



Fundamentals of Investing: Public REITS

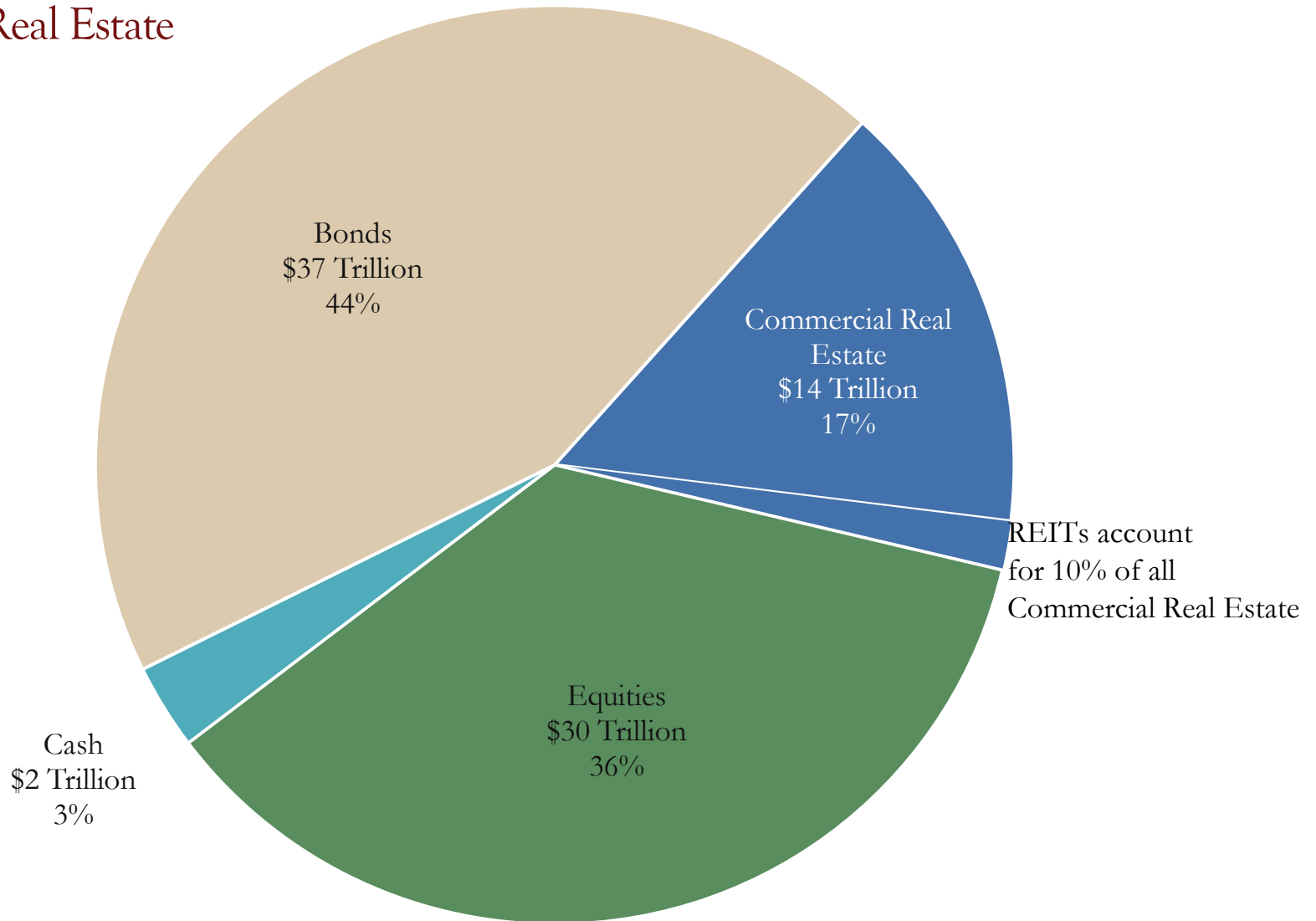
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Third largest asset in U.S. investment market basket

Commercial Real Estate



REITs have outperformed other major asset groups over time

Total Returns: Stocks, Bonds, Bills & REITs



- REIT average annual total returns since Dec. 31, 1978: 12.4%
- REIT average annual total returns since Dec. 31, 1990 (the “modern REIT era”): 11.7%

What is a REIT

- REITs own, manage, lease and finance investment-grade commercial real estate.
- At least 75% of assets must be real property and 75% of gross income must come from real estate.
- Dividends - at least 90% of taxable income must be distributed to shareholders in the form of a dividend.
- Equity REITs derive revenues primarily from rental income.



