Porter & Co.

THE BIG SECRET ON WALL STREET

Profiting From The Doom Loop

- Take Advantage of the Multi-Trillion-Dollar CRE Wealth Transfer...
- Without Owning A Single Square Foot of Real Estate

FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

Profiting From the Doom Loop

Take Advantage of the Multi-Trillion-Dollar CRE Wealth Transfer...

Without Owning A Single Square Foot of Real Estate

Waterman Ormsley thought his marital troubles were between himself, God, and Mrs. Ormsley.

But there was another interested party, Ormsley learned the hard way, when – of all things – his credit report showed that he'd visited a prostitute.

It was the mid-1850s, and Tappan's Mercantile Agency, America's first credit bureau – founded by stern Congregationalist moralist Lewis Tappan in 1841 – was working overtime to determine who was "creditworthy" and who was not. Tappan's Mercantile investigated small businessmen, and reported their findings to financial institutions, so the banks could decide whether or not to issue the potential borrowers a loan.

Unfortunately for Waterman Ormsley and countless other would-be borrowers, the "three Cs" of credit – character, capacity, and capital – included inquiries into the morality of your lifestyle.

To get the dirty details, the Mercantile Agency employed a network of "correspondents" to unobtrusively stalk businessmen and report back on their activities, bedroom and otherwise. (The young Abraham Lincoln worked for a time as a credit correspondent; so did Grover Cleveland.)

By the 1870s, Tappan's Mercantile employed a network of some 10,000 credit spies to poke through the trash and peer into windows across America. The credit reports they brought back to Tappan's were closely guarded – written in tiny calligraphy in padlocked books – and contained data, as well as colorful editorial commentary (of arguably limited relevance) like "Very dissipated," "Tyrannical & windy," and "He is not only small potatoes, but a damned rascal."

Businessmen needed a subpoena to access their own credit reports – but they usually figured out something was wrong when they got turned down for a loan. When this happened to Waterman Ormsley, as well as a number of other outraged loan-seekers, they filed libel lawsuits against Tappan's.

Eventually, Tappan's moved past spying on people's sex lives, but continued to employ rigorous underwriting practices. Ultimately, it evolved into the world's largest (and well-respected) credit-reporting company, Dun & Bradstreet. Lewis Tappan's initial, Puritanical instincts, it seemed, had served him well.

This is the uncomfortable truth about credit: the more thorough (read: invasive, inappropriate, and nosy) your underwriting is, the more likely it is that your long-term business goals will succeed.

That's the principle behind the outperformance of one of Porter Stansberry's all-time favorite stocks: American Express (AXP), which has returned about 334% since Porter first recommended it in *Stansberry's Investment Advisory in 2016*.

The Importance of Being Picky

American Express – which started out as a freight company, then pivoted to traveler's checks, and ultimately, to charge cards – has always been *fantastically* picky about who it allows to be its customers.

That's the reasoning behind the Amex charge card, which doesn't work exactly like a credit card. Instead of making a minimum monthly payment, the customer must pay off his charge card in full every month (plus, pay American Express a hefty fee for the privilege of using it). Unlike a credit card, you can't use a charge card to "build" your credit. You can't even get an Amex unless you have stellar credit to begin with.

To this day, American Express is the *only* major finance company that offers a charge card. While nowadays you can set up a "payment plan" on your charge card that functionally turns it into a credit card, the company's rigorous-to-the-point-of-paranoia underwriting standards remain unchanged. Amex has been known to drop customers if they visit stores where "people with poor credit" frequently shop.

An American Express card is a status-symbol reward for being in the top tier of the most trustworthy borrowers – and it means Amex customers are pre-selected to be the highest value possible. (The company reported in 2014 that its customers' average incomes were 60% higher than those of other cardholders – and over 70% of its customers were "super prime" borrowers, with credit scores over 720.)

Amex also uses a closed-loop system where it processes fees itself, rather than relying on an outside bank partner. That way, more money stays in the Amex ecosystem. It's a tremendously capital efficient model that Porter has written about frequently in the past – one that's marked by prestige, reliability, and safety.

And during the 2008 financial crisis, all that meant... exactly nothing.

Guilt By Association

In 2008 and 2009, the housing bubble crashed, and the ensuing credit crunch decimated the entire financial and credit industry. Some 300 U.S. banks failed between 2009 and 2010, access to easy credit dried up... and the credit-card industry suddenly became a very bad place to be.

Swept up in the easy-money era of the 1990s, American Express, too, had launched several lines of standard credit cards for the masses – a decision the company soon came to regret; it discontinued many of the products post-crisis.

In addition to adding ill-advised risk exposure, the credit-card arm of the business solidified American Express's public image as "a credit-card company," although credit cards were still only a relatively small part of the business.

