Real Estate Opportunities in the Wake of Covid-19: REITs

Robotti Securities, LLC

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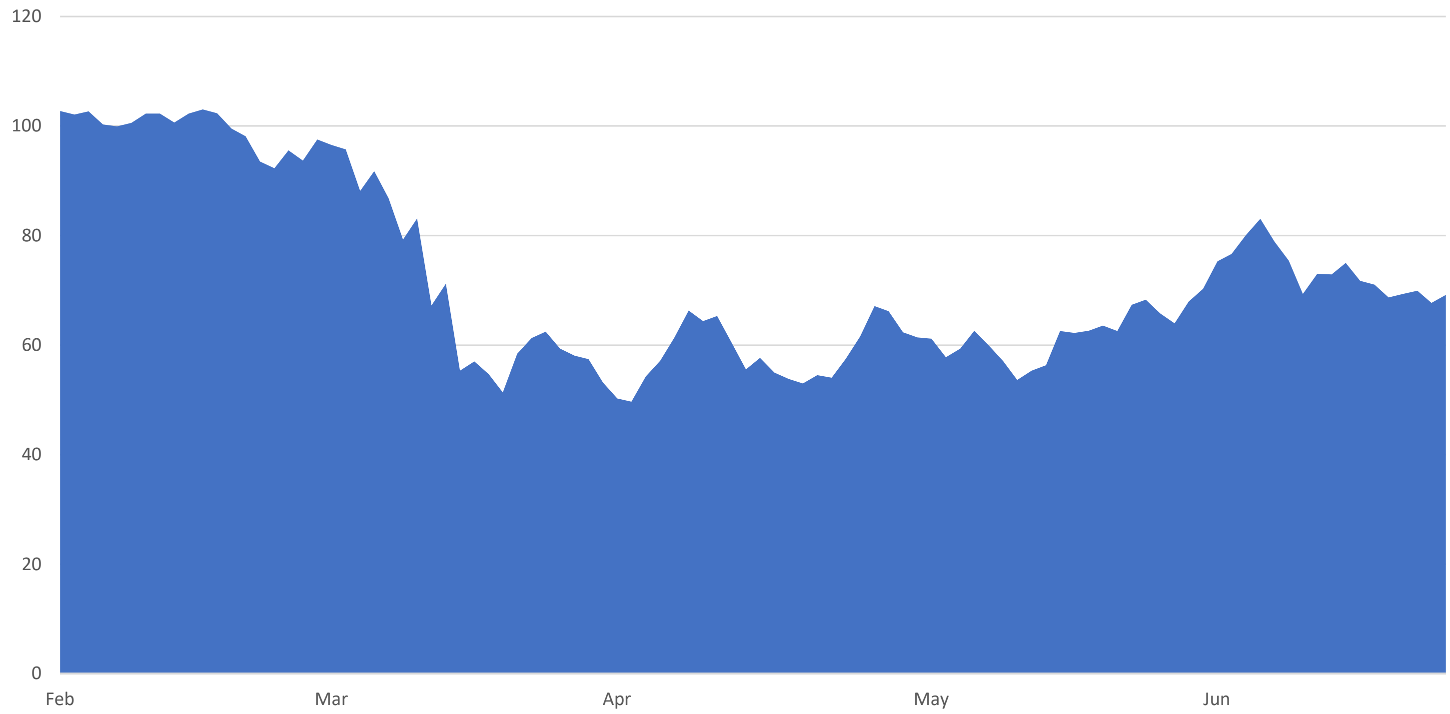
Elite Open Air REITS

