



RESEARCH & STRATEGY

# Industrial REITs

**Thomas Catherwood**

Real Estate Analyst

212.738.6140, tcatherwood@btig.com

**James Sullivan**

Real Estate Analyst

212.738.6139, jsullivan@btig.com

**Michael Gorman**

Real Estate Analyst

212.738.6138, mgorman@btig.com

June 2020 (market data as of 6/19/2020)



*Please Read: Important disclosures and analysts' certifications appear in the appendix*

## Coverage of 50 Stocks in 8 Property Sectors



### Sectors:

- Apartments (7)
- Health Care (7)
- Hotel (2)
- Industrial/Mixed (4)
- Office/Mixed (11)
- Retail (10)
- Specialty (1)
- Triple Net (8)

### Team:

- James Sullivan            212-738-6139            [jsullivan@btig.com](mailto:jsullivan@btig.com)
- Michael Gorman            212-738-6138            [mgorman@btig.com](mailto:mgorman@btig.com)
- Thomas Catherwood    212-738-6140            [tcatherwood@btig.com](mailto:tcatherwood@btig.com)

## Valuations &amp; Ratings



NAV Estimates		BTIG	Price	NAV	Prem/(Disc)	Applied	Implied	EV	Rel. EV	2020E	Rel P	
	Ticker	Rating	6/19/20	Estimate	To NAV	Cap Rate	Cap Rate	EBITDA*	EBITDA	P/FFO	FFO	
Apartment	AvalonBay	AVB	Buy	\$155.09	\$200.35	(22.6%)	4.70%	5.81%	18.2	0.88	17.6	0.91
	Camden	CPT	Neutral	\$93.51	\$108.71	(14.0%)	5.10%	5.76%	22.9	1.11	19.4	1.00
	Equity Res.	EQR	Buy	\$59.58	\$80.10	(25.6%)	4.40%	5.50%	18.0	0.87	18.7	0.97
	Essex	ESS	Neutral	\$233.78	\$312.29	(25.1%)	4.50%	5.58%	21.5	1.04	18.2	0.94
	IRET	IRET	Buy	\$70.45	\$74.80	(5.8%)	5.50%	5.69%	24.2	1.17	23.2	1.20
	Mid-America	MAA	Neutral	\$114.68	\$113.21	1.3%	5.40%	5.35%	18.4	0.89	19.9	1.03
	UDR	UDR	Neutral	\$37.76	\$42.97	(12.1%)	4.85%	5.33%	21.4	1.04	18.5	0.96
<b>Eq. Average</b>						<b>(14.9%)</b>	<b>4.92%</b>	<b>5.57%</b>	<b>20.7</b>		<b>19.4</b>	
<b>Mkt. Cap Average</b>						<b>(18.0%)</b>	<b>4.76%</b>	<b>5.57%</b>	<b>19.6</b>		<b>18.6</b>	
Healthcare	Healthcare Realty	HR	Neutral	\$30.44	\$32.17	(5.4%)	5.50%	5.73%	19.9	1.15	18.4	1.37
	Healthcare Trust	HTA	Neutral	\$27.26	\$31.55	(13.6%)	5.34%	5.93%	18.5	1.07	16.1	1.19
	Healthpeak Properties	PEAK	Neutral	\$26.32	\$27.79	(5.3%)	5.90%	6.12%	18.4	1.06	14.8	1.09
	New Senior Investment	SNR	Buy	\$3.76	\$10.00	(62.4%)	6.25%	8.46%	15.8	0.92	6.7	0.50
	Physicians Realty	DOC	Neutral	\$17.83	\$18.04	(1.2%)	6.00%	6.05%	18.2	1.05	16.4	1.21
	Ventas	VTR	Neutral	\$35.80	\$51.98	(31.1%)	6.25%	7.73%	14.1	0.82	9.9	0.74
	Welltower	WELL	Neutral	\$51.00	\$60.44	(15.6%)	6.30%	6.97%	16.2	0.94	12.2	0.90
<b>Eq. Average</b>						<b>(19.2%)</b>	<b>5.93%</b>	<b>6.71%</b>	<b>17.3</b>		<b>13.5</b>	
<b>Mkt. Cap Average</b>						<b>(15.1%)</b>	<b>6.04%</b>	<b>6.72%</b>	<b>16.8</b>		<b>13.3</b>	
Hotel	Host Hotels	HST	Buy	\$11.67	\$25.07	(53.5%)	6.00%	11.54%	5.6	0.72	38.9	1.00
	Pebblebrook	PEB	Buy	\$13.57	\$33.76	(59.8%)	5.50%	8.67%	9.9	1.28	NA	NA
	<b>Eq. Average</b>						<b>(56.6%)</b>	<b>5.75%</b>	<b>10.11%</b>	<b>7.8</b>		<b>38.9</b>
<b>Mkt. Cap Average</b>						<b>(54.6%)</b>	<b>5.91%</b>	<b>11.03%</b>	<b>6.4</b>		<b>32.0</b>	
Ind./Mixed	Duke	DRE	Neutral	\$35.60	\$35.41	0.5%	4.67%	4.65%	24.7	0.88	23.7	0.90
	Eastgroup	EGP	Neutral	\$117.55	\$110.02	6.8%	4.91%	4.65%	23.8	0.85	22.3	0.85
	Prologis	PLD	Buy	\$91.87	\$80.12	14.7%	4.51%	3.96%	29.4	1.05	25.0	0.95
	Terreno	TRNO	Buy	\$53.84	\$46.72	15.2%	4.00%	3.51%	34.2	1.22	34.3	1.30
	<b>Eq. Average</b>						<b>9.3%</b>	<b>4.52%</b>	<b>4.19%</b>	<b>28.0</b>		<b>26.3</b>
<b>Mkt. Cap Average</b>						<b>12.2%</b>	<b>4.53%</b>	<b>4.08%</b>	<b>28.6</b>		<b>25.0</b>	
<b>Coverage Universe - Eq. Wt.</b>						<b>(24.9%)</b>	<b>5.63%</b>	<b>7.06%</b>	<b>17.3</b>		<b>15.2</b>	
<b>Coverage Universe - Mkt. Cap Wt.</b>						<b>(\$0.14)</b>	<b>4.94%</b>	<b>5.79%</b>	<b>19.9</b>		<b>17.8</b>	