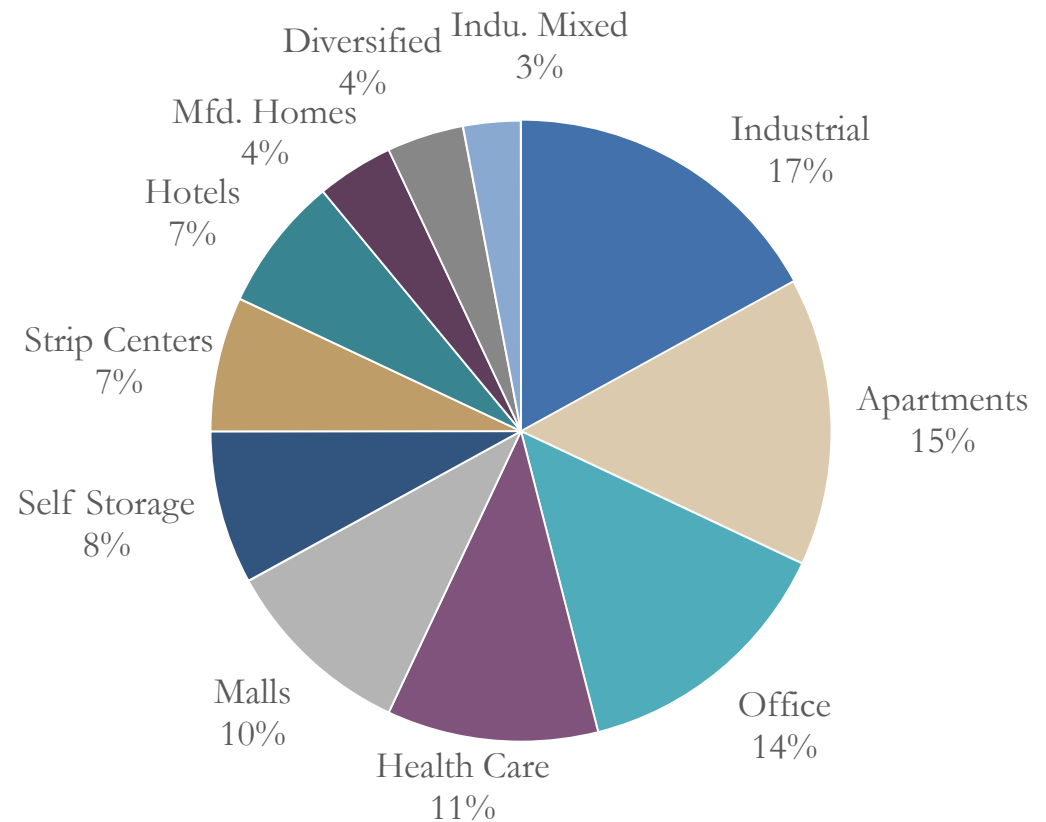
REITs First Authorized in the U.S. in 1960

- Provide disciplined, market-based financing of real estate through liquid, transparent public markets
- Increase equity and reduce debt in the financing of real estate to make the industry more stable
- Provide all citizens with access to real estate investment to help build financial security, manage wealth and save for retirement
- Provide a means for investing in real estate in the same manner investors typically invest in other industries through listed corporate equities

Listed Equity REIT Industry Snapshot

- Market Capitalization: \$772.4B
 - Largest \$52.7B
 - Smallest \$300.0M
- 114 Components
- REITs own ~10-15% of all institutionally owned CRE (\$1.8T)
- Diversification by geography and property type
- Dividend Yield: 3.9%

Property sector exposure



Listed Equity REIT Advantages

- Efficient access to commercial real estate
- Attractive relative long-term investment performance
- Source of dividend income
- Transparency and simplicity
- Diversification benefits
- Liquidity
- Strong, investor-aligned corporate governance
- Inflation hedge (real assets)



A closer Look at a REIT: Essex Property Trust – US Apartments

NORTHERN CALIFORNIA PORTFOLIO

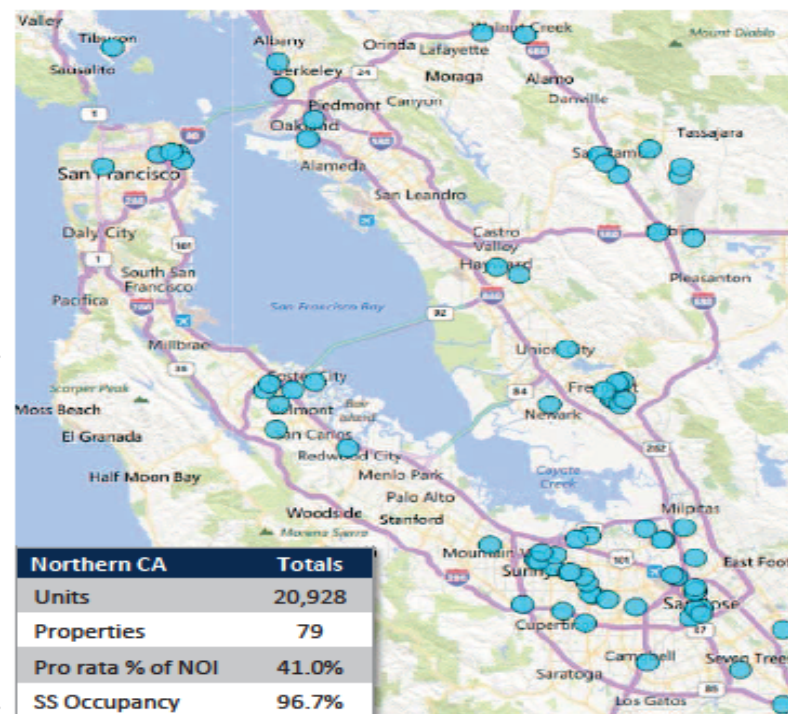
ESSEX
PROPERTY TRUST, INC.

NORTHERN CALIFORNIA HIGHLIGHTS

- San Jose job growth nearly doubled the U.S. over the trailing three month period ending in July 2018 with 3.1%. San Francisco performed in-line with the U.S. with 1.7% job growth over the same period. San Francisco has the lowest unemployment rate of all Essex markets at 2.4% as of July 2018.
- As of the second quarter, San Francisco has the highest year-to-date net absorption at 2.4% of stock and the lowest total commercial vacancy of all Essex markets at 7.7%.
- There was 10.4M sf of office space under construction in Northern California in the second quarter, or 4.5% of existing stock (59% of which is pre-leased).
- The top 10 tech firms had roughly 10,600 job openings in California as of the second quarter 2018.

Market Data	U.S.	San Francisco	San Jose
Trailing 3-Month Job Growth	1.7%	1.7%	3.1%
Personal Income Growth 2018(f)(2)	3.7%	5.7%	6.1%
Median Home Price ⁽¹⁾	\$246,000	\$1,380,000	\$1,200,000
Median Household Income ⁽²⁾	\$61,000	\$118,000	\$122,000
Median Home Price to Median Household Income	4.0x	11.7x	9.8x
Median Home Price YOY % Increase ⁽¹⁾	5.3%	9.5%	19.5%

NORTHERN CALIFORNIA AREA MAP



Sources: Axiometrics, CoreLogic, LinkedIn, CoStar, JLL Office Report, CBRE, Moody's, RCG, S&P Global Market Intelligence, BLS, NAR, Census and Essex Disclosures as of June 2018. Trailing 3 months ended July 2018.