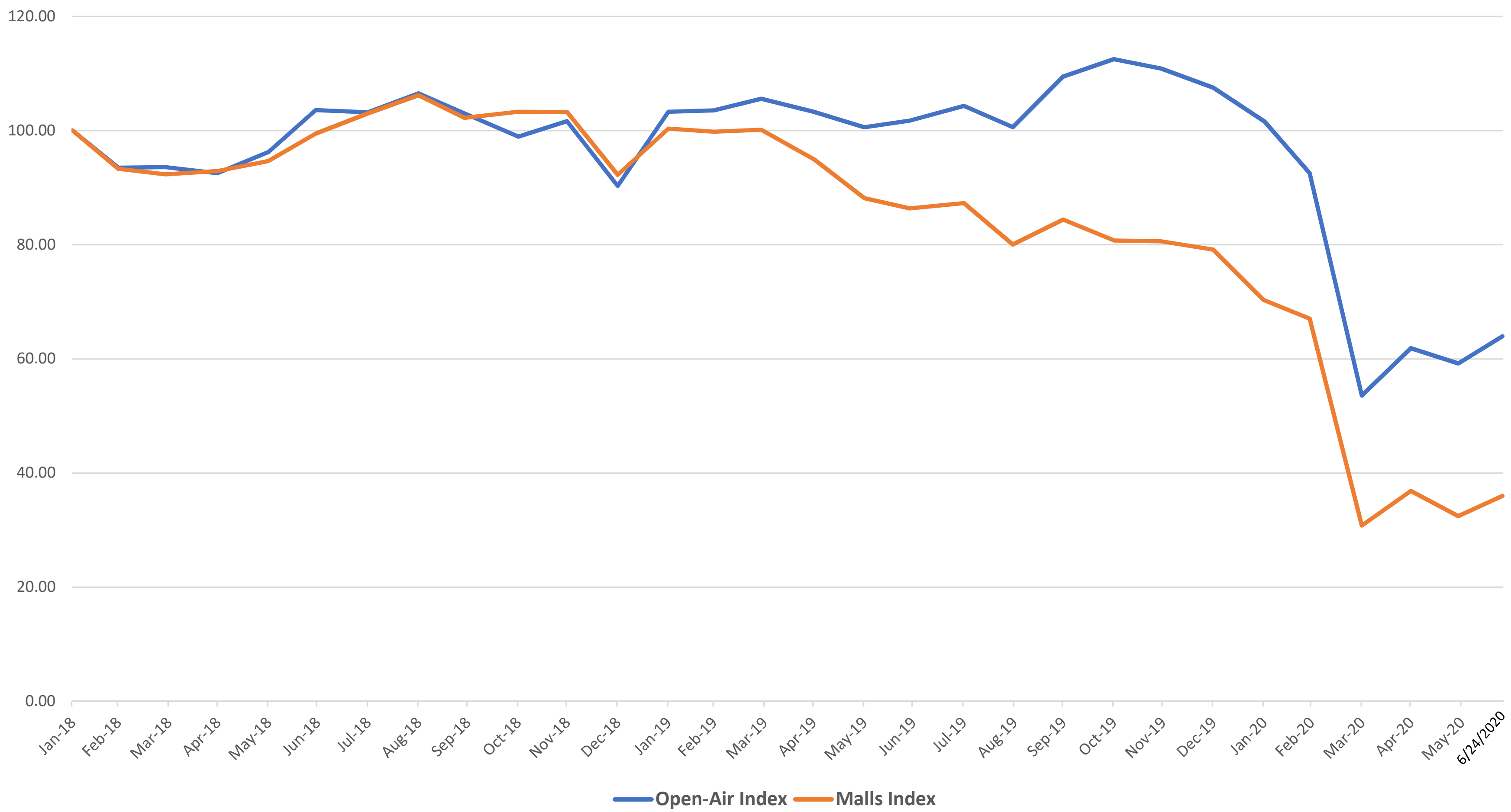
- Fortress balance sheets/ investment grade ratings
- Top quartile in asset quality across all owners, public or private
- Stable occupancies in mid 90's
- Core tenancy weighted towards discounters, grocers, services, essentials
- Highly diversified cash flow streams; 8%-12% of leases rolling annually
- 10+ years of allocating capital towards moat-like locations and away from commodity real estate
- Decades of profitable recycling of bankrupt retailer locations: K-mart, Toys R Us, Office Depot, Linens 'n Things, A&P/Pathmark, Grand Union, Circuit City