The bulk of American Express's profit still came from the stable and well-vetted charge-card business, with revenue actually increasing during 2008 as spending through American Express cards rose 6% globally that year. (By contrast, at the same time, the credit-card divisions at giant banks like Morgan Stanley were posting losses.) At no point during the crisis did American Express run short on liquidity. At the end of 2008, Amex was actually sitting on 131% more cash than it had in 2007. By year end 2009, AXP stock was the best-performing stock in the Dow Jones Industrial Average, with a 125% increase that year alone.

No matter. In the market's misguided eye, American Express was "a credit-card company." And as such, Amex took it on the chin along with the rest of the credit-card industry – at its low point in 2008, the stock was trading at just $13. (If you'd bought then and held, you'd be up some 3,000% by now.)

Amex's unfair plight in 2008 (damned by association with an unstable industry) is a perfect example of...

Stock Racism

One side of the political spectrum believes that people – or companies – should be rewarded or punished based on individual merit, not because they're part of some privileged or disadvantaged group. The opposite side of the spectrum tends to sort people (and stocks!) into big buckets... and then punish or reward based on the label on the bucket. If you've read much of Porter's work, you can guess which approach he favors.

But humans are tribal. Markets are irrational. And quite often, human emotions drive the market into a kind of herd behavior that resembles what you'd see in the hiring department of a left-leaning college campus.

For starters, we often notice a kind of stock "affirmative action," where poor companies are grandfathered into a general rise, based not on their individual merit, but just on the fact that they are part of a favored overall class of stocks.

Take a look at the Nifty Fifty stocks of the 1960s and '70s – a group of "golden" stocks considered so solid that nothing bad could happen to them... until U.S. President Richard Nixon pulled the country off the gold standard, the economy destabilized, and the glitter quickly vanished for Nifty Fifty members Polaroid (down 90%) and Avon (down 85%). Or, for that matter, read up on any of the countless other **bubbles and manias we've dissected** at Porter & Co.

It's an endless parade of businesses that rode the coattails of mania until their fundamental incompetence caught up with them. As I said, affirmative action, market style.

Then, on the flip side, there's stock "racism."

That happens when great companies are unfairly maligned – and stock prices fall accordingly – because they're part of a larger class of stocks that are disfavored, or underperforming, at the time. (Sometimes, as with Amex's ill-conceived credit-card business, they are exposed to legitimate risk as part of this association – but that risk, for a company with sound fundamentals, will generally be temporary.)

Stock "racism" – unfortunate as it may be – is a phenomenon that has handed us many of our best buying opportunities at Porter & Co.

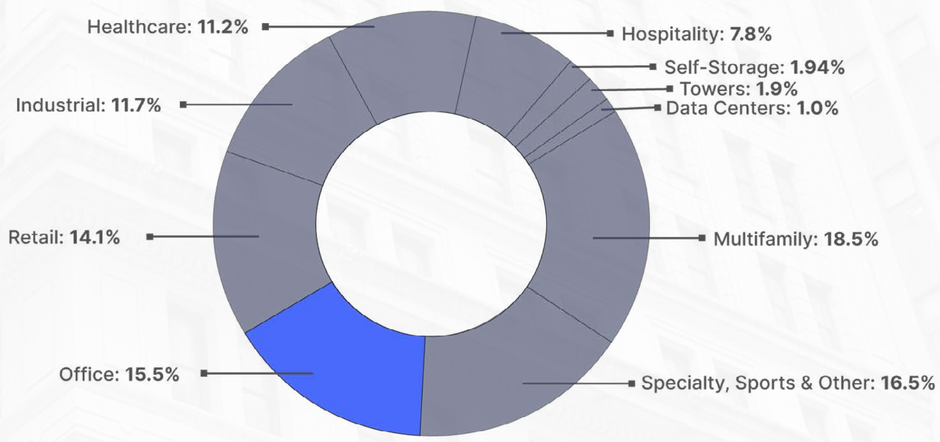
And it's also the reason that today, many high-performing and capital efficient real estate stocks find themselves lumped in among the well-publicized market panic about commercial real estate ("CRE").

Commercial real estate – as countless headlines trumpet – is in dire straits, with one-fifth of U.S. office buildings unoccupied and $38 billion of U.S. office loans either in default or distress, as workers stayed home in droves following the COVID lockdowns. It's a scenario that many analysts call a "doom loop" – and it's only getting worse. All these statistics are, of course, true.

But they paint an inflammatory, and reductive, picture. Not all commercial real estate is office space. In fact, *most* of it isn't...

Only 15% of the CRE sector is composed of office buildings. The rest of the sector houses thriving multifamily, medical, and other businesses – and those buildings, far from standing empty, are expanding. Demand for ambulatory surgical centers is projected to increase 22% over the next decade, and the need for data centers is slated to double over the same time period, just to name a few.

Commercial Real Estate Market by Sector



Again, it's fair to note that there are some legitimate inherent risks associated with commercial real estate as a sector – like staffing and construction bottlenecks, particularly in healthcare and multifamily. But the risks in the non-office-space portion of the market are considerably lower.