(1) Home Prices and YOY % Increase as of June 2018. U.S. uses NAR 2Q18.

(2) 2018 Estimate.

A Closer Look at a REIT: Regency centers - US Shopping Malls



Leading National Portfolio

Significant Presence in Top Markets with Strategic Advantages from National Breadth and Local Expertise

TOP REGIONS/STATES	
	>25% of NOI
	10% - 25 % of NOI
	5% - 10% of NOI
	<5% of NOI

TOP 5 MARKETS	
	% of NOI
San Francisco	12%
Miami	12%
Los Angeles	7%
Washington, DC	6%
New York	6%

ATTRACTIVE OVERALL DEMOGRAPHICS*		
	Regency	Peers ¹
Average trade area population	146,000	128,000
Average household income	\$120,000	\$105,000
College educated	48%	41%

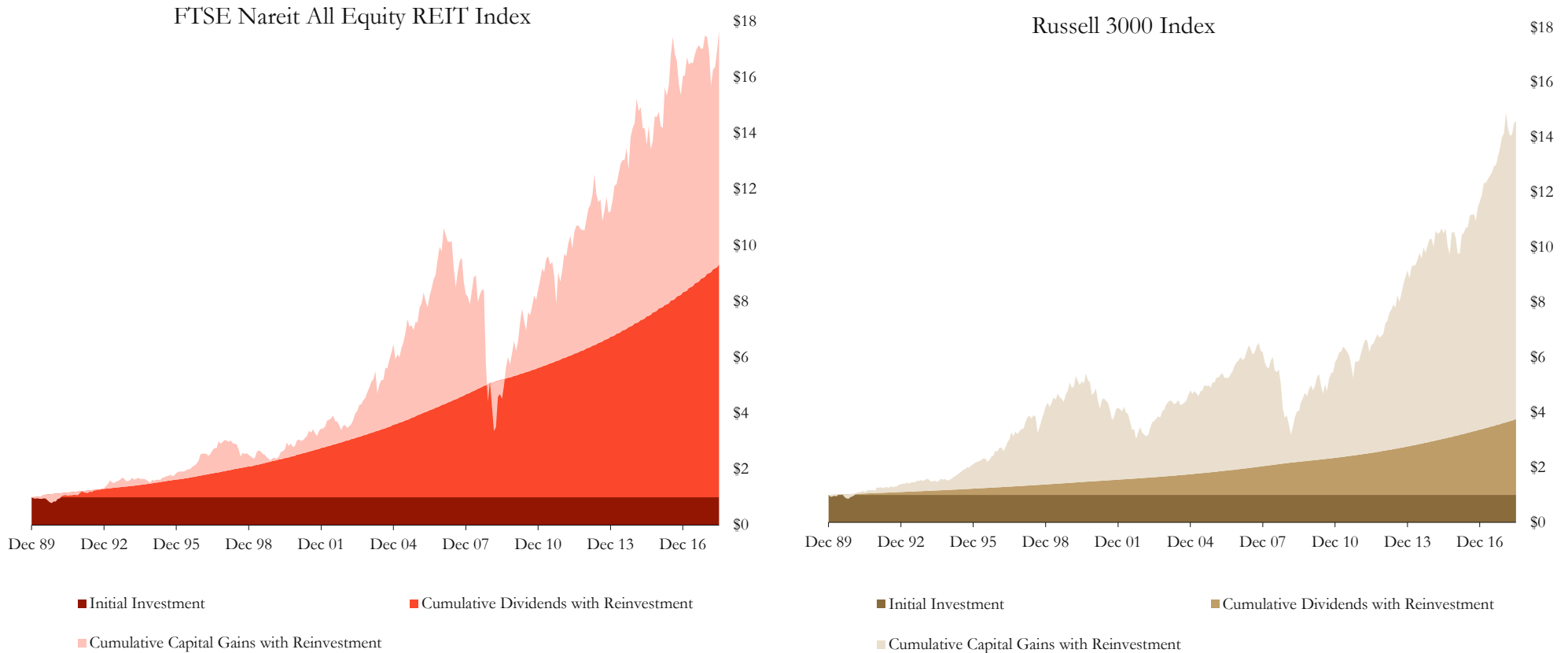
*Within 2 miles radius



428 PROPERTIES
21 REGIONAL OFFICES

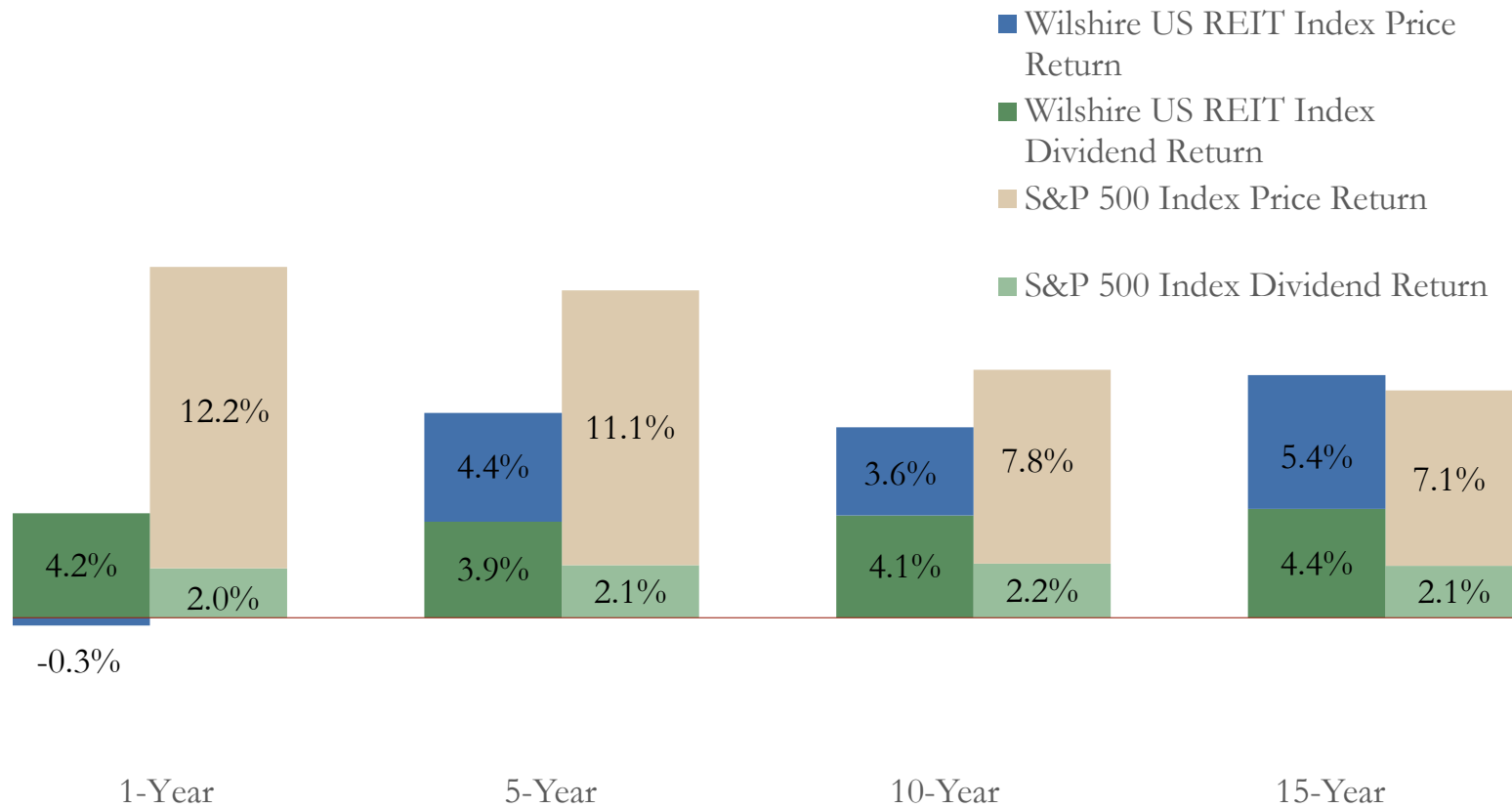
¹ Peers are BRX, DDR, FRT, KIM, ROKC, RPAI, and WRI
*Source: Evercore ISI Annual Demographic Update 3/15/18, Green Street Advisors, Strip Centers Sector Update 5/17/18

REIT dividends are a significant component of total returns



- REIT income returns have averaged 5.3% per year, or 50% of the total
- U.S. stock income returns have averaged 2.0% per year, or 20% of the total
- U.S REITs paid out \$58 billion in dividends in 2017

Dividend and Price Returns For REITs and Equities



Long Term Performance by Major Asset Class- 6/30/18

	US REITs	Foreign REITs	Large Cap US Stocks	Small Cap US Stocks	Foreign Stocks	US Bonds	Foreign Bonds
1 year	4.93%	9.77%	14.54%	17.57%	7.79%	(0.40%)	1.36%
3 year	9.14%	5.18%	11.64%	10.96%	9.26%	1.72%	2.58%
5 year	8.88%	5.69%	13.37%	12.46%	6.48%	2.27%	1.50%
10 year	8.30%	4.27%	10.20%	10.60%	3.01%	3.72%	2.58%
15 year	9.59%	9.59%	8.92%	9.81%	8.21%	3.53%	3.44%
20 year	9.00%	9.05%	6.40%	7.64%	5.35%	4.47%	4.11%
25 year	10.21%	7.87%	9.70%	9.59%	6.16%	5.13%	4.84%

Source: Nareit analysis of monthly total returns through June 2018.

