



SAMPLE REPORT

Recommendation Change (Gaming Sector) Betting on Mean Reversion

Gaming Sector

April 22, 2025



Recommendation Change: Betting on Mean Reversion

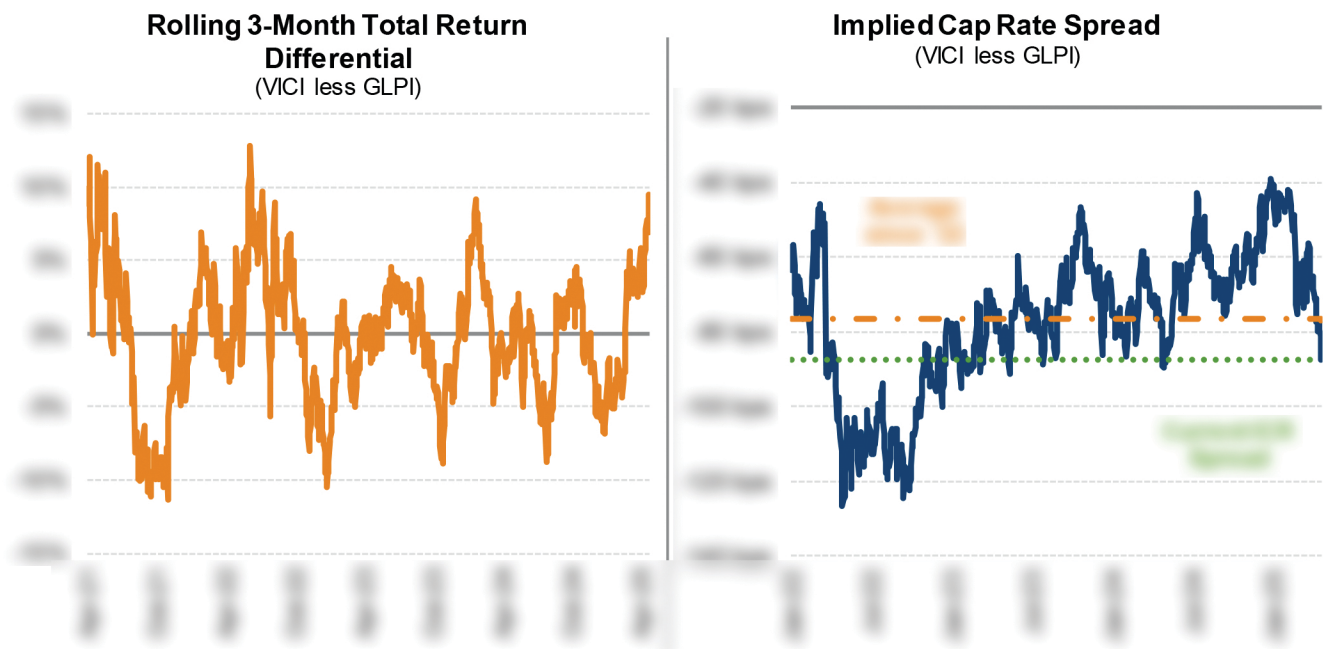
Our sector-neutral gaming recommendations have two changes summarized herein:

VICI Properties (VICI) has outperformed Gaming & Leisure Properties (GLPI) by [redacted] bps year to date. It's important to note that relative performance distribution tends to be limited in this space as the total return differential between the two gaming REITs often oscillates within a tight band in any three-month period. Hence, VICI's recent outperformance is enough to tilt valuation in favor of GLPI.

On an earnings yield basis, GLPI's [redacted] '25 AFFO yield is [redacted] bps higher than that of VICI. Further, GLPI currently trades at a [redacted] implied cap rate to VICI's [redacted]. This [redacted] bps spread is moderately wide of the average spread of [redacted] bps since the beginning of '23. This translates into a [redacted] implied IRR for GLPI and [redacted] implied IRR for VICI. A key consideration inherent in our IRR underwriting is VICI's concentration on the Las Vegas Strip, which represents [redacted] of

Exhibit 1: Rolling Total Returns and Implied Cap Rate Spread

Turning Point: Several valuation criteria, including implied cap rate spread, favor GLPI following meaningful YTD underperformance vs. VICI. With this signal in mind, it's notable that the total return differential between the two gaming REITs tends to mean revert over time.



