

US REITs 2025 outlook: Office REITs expected to continue struggling

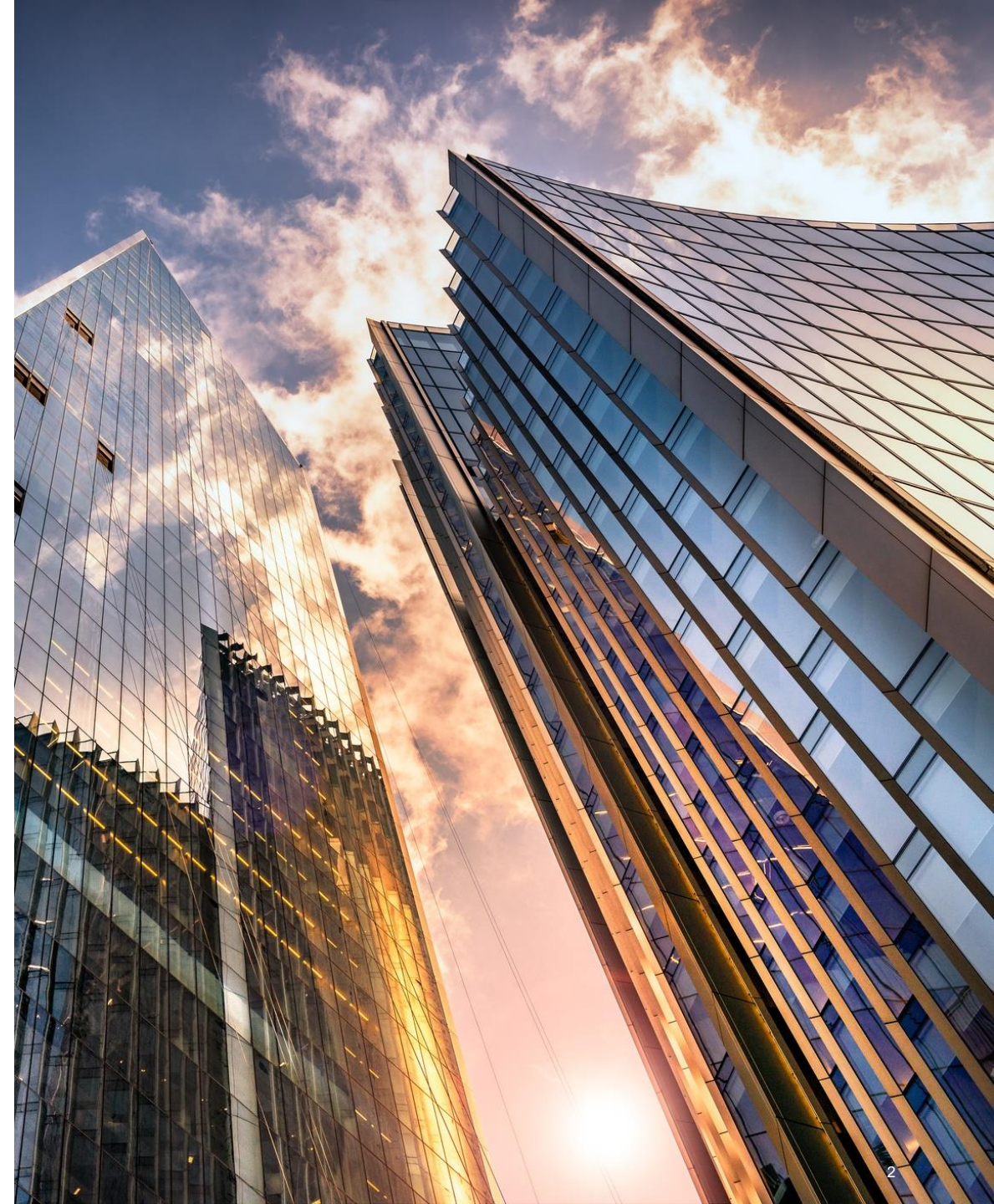
Vedant Bagri, CFA, Specialist, Equity Research/Fixed Income, Dividend Forecasting