US REITs- FTSE Nareit All Equity REIT index

Foreign REITs- FTSE EPRA Nareit Developed ex US Index

Large Cap US Stocks- Russell 1000 Index

Small Cap US Stocks- Russell 2000 Index

Foreign stocks- MSCI World ex US Index

US Bonds- Barclays US Aggregate Bond Index

Foreign Bonds- Barclays Global Aggregate Bond ex US Index

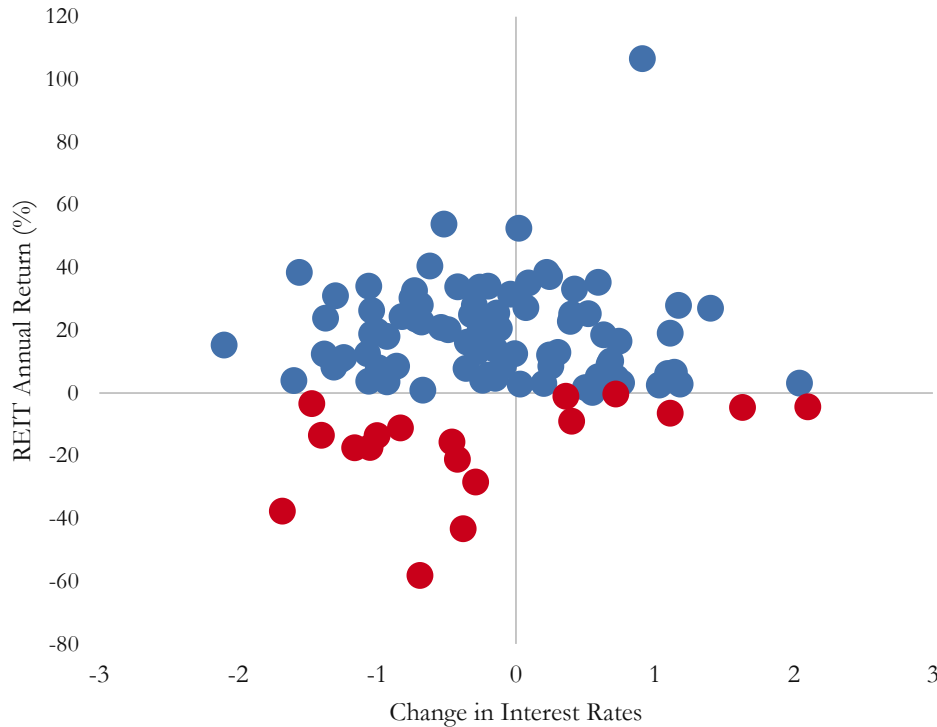
Correlations- 6/30/18

	US REITs	Foreign REITs	Large Cap US Stocks	Small Cap US Stocks	Foreign Stocks	US Bonds	Foreign Bonds
US REITs	1.00	0.62	0.48	0.60	0.38	0.33	0.23
Foreign REITs		1.00	0.65	0.51	0.84	0.23	0.59
Large Cap Stocks			1.00	0.73	0.76	0.09	0.17
Small Cap Stocks				1.00	0.41	0.11	0.9
Foreign Stocks					1.00	0.05	0.42
US Bonds						1.00	0.44
Foreign Bonds							

Source: Nareit analysis based on a DCC-GARCH (Dynamic Conditional Correlation – Generalized Autoregressive Conditional Heteroskedasticity: Engle 2002) model using monthly total returns through June 2018. US REITs (FTSE Nareit All U.S. Equity REIT), and U.S. large-cap stocks (Russell 1000) from January 1972; Foreign REITs (FTSE EPRA/Nareit Developed x-US) from January 1990; small-cap US stocks (Russell 2000) from January 1979; Foreign stocks (MSCI AC World ex-US) from January 1988; RE; U.S. bonds (Bloomberg Barclays US Aggregate) from January 1976; Foreign bonds (Bloomberg Barclays Global Aggregate x-USD) from January 1990.

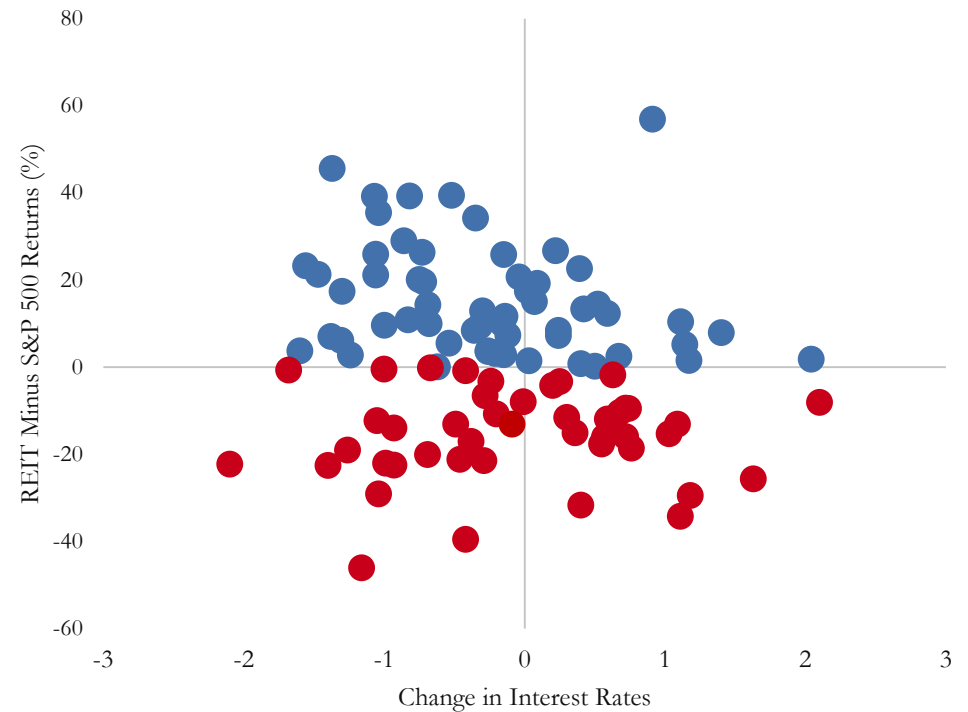
REIT Performance Positive & Often Outperforms the Stock Market during Periods of Rising Rates

