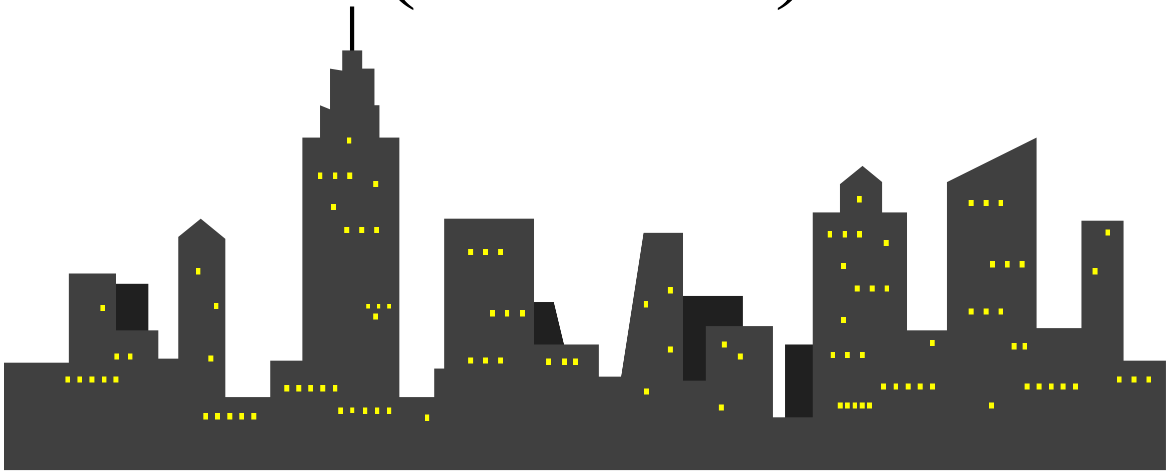
Real Estate Investment Trusts (REITs) & Real Estate Operating Companies (REOCs)



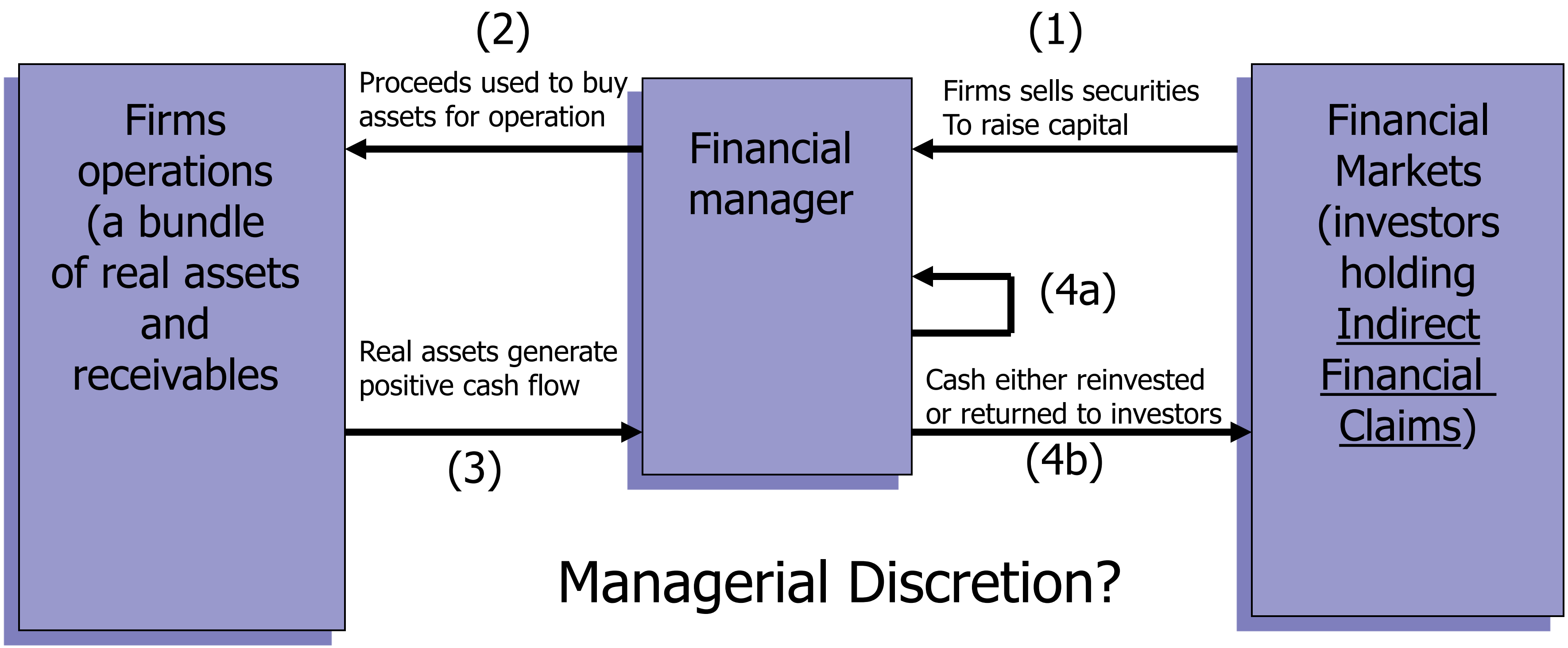
Session Objectives

- Asset Securitization
- Define REIT
  - What makes a REIT?
  - Types of REITs
  - Advantages and Disadvantages of REIT Structure
- Case Study – the US market in the 1990s
- FFO versus EPS
- Global REIT Performance and Implications for Investment

The Investment System and Capital Markets

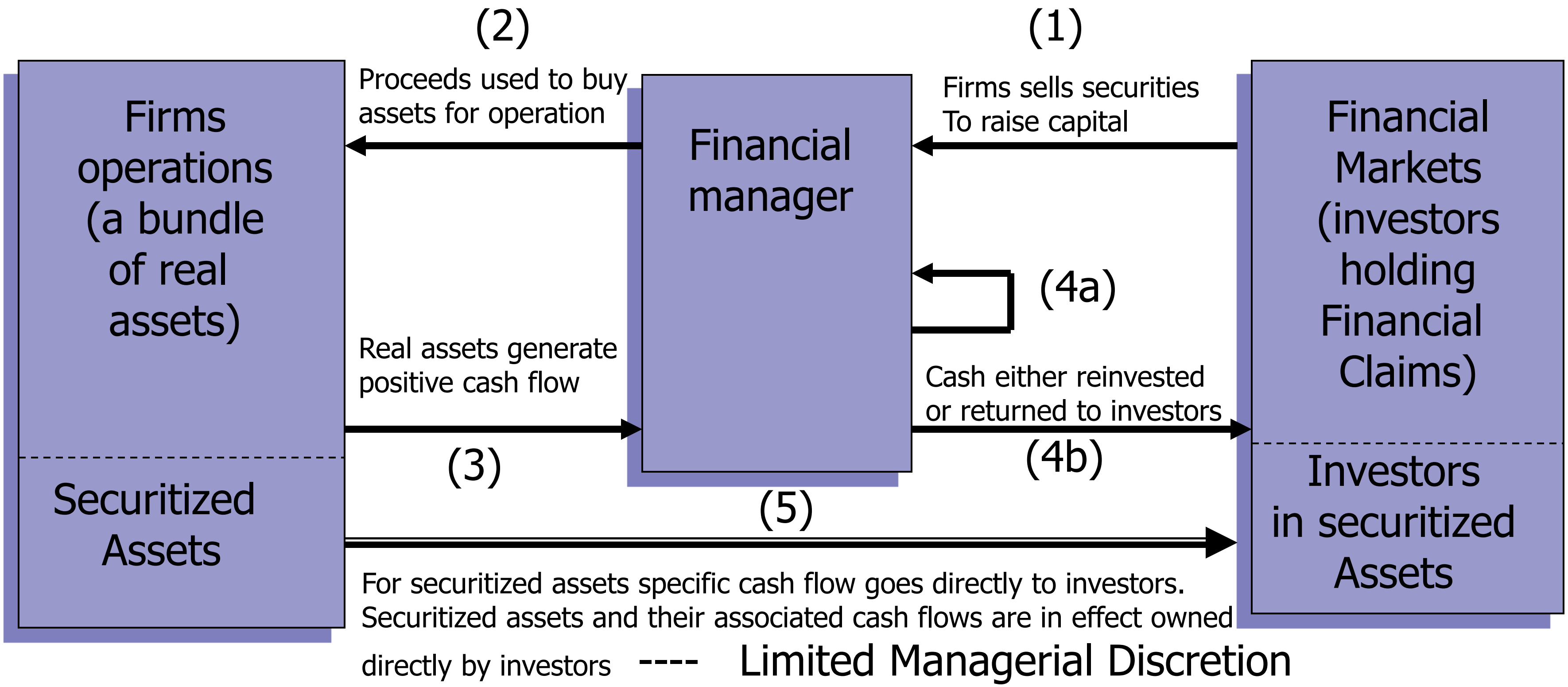
- The Investment System has Two Parts
  - *Underlying Real Assets*: a collection of physical, human, and legal assets and relationships that produce cash flow through the production and sale of goods and services
  - *Financial Assets:* these are not directly productive (as real assets), but are direct or indirect claims on the directly productive underlying real assets
- The investment system matches heterogeneous investors (*sources of financial capital*) with heterogeneous productive assets (*physical capital*)

Exhibit 1: Capital Markets without Asset Securitization



1. Underlying physical assets produce cash flows through products and sale of goods and commodities
2. Financial assets do not directly generate cash flow, but are indirect claims on the productive real assets
3. The investment system matches heterogeneous investors (sources of capital) with heterogeneous productive assets (physical assets and receivables)

Exhibit 2: Financial Markets with Asset Securitization



1. Traditionally, investors in industrial firms "indirectly" own the underlying assets through ownership of financial claims, they do not own the underlying real assets directly; securitization has made it possible for investors to own directly the cash flows of specific assets or receivables of industrial and financial firms
2. Real estate investors traditionally own "directly" the real assets ; asset securitization has made it possible for these investors to indirectly own real estate related assets

3. In short asset securitization has changed the investments decision making

Asset Securitization has Changed the Investment and Financing Decisions

- *Asset securitization* has made it possible for investors in real estate entities to own financial claims, (REIT, MBS, CMBS), on the real estate (*indirect ownership*) as well as own the real estate (*direct ownership*)
- *Asset securitization* has also made it possible for investors in industrial firms to own specific pieces of the firm's cash flows or receivables through ABS ("*direct ownership*"), as well as hold financial claims on the underlying productive real assets of the firm (*indirect ownership through shares and bonds*)

What is Asset Securitization?