Source: FactSet, Company Documents, BTIG

## Valuations &amp; Ratings (Continued)



NAV Estimates		BTIG	Price	NAV	Prem/(Disc)	Applied	Implied	EV	Rel. EV	2020E	Rel P	
	Ticker	Rating	6/19/20	Estimate	To NAV	Cap Rate	Cap Rate	EBITDA*	EBITDA	P/FFO	FFO	
Office	Alexandria	ARE	Buy	\$165.84	\$150.23	10.4%	4.93%	4.55%	26.4	1.51	23.0	1.91
	Boston Prop	BXP	Buy	\$90.76	\$149.67	(39.4%)	4.69%	6.54%	16.4	0.94	12.0	0.99
	Corporate Office	OFC	Buy	\$25.36	\$34.20	(25.8%)	6.41%	8.00%	16.0	0.91	12.2	1.01
	Douglas Emmett	DEI	Neutral	\$30.23	\$45.78	(34.0%)	4.55%	6.02%	16.8	0.96	13.4	1.11
	Empire State	ESRT	Neutral	\$6.85	\$18.93	(63.8%)	5.28%	10.78%	10.0	0.57	7.4	0.61
	Highwoods	HIW	Neutral	\$38.60	\$51.59	(25.2%)	6.11%	7.48%	14.8	0.85	10.8	0.90
	Hudson Pacific	HPP	Buy	\$25.22	\$45.57	(44.7%)	4.99%	7.57%	16.1	0.92	11.6	0.96
	Kilroy	KRC	Neutral	\$62.53	\$86.02	(27.3%)	4.87%	6.37%	20.8	1.19	15.3	1.27
	Mack-Cali	CLI	Buy	\$15.74	\$28.73	(45.2%)	5.85%	8.02%	21.0	1.20	12.1	1.00
	Paramount Group	PGRE	Buy	\$7.86	\$21.79	(63.9%)	4.62%	7.92%	14.0	0.80	7.9	0.65
	SL Green	SLG	Buy	\$51.87	\$123.23	(57.9%)	4.87%	8.05%	20.1	1.15	7.1	0.59
<b>Eq. Average</b>					<b>(37.9%)</b>	<b>5.20%</b>	<b>7.39%</b>	<b>17.5</b>		<b>12.1</b>		
<b>Mkt. Cap Average</b>					<b>(23.2%)</b>	<b>4.99%</b>	<b>6.27%</b>	<b>20.1</b>		<b>15.4</b>		
Mall	Macerich	MAC	Buy	\$8.85	\$56.76	(84.4%)	5.41%	9.81%	10.9	0.90	2.5	0.41
	Simon	SPG	Buy	\$67.12	\$202.07	(66.8%)	5.20%	9.86%	10.0	0.83	5.5	0.89
	Taubman	TCO	Neutral	\$37.31	\$63.45	(41.2%)	5.20%	6.56%	15.2	1.27	10.3	1.69
	<b>Eq. Average</b>					<b>(64.1%)</b>	<b>5.27%</b>	<b>8.74%</b>	<b>12.0</b>		<b>6.1</b>	
<b>Mkt. Cap Average</b>					<b>(65.3%)</b>	<b>5.21%</b>	<b>9.54%</b>	<b>10.5</b>		<b>5.8</b>		
Sing. Fam	American Homes	AMH	Neutral	\$26.92	\$28.00	(3.9%)	N/A	N/A	22.8	0.98	25.6	1.01
	Invitation Homes	INVH	Neutral	\$27.84	\$29.00	(4.0%)	N/A	N/A	23.9	1.02	25.1	0.99
	<b>Eq. Average</b>					<b>(3.9%)</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>23.4</b>		<b>25.4</b>	
<b>Mkt. Cap Average</b>					<b>(4.0%)</b>	<b>0.00%</b>	<b>0.00%</b>	<b>23.6</b>		<b>25.3</b>		
Spec.	Innovative Ind. Prop.	IIPR	Buy	\$95.65	\$74.85	27.8%	9.00%	6.98%	13.9	1.00	18.2	1.00
	<b>Eq. Average</b>					<b>27.8%</b>	<b>9.00%</b>	<b>6.98%</b>	<b>13.9</b>		<b>18.2</b>	
	<b>Mkt. Cap Average</b>					<b>27.8%</b>	<b>9.00%</b>	<b>6.98%</b>	<b>13.9</b>		<b>18.2</b>	
Strip Center	Federal	FRT	Neutral	\$84.75	\$135.18	(37.3%)	4.90%	6.94%	16.2	1.23	13.1	1.38
	Kimco	KIM	Neutral	\$12.72	\$19.89	(36.0%)	6.00%	7.59%	13.9	1.06	8.8	0.92
	Kite Realty	KRG	Neutral	\$11.34	\$21.71	(47.8%)	6.75%	9.65%	4.8	0.36	7.4	0.77
	Regency	REG	Buy	\$44.64	\$71.31	(37.4%)	5.38%	7.54%	14.3	1.09	11.5	1.20
	Retail Opportunity	ROIC	Buy	\$11.14	\$19.87	(44.0%)	5.27%	7.35%	14.3	1.09	10.3	1.08
	Site Centers	SITC	Neutral	\$7.56	\$16.30	(53.6%)	7.00%	10.08%	16.2	1.23	6.8	0.71
	Weingarten Realty	WRI	Buy	\$18.51	\$33.79	(45.2%)	6.00%	9.05%	12.4	0.94	8.9	0.93
	<b>Eq. Average</b>					<b>(43.0%)</b>	<b>5.90%</b>	<b>8.31%</b>	<b>13.2</b>		<b>9.6</b>	
<b>Mkt. Cap Average</b>					<b>(39.5%)</b>	<b>5.59%</b>	<b>7.75%</b>	<b>14.3</b>		<b>10.6</b>		
Free Standing	Alpine Income Property	PINE	Buy	\$16.27	\$17.85	(8.9%)	7.50%	8.09%	12.4	0.84	14.9	1.05
	Getty	GTY	Buy	\$30.32	\$28.28	7.2%	7.00%	6.44%	18.1	1.22	16.8	1.19
	Global Net Lease	GNL	Buy	\$16.68	\$22.50	(25.9%)	7.50%	8.45%	13.0	0.88	9.2	0.65
	National Retail Properties	NNN	Neutral	\$35.84	\$42.63	(15.9%)	6.25%	7.15%	14.8	1.00	12.7	0.89
	Postal Realty Trust	PSTL	Buy	\$16.20	\$19.04	(14.9%)	7.00%	7.80%	13.2	0.89	18.4	1.30
	Realty Income	O	Neutral	\$61.53	\$51.11	20.4%	6.00%	5.47%	18.5	1.25	17.7	1.25
	Spirit Realty	SRC	Neutral	\$35.73	\$42.49	(15.9%)	6.75%	7.48%	14.7	0.99	11.6	0.82
	Store Capital	STOR	Neutral	\$24.50	\$29.73	(17.6%)	6.75%	7.46%	14.2	0.95	12.2	0.86
	<b>Eq. Average</b>					<b>(8.9%)</b>	<b>6.84%</b>	<b>7.29%</b>	<b>14.9</b>		<b>14.2</b>	
<b>Mkt. Cap Average</b>					<b>3.4%</b>	<b>6.31%</b>	<b>6.36%</b>	<b>16.7</b>		<b>15.2</b>		
<b>Coverage Universe - Eq. Wt.</b>					<b>(24.9%)</b>	<b>5.63%</b>	<b>7.06%</b>	<b>17.3</b>		<b>15.2</b>		
<b>Coverage Universe - Mkt. Cap Wt.</b>					<b>(\$0.14)</b>	<b>4.94%</b>	<b>5.79%</b>	<b>19.9</b>		<b>17.8</b>		