Oct. 18, 2024



The take

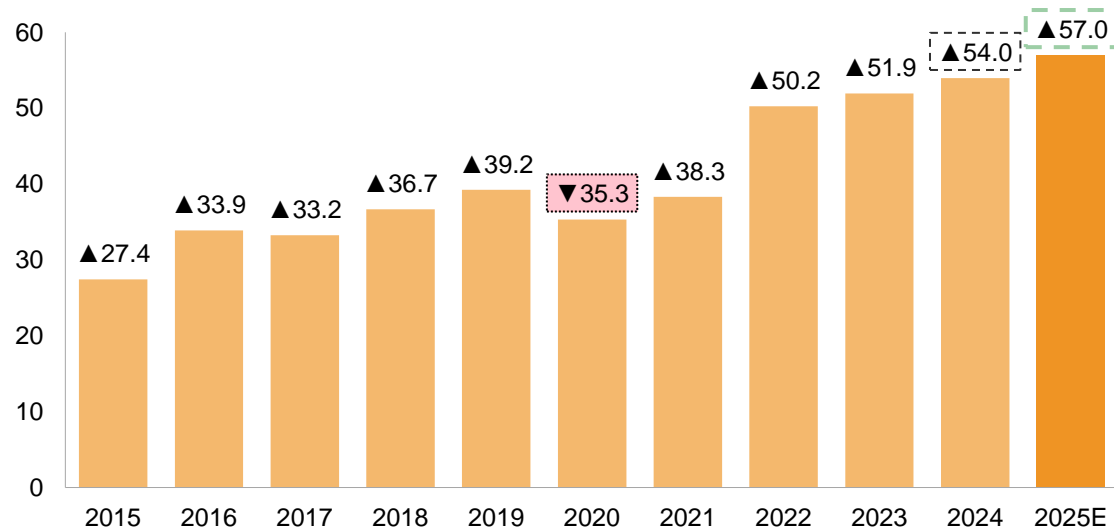
- **US REITs: Dividend trend and largest contributors**
- **Dividend contribution by REITs category and special dividend trend**
- **Some REITs performing better than others**
 - Healthcare, specialized and hotel and hospitality REITs
- **Dividends of office REITs are struggling**
 - Contribution in dividend cut, upcoming dividend cut and 2025 expectation
- **Data points to look forward to for the remainder of 2024**
 - Upcoming ex-dates, high-confidence forecast, low-confidence ex-dates and amount
- **Dividend outlook for 2025**



US REITs: Dividend trend and largest contributors

- The **US real estate investment trusts (REITs) aggregated dividends** are expected to **reach a level of \$54 billion in 2024**, marking growth of 4% year over year. The growth in dividends is lower than the US aggregated dividend growth trend of 6.5% due to the sector-specific headwinds that lead to the poor dividend sustainability.
- The dividends in 2025 are also expected to grow by 5.5%, which is **less than the 10-year compound annual growth rate (CAGR) of 7.54%**.
- The different categories of REITs are impacted by specific subindustry trends. As a result, the dividend dynamics within REITs is very volatile. Funds from operations (FFO) growth for REITs in the second quarter of 2024 shows that except for self-storage REITs, all others were able to increase their FFO.

REITs aggregated dividend trend (\$B)



Data compiled Sept. 25, 2024.
E = estimated.
Source: S&P Global Market Intelligence.

