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Observations from the NYU REIT Symposium

Following are some observations[1] from this week's 23rd Annual NYU REIT Symposium, which included many of the top CEOs and thought leaders in the space, representing more than half the market cap of the industry:

1. Growth. Despite disappointing stock performance of late, the REIT industry continues to grow rapidly. Non-mortgage REITs now have an equity market cap of $1.1T and own assets valued north of $2T, yet still control only roughly 15% of U.S. commercial real estate and a smaller percentage of global assets. Lots of runway ...

2. NAV. NAV is a blunt instrument, to be used with care. NAVs are imprecise estimates by nature, are backwards-looking, and don't take account of frictional costs. A common misconception is that a public REIT cannot sell itself for less than NAV — while NAV is one metric to look at, the question for a REIT board considering a sale is how a price offered compares to the company's current and expected equity value, long term strategic plan and other strategic alternatives, and what is in the best interest of its shareholders.

3. Closing the NAV Gap. The many REITs trading at substantial discounts to guesstimated NAVs are attempting to close the gap in a number of different ways, from asset sales, share buybacks, deleveraging, development or sale of the company. They should also evaluate their executive compensation models to ensure that executives are appropriately incentivized in the current market.

4. Tech-REITs. Tech-driven REITs are in a turbo-charged category of their own. They already represent four of the ten biggest REITs.

5. Consolidation. The advantages of scale continue to drive consolidation. Some argued that one of the key advantages certain to increase the pace of consolidation is the ability to quickly harness new technologies across broad portfolios, providing tenants a superior product.

6. Privatizations. Privatizations are likely to pick up steam given the NAV gaps and the "maturity" of a good number of management teams and founders. In many cases, however, the large size or product type of a REIT (there are now 42 REITs with enterprise values over $10B, many much bigger) limits the number of potential bidders, which can be a serious impediment.

7. M&A Process. There is no one-size-fits-all process for M&A. Depending on the circumstances, a full auction, limited/soft auction, auction with a floor (à la EOP), or other process may make sense. Maryland and Delaware law give boards broad discretion to implement the process which they judge best to maximize shareholder value.

8. MBOs. In privatization transactions where management is part of the buy-out group it is important that procedures to address conflicts and to comply with enhanced disclosure requirements are put in place at the earliest stages of a transaction.

9. Activism. Activism is on the rise, especially by better capitalized players from outside the REIT space. The usual playbook applies.

10. Shareholder Engagement. REITs' shareholder base continues to evolve, with passive investors now owning 27% of the industry. Shareholder outreach, including to the passives, has never been more important.

Adam O. Emmerich　　　Robin Panovka

[1] Of course, these observations reflect only our views and may or may not reflect the views of other participants at the Symposium.