- Generally speaking, this is the trend towards real assets, commodities, products, or receivables , etc, being transformed into <u>liquid securities</u> <u>tradable</u> in financial markets
  - real estate investment trusts (REITs) vs. real property
  - commercial mortgage backed securities (CMBS) vs. commercial mortgages
  - residential mortgage backed securities (RMBS) vs. residential mortgages
  - asset backed securities (ABS) vs. receivables (credit cards, auto loans, trade receivables, leases, royalties, telephones receivables, future flows, infrastructure projects, etc)

What is a REOC?

- A company that derives its income from real estate investment.
- A company that lists its primary business as real estate.

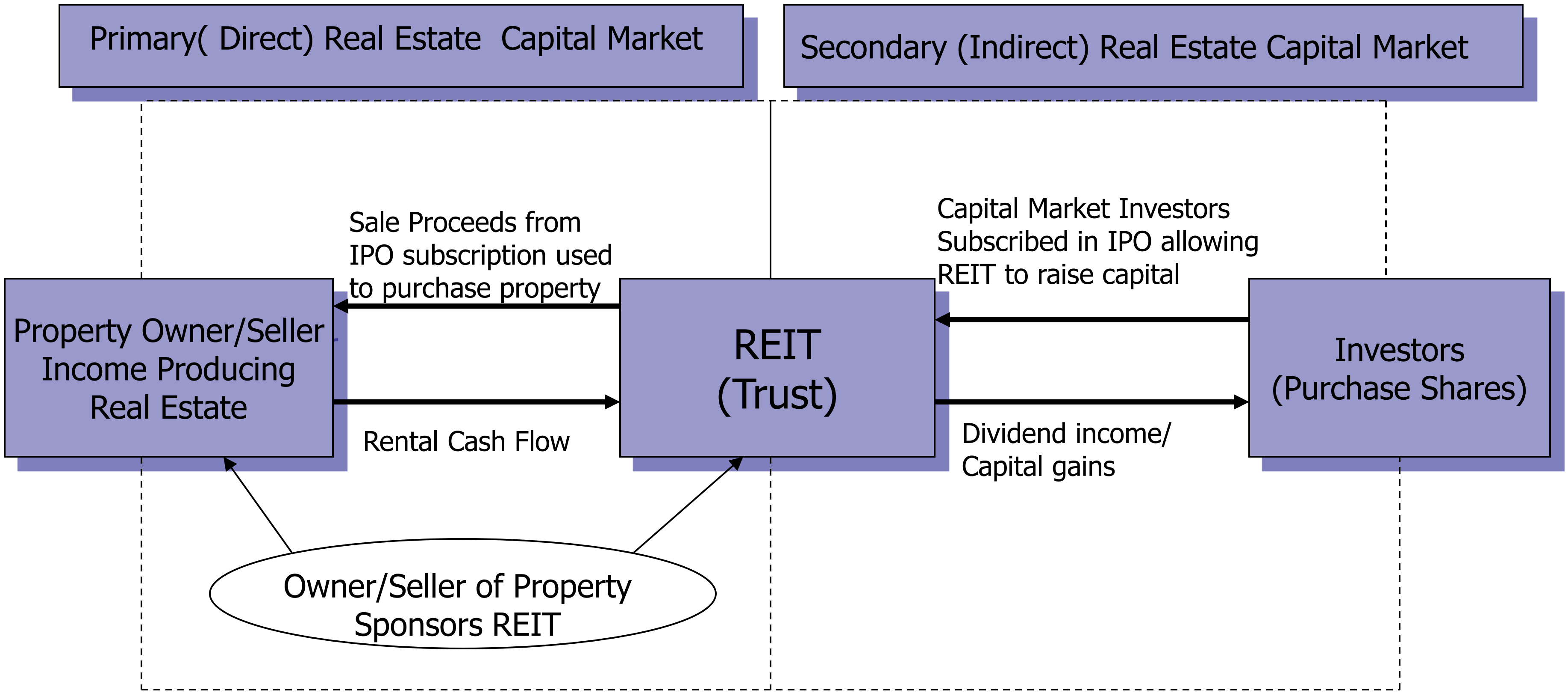
U.S REITs versus U.S. REOC Structure

- What is REOC?
- (1) U.S REITs are prohibited from certain lines of business, e.g. hotel operations, parking operations, REOCs are not
- (2) REITs operating loss (OL) can be carried forward for 15 years not back, REOCs can carry loss back
- (3) REOCs may decide to retain all of its earnings to fund growth opportunities, REITs must pay 90% of their earnings to shareholders to avoid double taxation

What is a REIT?

- Securitized real estate investment
- Ownership form created by tax code
- Basic requirements:
  - Be Real Estate
  - Pass-through income to shareholders
    - High dividends / low retained earnings
  - Avoid corporate tax

General Structure of Real Estate Investment Trusts (REITs)



Key Requirements of US REITs

- ***Asset Test:***
  - At least 75% of a REIT's asset value must come from real estate, cash, and government securities at the close of each quarter of taxable year
  - No more than 5% of the value of the assets may consist of the securities of one issuer, and REIT may not own more than 10% of the outstanding shares of one issuer, if those securities are not includable in the 75% test
- ***Income Test:***
  - At least 95% of gross income must come from dividends, interests, rents, or gains from sale of certain assets
  - No more than 30% of REITs gross income can be derived from sale of real estate held for *less than four years* or securities held for *less than six* months
- ***Distribution Test:***
  - At least 90% of the REIT taxable income must be distributed to shareholders
- ***Stock and Ownership Test:***
  - REIT shares must be transferable and must be held by a minimum of 100 persons
  - No more than 50% of REIT shares may be held by five or fewer persons

Other Typical Attributes of REITs

- REITs can be structured either as a corporation (US) or a unit trust (Australia)
- REITs can either be directly managed internally (US) or externally managed through a third party asset management company (Asian Countries)
- A REIT typically does not make a market – i.e. investors cannot require the REIT to redeem their shares (they are *closed-end funds*)
- Listed REITs are typically set up to operate indefinitely, although they can be structured with finite life.

REIT Types

- Equity
- Mortgage
- Hybrid

Equity REITs

- Blank Check
  - does not disclose investments to shareholders prior to acquisition.
- Specified Trusts
  - purchase a specific property (Rockerfeller Center Properties)
- Mixed Trusts
  - invests in both blank check and specific properties

Mortgage REITs

- Invests in mortgages
  - earn the spread between costs of funds and mortgage loan rates

U.S. REIT Property Sector and Sub-sector

- **Industrial/Office (9% / 21%)**
  - Office
  - Industrial
  - Mixed
- **Retail (25%)**
  - Shopping Centers
  - Regional Malls
  - Free Standing
- **Residential (19%)**
  - Apartments
  - Manufactured Homes
- **Diversified (8%)**
- **Others (18%)**
  - **Lodging/Resorts**
  - **Self Storage**
  - **Health Care****
  - **Mortgages**
    - Home Finance
    - Commercial Financing

REIT Benefits

- Invest in a diversified RE portfolio managed by professionals
  - Regular income and relatively high dividend yield
- Higher liquidity
  - REIT shares traded on stock exchanges
- Access to broad capital markets
- Corporate governance mechanisms

REIT Disadvantages

- possible conflicts of interests between sponsor and REIT shareholders

Innovation in U.S. REITs

- Pre 1986 REITs – passive management
  - Directors, trustees or employees of REITs were not allowed to actively manage REIT properties
  - Independent contractors performed these functions
  - REIT owns underlying physical assets directly
- Post 1986 REITs --- Modern REITs (active management)
  - 1986 Tax Reform Act relaxed management restrictions
  - Allowed REITs to provide normal maintenance and other services for tenants
  - Created <u>***vertically-integrated***</u> operating companies fundamentally different from passive REITs of pre-1986

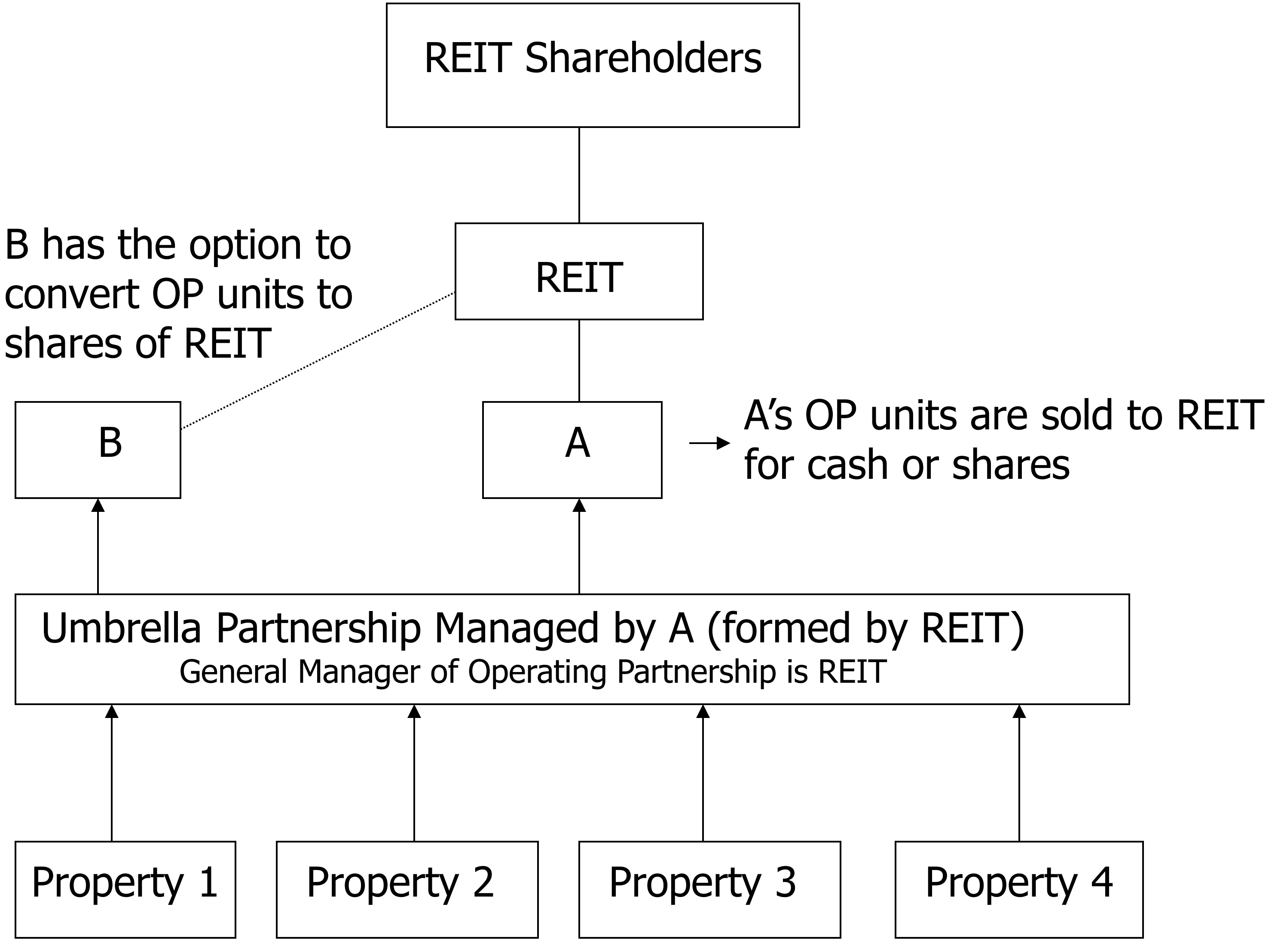
Major ’90s Innovation: UPREIT

- REIT formed by consolidating limited-partnerships
- partnerships allocated REIT shares based on appraised value of partnership property