However, due to the prejudicial media coverage of the CRE crisis, you won't hear about most of those non-office investment opportunities... and you'll find that their stock prices have been undeservedly pulled down along with the broader market panic about office buildings. That pricing discrepancy is where we'll find the series of 10 investment opportunities in this report.

While office properties have been hammered, other sectors of commercial real estate – like hospitals, data centers, manufacturing plants, government buildings, military installations, and self-storage facilities – are thriving. But because of the negativity surrounding the term "commercial real estate"... these businesses have watched their valuations get crushed unfairly.

Which gives *you* the chance to buy some of the world's best real estate at prices that are completely out of sync with their fundamentals.

And if there's one man who knows how to best capitalize on this discrepancy in the sector, it's Porter's friend and colleague Brad Thomas.

Meet Brad Thomas

For this special report, we're thrilled to join forces with Brad Thomas, one of the world's leading commercial real estate experts, and CEO and senior analyst at income-focused research firm Wide Moat Research, a subsidiary of MarketWise. You can learn more about Wide Moat and subscribe to Brad's newsletter **here**.

Brad has more than $1 billion worth of commercial real estate transactions under his belt, is a real estate investment trust (“REIT”) analyst, and the founder of a REIT-focused exchange-traded fund (“ETF”).

Brad is the most-followed analyst at crowd-sourced investment platform Seeking Alpha, with over 117,000 followers. He’s published four books on real estate investing (including his latest, *REITs For Dummies*), and he also teaches at NYU and guest lectures at Cornell, Penn State, Clemson, and Georgetown.

Brad and his analyst team at Wide Moat have sifted through a broad universe of CRE investments and pinpointed 10 non-office REITs that stand to profit while the office CRE sector spirals into a “doom loop.”

How REITS Work – And Why They’re Special

A REIT owns real estate on which it collects rents, which it then distributes as dividends. By buying shares of a REIT, investors can enjoy the benefits of being a landlord without the hassle of buying and managing properties. U.S. REITs own more than 535,000 real estate assets worth $4.5 trillion. The market cap of publicly traded REITs grew 17.6% annually from 1990 to 2021, and now stands at $1.75 trillion. While overall REIT performance has been in negative territory for the year, infrastructure and office REITs were the worst performers in the first half of 2024, falling 25% and 14%, respectively.

One of the key features of REITs is the significant tax advantages they offer over traditional stocks and bonds, where investors are subject to high rates of double taxation. That is, the corporation must first pay taxes on any income it generates. And then, when the company pays out a stock dividend or bond interest, investors pay taxes again on that income. Between a 21% corporate tax rate, and personal income tax rates as high as 37%, the tax man is collecting over half of every dollar of income generated.

REIT investors benefit from a special set of IRS rules that whittles that number down to as low as the single digits. That’s thanks to two significant tax breaks on both components of this double-sided tax burden.

First, the REIT itself can pay little or no corporate income taxes, assuming it meets two basic conditions:

1. The majority of investments they make go into real estate properties
2. At least 90% of the REITs net income gets paid back to shareholders, in the form of distributions.

Unlike a stock dividend that can get cut at any time – due to a recession or the whims of a corporate management team – REITs must by law pay out a specific percentage of their earnings to investors. That makes REITs a lot like bonds, where the investors are legally entitled to their interest payments, or else the corporation goes bankrupt. In this case, REITs must pay 90% of their income as distributions, or risk losing their coveted IRS tax breaks. This makes REITs a great defensive option for investors seeking a steady source of consistent income, regardless of the economic climate.

The second major tax benefit REIT investors enjoy is on the distributions they receive. This is due to a special set of accounting rules the IRS uses when classifying two key expenses in real estate:

1. Depreciation – a reduction in value of a fixed asset over a fiscal year, due to wear and tear, obsolescence, or a simple decrease in market value over time. The term applies to any asset that loses value gradually, such as equipment, vehicles, buildings, and computers.
2. Amortization – a technique used to allocate the cost of an intangible asset over time, known as asset amortization.

The IRS rules allow REITs to classify both of these expenses as a return of capital (“ROC”). An ROC expense reduces the amount of the distribution that is considered taxable income. And because depreciation and amortization are two of the biggest expenses for REITs, they can add up to a substantial ROC charge that takes a big chunk out of the taxable income on REIT distributions.

How big, exactly? The money management arm of investment bank and brokerage JP Morgan did a study on U.S. publicly traded REITs to answer that question. The analysis found that the ROC component of typical REIT distributions can reduce the taxable income on these payouts by more than 60%.

Here’s what that can mean for the bottom line to REIT investors…

Consider the hypothetical case of a REIT with a 75% ROC, and which pays out a 5% distribution yield. And let’s compare this against an equivalent stock and bond that each pays out a 5% annual yield. Assuming a $200,000 initial investment that generates an equivalent $10,000 in annual pre-tax income for all three investments. Here’s how the bottom line works out for investors on an after-tax basis, for a high net worth investor at a 37% marginal tax rate:

Tax Savings of REITs vs Stocks and Bonds

	Stock Dividend	Bond Interest	REIT Distribution
Pre-Tax Income	$10,000	$10,000	$10,000
ROC (75%)	0	0	(7,500)
Taxable Income	$10,000	$10,000	$2,500
Taxes Owed (37% Tax Bracket)	$3,700	$3,700	$925
After-Tax Income	$6,300	$6,300	$9,075

The final thing to note about depreciation and amortization expenses is that they are something of an accounting fiction. These are non-cash expenses, meaning cash doesn't actually leave the business when REITs book them as costs. In this way, these expenses can be used advantageously to create depressed "reported earnings," even as the cash flows tell a much different picture.

