**Chilton Capital REIT Strategy**

**Opportunity in Public REIT Securities**

Needless to say that the stock market, including REITs, have been on a roller-coaster ride given the COVID 19 outbreak. This past Friday the Dow Jones Industrial Average was down 915 points or 4.1% to 21636.78, and the S&P 500 declined 3.4%. In comparison the Chilton Capital REIT strategy was up 1.3%. Recent actions by the Fed to cut interest rates to basically zero and action by Russia and Saudi Arabia to essentially dissolve OPEC and in essence take away any floor on oil prices have stirred much uncertainty in the markets. President Trump signed a $2 trillion stimulus package which is the largest economic relief package in US history. These actions do not cure human medical issues and the uncertainty that remains with the spread of this virus, but in time, they should go a long way to get the economy back on its feet. Year to date the Chilton Capital REIT strategy declined 18.9% vs. the REIT index decline of 26.5%.  The yield on the 10 Yr. US Treasury has fallen to a low of 0.73%.

While we don’t claim to have more knowledge than the market on the impact of COVID-19 we believe most REITs are presenting a compelling buying opportunity for the following reasons:

1. **Attractive Valuations**: Prices are substantially below the peak on February 21. As a result, the spread between the REIT dividend yield and the 10 year Treasury yield has widened to 490 bps, which compares to the long term average of 125 bps. In addition, the NAV discount now stands at 29%, the biggest discount since December 2008.
2. **Accretive Refinancing Opportunities**: REITs should have the ability to replace 4% coupon or higher debt with issuances in the low 2% range, and potentially below 2%, even for 10 year paper. All interest savings drops directly to the bottom line.
3. **Potential for Higher Net Asset Values**: The demand for yield not only should drive investors to public REITs, but private real estate pricing (outside of retail and lodging) should also rise.

Given a belief that eventually this year the impact from the virus on the economy will to sort itself out, coupled with the above opportunities presented for public REIT securities, we are maintaining our 2020 return forecast target for a +8 to +12% total return for REITs, understanding it will be a volatile period. **This represents a +40% total return from yesterday’s prices to the end of the year.** Long term investors should be incrementally more excited given the ability to invest at these attractive low levels. Since the great recession REITs are currently carrying the lowest balance sheet leverage, have record low payout ratios, and possess higher property quality. In addition, as an active manager, we have the ability to move away from sectors that will be impacted by oil prices and/or COVID-19, such as lodging and retail malls, and have added to sectors that will be particularly immune to the these variables, such as data centers and cell towers. We believe the market for public REITs offers an attractive long term opportunity and continues to provide a tax favorable income stream for investors. Stay well, be diligent, wash your hands and contact me with any questions.

Regards - Michael

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