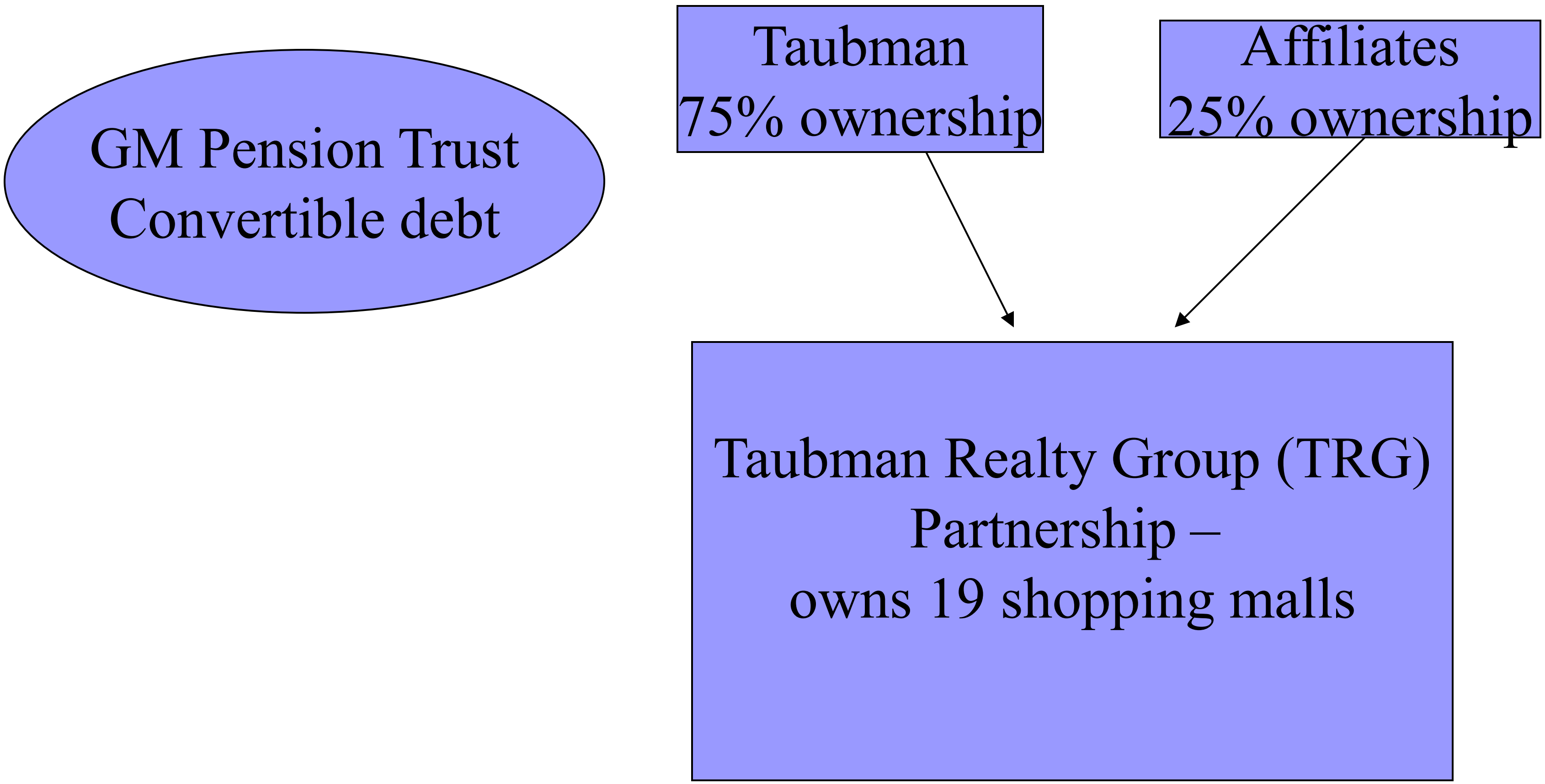
Umbrella Partnership REITs or UPREITs

- REIT does not directly own the underlying properties
- Rather the REIT and other real estate owners own units (***operating partnership units or OP units***) in a partnership
- The REIT and in real estate owners have contributed ort sold properties to the partnership
- OP units are convertible into shares of REIT, offering voting rights and dividends
- This complicated arrangement allowed property owners (developers) to “sell” their properties to the REIT without triggering taxable event

Umbrella REIT FORMATION



Taubman UPREIT



The Innovation in UPREITs

- The UPREIT is a form of *financial engineering* or *structured financing*
  - The structure is a tax-deferred mechanism through which real estate developers and other owners transferred properties in the form of a tax-exchange
  - Since the transaction did not trigger a taxable event the REIT is able to acquire properties at better earning multiples
  - Conceivably this resulted in shareholder wealth maximization
  - The development of UPREITs resulted in massive growth in REIT equity market capitalization in 1990s
  - These modern REITs feature active management so as to grow cash flows and portfolio size

Another Innovation in U.S. REITs Structure: Paired Share REITs

- It allows the REIT to <u>enter into prohibited business</u> and still <u>avoid double taxation</u>
  - The process starts with an REIT acquiring an REOC engaged in active real estate business that the REIT cannot enter (e.g. parking operations, hotels, and health businesses)
  - All properties acquired by the REIT are leased back to the REOC
  - REOC in turn pays most of its income to the REIT in the form of rent
  - REIT passes most of its income to shareholders and avoids double taxation

International REITs Trend

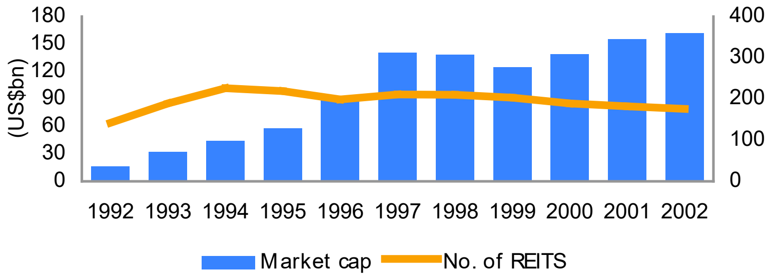
- The growing demand for publicly traded real estate likely to be met by growth of REITs
- Two largest REIT markets in the world are in the United States and Australia
- United States market commenced in the early 1960s. First Australian LPT IPO was in 1971
- Both markets grew very rapidly in the 1990s. This was after the property markets in both countries crashed in the early 1990s – Exhibit 4
- REIT markets also established in:
  - Canada, UK, Italy, Belgium, France, Netherlands, Japan, New Zealand, Malaysia, Korea, Singapore, Hong Kong, Taiwan, to name a few

US and Australian REIT Markets

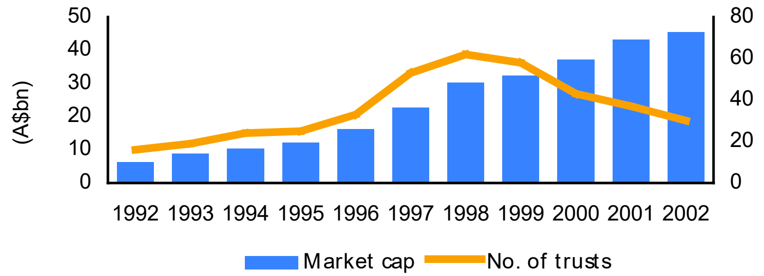
Exhibit 4: US and Australia saw explosive growth in the early 1990s