Source: FactSet, Company Documents, BTIG

James Sullivan | REITs Analyst  
Michael Gorman | REITs Analyst  
Thomas Catherwood | REITs Analyst

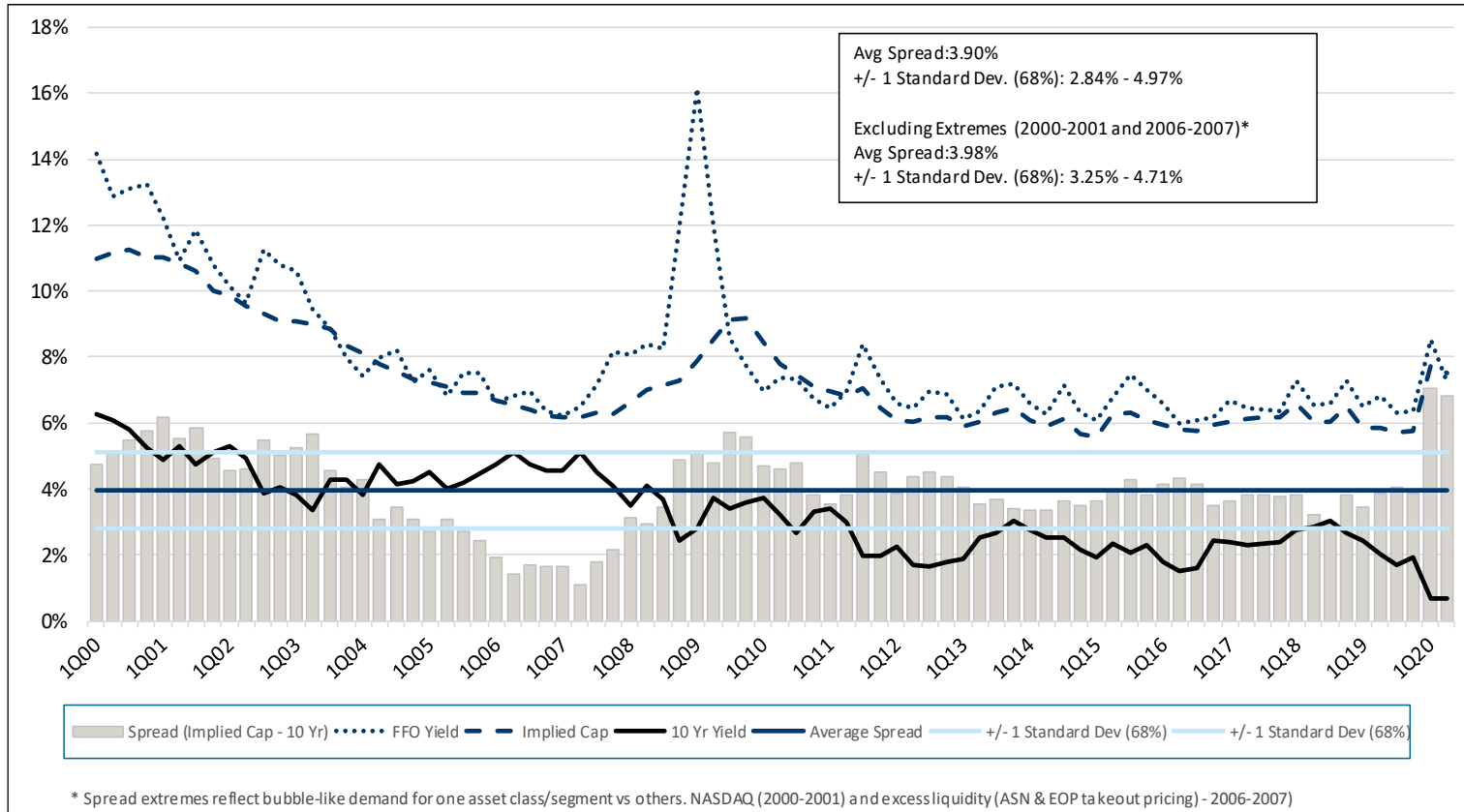
## Themes for 2020 & Beyond – “History Does Not Repeat Itself but It Often Rhymes” ...