By incurring high depreciation and amortization charges, REITs can report a depressed "earnings" figure that is well below the actual cash flow generated from their real estate. And that's how REITs can generate enough cash to sustainably pay out more than 100% of their reported "earnings" via distributions, and thus avoid paying anything to Uncle Sam.

Finding Top-Performing REITs

But remember, while depreciation and amortization expenses are not cash expenses, they are designed to reflect an economic reality: the need to make capital investments into things like property maintenance, and the acquisition of new properties over time.

REIT investors have created a different set of accounting terminology that accounts for these expenses, which differs from the standard earnings metrics used by stock investors for "normal" companies like Target (TGT) or Starbucks (SBUX).

Specifically, they focus on the cash flow statement, including one key metric all REIT investors should be aware of, known as Funds From Operations ("FFO").

FFO measures the cash generated by the core properties held by a REIT, excluding the one-time cash flows from sales of assets. It also excludes non-cash expenses, like depreciation and amortization. As such, it provides a measure of the normal operating cash flows generated through regular business operations, and provides a better metric of the true economics of the business versus net income.

For that reason, investors usually use price to FFO (P/FFO) instead of price to earnings (P/E) when trying to determine the value of a REIT investment. In fact, an even better metric (the one Brad prefers!) uses Adjusted FFO (P/AFFO). This includes industry-specific considerations that FFO does not account for, such as deducting capital expenditures.

Many widely used metrics do not take into account that certain costs may be non-cash, such as amortization and depreciation – big in real estate. Non-cash expenses reduce the dividend payments, while most real estate properties appreciate as opposed to depreciating. P/AFFO considers such costs, giving shareholders their deserved payouts.

REIT investors also rely on a set of other specialized metrics that, taken together, can help them determine whether to invest in a particular REIT.

Key REIT Metrics

Funds From Operations (FFO): FFO is the most commonly accepted and reported measure of REIT operating performance. FFO is calculated as Net Income + Depreciation and Amortization – Gains on Real Estate (in Net Income) + Losses on Real Estate (in Net Income) +/– Adjustments for Non-Controlling Partnerships + Impairments.

Adjusted Funds From Operations (AFFO): An unofficial measure of a real estate company's operations-generated cash flow that includes industry-specific considerations that FFO does not account for. AFFO is calculated as FFO – straight-lined rents – recurring capital expenditure + equity-based compensation + lease intangibles + deferred financing cost.

Price to Funds From Operations (P/FFO): P/FFO is a commonly used valuation metric that divides a REIT's share price by its FFO per share. This metric is similar to the P/E ratio used to value regular equities. P/FFO shows how much investors are willing to pay for each dollar of the REIT's funds from operations.

Price to Adjusted Funds From Operations (P/AFFO): P/AFFO is another commonly used valuation metric that divides a REIT's share price by its AFFO per share. It's similar to P/FFO but P/AFFO shows how much investors are willing to pay for each dollar of the REIT's adjusted cash flow.

Variance / Discount: Variance measures the spread between the performance of a REIT and the market index. A discount refers to when a REIT trades at a lower valuation than the market,comparable securities, or its historical valuation.

Dividend Yield: The annual dividend payout as a percentage of the price per share. The average dividend yield for publicly traded REITs is 4.3%.

Payout Ratio: The annual dividend divided by funds from operations or adjusted funds from operations. AFFO is a closer proxy of recurring cash flow than FFO, so it's preferable when assessing dividend sustainability.

Credit Rating: A measure of the quality and safety of an entity that's assigned by credit rating agencies such as Moody's, Standard & Poor's (S&P), or Fitch Ratings – with AAA being "prime" or the best and D being in default. Most of the REITs considered here fall in the medium grade level of BBB- and better.

Growth Estimate: Projections of a company's future earnings, revenue, and other relative company metrics over a specific time period, measured as a percentage.

Total Return Target: The expected rate of return, in percentage terms, we target for an investment

The 10 REITs in this report perform exceptionally well on all the metrics above – especially discounted P/AFFO (as you'll see on the stats chart accompanying each company summary). With a strong chance of the Federal Reserve cutting interest rates in 2024, Brad believes these REITs will see their cost of capital improve, and this catalyst should spark what he calls "the great American REIT rally."

The REITs we'll examine in this report are circumventing the commercial real estate crisis in a number of ways. They're buying properties in states that people are moving into, and not out of… focusing on mission-critical facilities that are essential to the functionality of our society… or owning necessity-branded properties in retail centers with investment-grade tenants like Costco Wholesale, Walmart, Target, Wegmans, and The Home Depot.