Through COVID



Average for FRT, KIM, REG, ROIC, UE, WIR through 6/24/2020

Open-Air vs Mall Share-Price Performance



Source: NAREIT

Location/Improvements

Malls

- Highway Interchanges, 15-20 Mile Trade Areas
- Expensive, Special-Purpose Structure Chronically over-supplied, overlapping trade areas
- Alternative-Use = Land value less demo cost = Fraction of previous value

Open Air

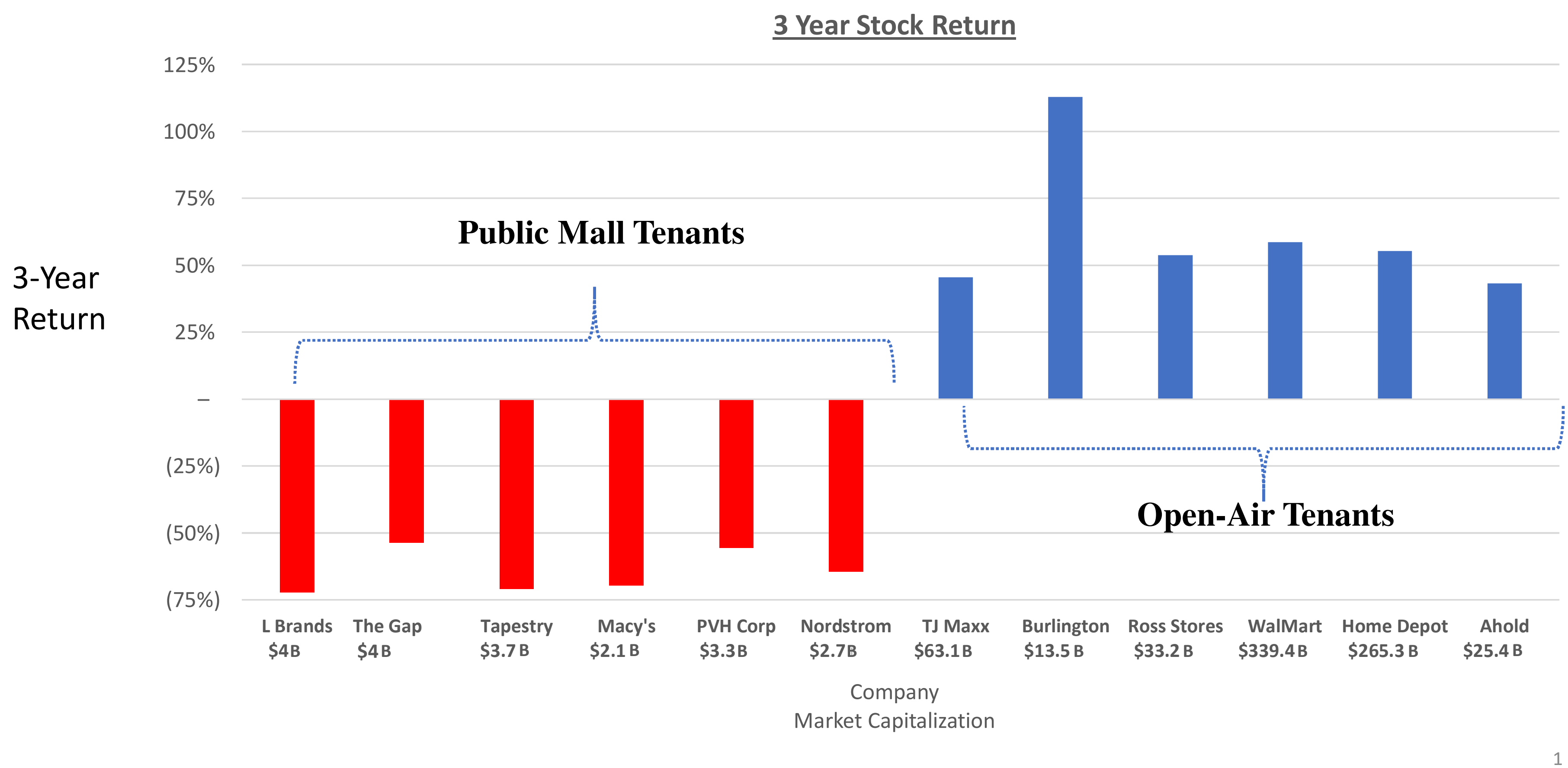
- Frontage on major thoroughfares, 3-10 mile trade areas
- Flexible, highly adaptable structures
- High Land Value to overall value
- Public REITS have long emphasized infill, protected locations