REIT Total Return and Rate Changes: 1992 to 2018Q2



**Positive REIT
returns in 85% of
rising rate periods**

REIT versus S&P 500 Total Returns and Rate Changes: 1992 to 2018Q2



**REIT returns
exceed S&P 500 in
50% of rising rate
periods**

Diversification Matters

Wilshire US REIT Index, annual returns ranked by property sectors (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018
28.6	9.2	17.6	1.9	31.8	4.2	7.3	4.2	2.2
Apartments 46.8	Storage 35.4	Industrial 31.7	Hotels 26.8	Mfd. Homes 47.4	Storage 40.7	Industrial 31.1	Mfd. Homes 25.7	Mfd. Homes 11.1
Hotels 40	Regional Mall 22.1	Regional Mall 28.0	Diversified 12.7	Apartments 39.9	Mfd. Homes 27.0	Indu. Mixed 28.7	Industrial 22.8	Industrial 8.2
Outlet 36	Mfd. Homes 21.6	Local Retail 26.2	Mfd. Homes 11.2	Health Care 33.3	Apartments 16.5	Hotels 23.5	Indu. Mixed 10.4	Hotels 8.2
Regional Mall 34.2	Outlet 18	Outlet 19.8	Storage 9.6	Regional Mall 32.4	Industrial 8.7	Single Family 14.4	Hotels 6.6	Apartments 5.4
Local Retail 30.1	Health Care 15.4	Health Care 19.1	Industrial 6.9	Hotels 32.2	Local Retail 6.2	Outlet 13.4	Diversified 4.1	Health Care 4.1
Storage 29.2	Apartments 15	Storage 19	Office 5.9	Indu. Mixed 31.9	Regional Mall 4.3	Mfd. Homes 13.1	Storage 3.7	Regional Mall 1.8
Mfd. Homes 26.5	Indu. Mixed 13.7	Office 14.4	Local Retail 5.8	Storage 31.5	Office 0.8	Office 12.2	Single Family 3.7	Storage 0.8
Diversified 24.7	Office -0.3	Indu. Mixed 13.1	Single Family 0	Local Retail 30.7	Indu. Mixed -0.9	Diversified 8.2	Apartments 3.6	Indu. Mixed 0.4
Office 19.5	Local Retail -2.6	Hotels 12.4	Regional Mall -1	Diversified 29.8	Single Family -1.5	Health Care 6.8	Office 3	Diversified 0.1
Health Care 19.1	Diversified -3.5	Diversified 10.6	Outlet -4	Office 26.7	Diversified -1.9	Apartments 3.8	Health Care -0.4	Single Family -0.2
Industrial 18.2	Industrial -4.7	Apartments 7.1	Indu. Mixed -4.7	Industrial 20.9	Health Care -7.5	Local Retail 2.2	Regional Mall -2.4	Office -2.9
Indu. Mixed 8.9	Hotels 13.4	Mfd. Homes 6.3	Apartments -6.3	Outlet 18.6	Outlet -8.2	Regional Mall -5	Local Retail -10.7	Local Retail -3.7
			Health Care -9.1	Single Family 5.7	Hotels -24.6	Storage -8.2	Outlet -22.3	Outlet -9.8

Key Takeaways for REITs

- Real estate is a strategic asset class for investors.
- An investment in REITs is investing in real estate.
- A significant share of total REIT returns comes from dividends.
- Publicly traded REITs diversify an investment portfolio.





Thank You

Appendix

Our Themes & Risks for 2018

Themes

- Unintended consequences – *durability of property cash flows overlooked.*
- NEXTGen sectors – *secular growth not experiencing new supply pressures.*
- Retail re-alignment – *despite record store closings, tenant demand remains targeted.*
- Higher home prices – *new supply has tempered apartment rent growth, yet reduced inventory driving prices higher.*
- Flat yield curve – *unanticipated inflation has yet to drive long rates higher.*
- Amazon HQ2 – *the jury is still out on the true benefits for the winner.*

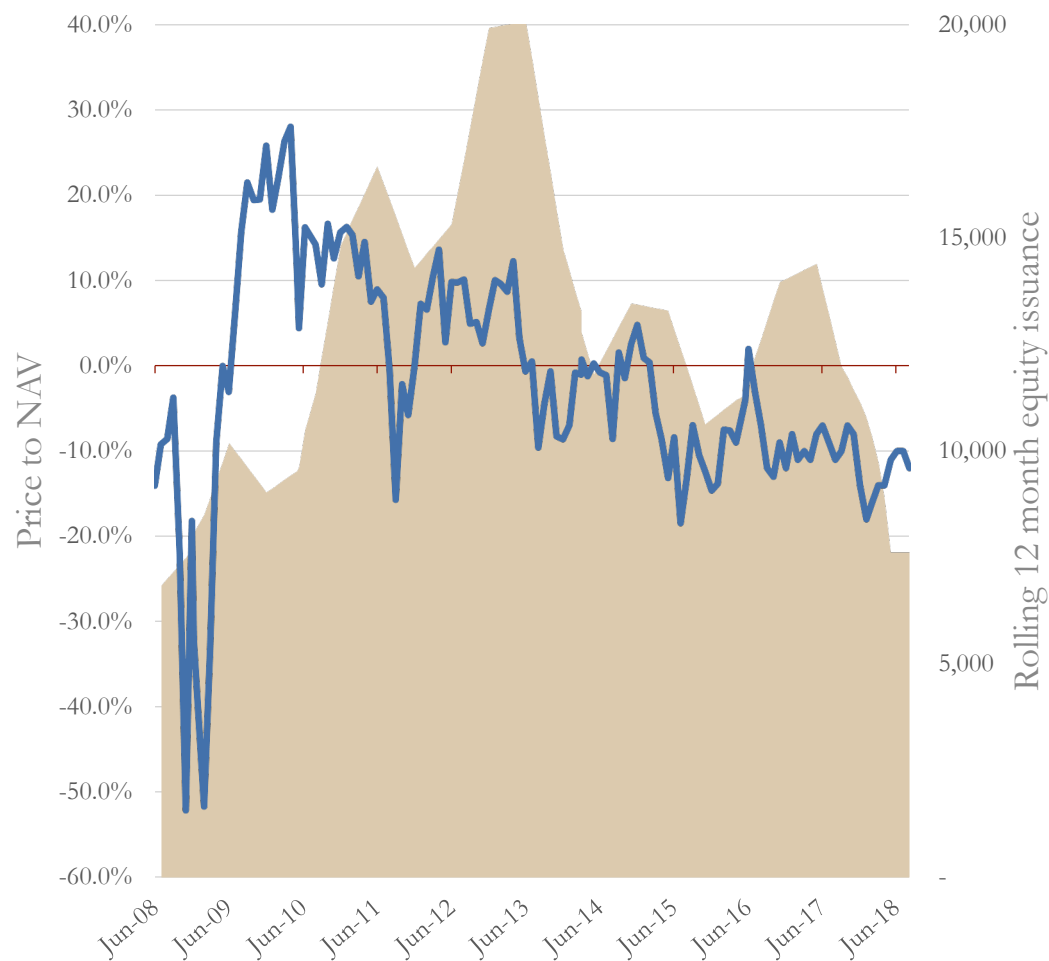
Risks

- Dividend yields – *too low and total return expectations not compelling for ‘why now’ investors.*
- Growth bias persists – *benefits from reduced regulations and repatriation propels growth over value.*
- Fed transition - *communication, interpretation and reaction.*
- Fewer property transactions – *‘wait and see’ & ‘bid-ask spread’ debates emerge.*
- SALT limitations – *does sentiment turn to migration from high tax jurisdictions?*