Top 10 companies by aggregated dividends

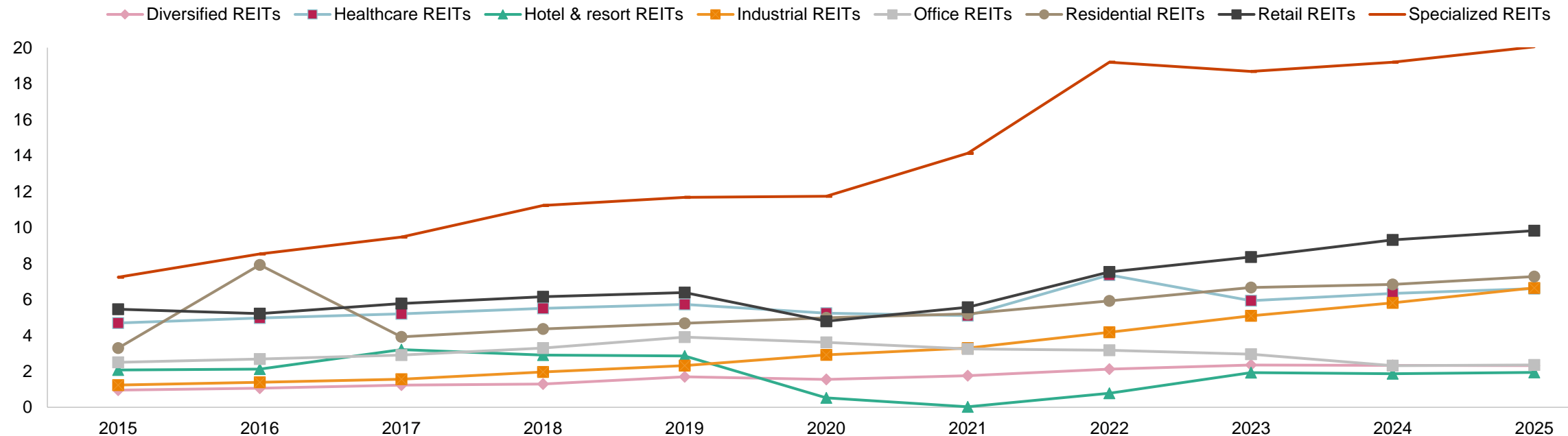
Company name	Category	DPS 2024	YOY change (%)
Prologis Inc.	Industrial REITs	3.84	10.3%
American Tower Corp.	Specialized REITs	6.48	0.5%
Crown Castle Inc.	Specialized REITs	6.26	0.0%
Simon Property Group Inc.	Retail REITs	8.05	8.1%
Realty Income Corp.	Retail REITs	3.05	-6.0%
Public Storage	Specialized REITs	12.00	0.0%
VICI Properties Inc.	Specialized REITs	1.70	5.3%
Equinix Inc.	Specialized REITs	17.04	17.6%
Digital Realty Trust Inc.	Specialized REITs	4.88	0.0%
Welltower Inc.	Healthcare REITs	2.56	4.9%

Data compiled Oct. 10, 2024.
DPS = dividend per share.
Source: S&P Global Market Intelligence.

US REITs dividend trend by category

- The largest decline year over year is expected to be in office REITs with negative growth of 21% from \$2.9 billion to \$2.3 billion. The reason for the decline in the office REITs is because of the suspension and dividend cuts declared by the companies due to the poor performance of commercial real estate since 2023.
- The highest dividend growth in 2024 is expected in industrial and retail REITs, with growth of 14.2% and 11%, respectively.

US REITs dividend: By category (\$B)



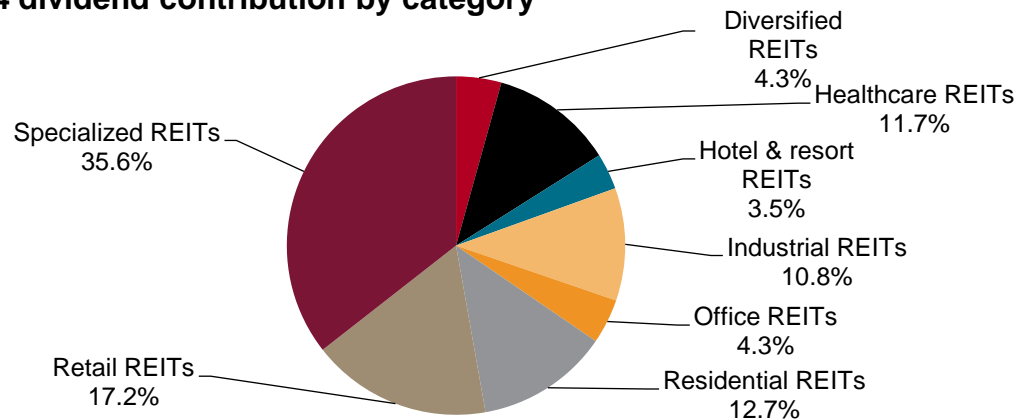
Data compiled Sept. 25, 2024.