Representative
Top Tenants by Base Rent

REGIONAL MALLS
- GAP
- L Brands
- PVH (Hilfiger, Calvin Klein)
- Ascena (Justice, Lane Bryant, Ann Taylor)
- Tapestry (Coach, Kate Spade, etc.)
- Signet Jewelers
- Foot Locker
- American Eagle
- Luxotica (Ray Ban, Oakley, etc.)

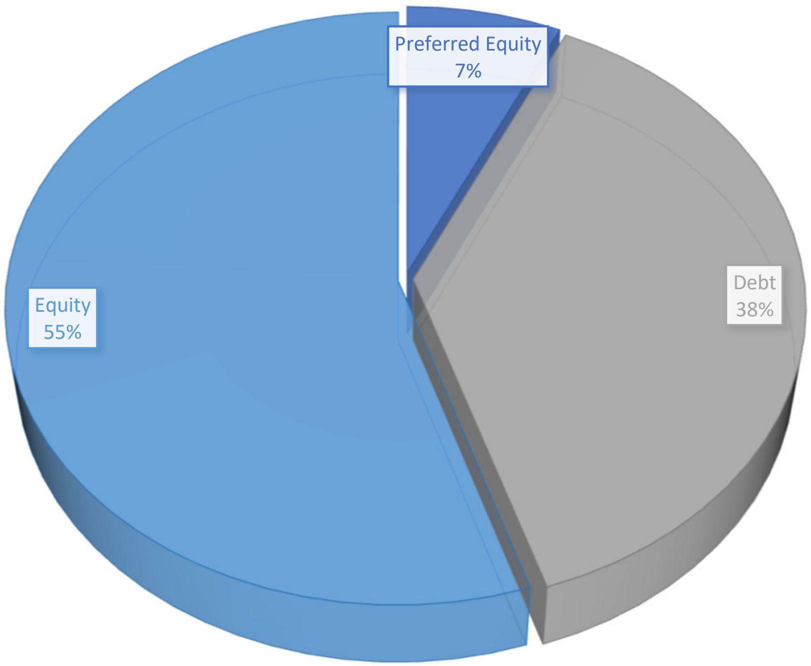
OPEN AIR
- TJX
- Various Grocers (Kroger, Albertsons, Whole Foods, Trader Joes etc.)
- Home Depot, Lowes
- Walmart
- Bed Bath
- Target
- Costco
- Burlington Coat
- Ross Stores

Top Public Mall Tenants vs Top Public Open-Air Tenants



source: S&P Capital IQ

Typical Capital Structure- Open-Air REITs



- Debt + PFDs less than 45%
- Long term debt maturities
- Heavily weighted toward fix rates
- Large undrawn credit facilities
- Large unencumbered portfolios
- Lowest cost of capital among all competitors – not just public

Summary of Investment Merits

- Highly diversified portfolios comprised of property profile that rarely trades in the private market
- Dividend yields of 4% - 7.5%
- Underlying cash flow streams and dividends should at least track inflation over time
- Oversold – remain 25-30% below pre-COVID share prices
- 30% discounts to private market values
- Priced to return high-single digit/low double-digit total returns over five years
- Half or more of total return in dividends

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Questions

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