Please note that we are not actively recommending these REITs – but we strongly suggest you research them as you seek to capitalize on this historic opportunity.

Wide Moat's Top 10 REITs

REIT Name	Ticker	Market Cap ($billions)	Share Price	P/AFFO	Dividend Yield	Credit Rating	Total Return Estimate
Realty Income	O	$52.5	$60.31	13.6	5.2%	A-	30%
VICI Properties	VICI	$33.0	$31.43	14.2	5.6%	BBB-	25%
Agree Realty	ADC	$7.2	$71.84	16.2	4.7%	BBB+	30%
Alexandria Real Estate	ARE	$19.7	$113.66	16.7	4.1%	BBB+	40%
Rexford Industrial Realty	REXR	$10.7	$49.85	18.8	3.4%	BBB+	25%
Regency Centers	REG	$12.7	$69.89	21.3	4.1%	BBB+	15%
Extra Space Storage	EXR	$34.3	$165.94	21.3	3.9%	BBB+	20%
American Tower	AMT	$105.6	$222.66	20.7	3.1%	BBB-	25%
Essential Properties	EPRT	$5.0	$29.80	16.7	3.8%	BBB-	20%
COPT Defense Properties	CDP	$3.2	$28.89	15.5	4.3%	BBB-	15%
Average				15.4	3.8%		23%

Realty Income (NYSE: O) – The Monthly Dividend Payer Up To 40% Undervalued

FAST FACTS	REALTY INCOME
Realty Income	O
Market Capitalization ($billions)	$52.5
P/AFFO	13.6
Normal P/AFFO	17.5
Variance / Discount	-22%
Dividend Yield	5.20%
Payout Ratio	75%
Credit Rating	A-
Growth Estimate	3% to 5%
Total Return Target (annual)	30%

Realty Income, founded over 50 years ago, is one of the most trusted companies in the REIT sector. In that time, it has grown into a major player, owning more than 15,000 commercial real estate properties across 89 industries and serving nearly 1,600 clients.

Its triple-net lease business model shifts insurance, maintenance, and tax costs to its tenants. This tenant base is highly stable, as close to 40% of its rent comes from grocery, convenience, dollar, drug, and health/fitness stores. In fact, its top 20 tenants are all shielded from what the company calls "changing consumer behavior."

As of the first quarter of 2024, the company had a 98.6% occupancy rate and a rent recapture rate of more than 104% on renewed leases. Currently yielding close to 6%, the company has increased its dividend for 30 consecutive years, making it one of the sector's few Dividend Aristocrats – companies in the S&P 500 index that have increased dividends each of the past 25 years.

It also comes with a healthy balance sheet, with a net debt and preferred equity leverage ratio of 5.5x, $4 billion in liquidity, a weighted average maturity of 6.5 years on its bonds, and an A- credit rating from S&P Global.

Going forward, the company is upbeat about growth opportunities. With the help of sale-leaseback opportunities (where tenants sell their buildings to free up cash), it aims to capture more ground in the $5.4 trillion net lease market in the U.S. and the $8.5 trillion European market.

Calculated at a P/AFFO ratio of 13.6x, the company trades at a steep discount to its normalized 17.5x multiple. Including 3% to 5% annual expected per-share AFFO growth, we get a fair stock price of $78, almost 40% above the current price.

VICI Properties (NYSE: VICI) – Because “The House” Always Wins

FAST FACTS	VICI
VICI Properties	VICI
Market Capitalization ($billions)	$33.0
P/AFFO	14.2
Normal P/AFFO	16.2
Variance / Discount	-12%
Dividend Yield	5.60%
Payout Ratio	75%
Credit Rating	BBB-
Growth Estimate	3% to 5%
Total Return Target (annual)	25%

Last year, the *Daily Mail* **reported** that Las Vegas casinos are making it harder for gamblers to win. This includes adding another zero to the roulette wheel, resulting in some casinos offering “triple-zero” roulette. This is one of the reasons Las Vegas Strip casinos collected $8.3 billion in gambling revenue in 2022 – 25% above pre-pandemic levels!

In order to win, real estate offers opportunities in the form of VICI Properties, which has become the biggest gaming landlord in the U.S., generating roughly half of its revenue on the Las Vegas Strip, where it owns buildings housing places such as Mandalay Bay, Luxor, Excalibur, New York-New York, MGM Grand, Park MGM, Caesars Palace, Harrah’s, and The Venetian. The Venetian alone brings in more than $260 million in annual rent (9% of VICI Properties total revenue).

These fantastic holdings, in addition to regional gaming and entertainment assets, provide VICI with the biggest non-commoditized asset portfolio in the entire net-lease sector – where the landlord puts the burden of taxes, insurance, and maintenance on the tenant – with average leases of more than 40 years, average annual rent per asset of almost $33 million, and no cash flow volatility. Unlike most net-lease companies, VICI benefits from one major thing: its superb assets are the reasons its tenants are doing so well.