Source: S&P Global Market Intelligence.

US REITs dividend trend by category (continued)

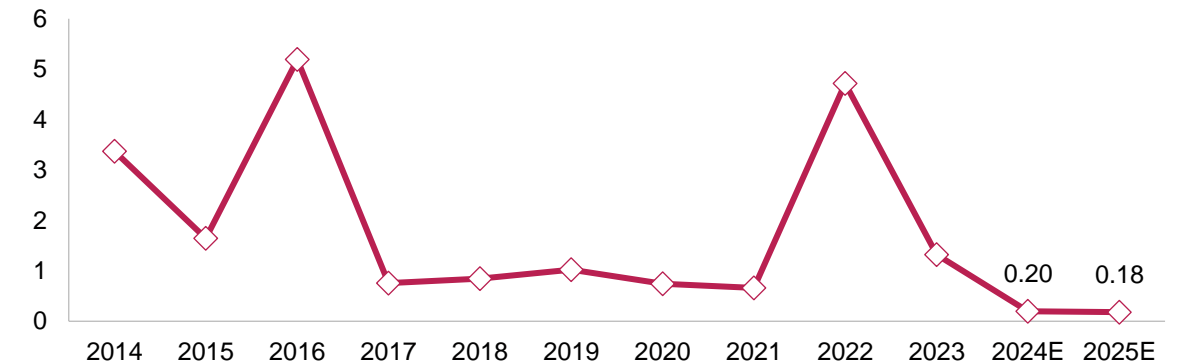
- Among REITs, **specialized REITs are one of the highest contributors in sector dividends** with almost \$19.2 billion of dividends in 2024. This **contributes to almost 35% of the sector aggregate**, with the primary reason being there are many subcategories under specialized REITs such as datacenter, timber and gaming, most becoming a boon for investment as the business expanded after the pandemic for them.
- The **lowest dividend payer** by category is **hotel and resort** with a contribution of \$1.8 billion or 3.5% expected in 2024.
- **Following hotel and resort, diversified REITs and office REITs are the next lowest contributors**, with the reason being the dividend suspensions that took place specifically in these two subcategories as mortgage REITs and commercial REITs did not perform well on a comparative basis, which eventually made the FFO smaller than the DPS committed by the companies.

2024 dividend contribution by category



Data compiled Sept. 26, 2024.
Source: S&P Global Market Intelligence.

Special dividend (\$B)



- Special dividends contribute only **0.52%** in the aggregate dividend of the sector.
- The special dividends payouts have been fluctuating in the sector and are trending downward since 2022. The **current year forecast of \$200 million is coming from two companies** belonging to two subcategories of specialized and hospitality REITs.