Size of markets

United States

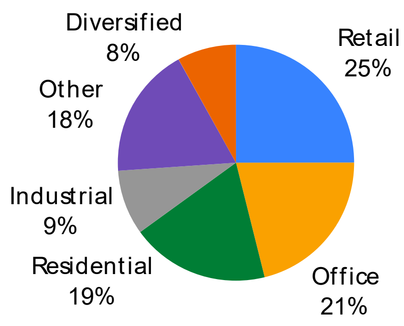


Australia

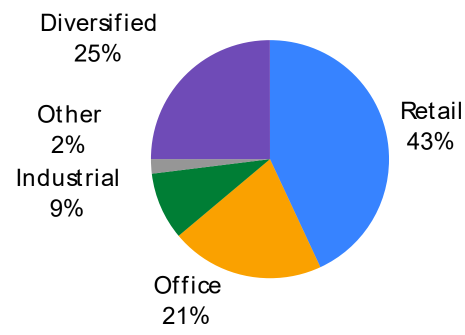


What REITs invest in

United States



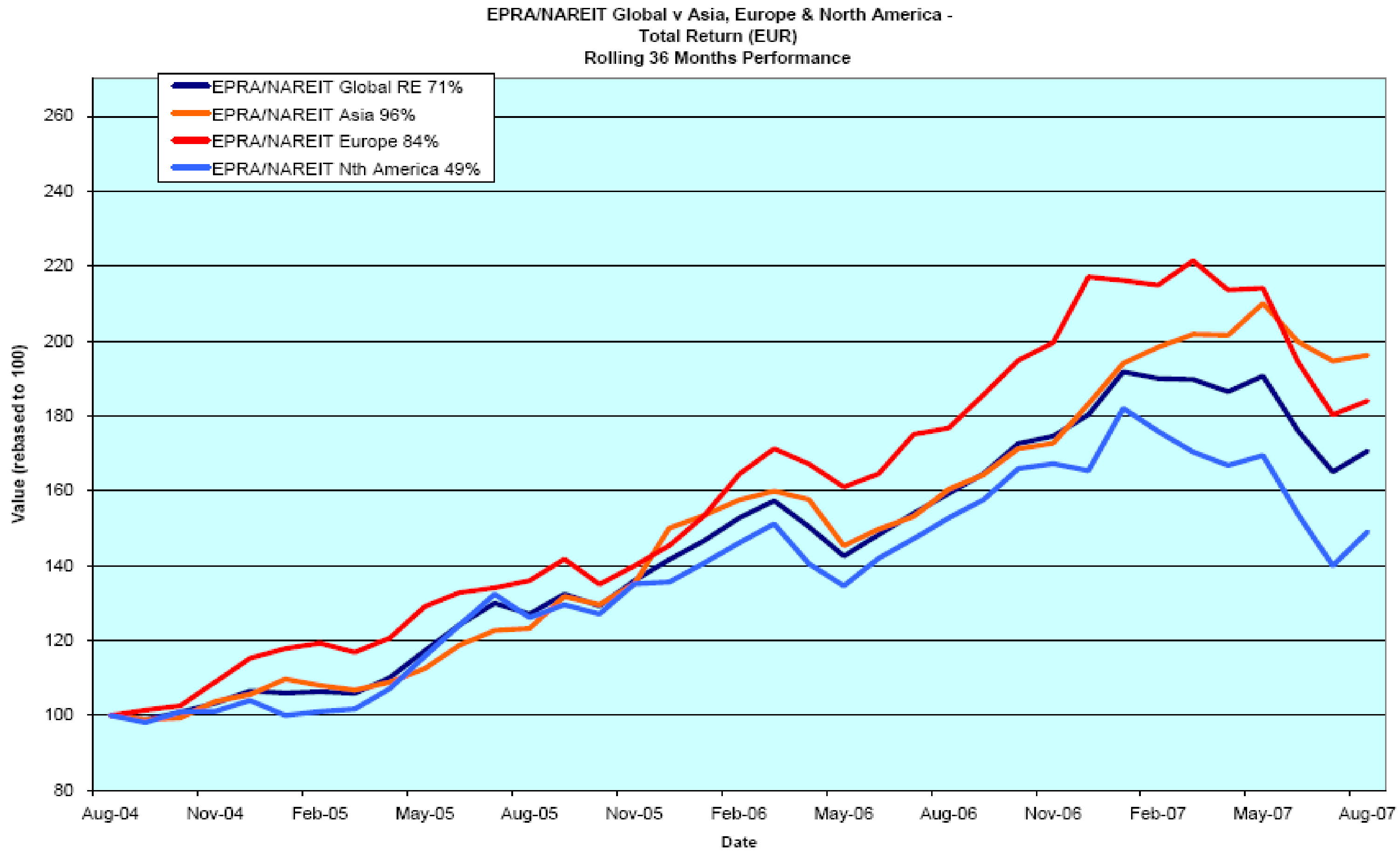
Australia



Source: NAREIT, UBS

Global REIT Performance

- Total Returns
- Dividend Yields
- Correlations



DATE: AUGUST 2007 CONTACT DETAILS:

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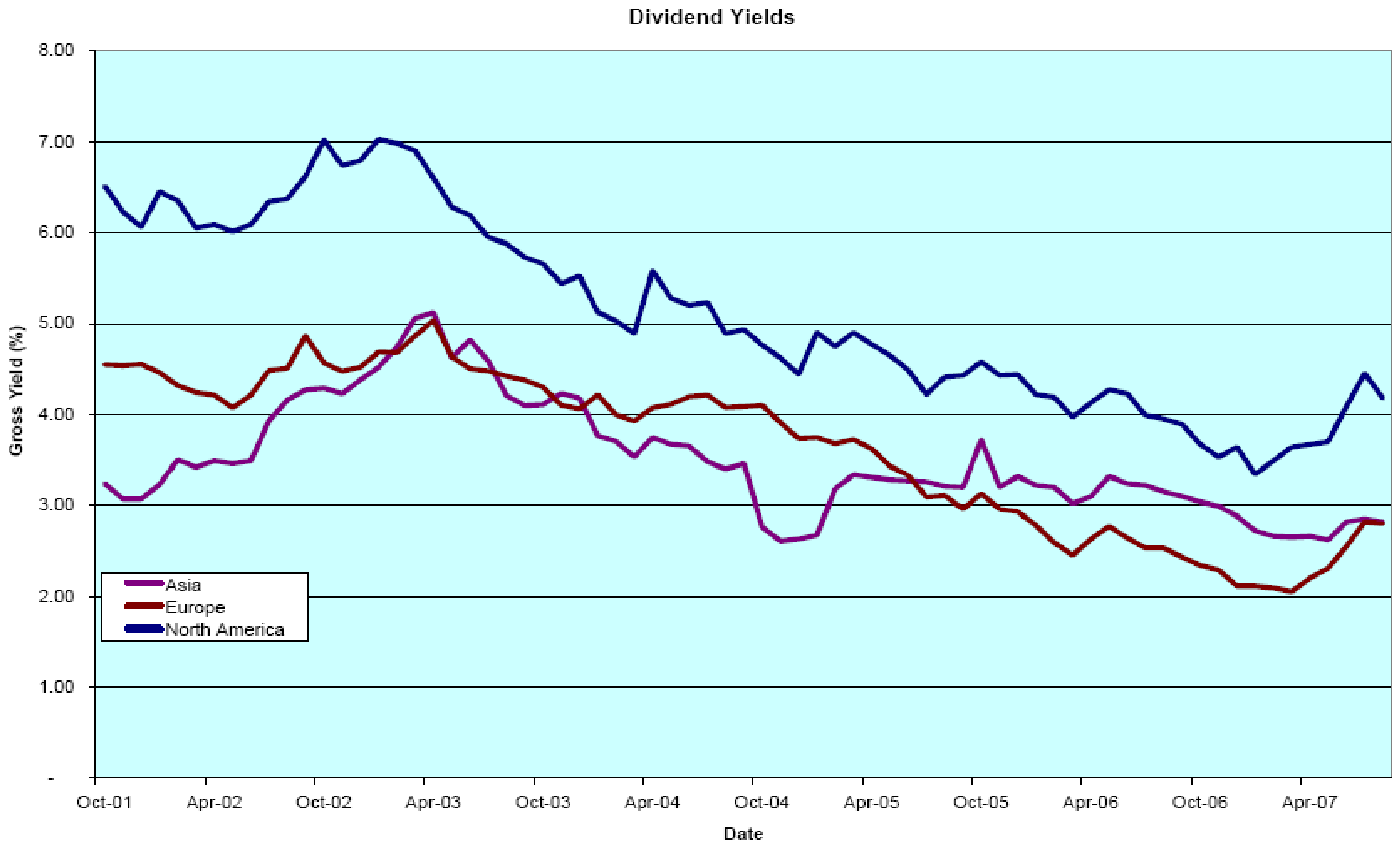
Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin



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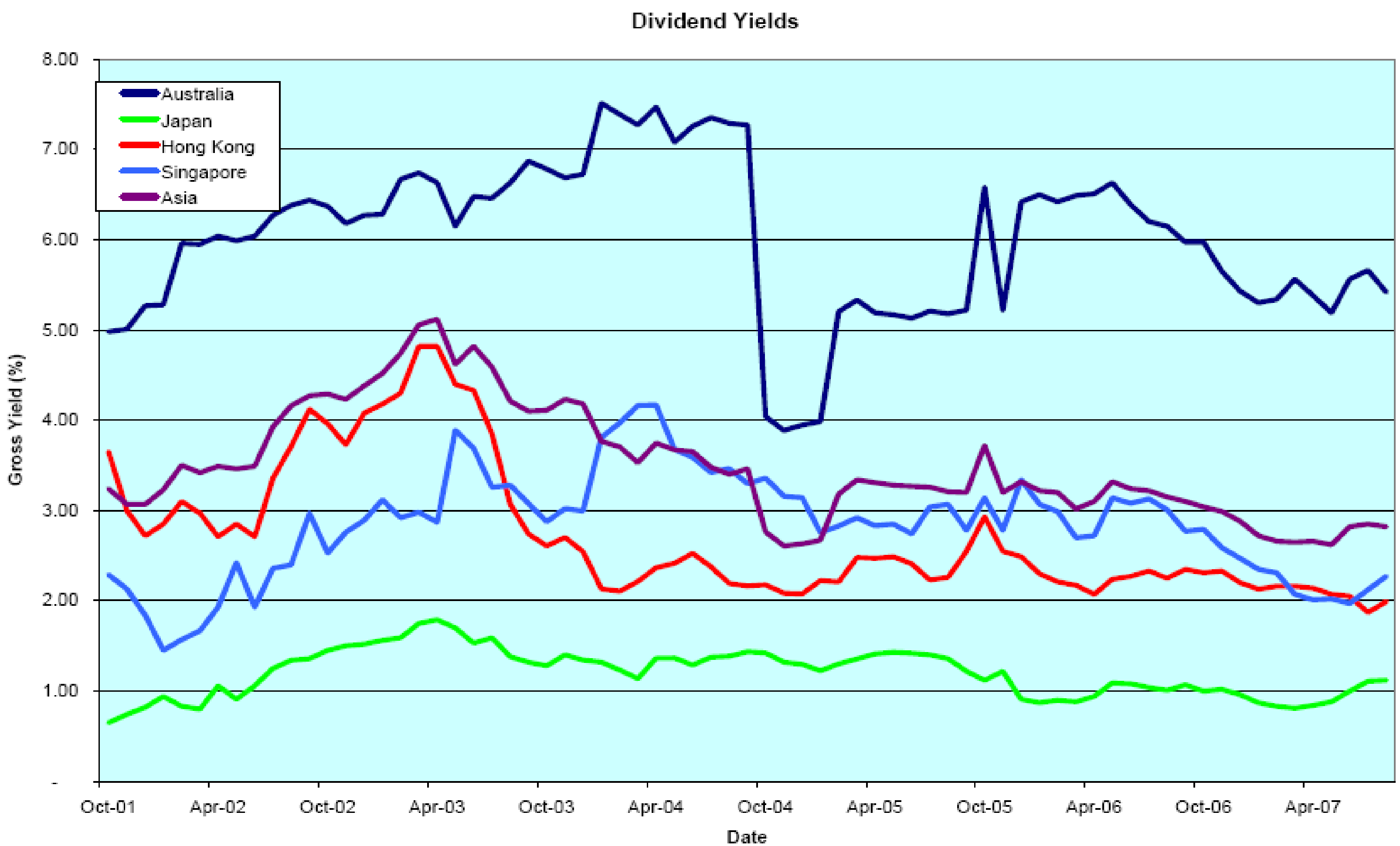