Moreover, yielding 5.6%, VICI has grown its dividend by 7.9% annually since the start of 2018, benefiting from consistent rent growth, strong tenants ($74% of annual rent comes from Caesars and MGM Resorts), an investment-grade credit rating of BBB-, an average weighted duration to maturity of almost seven years, and a P/AFFO multiple of 13.4x, almost three points below its long-term average.

This implies a premium of more than 30% compared to its current stock price of around $31.

Agree Realty (NYSE: ADC) – Where Safety Meets Growth

FAST FACTS	AGREE REALTY CORPORATION
Agree Realty	ADC
Market Capitalization ($billions)	$7.2
P/AFFO	16.2
Normal P/AFFO	17.2
Variance / Discount	-6%
Dividend Yield	4.70%
Payout Ratio	73%
Credit Rating	BBB+
Growth Estimate	3% to 5%
Total Return Target (annual)	30%

Like its larger peer, Realty Income, Agree Realty is a triple-net-lease owner focused on single-tenant retail tenants. Agree owns more than 2,100 properties. Almost 70% of these properties are leased to tenants with an investment-grade credit rating, including Walmart, Tractor Supply, Dollar General, Lowe's, and The Home Depot. Even its un-rated tenants include consumer stalwarts like the food giants Publix and Aldi, and the cosmetics leader Ulta Beauty.

The company itself also comes with an investment-grade rating of BBB, supported by a low net leverage ratio of less than 5x EBITDA, and no meaningful debt maturities until 2028. This buys the company a lot of time in an environment of elevated rates, allowing it to grow through measures like sale-leaseback deals.

In the first quarter, the company invested $140 million in 50 high-quality retail net lease properties, achieving a significant increase in cap rates, which reached a weighted average of 7.7%.

For 2024, the company is guiding for 4.2% per-share AFFO growth, a great outlook in an environment of elevated inflation and poor consumer health. Since 2013, the company has increased its dividend by 6% per year.

Currently, Agree Realty shares trade at a blended P/AFFO ratio of 16.2x, below its normalized P/AFFO ratio of 17.2x. Incorporating 3% to 4% annual per-share AFFO growth, its generous dividend, and its stock price discount, we get a favorable outlook of double-digit annual returns for the foreseeable future.

Alexandria Real Estate (NYSE: ARE) – Biotech-Backed Dividend Growth

FAST FACTS	ALEXANDRIA.
Alexandria Real Estate	ARE
Market Capitalization ($billions)	$19.7
P/AFFO	16.7
Normal P/AFFO	21.3
Variance / Discount	-22%
Dividend Yield	4.10%
Payout Ratio	68%
Credit Rating	BBB+
Growth Estimate	5% to 7%
Total Return Target (annual)	40%

Alexandria Real Estate, which went public in 1997, is classified as an office REIT, which makes it a member of one of the worst real estate sectors on the market. Technically speaking, that is.

Alexandria Real Estate is not a "normal" office REIT. This REIT owns bio laboratories, which are leased by some of the world's largest healthcare companies, including Merck, Pfizer, Johnson & Johnson, and Sanofi. In fact, half of all FDA-approved therapies over the past 10 years were attributed to its tenants.

Even better, this market comes with strong demand growth. Over the past 10 years, R&D spending in this area has increased by almost 80%. Of the biggest 20 spenders, 17 were Alexandria tenants, which explains why the company has consistently kept elevated occupancy rates. Even during the Great Financial Crisis, occupancy remained at roughly 95%.

This helped the company to return 1,556% between its IPO in May 1997 and March 31, 2024, making it the second-best performing REIT on U.S. markets over that period.

Currently yielding 4.1%, the giant has averaged 5% annual dividend growth since the pandemic and benefits from a balance sheet with an investment-grade rating of BBB+, which has a remaining debt term of more than 13 years and an average interest rate of a mere 3.9%.

Looking forward, the REIT trades at a blended P/AFFO ratio of 16.7x, well below its normalized 21.3x multiple. It is also expected to gradually boost per-share AFFO growth to 7% by 2026, paving the way for a $177 fair price target, 40% above its current price.

Rexford Industrial Realty (NYSE: REXR) – The "SoCal" Benefit

FAST FACTS	Rexford Industrial
Rexford Industrial	REXR
Market Capitalization ($billions)	$10.7
P/AFFO	18.8
Normal P/AFFO	21.3
Variance / Discount	-12%
Dividend Yield	3.40%
Payout Ratio	85%
Credit Rating	BBB+
Growth Estimate	15% to 17%
Total Return Target (annual)	25%

As its name already gives away, Rexford is an industrial REIT, owning and managing warehouses and distribution centers. What's special is that 100% of its 422 properties covering close to 50 million square feet are located in Southern California's ("SoCal") infill markets – unused parcels of land within other industrial developments.