Expected special dividends for 2024

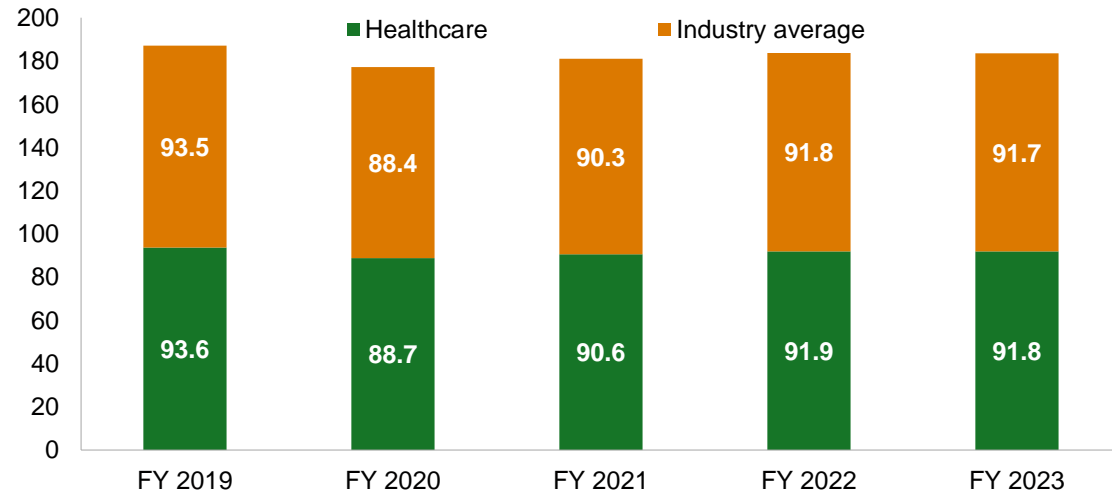
Company	Category	Special dividend/share (E)
Host Hotels & Resorts Inc.	Hotel and resort	\$0.45
Lamar Advertising Co.	Specialized	\$0.30

Data compiled Oct. 10, 2024.
Source: S&P Global Market Intelligence.

Some REITs are performing better than others

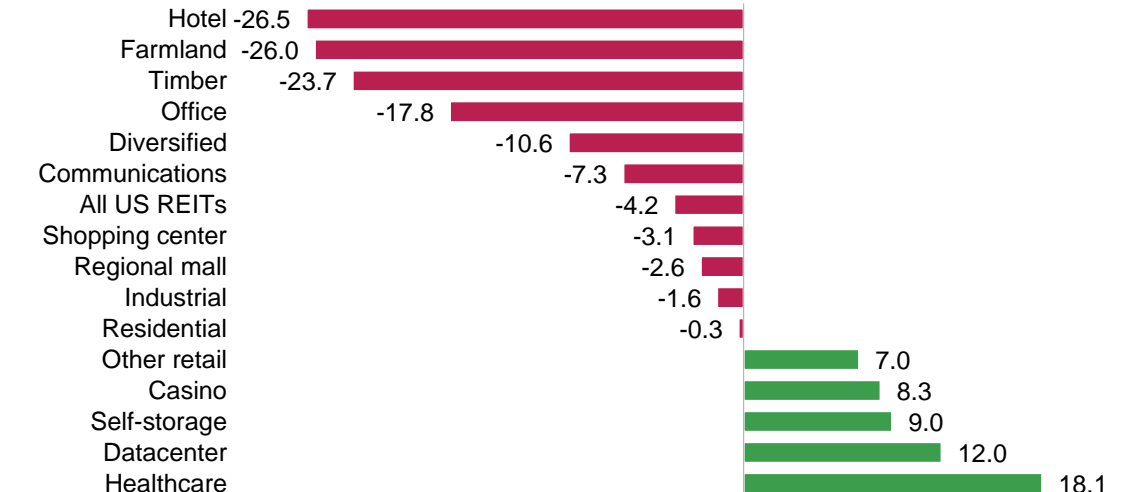
- Evidently, the highest growth of dividends comes from three categories: hospitality, healthcare and specialized REITs. Among these categories, healthcare and specialized REITs companies are trading at the highest premiums to their net asset value (NAV). Companies in the **healthcare REITs** are trading at the highest premium to their NAV. With the **US government target to spend \$6.2 trillion** in healthcare until 2028, demand for hospitals, nursing facilities and medical office buildings are increasing, and hence growth within the sector will be inevitable and is evident from the higher occupancy trend compared with the industry average.
- **Specialized REITs** relate to the e-commerce, online sales, data analytics and virtual world, which all contribute to the rise in demand for datacenters, and these businesses are operational with minimal staff requirements. The customer base of this subsector of REITs includes big corporates, and hence the revenues for these categories are the highest.
- While **hotel REITs** struggle in terms of share price, there are some companies within this category which were able to increase dividends due to higher occupancies and increasing or stable FFO numbers. The underperformers in terms of NAV are exposed to commercial real estate, and because of the doldrum valuation of commercial real estate, the businesses of these REITs are impacted.