- Real estate is a derivative of the preferences, decisions, and actions of a society. The location and movement of people, goods, and services dictates the utility derived from real estate. As society rethinks its priorities post-COVID, the relative utility and value of real estate can swing dramatically.
- Pre-COVID, several key trends drove the REIT market:
  - E-commerce growth impacted retail and industrial real estate as more sales moved online
  - Revitalized urban cores drew employers and employees as CBD office and multifamily assets experienced long-term demand growth
  - Post-GFC financial discipline meant REIT leverage levels were well below historical norms
- Until recently, as much as 95% of the U.S. was under some form of “stay at home” order. As a result, business and economic activity has slowed materially and unemployment rates have skyrocketed. We see four key trends in societal responses to the pandemic:
  1. Acceleration of secular trends in online engagement
  2. Shifting in living, transportation, and entertainment
  3. Strategic shift in sourcing and manufacturing
  4. More regulations and higher taxes

# REIT Implied Cap Rate vs. 10-Year

The Spread Between the REIT Average Implied Cap Rate and the 10-Yr Treasury Yield has Risen to 638 bps, and Reflects Investors' Flight to Safety During the Pandemic



2Q20 through 6/19/20  
 Source: FactSet, NAREIT, U.S. Treasury, BTIG

# The Usual Sector Playbook



With slowing GDP growth and increased uncertainty at home and abroad, investors were “risk averse” in 2019. Economic impact of COVID-19 has only reinforced this caution in 2020.

	Avg Quarterly Relative Total Return*** When Real GDP Growth Is...					Sector	Correlation ( R ) of Relative Return to GDP Growth	2017 Total Return*	2018 Total Return*	2019 Total Return*
	Real GDP Growth Rate (1Q00-3Q19 Avg: 2.0%)									
	<1.9%	>1.9%	Bottom 1/3	Mid 1/3	Top 1/3					
Apartments	1.0%	(0.1%)	1.2%	0.3%	(0.5%)	Industrial	0.362	20.6%	(2.5%)	46.3%
Diversified	(0.8%)	0.1%	(0.7%)	(0.5%)	0.4%	Lodging/Resorts	0.233	7.1%	(12.8%)	11.1%
Health Care	2.1%	0.2%	2.8%	0.7%	(0.7%)	Regional Malls	0.161	(2.7%)	(7.0%)	(11.9%)
Industrial	(1.0%)	1.1%	(2.4%)	2.8%	0.3%	Diversified	0.100	(0.1%)	(12.5%)	19.6%
Lodging/Resorts	(1.0%)	0.4%	(1.8%)	(1.5%)	2.9%	Retail	0.091	(4.8%)	(5.0%)	7.7%
Manufactured Homes	0.5%	0.5%	0.6%	1.9%	(0.9%)	Office	0.035	5.2%	(14.5%)	26.3%
Office	(0.8%)	(0.3%)	(0.6%)	(0.5%)	(0.4%)	Shopping Centers	0.000	(11.4%)	(14.6%)	21.3%
Regional Malls	0.6%	0.3%	1.3%	(0.5%)	0.5%	Apartments	(0.163)	3.7%	3.7%	25.1%
Residential	1.0%	(0.1%)	1.1%	0.5%	(0.5%)	Residential	(0.182)	6.6%	3.1%	29.5%
Retail	0.4%	(0.0%)	0.8%	(0.5%)	0.2%	Manufactured Home	(0.267)	24.9%	11.4%	49.5%
Self Storage	2.9%	0.1%	3.7%	(1.2%)	1.3%	Health Care	(0.314)	0.9%	7.6%	15.6%
Shopping Centers	0.1%	(0.5%)	0.2%	(0.9%)	(0.1%)	Self Storage	(0.350)	3.8%	2.9%	9.5%
Triple Net	1.5%	(0.1%)	1.9%	(0.0%)	(0.2%)	Triple Net	(0.373)	3.1%	13.9%	22.3%
<b>NAREIT**</b>	<b>2.3%</b>	<b>4.3%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>6.1%</b>	<b>NAREIT**</b>	<b>0.440</b>	<b>5.2%</b>	<b>(4.6%)</b>	<b>22.0%</b>

Correlations from 2000 through 3Q19

NAREIT classifications for Single Family, Data Centers, and Specialty are not shown above but are included in NAREIT total returns.