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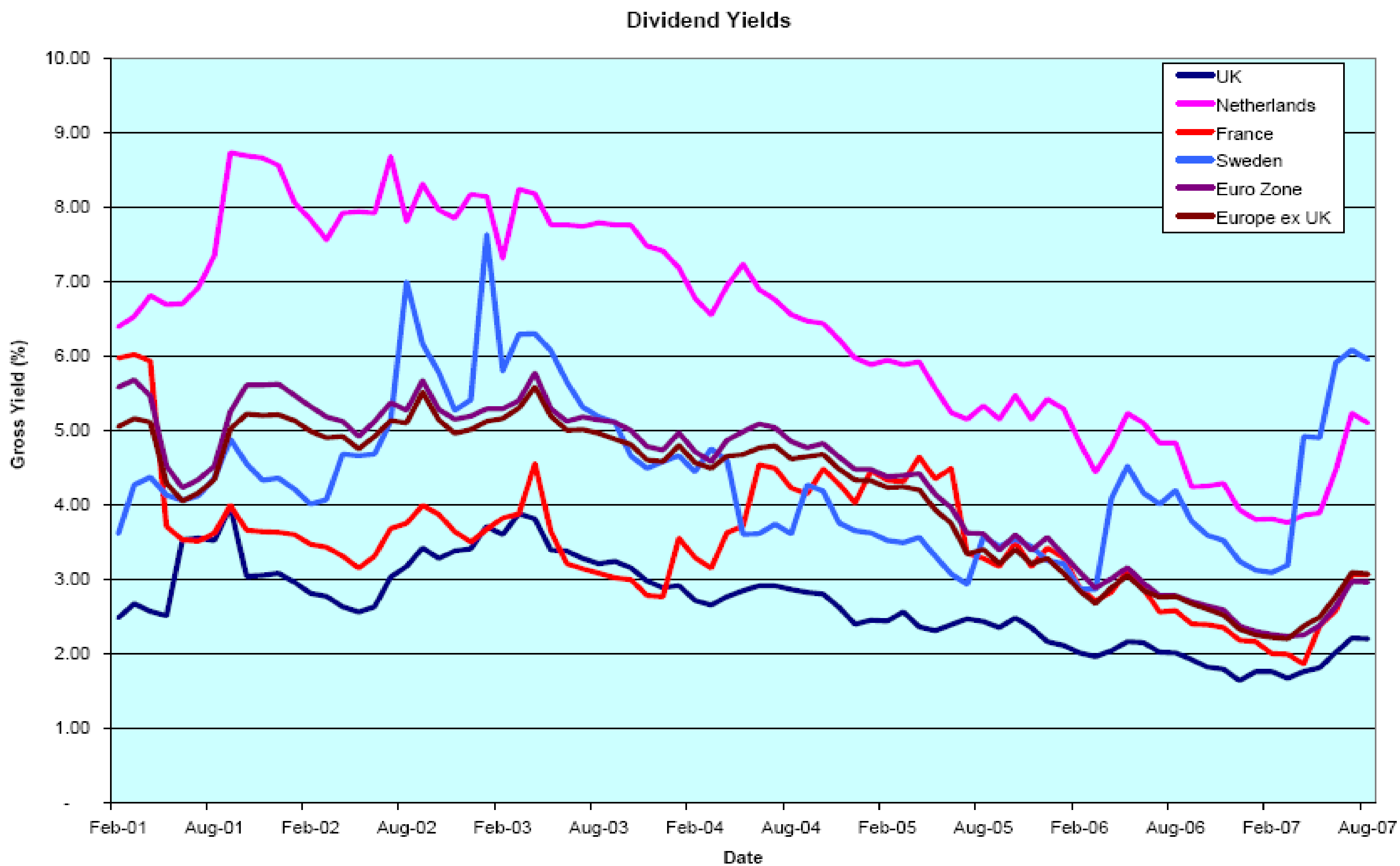

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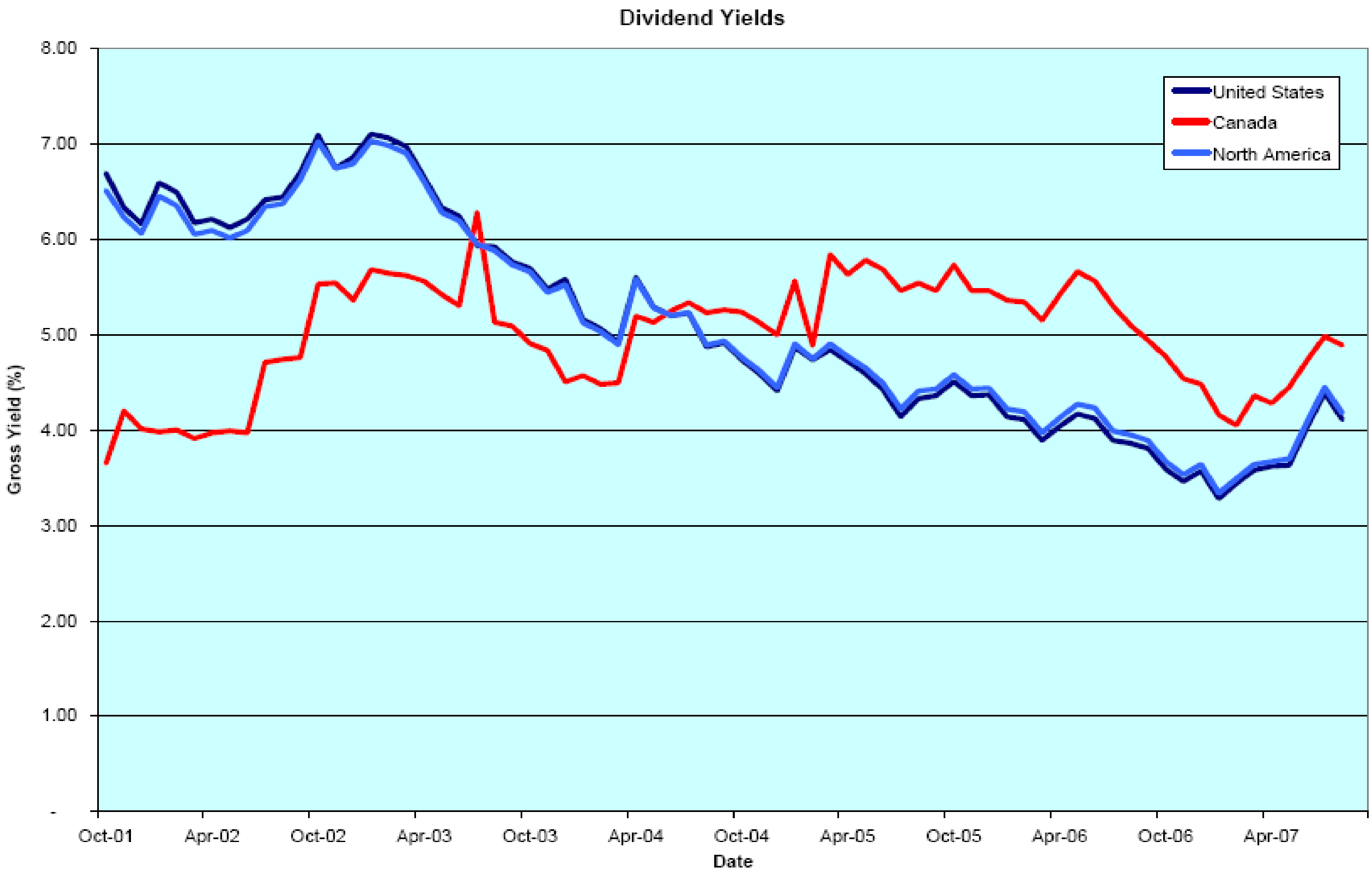

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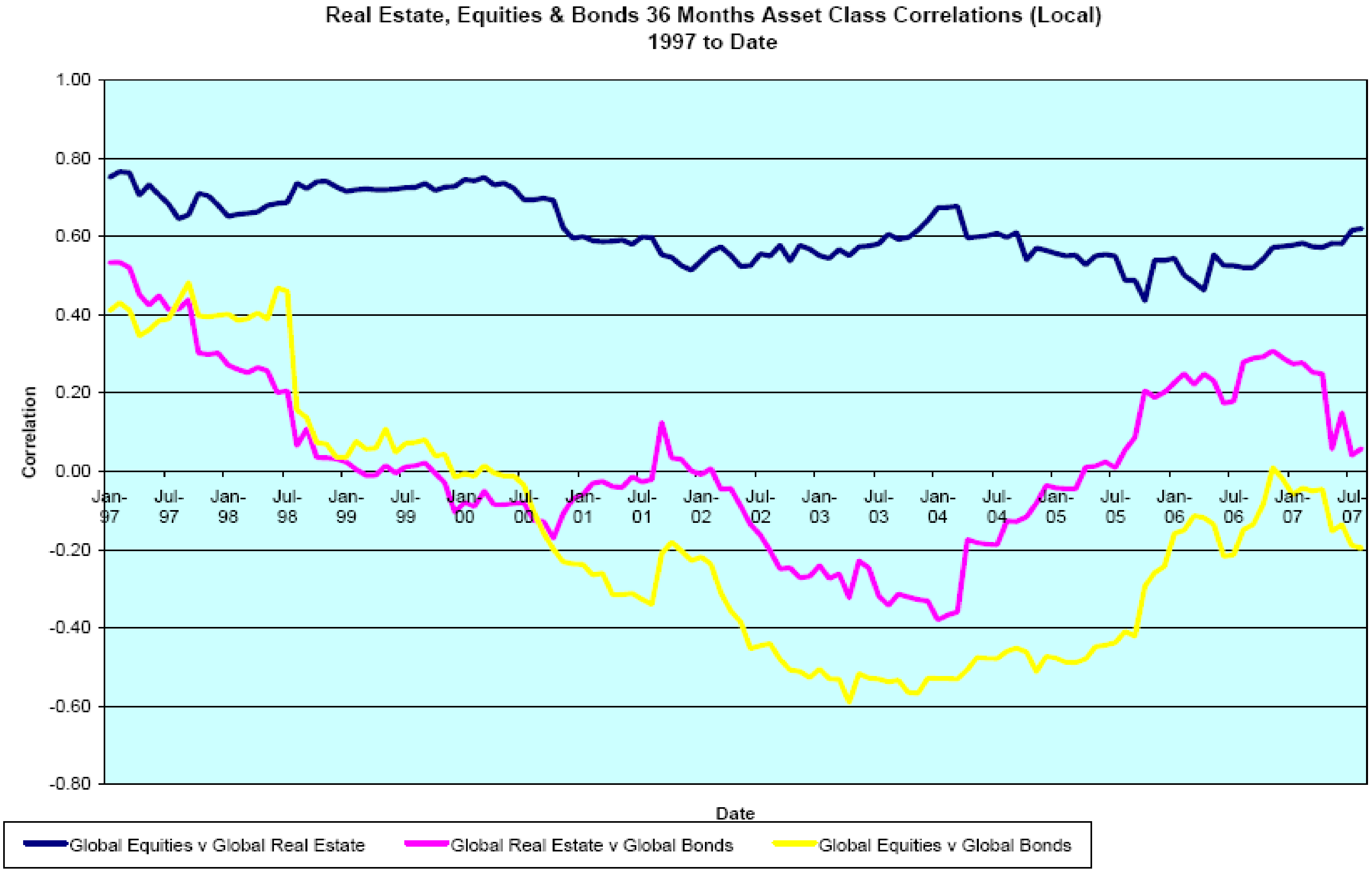