SoCal not only benefits from severely constrained supply growth due to its location between the ocean and mountains, but it also features low availability rates, making it a highly desired market. Additionally, SoCal boasts one of the largest consumer markets, two major ports, and one of the nation's biggest industrial bases.

The company, which currently has a highly favorable balance sheet with an investment-grade BBB+ credit rating, has a 3.4% dividend yield. This dividend has grown by 18% per year over the past five years, making REXR one of the fastest-growing dividend stocks in this sector.

Looking forward, the company's growth prospects are supported by a substantial increase in expected net operating income ("NOI"), expecting a 47% rise to $876 million over the next three years. This includes close to $200 million in benefits from repositioning and mark-to-market rent adjustments.

Currently trading at a blended P/AFFO ratio of 27.3x, the company is expected to accelerate per-share AFFO growth from 11% in 2024 to 17% in 2027, paving the way for elevated double-digit returns – even if investors do not give it a higher AFFO multiple in the years ahead.

Regency Centers (NYSE: REG) – Betting On the Strip Mall Comeback

FAST FACTS	Regency Centers.
Regency Centers	REG
Market Capitalization ($billions)	$12.7
P/AFFO	20.1
Normal P/AFFO	21.3
Variance / Discount	-7%
Dividend Yield	3.80%
Payout Ratio	76%
Credit Rating	BBB+
Growth Estimate	5% to 8%
Total Return Target (annual)	10% to 15%

Founded in 1963, Regency Centers is a $12 billion giant operating in the retail segment. Regency Centers, which was added to the S&P 500 in 2017, owns more than 480 strip malls, mostly in high-demand regions like New York, Miami, San Francisco, and Los Angeles.

More than 80% of its 57 million square feet portfolio is anchored by grocery stores, meaning these stores are the largest tenant, surrounded by a number of smaller tenants, including restaurants, banks, and personal services. Regency has strong relationships with grocers like Publix, Kroger, and Whole Foods (owned by Amazon), which are either number one or number two in their respective markets.

Furthermore, after the pandemic, suburban strip malls are seeing strong demand, supported by the surprising health of the entire retail REIT space. Even better, new strip-mall supply growth is expected to be close to 0% through 2028, supporting occupancy rates and pricing power.

With regard to financial health, Regency Centers is the only strip-mall owner with an A-rated credit rating (from Moody's), a weighted average interest rate of just 4.0%, a weighted average debt duration of 6.9 years, a net leverage ratio of just 5.2x EBITDA, and $1.5 billion in liquidity.

Currently trading at 18.8x blended AFFO, the stock trades below its normalized P/AFFO ratio of 21.3x. When adding a potential per-share AFFO growth acceleration to 8% by 2026, we get a company trading more than 30% below its fair stock price of $70 per share.

While waiting for capital gains, investors get to enjoy a 4.1% dividend yield, which has a three-year compounded annual growth rate "CAGR") of 3.8% and a 77% payout ratio.

Extra Space Storage (NYSE: EXR) – Capturing the Power of Self-Storage

FAST FACTS	
Extra Space Storage	EXR
Market Capitalization ($billions)	$34.3
P/AFFO	21.3
Normal P/AFFO	22.0
Variance / Discount	-4%
Dividend Yield	3.90%
Payout Ratio	80%
Credit Rating	BBB+
Growth Estimate	5% to 7%
Total Return Target (annual)	20%

Generally speaking, one of the biggest risks in the REIT space is new supply. Self-storage is especially prone to new supply risks – given the relatively low capital requirements for competitors to put up more units. However, this has not stopped this sector from having the highest cumulative total return of any REIT sector since 1999.

Although the sector is dependent on a strong housing market and consumer sentiment, it is, generally speaking, recession resilient, comes with high customer stay lengths, flexible pricing power, steady cash flows, no material customer concentration, and a boatload of consolidation opportunities.

With a 13.8% self-storage-sector market share, Extra Space Storage has also been the best-performing self-storage REIT stock over the past decade, returning 337% through March 31, 2024. Owning/managing more than 3,700 locations in 42 states, it has proven to excel at operating efficient self-storage assets, reporting outperforming same-store revenue growth almost every single year since 2005.

Currently yielding 3.9%, the REIT has a payout ratio of 80% and a five-year CAGR of 13.2%. This dividend is further protected by a BBB+ credit rating, which was upgraded after the company merged with Life Storage last year – all of this leading to double-digit annual return potential. **S&P Global**, which assigned this rating, is very upbeat about the future of self-storage.

> *"[...] we believe storage fundamentals will remain healthy overall even as our economists expect a slow growth environment over the next two years. We expect the sector will benefit from lifestyle changes (such as job shifts, divorces, migration, etc.) that continue even during an economic downturn, albeit at a slightly slower pace."*

American Tower (NYSE: AMT) – Where Growth and Value Meet

FAST FACTS	
American Tower	AMT
Market Capitalization ($billions)	$105.6
P/AFFO	20.7
Normal P/AFFO	23.0
Variance / Discount	-10%
Dividend Yield	3.10%
Payout Ratio	63%
Credit Rating	BBB-
Growth Estimate	7% to 8%
Total Return Target (annual)	25%

With a market cap of almost $100 billion, American Tower is the second-largest REIT in the entire market – across all sectors. It's also one of the most important REITs, as it owns the infrastructure necessary to support mobile connectivity and broadcast communications.