\*Simple average total return by sector. 2019 total returns through 12/13/19.

\*\*Total return for NAREIT

\*\*\*Relative Total Return equals percentage of over- or underperformance by each sector for each quarter vs. NAREIT Equity Index

Source: NAREIT, Bureau of Economic Analysis, FactSet, BTIG

# REIT Sector Performance



Strongest performing REIT sectors include Data Centers (up 17.0% YTD on increased data demand from WFH networks) and Industrial (down 1.4% YTD on increased e-commerce demand).

6/19/2020	Divd Yield	Divd/2020E FFO	Price Change*			Total Return			FFO Growth		Y+G 2020	Sector P/FFO Multiple	
			2020			2018	2019	2020 YTD**	2020	2021		2020	2021
			1 Day	MTD	QTD								
<b>Apartments</b>													
Apartment Avg.	4.4%	72.5%	(2.5%)	3.4%	14.6%	3.4%	29.5%	(18.0%)	(6.7%)	4.1%	(2.7%)	18.3x	16.7x
<b>Data Center</b>													
Data Center Avg.	2.9%	66.6%	0.5%	(1.6%)	10.5%	(16.1%)	39.8%	17.0%	1.7%	8.4%	4.6%	23.8x	21.9x
<b>Diversified</b>													
Diversified Avg.	4.9%	75.9%	(3.4%)	10.7%	14.5%	(7.6%)	31.3%	(24.8%)	(7.7%)	5.0%	(1.9%)	12.4x	11.9x
<b>Health Care</b>													
Healthcare Avg.	5.5%	70.1%	(4.3%)	5.6%	17.6%	3.1%	30.3%	(17.3%)	2.8%	4.0%	8.7%	12.8x	12.3x
<b>Hotel</b>													
Hotel Avg.	0.1%	1.7%	(4.5%)	3.0%	20.5%	(14.0%)	12.3%	(49.1%)	(37.9%)	20.5%	(37.4%)	21.3x	10.6x
<b>Industrial</b>													
Industrial Avg.	3.3%	67.1%	(2.5%)	3.9%	11.4%	(4.0%)	44.5%	(1.4%)	4.3%	4.4%	7.5%	22.9x	22.3x
<b>Manufactured Homes</b>													
Manufactured Homes Avg.	3.3%	83.8%	(0.4%)	2.8%	14.2%	2.8%	46.3%	(9.5%)	(2.4%)	16.9%	0.9%	27.2x	23.7x
<b>Office</b>													
Office Avg.	4.9%	53.6%	(2.6%)	3.5%	2.4%	(16.1%)	29.3%	(23.9%)	1.5%	3.3%	6.6%	11.5x	11.3x
<b>Office/Industrial - Total</b>													
Office/Industrial Avg.	4.4%	58.4%	(2.5%)	3.7%	5.5%	(12.1%)	33.6%	(16.2%)	2.5%	3.7%	6.9%	15.5x	15.2x
<b>Retail - Malls</b>													
Mall Avg.	9.4%	62.3%	(1.6%)	19.6%	24.3%	(28.6%)	(7.8%)	(40.0%)	(1.1%)	(3.8%)	10.6%	4.9x	6.1x
<b>Retail - Shopping Centers</b>													
Shopping Center Avg.	3.4%	53.5%	(3.5%)	12.3%	20.7%	(17.8%)	26.2%	(40.6%)	(8.2%)	3.9%	(5.6%)	9.1x	8.7x
<b>Retail - Total</b>													
Retail Avg.	4.8%	55.3%	(3.0%)	14.0%	21.5%	(21.1%)	15.7%	(40.4%)	(7.1%)	2.3%	(3.0%)	8.2x	8.2x
<b>Single Family</b>													
Single Family Avg.	3.3%	69.5%	0.6%	9.3%	6.2%	(14.4%)	44.2%	(10.8%)	(8.3%)	13.1%	(6.9%)	23.4x	21.1x
<b>Specialty</b>													
Specialty Avg.	4.0%	66.3%	(1.0%)	8.5%	21.2%	0.1%	39.0%	(9.8%)	(7.2%)	16.2%	(2.7%)	12.5x	9.8x
<b>Storage</b>													
Storage Avg.	4.4%	77.5%	(3.9%)	(4.9%)	(2.3%)	4.3%	19.5%	(8.0%)	0.4%	1.7%	4.8%	17.5x	17.2x
<b>Free-Standing</b>													
Free-Standing Avg.	4.7%	78.3%	(3.6%)	20.7%	25.8%	12.2%	24.6%	(22.8%)	2.4%	3.7%	7.7%	15.5x	14.9x
<b>Overall Avg. ex Timber/Tower</b>	4.1%	66.6%	(2.9%)	7.0%	14.8%	(8.6%)	26.1%	(22.4%)	(2.3%)	5.3%	2.2%	14.7x	13.4x
<b>Market Wtd. Avg. ex. T/T</b>	3.8%	60.8%	(2.6%)	3.6%	11.7%	(4.3%)	26.0%	(15.7%)	0.4%	4.8%	4.2%	19.0x	17.4x
<b>S&amp;P 500</b>	1.9%		(0.6%)	1.8%	19.9%	(4.4%)	31.5%	(2.7%)					
<b>US 10-Year</b>	0.68%												

