

Global Real Estate Conference: Insights

Development of the US REIT Industry Before and During COVID Crisis

Presenters:

Steven Wechsler, President & CEO, Nareit

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Hans Volkert Volckens (HVV):

Well, ladies and gentlemen, let's turn to a very important person in real estate internationally, which is Steven Wechsler, President of the National Institution (sic) for Real Estate Investment Trusts in the US and Washington. And I've got to admit, for many years a good old friend. Thank you so much Steven for being with us and sharing your view on the real estate economy especially regarding US REITS.

SW:

Well, it's great to be with you today Hans, and to renew our friendship over the years and to be with you to talk a little bit today.

HVV:

Thank you so much. Well, the pandemic of course was a major event starting last year in 2020 and of course we are still in the middle of this health crisis. And I would like to understand from your point of view, how did US REITS develop through these decisive 12 months and what is your view forward regarding the development of US REITS from an economic point of view?

Steven Wechsler (SW):

Right. So last year obviously for individuals and businesses around the world has been quite challenging. The United States obviously has been affected by the novel corona virus pandemic in a significant way, as has Europe and the rest of the world. And what we have found in the REIT and publicly traded real estate sector in the United States, as well as in the broader real estate markets in the United States, is it's been very much a tale of two cities.

Certain sectors have been able to not only survive, but in some cases thrive through this crisis in the real estate space, and other

sectors were certainly in the opening months of the crisis, until fairly recently, under significant stress and duress. And so, what we see here, if you look at the slide we have on the impact of COVID-19 pandemic on different REIT sectors, is we've had this tale of two cities. About 40 percent of the REIT marketplace has been negatively affected, and that includes diversified REITS, free standing retail, healthcare, lodging resorts, office, the mall and shopping center business.

But close to two thirds of the REIT sectors and market cap have been neutral or positively affected by this, whether it's the multi-family apartment business, the data center business, industrial REITS that provide logistical and distribution facilities, infrastructure laden REITS that provide the cell towers for our cell phones, more manufactured housing REITS, self-storage for individuals, and obviously the single family rental REIT space has moved through this fairly well together with Timber.

And so, it's been very much a tale of two cities. But I think it's important to note that as of today, with the reopening underway in the United States, we've seen since the beginning of the year really a strong comeback in the hardest hit sectors, in the hospitality and the mall and retail sectors.

The retail sector's been an interesting case through this in the United States because many retail properties were able to get through this fairly well, in part because the businesses in the centers were deemed essential, and so were open throughout. But some businesses obviously weren't. And then in the mall space it was hit hard, but as different states have supported reopening's, that business is coming back as well.

So, looking ahead, we anticipate that the real estate, the underlying real estate business will be very strong as the economy comes back, as employment comes back, and as people basically not only go back to work but go back to their lives in a far more normal fashion in the coming months.

HVV:

Well, thank you very much. This is a very positive view on the REIT industry and its development. Of course, parts of the sector and parts of the asset classes were hit pretty heavily due to the COVID-19 constraints, and on the other side you really give the positive outlook. Is it something where you would say the REIT regime was tested and it showed its resilience due to the fact that it is structured as it is, with these strong impacts on low gearing and high reporting standards and a clear focus on resilient real estate?

SW:

Yes, I think that's absolutely true. I think the REIT publicly traded real estate sector in the United States, and I think to some extent around the world, was tested through this. Lessons were learned from the great financial crisis of 2008, 2009. And those lessons stayed with everybody I would say in the US REITS, that sector, in terms of reducing leverage, having access to the public capital markets, having access to lines of credit. And so, companies in this crisis were able not only to bring in capital through the debt markets, but were also able to draw down letters of credit and prepare themselves for what looked to be a year plus long battle. And many did and many were able to survive to fight another day through this process.

There's no question that the lower leverage, the access to public capital markets, the ongoing discipline that's required to pay out a regular dividend, all helped contribute together with strong management teams to the resilience of REITS in the US. And the model in the 21st century has faced two great crises. And the fact is, has come through well both times. And I think that should give reassurance to individuals, investors, policymakers around the world, that REIT based real estate investment, whether in the US or in other nations, is a strong policy choice.

HVV:

So, the REIT as the keystone for financial stability across the globe actually. Now let's turn to another issue. Next to the situation of COVID-19 and the crisis we are facing still, there is another mega trend coming up, which is sustainability. Sustainable finance. The necessity to really transform the world into an ecological, sensible environment. And what is the US REIT industry doing in this respect? What is NAREIT as an association doing in order to assist in transforming a complete industry towards an ESG compliant environment?

SW:

Yes, ESG is an issue of prime importance today for the REIT and publicly traded real estate community as well as I think businesses across the US and much of the world. NAREIT has been actively engaged in recent years on working with its members on practices related to environmental responsibility

and stewardship, social responsibility, good governance across the board.

We internally have developed for our members a real estate sustainability council that's been in active operations for several years, composed of the line people that are REITS and publicly traded real estate companies that deal with environmental stewardship issues. We've also had a social responsibility council focused on the S part of ESG, for the personnel and our member REITS that are engaged on the S side, including diversity, equity and inclusion initiatives. And we also have a corporate governance council, consisting of general counsels of our member REITS that are focused on the best approach to governance.

NAREIT last year formed a CEO council for our dividends through diversity, equity and inclusion initiative. We have 32 REIT CEOs representing every sector and sub-sector in the REIT space in the US. And that CEO council is focused on diversity, equity and inclusion, and is underway to provide leadership and direction in this important area. And I will note that our CEO council has a majority of the companies that are listed on the S&P500 as far as REITS. So, we basically have leaders in the REIT community taking on leadership in the area of diversity, equity and inclusion.

As far as ESG, it's a fact on company disclosures and practices. NAREIT's been busy. We've published on a regular basis on our website the performance of the REIT community in terms of ESG related disclosures. It's freely available on REIT.com. We've last year inaugurated our ESG annual report for the REIT community. We'll be doing it again this year. And we've put together a disclosure guide based on the leading firms such as SASB, such as a number of others that basically are ranking and assessing REIT disclosures when it comes to ESG. And that document was published last year, and we'll be following up with a more detailed version this coming year.

So, we've been actively engaged. We will be actively engaged with policymakers at the SCC in Congress, in the United States, as they take on ESG and try to make determinations in terms of how public companies can best disclose and approach ESG related issues.

HVV:

Well, thank you so much. And this sounds like a lot of work, but a lot of great initiatives you're taking to transform a complete industry. And ESG is of course nothing that is stopping at borders, a truly global issue. And therefore, an invitation today, if you like, let us change, exchange the knowledge, let us exchange what initiatives are being taken in the Americas, in Europe, in the Asian Pacific region. And you're currently invited, and NAREIT of course, to follow that exchange. And I would like really to set up a global interaction of associations and KPMG colleagues in order to bring the best knowledge we gain in the different regions together for a better world.

SW:

Well, thank you Hans, we look forward to working with you on these initiatives and not only to improve the real estate sector but improve the ability of investors worldwide from every walk of life to gain access to income producing real estate through REITS and publicly traded real estate practicing good governance, environmental stewardship and social responsibility.

HVV:

It was an honor Steven to have you here participating in this conference, sharing your thoughts and views. All the best for you, stay healthy, and I'm very much looking forward to seeing you in person sooner than later. Thank you so much.

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