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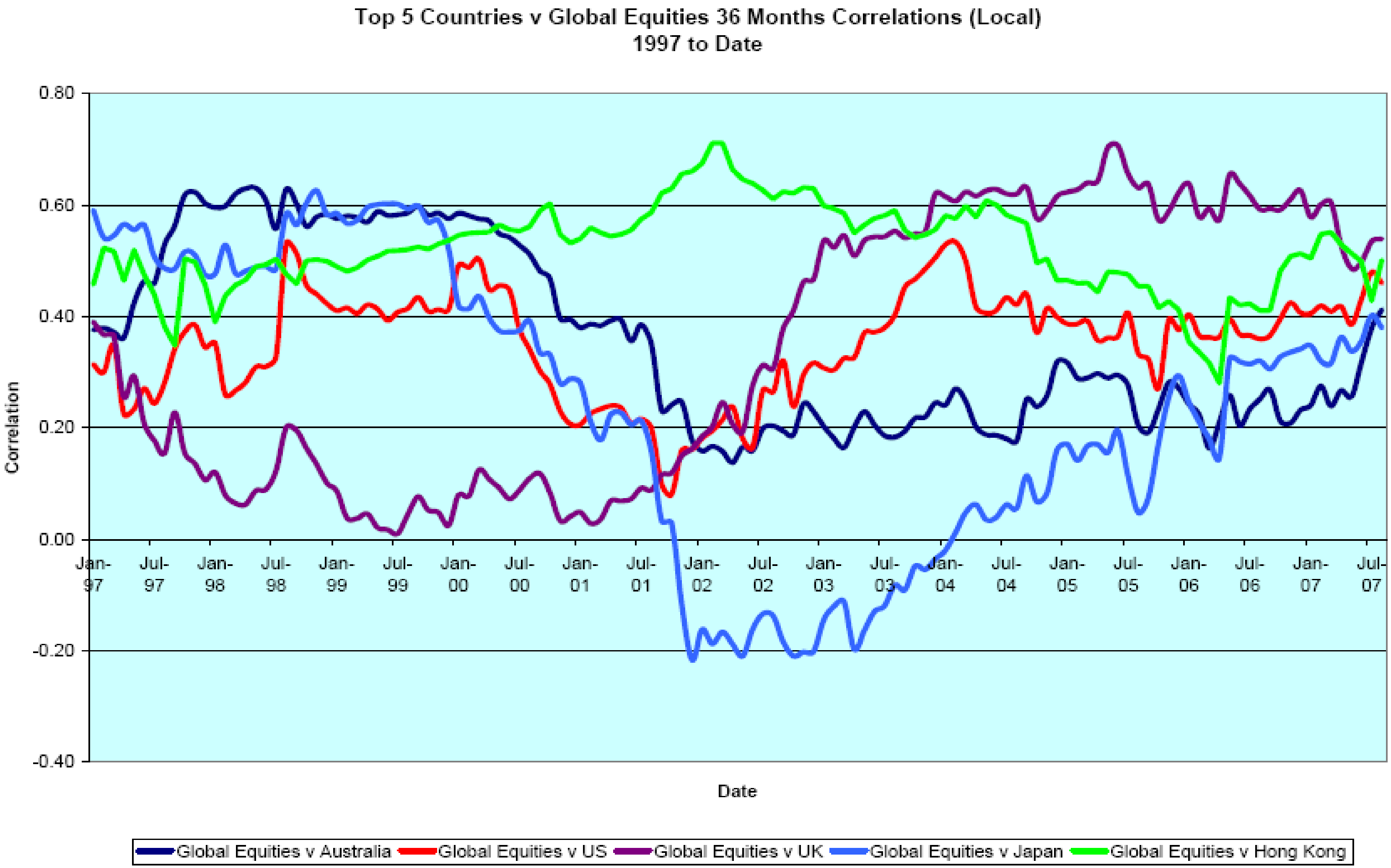

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Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

36 Month EUR Correlations

	Global Real Estate	Europe Real Estate	Nth America Real Estate	Asia Real Estate		Global Equities	Europe Equities	North America Equities	Asia Equities		Global Bonds
Global Real Estate	1.00	0.71	0.94	0.78		0.62	0.48	0.62	0.53		0.07
Europe Real Estate	0.71	1.00	0.55	0.51		0.48	0.53	0.45	0.33		0.13
Nth America Real Estate	0.94	0.55	1.00	0.58		0.49	0.33	0.56	0.35		0.07
Asia Real Estate	0.78	0.51	0.58	1.00		0.64	0.49	0.56	0.77		0.03
Global Equities	0.62	0.48	0.49	0.64		1.00	0.91	0.96	0.80		-0.25
Europe Equities	0.48	0.53	0.33	0.49		0.91	1.00	0.82	0.63		-0.27
North America Equities	0.62	0.45	0.56	0.56		0.96	0.82	1.00	0.66		-0.22
Asia Equities	0.53	0.33	0.35	0.77		0.80	0.63	0.66	1.00		-0.19
Global Bonds	0.07	0.13	0.07	0.03		-0.25	-0.27	-0.22	-0.19		1.00

Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

36 month local correlations

	Singapore - RE	Singapore - STI	Singapore Bonds
Singapore - RE	1.00	0.71	0.02
Singapore - STI	0.71	1.00	-0.13
Singapore Bonds	0.02	-0.13	1.00

	US - RE	US - S&P 500	US Bonds
United States - RE	1.00	0.49	0.19
United States - S&P 500	0.49	1.00	-0.11
United States Bonds	0.19	-0.11	1.00

	Japan - RE	Japan - Nikkei	Japan Bonds
Japan - RE	1.00	0.72	-0.30
Japan - Nikkei	0.72	1.00	-0.43
Japan Bonds	-0.30	-0.43	1.00

	HK - RE	HK - Hang Seng	HK Bonds
Hong Kong - RE	1.00	0.75	0.30
Hong Kong - Hang Seng	0.75	1.00	0.35
Hong Kong Bonds	0.30	0.35	1.00

Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

	UK - RE	UK - FTSE 100	UK Bonds
UK - RE	1.00	0.54	0.19
UK - FTSE 100	0.54	1.00	-0.18
UK Bonds	0.19	-0.18	1.00

	Sweden - RE	Sweden - OMX	Sweden Bonds
Sweden - RE	1.00	0.54	0.17
Sweden - OMX	0.54	1.00	-0.23
Sweden Bonds	0.17	-0.23	1.00

	Netherlands - RE	Netherlands - AE	Netherlands Bonc
Netherlands - RE	1.00	0.26	0.16
Netherlands - AEX	0.26	1.00	-0.37
Netherlands Bonds	0.16	-0.37	1.00

	France - RE	France - CAC 40	France Bonds
France - RE	1.00	0.30	0.15
France - CAC 40	0.30	1.00	-0.35
France Bonds	0.15	-0.35	1.00

	Italy - RE	Italy - MIB30	Italy Bonds
Italy - RE	1.00	0.40	0.10
Italy - MIB30	0.40	1.00	-0.03
Italy Bonds	0.10	-0.03	1.00

	Greece - RE	Greece - ASE 20	Greece Bonds
Greece - RE	1.00	0.14	-0.35
Greece - ASE 20	0.14	1.00	-0.01
Greece Bonds	-0.35	-0.01	1.00

Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

	Switzerland - RE	Switzerland - SMI	Switzerland Bond
Switzerland - RE	1.00	0.36	-NA-
Switzerland - SMI	0.36	1.00	-NA-
Switzerland Bonds	-NA-	-NA-	-NA-

	Belgium - RE	Belgium - BEL 20	Belgium Bonds
Belgium - RE	1.00	0.39	0.18
Belgium - BEL 20	0.39	1.00	-0.16
Belgium Bonds	0.18	-0.16	1.00

	Germany - RE	Germany - DAX	Germany Bonds
Germany - RE	1.00	0.23	-0.05
Germany - DAX	0.23	1.00	-0.46
Germany Bonds	-0.05	-0.46	1.00

	Finland - RE	Finland - HEX 25	Finland Bonds
Finland - RE	1.00	0.47	0.00
Finland - HEX 25	0.47	1.00	-0.32
Finland Bonds	0.00	-0.32	1.00

	Denmark - RE	Denmark - KFX	Denmark Bonds
Denmark - RE	1.00	0.16	0.14
Denmark - KFX	0.16	1.00	0.02
Denmark Bonds	0.14	0.02	1.00

	Austria - RE	Austria - WBI	Austria Bonds
Austria - RE	1.00	0.54	0.03
Austria - WBI	0.54	1.00	0.01
Austria Bonds	0.03	0.01	1.00

Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

	Poland - RE	Poland - WIG 20	Poland Bonds
Poland - RE	1.00	0.38	0.28
Poland - WIG 20	0.38	1.00	0.17
Poland Bonds	0.28	0.17	1.00

	Norway - RE	Norway - OBX	Norway Bonds
Norway - RE	1.00	0.05	-NA-
Norway - OBX	0.05	1.00	-NA-
Norway Bonds	-NA-	-NA-	-NA-