Source: FactSet, Company Documents, BTIG



## Industrial REITs: Pre-COVID Trends



- **E-commerce Growth:** E-commerce has transformed the industrial sector. Online retail sales have grown at a double-digit rate, most recently at 16.9% y-o-y in 4Q19, and we expect this trend to continue in coming years. As of 4Q19, e-commerce sales accounted for 11.4% of retail sales compared to 10.1% at the end of 2018. E-commerce supply chain operations require more space than traditional brick and mortar supply chain operation, as the warehouse layout requires space to separate bulk shipments, pick and pack individual shipments for customers, and process returns. The growth of e-commerce has greatly increased the need for distribution facilities nationwide.
- **Urbanization:** Around 20 years ago, companies began upgrading from outdated industrial buildings into larger and more sophisticated buildings. Location also became a key factor in industrial real estate as being closer to consumer (last-mile) allowed for rapid fulfillment (as end-users demand ever-faster delivery times) and lower transportation costs. These two factors helped boost demand for industrial buildings in gateway markets first and more recently secondary markets as well.
- **Globalization:** Globalization and trade have been a key theme for the world economy since the 1960s and have exponentially increased the flow of goods and services throughout the world. Trade as a percentage of global GDP increased from around 30% in 1960 to 58% in 2017. The improvement of technology and liberalization of the financial system have allowed companies to manufacture goods in lower cost markets. Naturally, this has increased the need for industrial and logistics real estate in developed countries. Cities near large transportation hubs (i.e., ports), such as Los Angeles, San Francisco, Seattle, and NYC/NJ, have benefited greatly from this trend.

## Industrial REITs: Post-COVID Expectations



- **Acceleration of E-commerce Adoption:** E-commerce is growing at a steady rate of 15% annually while its share of retail sales is growing about 100 bps per year, ending 2019 at 11.0% of total retail sales. Food and grocery online shopping has been slow to gain adoption but due to shelter-in-place orders we have seen a rise in customer interest, which could continue even after the pandemic passes. The number of households that have ordered online groceries grew to 40M in March and this is expected to continue (Walmart (WMT, Not Rated) online traffic is trending up 55%). According to Adobe Analytics, overall e-commerce sales are up 25%, mostly due to grocery shopping.
- **Supply Chain Reconfiguration and On-Shoring:** Supply chains for the last 20 years have been built for efficiency and are vulnerable to disruption from unforeseen events such as a pandemic. The issue of supply chain efficiency and risk mitigation gained importance as trade tensions between the U.S. and China increased in the last three years. COVID-19 has exacerbated this issue, and, going forward, we expect supply chains to be geared toward resiliency and redundancy, which could shift production locations for “essential” products back to the U.S. This "on-shoring" of manufacturing could benefit central U.S. cities that have existing intermodal infrastructure and a skilled blue collar workforce.
- **Higher Inventory Levels:** Prior to COVID-19, companies would hold the minimum amount of inventory needed as they opted for just-in-time delivery/manufacturing. The current pandemic has highlighted the inherent weakness of that strategy during a time of crisis. Going forward, we expect inventories to increase, necessitating extra warehouse space. According to CBRE, a 5% increase in U.S. business inventory levels would require a range of 700M to 1B sf of additional space. The current level of vacancy (4.5%) would likely not be able to support such a jump in demand in the short term.

# Industrial REIT Industry Data and Outlook



- The growth of e-commerce demand, and its associated need for additional warehouse space for fulfillment, has driven above average demand and rent growth during this cycle.

Industrial Sector, Average Growth 1991-2016			
Supply	Demand	Asking Rent	T.I.s*
1.0%	1.1%	1.1%	6.0%

Industrial Sector, Average Growth 2013-2016			
Supply	Demand	Asking Rent	T.I.s*
0.9%	1.5%	2.5%	7.1%

Industrial Sector, Average Growth 2017-2019			
Supply	Demand	Asking Rent**	T.I.s*
1.6%	1.7%	3.1%	6.5%

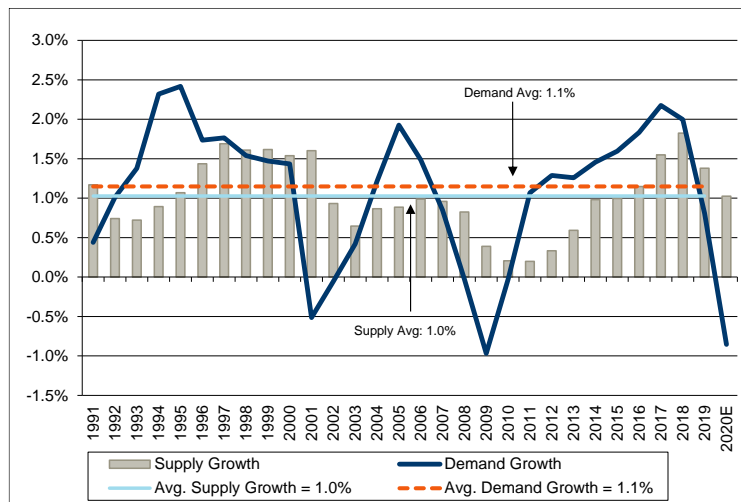
Industrial Sector, 2020 Projected Growth			
Supply	Demand	Asking Rent	T.I.s*
1.0%	-0.9%	-4.5%	7.9%

\*T.I.s and free rent as a % of asking rent

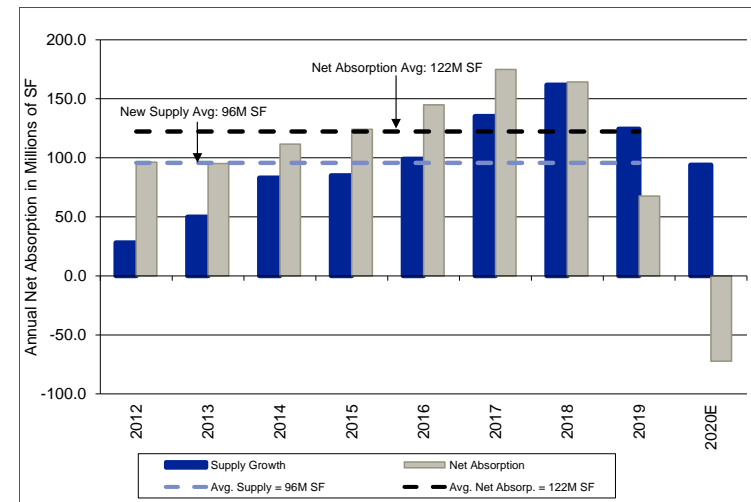
\*\*2019 asking rent growth was 2.6%

Source: REIS, BTIG

- While COVID-related economic impacts are expected to impact the industrial market, a lower level of new supply in 2020 and under-building from 2012-2018 should temper the impact to rents.



