

## M&A May Be the Way Forward for REITs in 2024



There's no denying that 2023 was a rough year for Real Estate Investment Trusts (REITs). For most of the year, the REITs market traded sideways, with the exception of a small uptick in Q4. As Nareit succinctly summed up in their end-of-year report: "Despite [a] late-year surge, it is unlikely that 2023 REIT returns will create lasting happy memories for investors."

Despite that trend, Nareit notes that a number of high-profile mergers in the space may be a silver lining as we move into 2024.

### REIT Consolidation

Several REIT mergers and acquisitions (M&As) occurred in 2023, and the trend is expected to continue in 2024. Though deal volume was lower overall last year than in previous years, Nareit still noted that 2023's deals represented "a solid number by historical standards."

They add that public-to-public M&As offer REITs a "path to growth" in a tricky debt market, allowing them to expand portfolios and scale up despite market difficulties.

### Top Deals in 2023

Some of the bigger moves we saw last year included the acquisition of Life Storage Inc. by Extra Space Storage, Inc., a deal Nareit valued at \$16 billion. The resulting company is now the largest storage operator in the US, and one of the biggest REITs in the MSCI U.S. REIT Index, at a value of \$46 billion.

The self-storage sector was one of the strongest performers throughout last year, providing strong returns for investors despite an overall turbulent real estate market.

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Nareit notes, however, that the Extra Space/Life Storage deal was an unusually large one. It was only matched by the announcements of a \$21 billion deal between Healthpeak Properties, Inc. and Physicians Realty Trust in October, and a similar \$9.3 billion deal between Realty Income Corp. and Spirit Realty Capital, Inc. the same month.

Most other REIT M&A activity over the period came in at a more modest average value of \$1.76 billion.

### Sector Specifics

As those deals show, the top activity in the space has focused largely on specialized commercial real estate (CRE) sub-sectors, as these continue to drive returns for investors. A recent S&P report also highlights that many of the top performers in the Q4 REITs uptick fell into more specialized categories, including healthcare, regional malls, and logistics.

It's worth noting that many of the REITs S&P analyzed are still down year-on-year, including some in "strong performance" sectors.

### Sizing Up 2024

In the conclusion of their 2023 REIT report, Nareit sound a note of optimism for continued growth in the sector. They state that other strengthening factors, such as the typically strong performance of REITs after interest rate hike cycles, are also likely to boost performance this year, noting:

"The past two years have been challenging for REIT returns, as the Fed ramped up its fight against inflation. The REIT industry, however, has continued to evolve and it appears that a recovery is likely on the horizon in 2024 and beyond."