3Q18 Market Environment

- **Performance** – the Wilshire US REIT Index rose 0.72% in Q3 and 2.24% YTD underperforming equities.
- **Dividend Growth** – 56 REITs have raised their payout; 6% on average in 2018; a 5% future expectation.
- **Issuance Down** – REITs are trading at a discount to NAV; secondary offering volumes are down.
- **“Dry Powder”** – institutional commitments to private real estate are at record levels; M&A has resulted.
- **Confidence** – the US economic engine booming with Small Business and Consumer confidence strength.
- **Wage Pressure** – Amazon’s increase to \$15/hr. rate, will pressure many business to keep employees.
- **Treasury Yields Rising** – with the Federal Reserve dropping “accommodative,” rates have drifted above 3% for the second time in 2018.
- **USMCA (the “new NAFTA”)** – a new accord is a positive with little direct impact on commercial real estate.

Equity Issuance and P/NAV



The Case for REITs – Q3 2018

Bull Case

- “Our economy is strong. Growth is running at a healthy clip.”¹ - all positive for real estate
- Rising construction and labor costs curb new supply
- Sound balance sheets – defensive and ample capacity
- Attractive dividend yield – growth and safe payout
- M&A and activism catalyst for narrowing the NAV discount

Bear Case

- Treasury yields remain elevated and pressure valuations
- Market multiples contract and cap rates expand
- Tax stimulus fades, trade tensions persist and the economy stalls
- In-place construction oversupplies markets – rents decline
- Persistent outflows from specialized mutual funds and ETFs

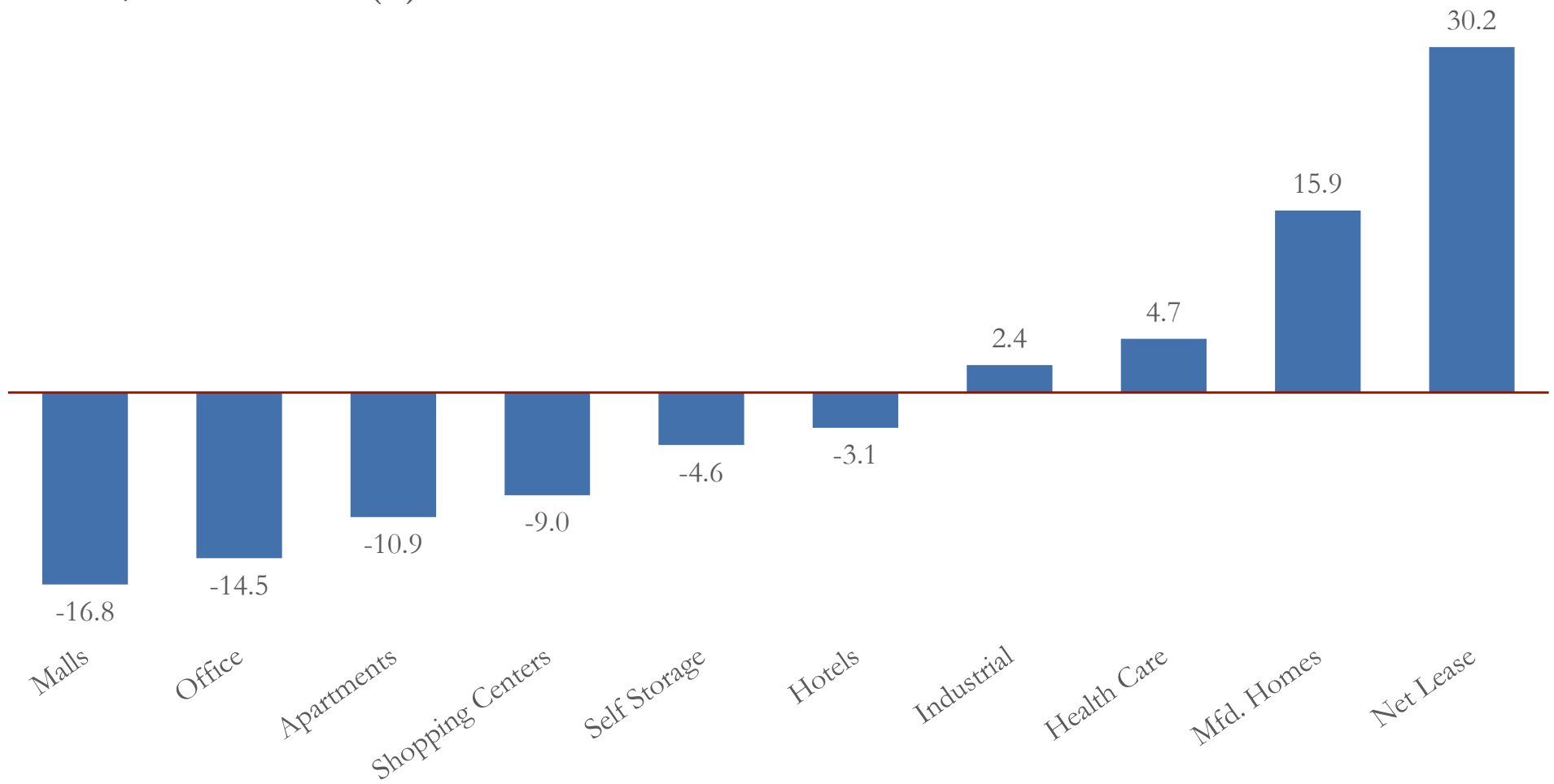
Where are Public Real Estate Market Valuations?