Source: REIS, BTIG



Source: REIS, BTIG

## Our Industrial REIT Coverage Universe and Ratings



Ticker	Name Industrial	Rating	Mkt Cap (MM)	6/19 Price	FFO Growth			P/FFO		Divd/ 2020E FFO	Dividend Yield	
					2020E	2021E	2020E	2021E				
DRE	Duke Realty Corp.	Neutral	\$13,114	\$35.60	\$1.50	- 4.2%	NA	- NA	24.4x	NA	62.7%	2.6%
EGP	EastGroup Properties	Neutral	\$4,591	\$117.55	\$5.26	- 6.0%	NA	- NA	22.8x	NA	57.0%	2.6%
PLD	Prologis	Buy	\$67,854	\$91.87	\$3.68	- 11.2%	NA	- NA	26.4x	NA	63.0%	2.5%
TRNO	Terreno Realty	Buy	\$3,645	\$53.84	\$1.57	- 12.1%	NA	- NA	33.4x	NA	68.8%	2.0%
<b>Avg</b>			<b>\$23,401</b>			<b>8.4%</b>		<b>NA</b>	<b>26.8x</b>	<b>NA</b>	<b>62.9%</b>	<b>2.4%</b>

NAV Estimates		Rating	19-Jun Price	NAV Estimate	Prem/(Disc) To NAV	Applied Cap Rate	Implied Cap Rate	EV EBITDA*	Rel. EV EBITDA	2020E P/FFO	Rel P FFO
Ticker	Industrial										
DRE	Duke Realty Corp.	Neutral	\$35.60	\$35.41	0.5%	4.67%	4.65%	24.7	0.88	23.7	0.90
EGP	EastGroup Properties	Neutral	\$117.55	\$110.02	6.8%	4.91%	4.65%	23.8	0.85	22.3	0.85
PLD	Prologis	Buy	\$91.87	\$80.12	14.7%	4.51%	3.96%	29.4	1.05	25.0	0.95
TRNO	Terreno Realty	Buy	\$53.84	\$46.72	15.2%	4.00%	3.51%	34.2	1.22	34.3	1.30
<b>Avg</b>					<b>11.6%</b>	<b>4.52%</b>	<b>4.11%</b>	<b>28.4</b>		<b>26.8</b>	

\* EBITDA: most recent qtr NOI (incl JVs) annualized + NOI growth, year end capital structure EV & full year adjusted EBITDA

Source: Company Documents, FactSet, BTIG

## Buy – Prologis

PLD, Buy, \$100 PT; Mkt Cap \$67.8B



- Largest owner of warehouse and distribution facilities in the world.
- Global footprint allows PLD to provide single-source, worldwide solutions to large, multi-national customers.
- \$13.0B acquisition of competitor Liberty Property Trust (LPT, Neutral) closed on 2/4/20; added 108M SF of distribution warehouses and 1,748 acres of land (potential build-out of 20.5M SF).
- Following LPT acquisition, Prologis' portfolio is weighted toward "Core" U.S. assets (80% of NOI), with opportunistic investments and merchant developments in Europe (11%), South & Central America (6%) and Asia (3%).
- Growth of online retailing a secular demand driver.
- Expect double-digit rental spreads to sustain strong, multi-year rent growth.
- Valuation: Our valuation is based on a combination of a warranted P/FFO multiple and premiums/discounts to estimated Net Asset Value. Prologis trades at 24.3x our 2020 estimate and a 11.6% premium to our NAV estimate. Our \$100 PT implies 14.2% total return at a 27.2x forward multiple.
- Risks to PLD: weak GDP growth negatively impacts industrial tenants, shift in consumer spending habits slows the growth of e-commerce related industrial demand, U.S. trade policies impact demand/valuations in Mexico, Asia, and major U.S. trans-shipment markets (LA, Chicago, Dallas, NJ).

## Buy – Terreno

TRNO, Buy, \$62 PT; Mkt Cap \$3.6B



- Coastal market concentration and infill locations provide upside potential and downside risk mitigation.
- Differentiated strategy should sustain above-average SSNOI growth.
- We expect acquisitions to remain elevated in 2020 as the company takes advantage of its equity premium.
- TRNO's buildings are the smallest of our coverage (avg. 73k SF vs. 188k SF) but generate the highest rents (\$7.82/SF vs. \$5.05/SF).
- Well-positioned for a last mile focus.
- Well-respected management team structured to support larger asset base.
- Valuation: Our valuation is based on a combination of a warranted P/FFO multiple and premiums/discounts to estimated Net Asset Value. Terreno trades at 34.6x our 2020 FFO/sh estimate and an 16.0% premium to our NAV estimate. Our \$62 PT implies a 16.4% total return at a 39.6x forward multiple.
- Risks to TRNO: shift in consumer spending habits slows the growth of e-commerce related industrial demand, increase in speculative development limits industrial rent growth, "Last-mile" shipping to urban markets moves from infill locations to larger ex-urban bulk industrial warehouses.