Sources: Bloomberg, Green Street

the company’s annualized rent. Green Street implicitly ascribes a long-term growth premium of [REDACTED] bps/yr to Las Vegas relative to regional markets. However, current pricing implies a long-term growth spread of [REDACTED] bps/yr, which seems too wide. **We herein [REDACTED] shares of GLPI to [REDACTED] (from [REDACTED]) and [REDACTED] shares of VICI to [REDACTED] (from [REDACTED]).**

While both GLPI and VICI will report 1Q25 earnings results in the coming days, our recommendation changes herein are not predicated on a particularly positive / negative view of this earnings season for gaming. Rather, intra-sector investment recommendations are solely focused on our assessment of relative valuation within Green Street’s broader framework that typically aims for an equal number of Buy and Sell ratings within each of our covered property sectors. That said, we have some concern for underlying tenant operations in both portfolios. For GLPI, an increasingly stretched U.S. consumer, combined with competitive pressure from newly opened properties, has been and continues to be a risk worth monitoring closely. On the other hand, VICI’s Vegas-centric portfolio has historically been subject to greater volatility in gaming revenue over a full cycle and would seem to carry risk in an economic slowdown or recession, but likely so would GLPI. Perhaps of as much or more concern for Vegas: [a greater exposure to international travel](#) represents a key tail risk amid contentious political policy and/or rhetoric. For now, we don’t have a strong view between the two sets of risks between GLPI and VICI. Prevailing rent coverage levels are also seemingly high enough for both companies to cushion any setback in the performance of underlying operations and therefore our recommendations focus on relative valuation rather than a thematic bent.

Taking a step back, gaming REITs have outperformed all REITs by [REDACTED] bps YTD, ostensibly due to a “flight to safety” mindset amid an increasingly uncertain economic backdrop. This makes sense considering that gaming REIT cash flows are highly secure with long-term triple net leases, high operator coverage levels, and resilient underlying businesses. Further, gaming REITs benefit from a stronger internal growth profile relative to traditional net lease REITs. **Despite recent meaningful outperformance, the gaming sector remains attractively priced within Green Street’s Sector Allocation framework** (see page 3 of [Global Property Allocator](#)), which assesses relative valuation signals across all covered property sectors. The current inter-sector valuation signal implies that investors can find success in allocating capital to both GLPI and VICI relative to all REITs.

BUY: [REDACTED]
SELL: [REDACTED]

