

Why REITS look compelling now: A historical view on NAV discounts

April 2020

During Q1 2020, US Real Estate investment Trusts (REITS) have seen one of the worst drawdowns in recent history. This on the other side means that they are currently trading at a historical discount compared to the price-to-net asset value (NAV). Nordea Asset Management appointed **Duff & Phelps Investment Management** as sub-advisor of the **Nordea 1 – Global Real Estate Fund**. We would like to share with you here below the latest insights of the investment team which took the opportunity to have a historical view on NAV discounts.

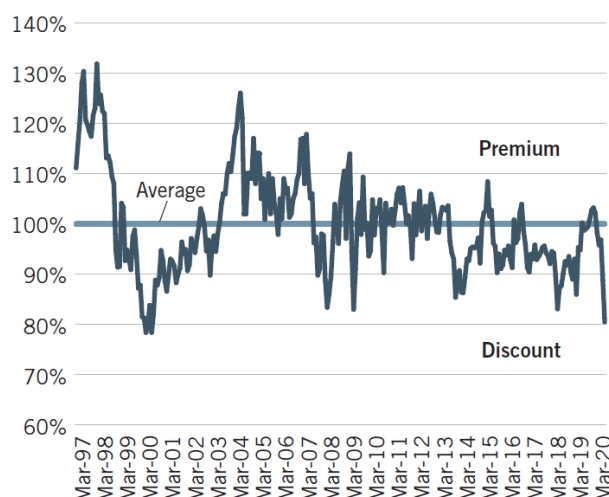
Executive Summary:

U.S. REITs have historically provided compelling returns when discounts to NAV were greater than 10%.

Not unlike other asset classes, large drawdowns have historically led to higher future return potential. Since 1996 whenever the price-to-net asset value ("NAV") for REITs has been at a discount of greater than 10%, the returns for the FTSE Nareit Equity REITs Index in the following 12-months were positive 33 out of 38 periods.

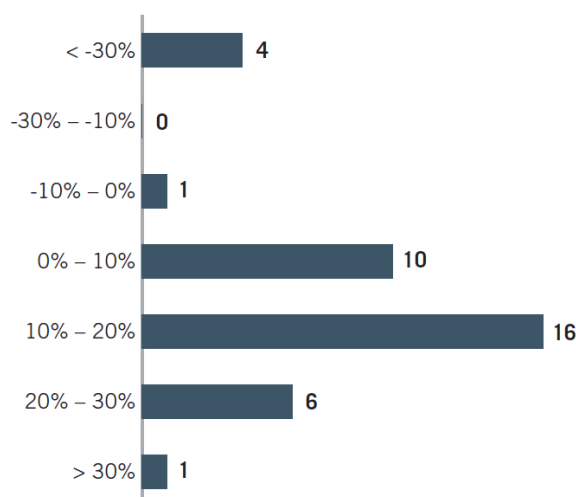
REITs Trading at Historical Discount

Historical Price to NAV*



REIT Performance when Discounts Were Greater than 10%

12-Month Forward Returns, FTSE Nareit Equity REITs Index



Source: Duff & Phelps, FTSE Nareit, Evercore ISI, FactSet, data as of 3/31/20. *Price to NAV is a metric used to estimate the market value for REIT holdings, it is not a measure of performance, but rather, a ratio similar to price-to-book value used when comparing traditional stocks. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

