate	fblondeau@greenstreet.com gmathur@greenstreet.com tshen@greenstreet.com
CRE Analytics	Andrew McCulloch, CFA, Chief Analytics Officer	amcculloch@greenstreet.com
Market Analytics	Rob Filley, CFA, Co-Head of U.S. Market Analytics Ryan Miller, CFA, Co-Head of U.S. Market Analytics	rfilley@greenstreet.com rmiller@greenstreet.com
Executive 100 Bayview Circle, Suite 400 Newport Beach, CA 92660 +1.949.640.8780		
Executive	Jeff Stuek, Chief Executive Officer	jstuek@greenstreet.com
Advisory Services 100 Bayview Circle, Suite 400 Newport Beach, CA 92660 +1.949.640.8780		
Advisory Services	Dirk Aulabaugh, EVP, Global Head of Advisory	daulabaugh@greenstreet.com
Marketing 100 Bayview Circle, Suite 400 Newport Beach, CA 92660 +1.949.640.8780		
Marketing	Mark Scott, Chief Marketing Officer	mscott@greenstreet.com