Occupancy rate trend (%)



Data compiled Oct. 10, 2024.
Source: S&P Global Market Intelligence.

Median premium (discount) to NAV



Data compiled Aug. 30, 2024.
Source: S&P Global Market Intelligence.

Some REITs are performing better than others (continued)

- **Equinix Inc.** provided the 2024 adjusted FFO (AFFO) guidance of \$34.67-\$35.30 per share, an increase of 8%-10% over the previous year. Along with this, the company's net income **increased 30% quarter over quarter to \$301 million**, and demand for the business remains strong. Hence, we expect the company to increase its dividend by another 12.7% in 2025, which makes a quarterly DPS of \$4.80.
- **RLJ Lodging Trust** has witnessed **growth in revenue per available room (RevPAR)** in the recent quarter, and management expects this growth to increase further. With the continued acquisition, management expects that the overall synergies can help expand the business. Also, the **FFO guidance was increased from \$1.45 per share to \$1.58 per share**. Hence, we expect a 20% increase in DPS **from \$0.15 per share to \$0.17 per share** in 2025.
- **Strawberry Fields REIT Inc.** is expected to increase its DPS by another 15.4% in 2025 after raising it by 15.6% in 2024. With strong **FFO increasing by 19% year over year** and with the demand for healthcare properties rising, leading to **higher occupancy rates**, the forecast dividend can be sustained by the company with a competitive yield of 4.3%.

Highest dividend growth in 2024 and expected growth in 2025

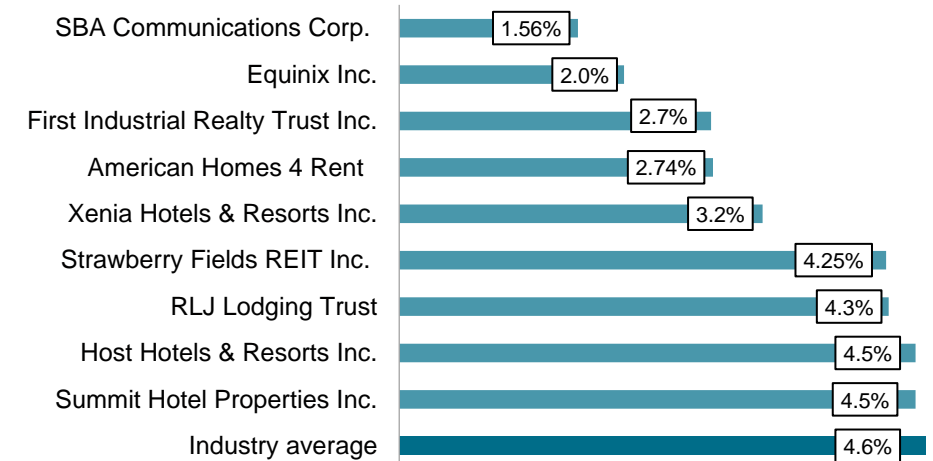
Company	Category	Gross DPS 2024 (E)	2024 YOY change	Gross DPS 2025 (E)	2025 YOY change
RLJ Lodging Trust	Hotel & resort REITs	0.50	38.9%	0.60	20%
Summit Hotel Properties Inc.	Hotel & resort REITs	0.30	36.4%	0.32	6.7%
Xenia Hotels & Resorts Inc.	Hotel & resort REITs	0.48	20.0%	0.48	0.0%
American Homes 4 Rent	Residential REITs	1.04	18.2%	1.20	15.4%
Equinix Inc.	Specialized REITs	17.04	17.6%	19.20	12.7%
Host Hotels & Resorts Inc.	Hotel & resort REITs	1.05	16.7%	1.05	0.0%
First Industrial Realty Trust Inc.	Industrial REITs	1.48	15.6%	1.68	13.5%
Strawberry Fields REIT Inc.	Healthcare REITs	0.52	15.6%	0.60	15.4%
SBA Communications Corp.	Specialized REITs	3.92	15.3%	4.508	15.0%

Data compiled Oct. 10, 2024.

