

How REITs Future-Proof Their Portfolios

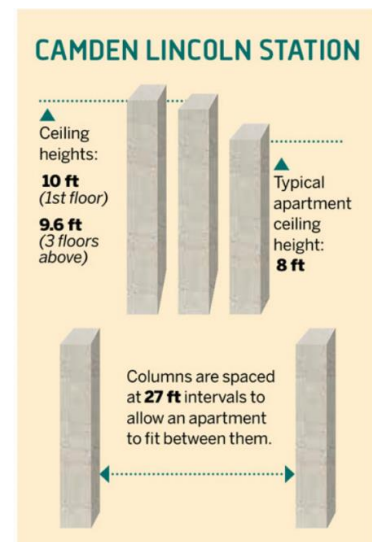
- Building garages fit for the future is an attractive opportunity for REITs.
- Adaptability can keep operating costs down over time.
- This can lead to higher earnings, higher dividends and by extension, higher net asset values.

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We are entering an era where many REITs have their eyes trained on the future in terms of adaptability of design. One such example would be the Lincoln Station apartment complex of Camden Property Trust (NYSE: CPT). The apartment building is situated in Denver and has a range of amenities to attract high income renters like quartz countertops, stainless steel appliances, dual-vanity sinks, walk-in closets, high-speed broadband and views of the Rocky Mountains. However, less obvious to the renters are the unique aspects of their parking garages. These garages have the flexibility to be converted into apartments at a point in the future, thus enhancing the asset's income stream.

The illustration on the right shows how Camden went about making their garages adaptable. The clearing heights on the ceilings are 10 feet on the first floor and 9.6 feet on the three floors above, instead of a typical height of eight feet. Higher clearing heights make all the difference for adaptability, in part because they allow for space to add electrical, plumbing, and ventilation. The columns are spaced 27 feet apart to allow an apartment to fit comfortably between them.

Adaptable garages also need thicker floor slabs. For parking structures, their live load requirement is about 40 pounds per square foot, notes Jess McInerney, a principal and engineer at Watry Design Inc., a parking consulting firm. That's much less than what's needed for other uses such as offices and apartments. These other uses can demand as much as 100 pounds per square foot, to account for furniture and a greater number of people.



Source: REIT.com

Overall, these garages are expensive to build, but it gives REITs the option to maximize the space for a day when fewer renters will need parking spaces, as more people abandon car ownership for ride sharing services. Ride sharing continues to gain prominence, and advances in technology have made the idea of ordering a driverless car for local trips possible.

While apartments and offices have yet to show big drops in parking demand, there has already been a marked decrease in the need for hotel parking according to Andy Cohen, co-CEO of global architecture firm, Gensler. Business travelers are opting for ride shares and forgoing the task of renting a car. According to Certify, Uber was the most expensed vendor in 2018, accounting for 11 percent of all transactions among various spending categories. That compares to 8.7 percent in 2017. Parking is also down at restaurants as people increasingly opt for ride shares to avoid drinking and driving issues.

Building adaptable garages and waiting for people to change behavior is a tough sell for developers looking to quickly sell a completed asset and move on. REITs, on the other hand, have an advantage as they build new garages in their development pipelines. Yes, the cost is higher, but as long-term holders of real estate it's often worthwhile spending more now than having to demolish a garage and spend even more down the road.

At Reitway, many REITs we invest in are embracing this strategy of spending more upfront on amenities and quality materials, so it can keep operating costs down over time with lower maintenance and less capital expenditure when upgrades are needed. This leads to higher funds from operations, higher dividends and by extension higher net asset values.

If you would like more information or if you want to schedule a meeting, feel free to contact us on +27 (0)21-551 3688.

Regards,
The REITWAY team

For more information about the performance of our funds and our investment methodology, please visit our website at www.reitwayglobal.com.