Chris Darling, CFA
Michael Herring

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United States Team

Research		
Leadership	Cedrik Lachance, Director of Research	clachance@greenstreet.com
Strategic Research	Peter Rothmund, CFA, Co-Head of Strategic Research Daniel Ismail, CFA, Co-Head of Strategic Research Evan Lustick, Senior Associate	prothemund@greenstreet.com dismail@greenstreet.com elustick@greenstreet.com
Debt Research/Ground Lease	Harsh Hemnani, CFA, Senior Analyst	hhemnani@greenstreet.com
Company and Sector Research	Michael Knott, CFA, Managing Director, Head of U.S. REIT Research	mknott@greenstreet.com
Data Centers and Towers	David Guarino, Managing Director Elina Samandyk, Senior Associate	dguarino@greenstreet.com esamandyk@greenstreet.com
Industrial and Malls	Vince Tibone, CFA, Managing Director Jessica Zheng, CFA, CPA, Analyst Naishal Shah, Senior Associate	vtibone@greenstreet.com jzheng@greenstreet.com nshah@greenstreet.com
Lodging and Gaming	Chris Darling, CFA, Senior Analyst Michael Herring, Senior Associate	cdarling@greenstreet.com mherring@greenstreet.com
Net Lease and Self-Storage	Spenser Glimcher, Managing Director Ryan Caviola, CFA, Associate Salil Mehta, Associate	sglimcher@greenstreet.com rcaviola@greenstreet.com smehtha@greenstreet.com
Office	Dylan Burzinski, Senior Analyst Natacha Jouonang, Associate Reny Pire, Associate	dburzinski@greenstreet.com njouonang@greenstreet.com rpire@greenstreet.com
Residential and Health Care	John Pawlowski, CFA, Managing Director David Segall, Senior Analyst Michael Stroyeck, CFA, Analyst Emily Meckler, Analyst Ann Chan, Senior Associate Duane Green, CFA, Associate	jpawlowski@greenstreet.com dsegall@greenstreet.com mstroyeck@greenstreet.com emeckler@greenstreet.com achan@greenstreet.com dgreen@greenstreet.com
Strip Centers	Paulina Rojas-Schmidt, Senior Analyst Daniel Purpura, Senior Associate	projasschmidt@greenstreet.com dpurpura@greenstreet.com
CRE Analytics	Andrew McCulloch, CFA, Chief Analytics Officer	amcculloch@greenstreet.com
Forecasting & Data Science	Daniel Wijaya, Co-Head of Forecasting & Data Science Dmitry Nikalaichyk, Co-Head of Forecasting & Data Science Otto Aletter, Senior Analyst Wilkie Ma, Senior Quant Analyst Sumit Beniwal, Quant Analyst Jung Suh, Quant Analyst Aaron Mueller, Quant Analyst	dwijaya@greenstreet.com dnikalaichyk@greenstreet.com oaletter@greenstreet.com wma@greenstreet.com sbeniwal@greenstreet.com jsuh@greenstreet.com amueller@greenstreet.com
Research & Development	Weston Mui, CFA, Senior Analyst Alexandra Boyle, Analyst Max Motlagh, Associate Aleksy Smityukh, Associate	wmui@greenstreet.com aboyle@greenstreet.com mmotlagh@greenstreet.com asmityukh@greenstreet.com
Market Analytics	Seth Laughlin, Head of U.S. Market Analytics Rob Filley, CFA, Senior Analyst Ryan Miller, CFA, Senior Analyst Emily Arft, Analyst Colette Cote, Senior Associate Isabella Ierulli, Senior Associate Ryan McDowell, Senior Associate Katharina Shultz, Senior Associate Nick Webster, Senior Associate Kelsey Burns, Associate Roberto De La Herran, Associate Lauren Guistolise, Associate Kelly Jensen, Associate Brian Lymberopoulos, Associate	slaughlin@greenstreet.com rfilley@greenstreet.com rmiller@greenstreet.com earft@greenstreet.com ccote@greenstreet.com ierulli@greenstreet.com rmcdowell@greenstreet.com kshultz@greenstreet.com nwebster@greenstreet.com kburns@greenstreet.com rdelaherran@greenstreet.com lguistolise@greenstreet.com kjensen@greenstreet.com blymberopoulos@greenstreet.com
Executive		
	Jeff Stuek, Chief Executive Officer Walter X. Palhetas, Chief Growth Officer	jstuek@greenstreet.com wpalhetas@greenstreet.com
Sales		
	Michael Richardson, Chief Sales Officer	mrichardson@greenstreet.com
Advisory Services		
	Dirk Aulabaugh, EVP, Global Head of Advisory Services	daulabaugh@greenstreet.com
Marketing		
	Mark Scott, Chief Marketing Officer	mjscott@greenstreet.com

Green Street
100 Bayview Circle, Suite 400
Newport Beach, CA 92660
T 949.640.8780

Green Street (UK) Limited
3rd and 4th Floors, 25 Maddox Street
London W1S 2QN
T +44 (0)20.3793.7000