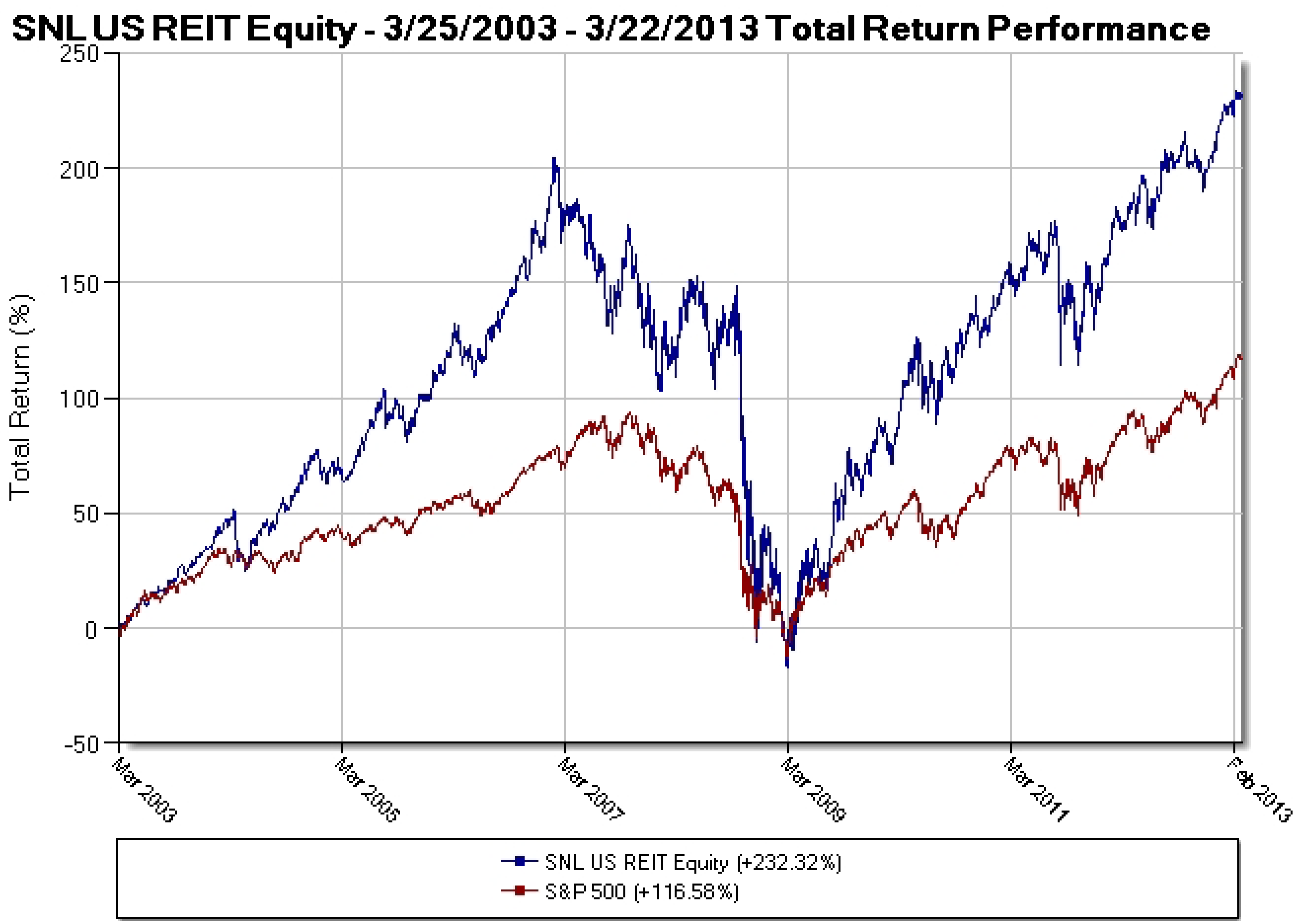
	New Zealand - RE		New Zealand Bor
New Zealand - RE	1.00		-0.12
New Zealand Bonds	-0.12		1.00

	Spain - RE	Spain - IBEX 35	Spain Bonds
Spain - RE	-NA-	-NA-	-NA-
Spain - IBEX 35	-NA-	1.00	-0.14
Spain Bonds	-NA-	-0.14	1.00

Source: FTSE EPRA/NAREIT Global Real Estate Index – Monthly Bulletin

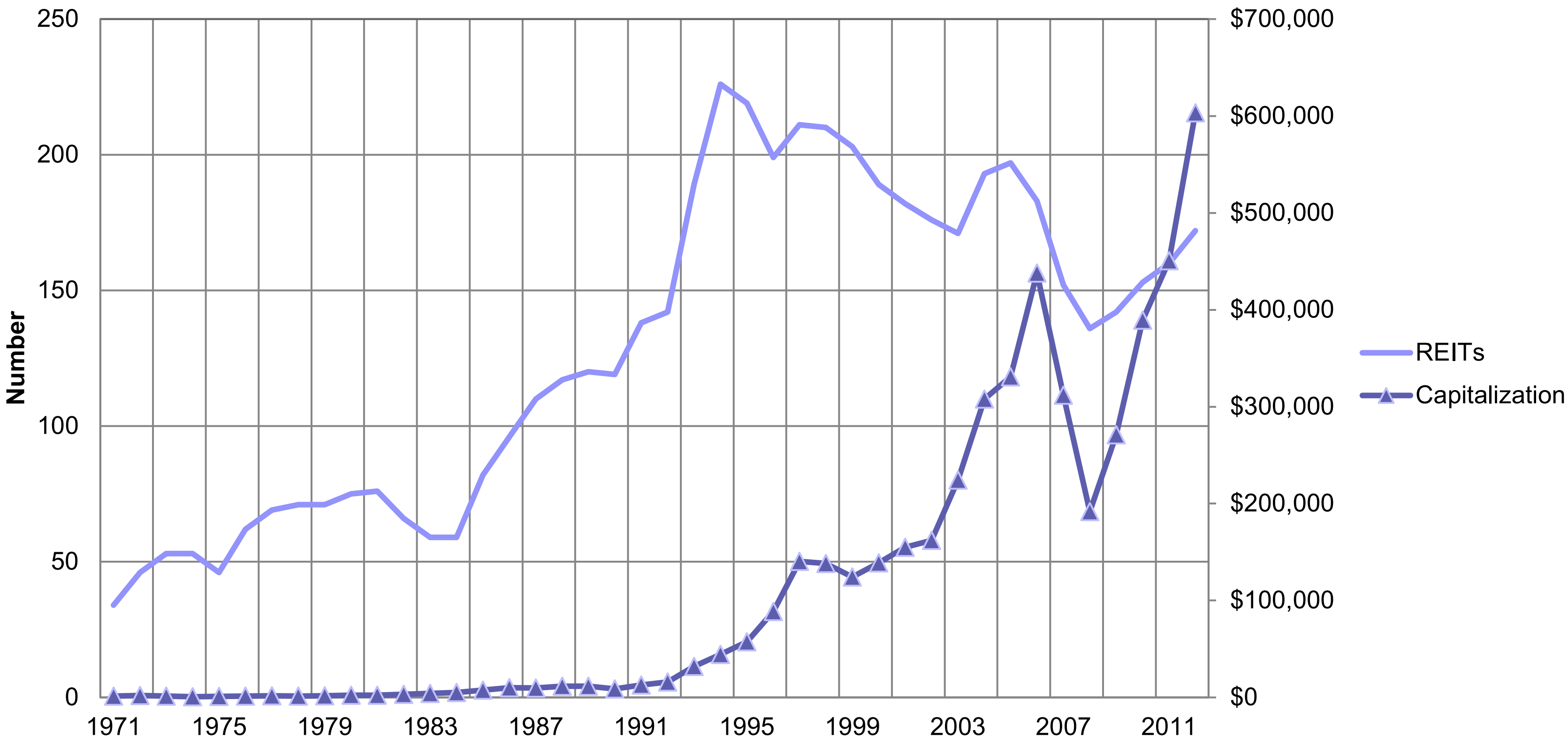
Historical US REIT Performance

- Sept 2003 to Sept 2013
- Sept 2002 to Sept 2007
- Sept 2006 to Sept 2007



Source: www.SNL.com

REIT Market Capitalization



- Why the big increase in REIT numbers and capitalization during the 1990s?

Structural Changes Influencing the REIT Market

- 1986 Tax Reform Act
  - Reduced incentives to hold real estate in private/partnership form (leveled playing field)
  - Still, no move to public market financing until late 1992
    - TRA was necessary, but not sufficient condition for the rise of equity REITs

Structural Changes

- End of High LTV Nonrecourse Financing
  - By early 1990s, commercial banks and insurance companies had reduced exposure to real estate
    - Regulatory pressure on banks
    - Regulatory pressure and changing business conditions on insurance companies

Structural Changes

- With high LTV nonrecourse loans, real estate owners had no need to raise equity
  - made them abnormal compared to other capital intensive businesses in the US

Structural Changes

- Debt Rollover Timing
  - Industry refinanced with 5-7 year miniperms following bond market rally of 1986

