JLP ASSET - QUICK TAKE

MAY 2022

QUICK TAKE: IS THE MARKET OVERREACTING?

Key Observations:

- **Market appears to have overreacted to the rise in rates as property companies and REITs have spent the past several years extending maturities and reducing average interest rates.**
- **Rental growth is well above expectations due to fundamental demand and shrinking supply in most markets.**
- **Inflation, rising interest rates, labor availability and construction cost increases are impeding new development which is a long-term positive.**
- **Substantial discounts to NAV are now to be found in virtually every market and property type and this is resulting in M&A activity with the big PE/SWF funds taking companies private or participating in JVs – either of which supports much higher property prices than are reflected in company share prices.**
- **Barring a recession, the public v. private market pricing gap appears to be 15-20% greater than warranted based on recent transaction data.**
- **Warehouse/Logistics companies are reporting surging demand, rising rates and supply shortages but Amazon's announcement of having excess capacity and holding off on acquisitions and leasing caused a global downturn in share prices – clearly an overreaction relative to market fundamentals.**

Over the past several weeks the Fed's more hawkish tone have jolted the equity markets in general. While we were not as surprised by the general equity market declines, we found the drops in share prices for many of the high quality property companies and REITs more surprising given the latest reports and company forecasts which showed actual earnings and rent trends at historically high rates. First quarter operating results for REITs from Nareit's T-Tracker shows NOI was up 5.4% from last quarter and up 15.1% from the previous year, well outpacing the rate of inflation.

This disconnect is clearly manifest in the gap between cap rates for private market relative to implied cap rates for the public companies. For several property types like industrial and self-storage, that were trading at premiums to NAV throughout the past year, have had a significant drop below NAV over the past several weeks and are now trading at an average discount of 15 to 20%. Amazon's announcement that it was suddenly caught holding excess warehouse space clearly affected the logistics/warehouse companies, although this only accelerated the downtrend in share prices that we assume was attributable to profit-taking after last year's run-up in share prices.

Another example are the apartment REITs which are now trading at an average discount of 25% despite reporting robust demand, both current and forecast, and limited supply with the expectation that the rising mortgage rates will drive more potential home buyers back to the rental market. This is in stark contrast to the pricing in evidence in the private market for apartments which remains strong and at much higher prices than reflected in REIT share prices.

jlp asset management

JLP Asset Management, LLC
450 Park Avenue, Suite 1200
New York, NY 10022
+1 (212) 578-1650
IR@JLPasset.com

QUICK TAKE: IS THE MARKET OVERREACTING? (CONTINUED)

While the Fed impact has been more or less expected, the Amazon announcement was not and suggested that the smartest and most efficient operator in the business had misjudged consumer demand and presages a deeper downturn in both retail and warehouse markets. Combine this with the prospects for weaker China economy and a protracted crisis in the Ukraine and the rise in volatility and falling stock markets were an obvious outcome in our view.

In China, we may be witnessing a growing divide between the top leaders, President Xi and Premier Li on their respective views on dealing with Covid through lockdowns and the collapsing economy. The prospects for an immediate change in policy are not great, but there is evidence that many major cities are making significant adjustments to the policy in the interests of economic – and political – stability. With the property sector trading at valuations that are below the 2008-9 levels relative to share prices and with the government now trying to restimulate this sector, we believe the prospects for a narrowing of the current 50-70% discounts are promising.

Sources: NAREIT, Green Street, and Bloomberg.

jlp asset management

JLP Asset Management, LLC
450 Park Avenue, Suite 1200
New York, NY 10022
+1 (212) 578-1650
IR@JLPasset.com

JLP ASSET - QUICK TAKE

GLOSSARY, RISKS AND OTHER DISCLOSURES

This presentation (the "Presentation") is being furnished by JLP Asset Management, LLC ("JLP") on a confidential basis for informational and discussion purposes only. JLP has provided its assessment of past events and outlook for future events. The views and opinions expressed in this presentation are those of JLP's investment personnel and are based on economic and market conditions at the time they were made. These opinions contain forward-looking statements representing JLP's belief about possible future events. Actual future events may be materially different than the results expected by JLP. As with all investing activities, there is both the potential for investment gain as well as investment loss, including total loss of investment. Past performance is not a guarantee of future results. Certain economic and market information contained herein has been obtained from published, third-party sources believed to be reliable. JLP does not assume any responsibility for the accuracy or completeness of information taken from such sources.

JLP is an investment advisor registered with the United States Securities and Exchange Commission ("SEC"). SEC registration does not imply any level of skill or an endorsement by the SEC of JLP's advisory services. This Presentation has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security. If any such offer of securities is made, it will be made pursuant to a definitive offering document, which is furnished to qualified clients/investors on a confidential basis for their consideration and will contain material information not contained herein.

Investments in real estate securities entail risks that include, but are not limited to: changes in environmental and zoning laws, casualty or condemnation losses, environmental liability, regulatory limitations on rents, decreases in property values, changes in the appeal of neighborhoods as well as fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in interest rates and the availability of debt financing or mortgage funds, various uninsured or uninsurable risks, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses.

Non-U.S. Investments involve additional risks, including, but not limited to: the fluctuation of currency exchange rates, differences between U.S. and foreign securities markets, including potential price volatility and relative illiquidity of some foreign securities markets, differences in accounting auditing and financial reporting standards, economic and political risks, differences in taxation, and less publicly available information.

The information in this Presentation is proprietary and confidential. Reproduction or distribution of this information, in whole or in part, or the divulgence of any of its contents without JLP's consent, is strictly prohibited.

JLP Asset Management, LLC
450 Park Avenue, Suite 1200
New York, NY 10022
+1 (212) 578-1650
IR@JLPasset.com