Going into this year, it owned more than 220,000 "communication assets" in 25 nations, most of which are cell towers. It also owns data centers that cater to advanced computing needs and benefit from AI-related pricing surges.

AMT's focus on 5G gives it the benefit of operating in an extremely high growth sector. Mobile data usage is growing up to 30% annually in the United States, which requires more than $30 billion in annual capital investments from major carriers – in the U.S. alone.

Moreover, by securing guaranteed growth through comprehensive Master Lease Agreements, the company mitigates the impact of short-term market fluctuations and provides a predictable revenue base.

Although the company isn't increasing its dividend this year, so that it can focus on financial health, it has an attractive dividend with a 3.1% yield, supported by a 63% payout ratio. Over the past five years, annual dividend growth has averaged 13.7%. Next year, dividend growth is expected to return.

Even better, the company, which has an investment-grade credit rating of BBB-, is expected to accelerate per-share AFFO growth to 8% by 2026. Trading at 20.7x AFFO, below its normalized 23.0x multiple, the company has a fair stock price of $270, roughly 30% above its current price.

Essential Properties Realty Trust (NYSE: EPRT) – Sale-Leaseback Magic

FAST FACTS	ESSENTIAL PROPERTIES
Essential Properties	EPRT
Market Capitalization ($billions)	$5.0
P/AFFO	16.7
Normal P/AFFO	18.5
Variance / Discount	-10%
Dividend Yield	3.80%
Payout Ratio	66%
Credit Rating	BBB-
Growth Estimate	7% to 8%
Total Return Target (annual)	20%

With a market cap of $5 billion, Essential Property is one of the smallest REITs in this report. However, it's not less impressive than the others. What provides its real value is that it is focused on tenants in essential industries. These are service-oriented or experience-based middle-market companies operating in areas like medical/dental, early childhood education, car washes, quick services, and casual dining.

What sets EPRT apart in this market is its focus on sale-leaseback deals, where tenants sell their buildings in order to free up cash. These deals are highly favorable in an environment of elevated rates, as many companies prefer to sell their buildings instead of taking on expensive debt.

In the first quarter, 100% of its deals were sale-leaseback transactions, which came with a weighted average cash cap rate of 8.1%. Most of these deals were done with existing tenants.

With a 99.8% occupancy rate, the company is expected to maintain strong growth, with expectations of 8% annual per-share AFFO growth in both 2025 and 2026. This bodes well for its dividend, as EPRT has a 3.8% dividend yield with a five-year CAGR of 5.7%, protected by a 60% payout ratio.

Meanwhile, the REIT, which has an investment-grade credit rating of BBB- and a very low leverage ratio of 3.6x, trades at a blended P/AFFO ratio of 18.0x, a half point below its long-term average. When adding its favorable growth outlook and its 3.8% dividend, we get a 12% annual return forecast, making it one of the most attractive small-cap REITs on the market.

COPT Defense Properties (NYSE: CDP) – Both Mission-Critical and Undervalued

FAST FACTS	COPT DEFENSE PROPERTIES
COPT Defense	CDP
Market Capitalization ($billions)	$3.2
P/AFFO	15.5
Normal P/AFFO	16.5
Variance / Discount	-7%
Dividend Yield	4.30%
Payout Ratio	64%
Credit Rating	BBB-
Growth Estimate	10% to 12%
Total Return Target (annual)	12% to 14%

Porter & Co

COPT Defense Properties owns a portfolio of 201 buildings that cater to defense and IT tenants. Among these tenants are some of America's largest defense companies, including General Dynamics, Boeing, Booz Allen Hamilton, and Lockheed Martin.

Even better, the U.S. government accounts for 95 of its 210 leases. It also has a strong focus on companies engaging in intelligence, surveillance, missile defense, and cyber, four fast-growing areas in the defense sector that enjoy strong funding growth – especially in times of elevated geopolitical tensions.

In addition to the fact that defense properties are expensive and very time-consuming to build, more than 80% of its portfolio covers high-security operations that are protected against the work-from-home trend that is doing damage to "commoditized" office real estate.

It also has a "fortress" balance sheet with an investment-grade BBB- rating, no major debt maturities until March 2026, and a weighted average maturity of nine years on its debt.

Moreover, although CDP hasn't been a consistent dividend grower in the past, it now has a 4.3% dividend yield, protected by a 64% AFFO payout ratio and the outlook of 14% cumulative per-share AFFO growth in the 2024-2026 period.

Currently trading at a blended P/AFFO ratio of 15.0x, the REIT trades at a 2.4 points discount, potentially paving the road for annual returns exceeding 13% through 2026.

Porter Stansberry

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**