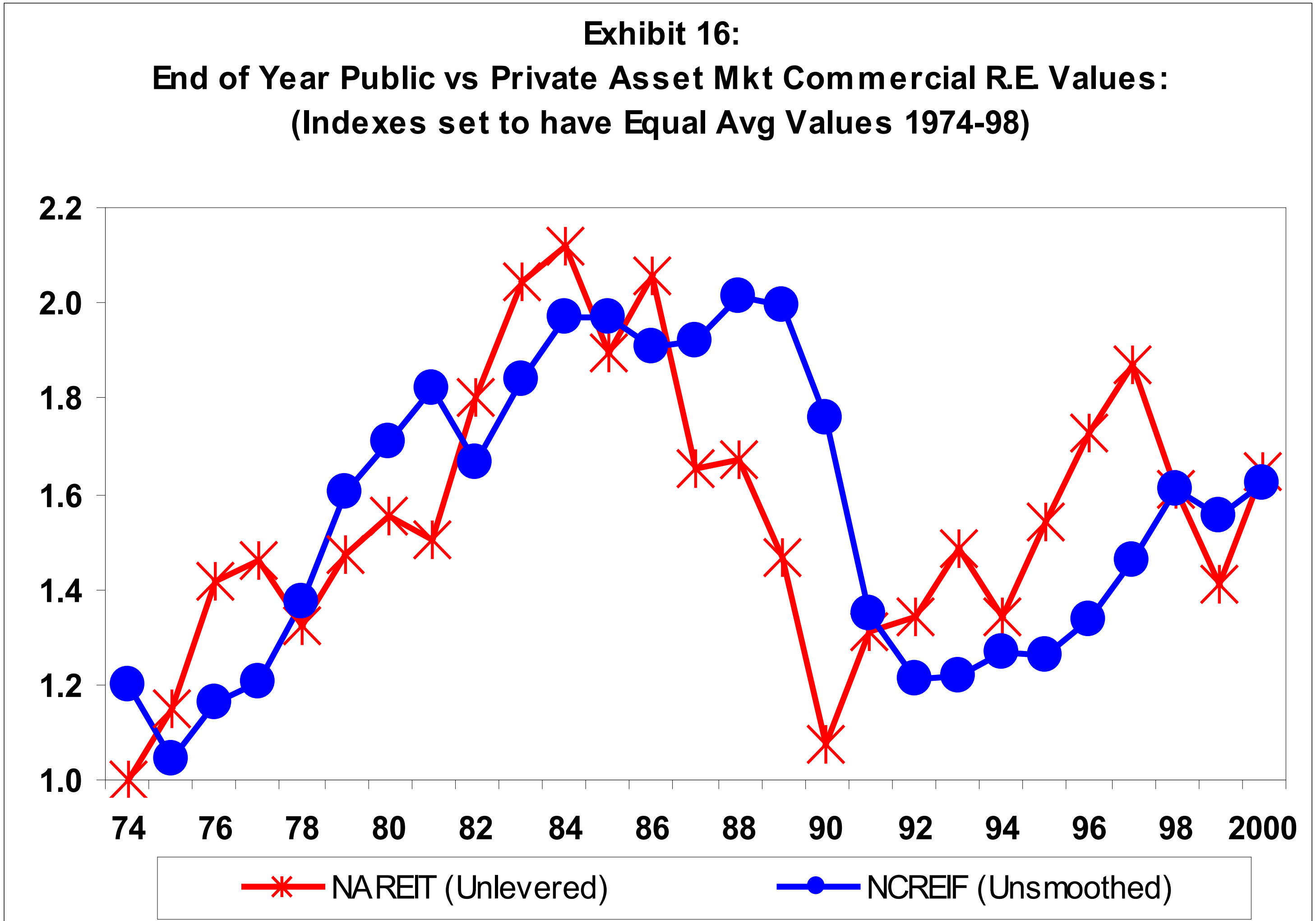
Structural Changes

- End of high LTV financing and debt rollovers created a capital squeeze in 1992 that forced many real estate owners to consider raising equity in the public markets for the first time
- UPREITs created
  - allowed original owners to maintain effective control of assets

Dual Models of REIT Value

- We earlier noted the existence of <u>two parallel real estate asset markets</u>
  - The public market (stock market) where REITs trade
  - The Private property market where the REITs' underlying physical assets trade
- <u>Three fundamental questions</u> arise from this dual market model that are of interest to real estate investors
  - (1) Which asset market to use for real estate investment decision?
  - (2) Is there a possibility for arbitrage by trading between the two markets to make seemingly (or nearly) riskless profits?
  - (3) Do the two markets value differently the same underlying physical asset?
- First, we focus on the third question dealing with <u>differential valuation</u> between the two markets

The Dual Market Nature of Real Estate Creates "Windows of Opportunity"



Public versus. Private Market Real Estate Valuation

Consider a 20-building portfolio with 2.5 million rentable square feet

	Total Portfolio	$/square foot
Gross Rent	$40.0 million	$16.00
Less amortized concessions (15%)	6.0	2.40
Effective Rent	$34.0 million	$13.60
Less: Stabilized Vacancy (15%)	5.1	2.04
Less: Expenses (36.8%)	12.5	5.00
Net Operating Income (NOI)	$16.4 million	$6.56 psf

Public Company Valuation (PCV) -- an IPO

	Total Portfolio	$ per Square ft
Stabilized NOI	$16.4 M	$6.56 psf
Less Management exp (75 bp)	$.12	$0.05
Subtotal	**$16.3**	**$6.51**
Dividend Payout ratio 90%		
Dividend Cash Flow	**$14.7**	**$5.86 psf**
Estimated Dividend Yield Range		
7.50% to 9.00%		
Implied PCV Range	$195.6 M	$78.12 psf
	$163.3	$65.11
Average Public MV	**$179.5 M**	**$71.78 psf**

Private Market Valuation (PMV)

	Total Portfolio	$ per Square
Stabilized NOI	$16.4 M	$6.56/PSF
Estimated cap rate range: 9.75% to 11.25%		
Implied Private Market portfolio valuation	$168.2 M	$67.28/PSF
	$145.8	$58.31
Average PMV	**$157.0 M**	**$62.80/PSF**

Public Vs. Private Market Valuation Differentials

	Total Portfolio	$ per Square ft
Average Public MV	$179.5M	$71.78/PSF
Average Private MV	$157.0	$62.80
Absolute Difference:		
Public - Private	$22.5M	$8.98/PSF
Percentage	6.21%	14.2%

Public vs. Private Valuation Differentials: Some Possible Explanations

- (1) The Public market ascribes value to more than just the underlying property assets
  - Other factors include company management and its ability to identify and create investment opportunities through active management of the real estate
- (2) The public market valuation includes a premium for share liquidity
- (3) Are REITs closed-end mutual funds or operating companies?
  - Closed-end mutual funds model suggest REIT shares will generally trade at values below their NAVs -- *closed-end mutual fund discount*
  - The Operating Corporation model suggests that REITs shares will generally trade at values above their NAVs – *growth opportunities*.

REIT Analysis = Measuring Performance

- Earnings Per Share (EPS)
- Funds From Operations (FFO)
- Funds Available for Distribution (FAD)
- Free Cash Flow (FCF)
- Net Asset Value (NAV)

EPS v. FFO

- earnings per share (EPS) is a fictional accounting number
  - REIT must distribute at least 90% of EPS
- funds from operations (FFO) is REIT cash flow (no depreciation)

Earnings Measure for Industrial Corporations

- The official GAAP accounting-based Net Income for industrial firms is calculated as follows:

  Revenue
  - Operating expenses
  = Earnings before interest, taxes, and depreciation (EBITDA)
  - Depreciation and amortization
  = Earnings before interest and taxes (EBIT)
  - Interest
  = Earnings before taxes (EBT)
  - Taxes
  = Net Income

- This Net Income is the official measure of *earnings* for the typical industrial corporation used as input to calculate *Earnings Per Share* (EPS)

Earnings Measures for REITs

- REIT taxable earnings, the official GAAP EBT (or EBIT – interest) is **<u>not</u>** well suited for determining REITs earnings:
  - <u>Depreciation</u> expenses are a particularly <u>large portion of REIT expense</u>
  - Unlike industrial firms the <u>depreciation</u> of real property by REITs is often <u>not matched by actual loss of value</u> of the property over time
- As a result other measures are used to track the earnings of REITs by security analysts, such as Funds From Operation (FFO), Funds Available for Distribution (FAD) and Free Cash Flow (FCF) to equity

Funds From Operations (FFO)

- FFO means net income (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization of assets uniquely significant to the real estate industry, and after adjustments for unconsolidated entities in which the REIT holds an interest. Adjustments for these entities are to be calculated to reflect FFO on the same basis. Moreover, NAREIT believes that items classified by GAAP as extraordinary or unusual are not meant to either increase or decrease reported FFO.

How to Calculate FFO

Revenues minus:

- Operating expenses
- Depreciation & amortization
- Interest expense
- General & Administrative expense

= NET INCOME (GAAP)

Reported FFO?

Net Income minus:

- Profit from real estate sales

plus:

- Real Estate Depreciation

= FFO

Analyst FFO? (also called FAD)

FFO minus:

- Recurring capital expenditures
- Amortization of tenant improvements
- Amortization of leasing commissions
- Adjustment for rent straight-lining

= Adjusted FFO (AFFO) or FAD

Calculating Free Cash Flow

- Funds Available for Distribution (FAD)
- Minus: Real Estate Acquisitions* -- new investments
- Minus: Changes in Working Capital*
- Minus: Principal Payments*
- Plus: New Debt Issue* --- effects on REITs cash flow
- Plus: Gain on Sale of Real Estate*
- Plus: New Equity Issue (SEO)*
- = Free Cash Flow to Equity

- Payout Ratio = Dividend / FFO

Key Parts of FFO

- Depreciation and Amortization
  - Old definition allowed add-back of D&A for non-real estate items
    - allowed firms to increase FFO in prospectuses via debt buydowns and deferred financing

Key Parts (Nonrecurring Items)

- Focus FFO as a measure of recurring operations
  - restrict ability to affect FFO due to special events

Key Parts (Nonrecurring Items)

- Focus attention on recurring maintenance and capital expenditures that are necessary to maintain the relative economic position of the property
  - reflect true economic depreciation
  - probably should be subtracted, not added back to determine FFO
    - issue of whether capital expenditure is revenue-enhancing

Impact on FFO

- Tenant Improvements (TI)
  - landlord allowance to cover costs of reconfiguring space for tenant
  - TI are capitalized and depreciated - cash flow from TI not included in FFO
  - Implication:
    - Mgt can use TI's to raise occupancy and rent revenue

Impact on FFO

- Leasing Commissions
  - usually paid in cash when lease is signed
  - cost is capitalized over life of lease, may not show up in FFO
  - 2 issues:
    - leasing costs are an operating cost
    - commissions are occasionally paid over lease term

Impact on FFO

- Straight-line Rents (REITS with long term leases)
  - count average rental rates over lease life in FFO
    - over states revenue in early years and under state in later years

Impact on FFO

- Lease guarantees
  - REIT sponsor guarantees income on currently vacant space using master lease (*WHY?*)
    - may be for limited period - short term solution to long term problem
    - should have recourse to sponsor
    - sponsor may be charging the REIT guarantee fees

Impact on FFO

- 3rd Party Income
  - income from managing other properties
  - highly variable
- Leased space v. Occupied space

Impact on FFO

- Depending upon management's strategy with respect to capitalizing or expensing items, calculated FFO and percentage of payout of net income can vary widely
  - Kimco Realty (KIM) expenses everything they can -- reduces measured NOI -- increases amount they can retain (65% payout ratio - lowest in industry)
  - Large group of about 10 has payout ratios over 95% -- capitalize aggressively -- raises FFO -- reduces what they can retain

FFO Example

- Washington Real Estate Investment Trust (WRIT)
  - See supplement

REIT Growth

- REITs have limited ability to grow through retained earnings (little free cash flow)
- Most expand through additional stock offerings (follow-on offerings)

FFO Growth

FFO Growth = Internal Growth + External Growth

FFO Growth

Internal Growth

- Rental Increases
- % Rent, Rent Bumps, etc.
- Tenant Upgrades
- Property Refurbishments
- Sale & Reinvestment

FFO Growth

External Growth

- Acquisitions
  - Accretive = yield on investment is above cost of capital
    - Example: REIT raise $100m from stock and bond at 10% WACC -- acquire property with a 12% yield == 2% increase in FFO
  - Decretive = yield is below WACC
- Development & Expansion

Case Study – Prologis