Premium/Discount to NAV

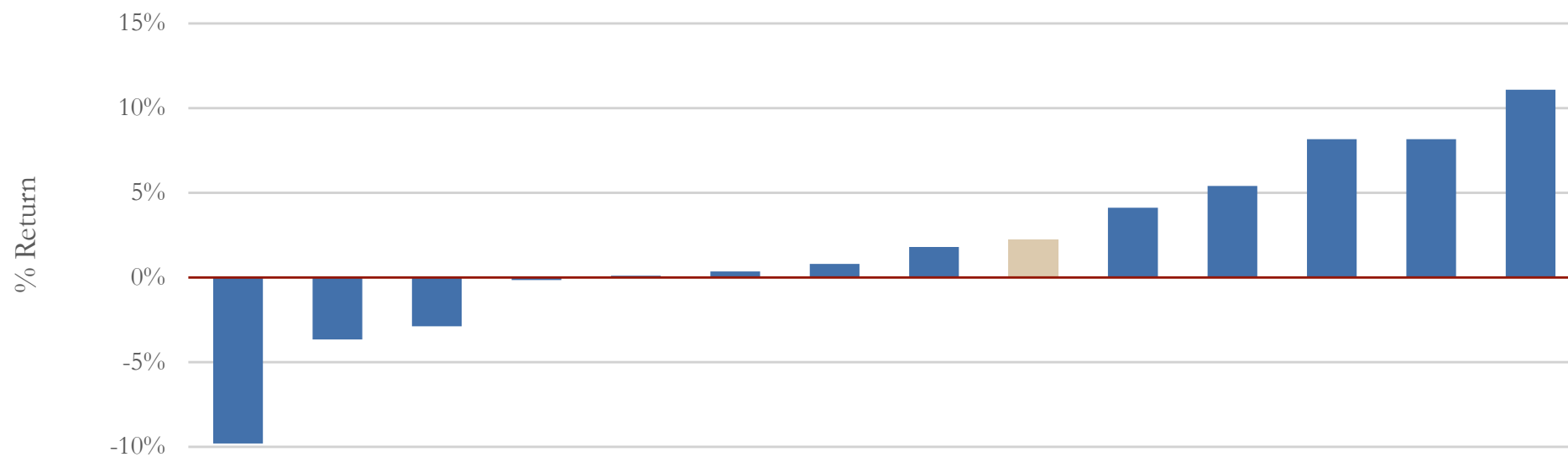


Public Investors Shun Traditional CRE Sectors; are navs real?

Discount/Premium to NAV (%)



2018 Returns and Characteristics: Wilshire US REIT Index



	Factory Outlet	Local Retail	Office	Single Family Rental	DVRS	Indu. Mixed	Self Storage	Malls	REIT Index	Health Care	Apts.	Hotels	Indu.	Mfd. Homes
Return	-9.80%	-3.66%	-2.88%	-0.15%	0.10%	0.36%	0.80%	1.81%	2.24%	4.12%	5.40%	8.16%	8.16%	11.08%
Weight	0.29%	7.21%	12.39%	1.78%	5.37%	12.24%	7.33%	9.31%	100.00%	11.52%	15.08%	6.94%	8.22%	2.31%
End Avg. MCAP (B)	\$2.15	\$3.56	\$4.62	\$9.20	\$4.53	\$11.22	\$11.41	\$10.08	\$6.67	\$8.39	\$12.21	\$3.42	\$6.79	\$8.39
Dividend Yield	6.05%	4.97%	3.22%	1.31%	3.63%	2.83%	3.98%	4.97%	3.92%	5.90%	3.29%	4.89%	2.84%	2.48%



Adelante Capital Management

Distinguishing Characteristics

- **Investment manager specializing in real estate securities:**
\$1.8 billion of assets under management.
- **Value investor** – investing based on NAV:
 - Real estate assets are the key drivers of company performance.
 - Objective, on-site property research discerns the value of real estate assets.
 - Comparison of stock price to real estate value is the best way to determine return opportunities for individual companies.
- **Information edge** through:
 - Property-centric research by sector experts.
 - Meaningful, long-term relationships with company management – invest like a partner.
- **High conviction portfolios** with concentrated holdings and low turnover.



Investment Team: Sector/Regional Specialists

Portfolio Managers	Michael Torres (32) and Jeung Hyun (22)		
North America Research	Luis Sanchez (33) <ul style="list-style-type: none"> • Industrial • Office • Residential Elvis Rodriguez, CFA (14)	Jeung Hyun (22) <ul style="list-style-type: none"> • Hotels • Technology • Health Care 	Ben Yang, CFA (22) <ul style="list-style-type: none"> • Retail-Regional • Retail-Local • Storage • Triple-Net Lease
Asia-Pacific Research	Resolution Capital/Marco Colantonio (26) <ul style="list-style-type: none"> • Common ownership 1997-2004; Sub-advisor since Global Strategy inception July 2006. 		
Europe Research	Luis Sanchez (33) and Ben Yang (22)		
Trading & Risk Management	Mark Montgomery (22)		

Our Characteristics Create Positive Results

- **Value** Investor – NAV approach.
- Repeatable **Alpha** – disciplined investment process.
- **Concentrated** Portfolios with Low Turnover – long-term investment horizon and high conviction in our portfolio holdings.
- **Flexibility** – firm and strategy sizes allow investment across market capitalization in search of value.