## APPENDIX: Analyst Certification and Other Important Disclosures



### Analyst Certification

I, James Sullivan, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Michael Gorman, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Thomas Catherwood, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Regulatory Disclosures

#### Ratings Definitions

**BTIG LLC's ("BTIG") ratings, effective June 12, 2017, are defined as follows:**

- **BTIG LLC's ("BTIG") ratings, effective June 12, 2017, are defined as follows:**
- **BUY** – A security which is expected to produce a positive total return of 15% or greater over the 12 months following the recommendation. The BUY rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.
- **SELL** – A security which is expected to produce a negative total return of 15% or greater over the next 12 months following the recommendation. The SELL rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.
- **NEUTRAL** – A security which is not expected to appreciate or depreciate meaningfully over the next 12 months.
- **NOT RATED** – A security which is not rated or covered by BTIG.
- **UNDER REVIEW** – Effective immediately, coverage of the following securities is Under Review. Ratings, price targets, disclosures, and estimates for the companies listed below are suspended and should no longer be relied upon.

## APPENDIX (Continued)



### Distribution of Ratings and Investment Banking Clients

BTIG must disclose in each research report the percentage of all securities rated by the member to which the member would assign a “buy”, “neutral” or “sell” rating. The said ratings are updated on a quarterly basis. BTIG must also disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months.

#### Current Rating Distribution (as of June 23, 2020):

Coverage Universe	Count	Percent	Inv. Banking Relationships	Count	Percent
Buy	215	64.4%	Buy	66	30.7%
Neutral	116	34.7%	Neutral	20	17.2%
Sell	3	0.9%	Sell	0	0.0%

For purposes of FINRA ratings distribution rules, BTIG’s stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### Disclosures in Research Reports Covering Six or More Companies

All current required disclosures can be obtained by contacting BTIG at 65 East 55th Street, New York, NY 10022 or on our website at <http://www.btigresearch.com>

### Other Disclosures

Additional Information Available Upon Request

Prices of the most recent market close unless otherwise specified.



## APPENDIX (Continued)



### General Disclosures

Research reports produced by BTIG LLC (“BTIG”) are published for and intended to be distributed solely to BTIG institutional and corporate clients. Recipients of BTIG reports will not be considered clients of BTIG solely because they may have received such BTIG report.

To the extent recipient accesses BTIG research, whether on a BTIG research website or through a third-party platform, BTIG is able to search, filter, download and review information on the readership of BTIG’s research, including the specific research consumed and the name, company name, email address and, in certain circumstances, the location of the individual who accessed the research (the “Readership Information”). Recipient consents to BTIG’s receipt of the Readership Information, including receipt of that information from a third party.

The research analyst(s) responsible for the preparation of this report receives compensation based upon a variety of factors, including the quality and accuracy of research, internal/client feedback, and overall Firm revenues.

BTIG reports are based on public information and BTIG considers the same to be reliable, comprehensive information, but makes no representation or warranty that the reports are accurate or complete. BTIG opinions and information provided in this report are as of the date of the report and may change without notice. An issuer may be classified as “Under Review” or “Research Restricted”. In these cases, investors should consider any previous investment recommendation and/or rating to a subject company/issuer to no longer be current and should not be relied upon nor considered a solicitation.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research report was not drafted specifically for any particular individual or entity and is not a personal recommendation to participate in any particular trading strategy or transaction. Any recipient of this research report should obtain independent advice specific to their personal circumstances before undertaking any investment activity and must make their own independent evaluation of any securities or financial instruments.

## APPENDIX (Continued)



### General Disclosures (continued)

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the “BTIG Group” (BTIG Group includes, but is not limited to, BTIG and its parents, subsidiaries and/or affiliates). BTIG Group employees, including Sales Representatives and Traders, may provide oral or written commentary or advice that may be inconsistent with the opinions and/or views expressed in this research report. BTIG Group employees and/or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report that are inconsistent with the views discussed in this report.

Investors in securities products bear certain risks in conjunction with those investments. The value of, and income from, any investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors within or beyond the companies control. Recipient of the research reports should be aware that investments in securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in securities should be undertaken only upon consideration of issues relating to the recipient’s overall investment portfolio and objectives (such as diversification by asset class, industry or company) as well as time horizon and liquidity needs. Further, past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. There may be time limitations on the exercise of options or other rights in any securities transactions.

Investing in foreign markets and securities, including ADRs, is subject to additional risks such as currency fluctuation, limited information, political instability, economic risk, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. Non-U.S. reporting issuers of foreign securities, however, may not make regular or complete public disclosure relating to their financial condition or the securities that they issue.

## APPENDIX (Continued)



### General Disclosures (continued)

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of BTIG. This report is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this report are the property of BTIG and agrees to limit the use of all publications received from BTIG within his, or her or its, own company or organization. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

### Jurisdiction and Dissemination

BTIG is a U.S. broker-dealer and member of FINRA and SIPC.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX; BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC; BTIG Ltd, member of the LSE, authorized and regulated by the FSA; and BTIG Singapore Pte Ltd, registered and licensed with MAS; are all separate but affiliated entities of BTIG. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction for further information, or if you want to use our services in effecting a transaction.

Issued and approved for distribution in the UK and EEA by BTIG Ltd. to eligible counterparties and professional clients only. Issued and distributed in Australia to “wholesale clients” only by BTIG Australia Limited. In Singapore and Hong Kong, further information may be obtained from BTIG Singapore Pte Ltd and BTIG Hong Kong Limited, respectively.