

# REIT on the Money

### Critical Facts About Today's Listed Real Estate Market

### The Takeaway: REIT Balance Sheet Resiliency

Recent banking sector turmoil has generated questions about outstanding commercial real estate (CRE) loans across the U.S., where banks today hold about 40%¹ of the \$4.5 trillion of CRE debt outstanding. With smaller, regional banks increasing their share of CRE debt in recent years, it's no surprise that concerns regarding these outstanding loans have made media headlines

However, this degree of concern shouldn't exist for public U.S. REITs. Unlike their private counterparts, these companies have already applied the hard lessons learned during the Global Financial Crisis (GFC) when poor capital management and high leverage were harshly punished by the public markets. In response, public REITs have spent the last cycle right-sizing their balance sheets and adding flexibility to their capital structure, a remedy the private markets never had to consider.

As a result, the debt structures across public and private real estate markets have never been more different than they are today, putting public REITs in a relative position of strength across the real estate sector allowing them to withstand any uncertainty in the credit markets in the foreseeable future.

## Fact#1: REITs are less reliant on bank lending and have better access to capital.

Over the last cycle, REITs shifted away from bank-reliant secured debt to the unsecured bond market; unsecured loans today comprise over 75% of the U.S. REIT debt outstanding. The lack of reliance on bank lending has allowed U.S. REITs to raise \$5.5 billion in unsecured debt since the Silicon Valley Bank fallout at a weighted average rate of 5.08% and term of 9.2 years. This superior access to capital positions public REITs competitively versus private market players who are much more reliant on halted bank lending.

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## Fact# 3: REITs have limited refinance risk.

REITs took advantage of lower interest rates over the last decade and issued primarily long-duration fixed rate debt. Today, the average term to maturity for REIT debt outstanding is about 6.9 years with over 86% of that debt at fixed rates, limiting the impact of rising rates on REITs.

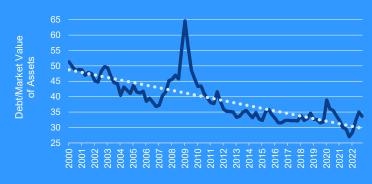




# Fact#2: REIT leverage is meaningfully lower than it was going into the GFC.

Leverage across the REIT sector has been right-sized post-GFC and sits just above 30% today. This low level of financial leverage is meaningfully different when compared to the private markets, where leverage in a typical closed-end fund will be in the 65% range.

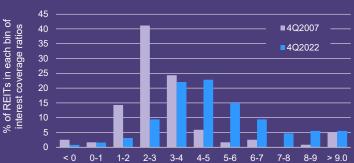
#### **REIT Debt to Asset Value**



## Fact #4: REITs have a limited risk of breaching interest coverage ratio covenants.

The weighted average interest coverage ratio across the REIT market sits at 4.4x today, significantly stronger than the sub-3x coverage going into the GFC. Additionally, the strength of interest coverage is much more broad-based in the REIT market today, with over 85% of REITs boasting interest coverage ratios above 3x.

### REIT Distribution of Interest Coverage Ratios



Source: MBA, Moody's Analytics Evercore, ISI. Per Moody's report "What's the Real Situation with CRE and Banks: Doom or Headline Hype?", April 4, 2023.

Source: Graphs for facts 1 through 4 are based on data from Nareit as of December 31, 2022.

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Any indication of past performance is not a guide to future performance. The value of investments can fall as well as rise, so investors may get back less than originally invested. Because the investment strategies concentrate their assets in the real estate industry, an investment is closely linked to the performance of the real estate markets. Investing in the equity securities of real estate companies entails certain risks and uncertainties. These companies experience the risks of investing in real estate directly. Real estate is a cyclical business, highly sensitive to general and local economic developments and characterized by intense competition and periodic overbuilding. Real estate income and values may also be greatly affected by demographic trends, such as population shifts or changing tastes and values. Companies in the real estate industry may be adversely affected by environmental conditions. Government actions, such as tax increases, zoning law changes or environmental regulations, may also have a major impact on real estate. Changing interest rates and credit quality requirements will also affect the cash flow of real estate companies and their ability to meet capital needs

#### **Definition of Indices**

#### FTSE Nareit All Equity REITs Index (FNER)

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

### NFI ODCE: NCREIF Open End Diversified Core Equity (ODCE) Index

The ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity, is the first of the NFI-ODCE Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 36 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the portfolios comprise these benchmarks.

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