Setting into perspective: A lookback into recent history

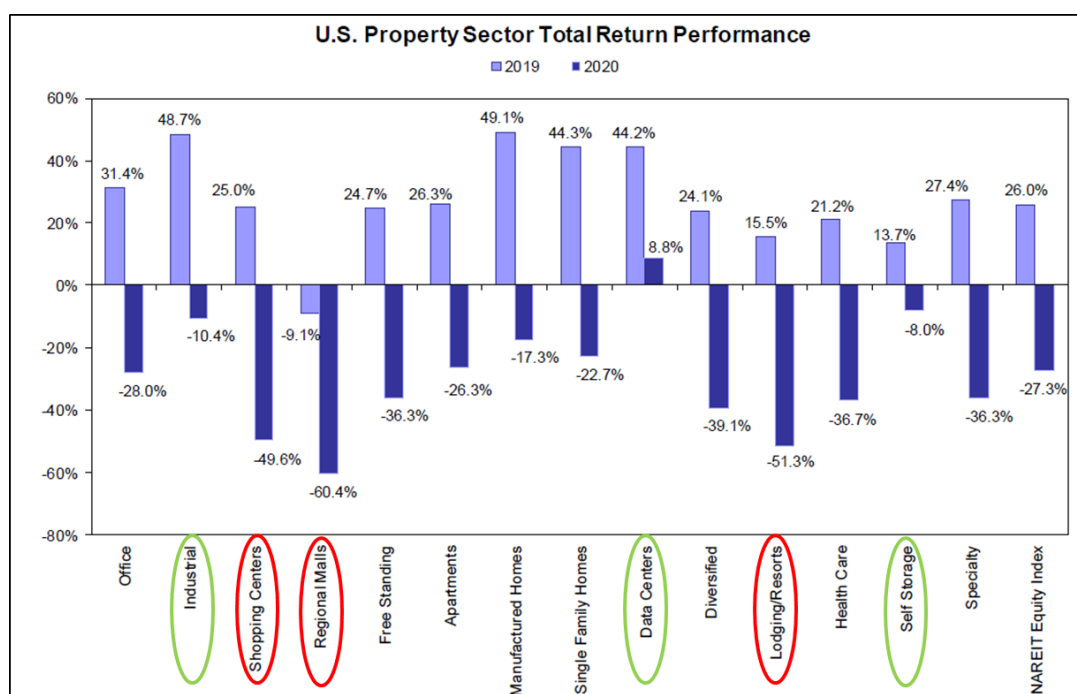
- U.S. REITs were trading at a 30%+ discount to NAV in mid-March, and while the discount narrowed to 19% at quarter-end, it was still larger than during the Global Financial Crisis (GFC) in 2008-09. On average, REITs have historically traded at 100% of their price-to-NAV.
- In Previous crisis lows included a discount to NAV of 22% at the end of the dot.com bubble in December 1999; 17% in the GFC in February 2009; and 15% in the Taper Tantrum of August 2013. Had an investor purchased REITs during these three periods, their 12-month forward returns would have been 16.51%, 85.47%, and 19.35%, respectively.¹
- The median return for the 38 periods measured was 21.07%, compared to the 10.89% return since inception of the FTSE Nareit Equity REITs Index.²

¹ The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

² Index inception date is 12/31/1971. Performance data of the FTSE Nareit Equity REITs Index through 3/31/2020. The high and low 12-month returns were both recorded during the GFC, -59.69% and 85.47%.

Why this time could be different to the past

- We do not believe the current market resembles 2008-09. Since then, REITs have strengthened their balance sheets and are better positioned today with lower leverage.
- Less than 10% of REIT's debt comes due in the next two years, mitigating the need to refinance at a time when credit markets have been disrupted (Source: S&P Global Market Intelligence).
- The world's major economies have taken decisive action and launched fiscal and monetary stimulus that is without peacetime precedent to support the financial system.
- Active managers like Duff & Phelps have the flexibility to overweight those securities and sectors they deem most attractive and underweight those that are highly impacted in the current environment.



Source: Duff and Phelps and Bloomberg. Period under consideration: 31.12.2018 to 31.03.2020. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

Nordea 1 – Global Real Estate Fund	
Fund manager	Duff & Phelps Investment Management Co.
Fund domicile	Luxembourg
ISIN codes	LU0705260189 (BP-USD) LU0705259504 (BI-USD)
Annual management fee	1.5 % (BP-USD) 0.85 % (BI-USD)
Base currency	USD
Fund size in millions	1,015.94
No. of holdings	65
Launch date	15.11.2011

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