YOY change is applied after considering special dividend (if applicable).

Source: S&P Global Market Intelligence.

Dividend yield of the highest DPS growth stocks



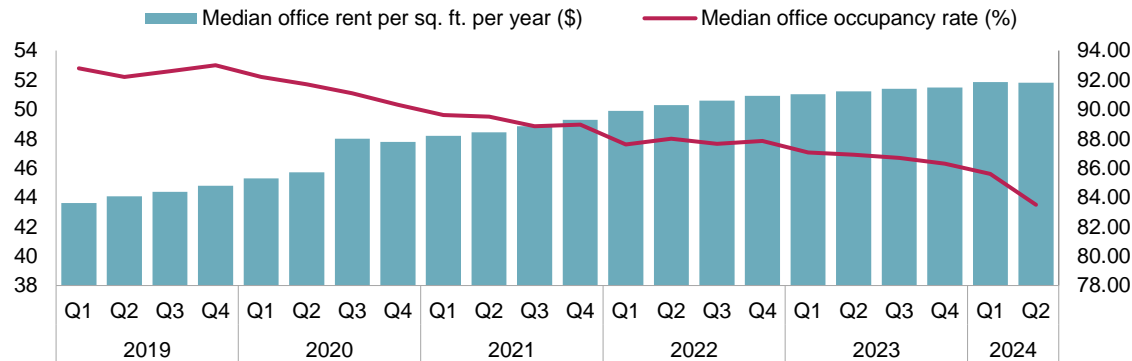
Data compiled Sept. 25, 2024.

Source: S&P Global Market Intelligence.

Dividends of office REITs are struggling

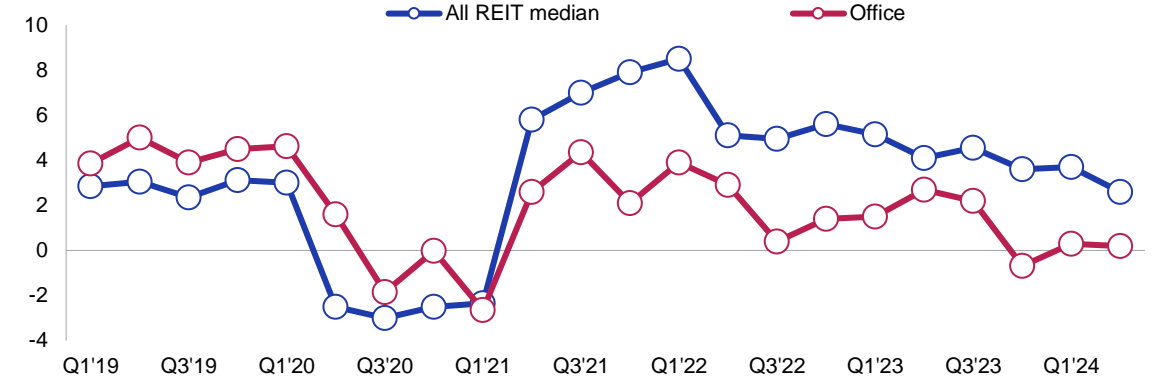
- After recovering in 2021, the net operating income (NOI) for commercial REITs took a hit in 2022 and is still struggling to recover. As a result of lower valuation of commercial properties, the NOI is not increasing for office REITs. For example, **Franklin Street Properties Corp.** declared a dividend cut in 2022 to \$0.01 per share. The **company is not expected to increase its DPS in the near future** due to the **lowest occupancy rate of 70%** and stable guidance for FFO for the next two years.
- Although **rent per square foot increased** in previous years and **remains stagnant in 2024**, occupancy rates for offices are at multiyear lows, with the median rate plunging to **83.5%**. Hence, **despite higher rents being charged, income for office REITs is not increasing.**
- As a result of lower demand, poor quarterly results and no improvements in the outlook, the stock price dipped, and the **US real estate office index underperformed the US REITs index and the S&P 500**, with the **magnitude of this underperformance increasing since 2022.**

Office rent and occupancy trend



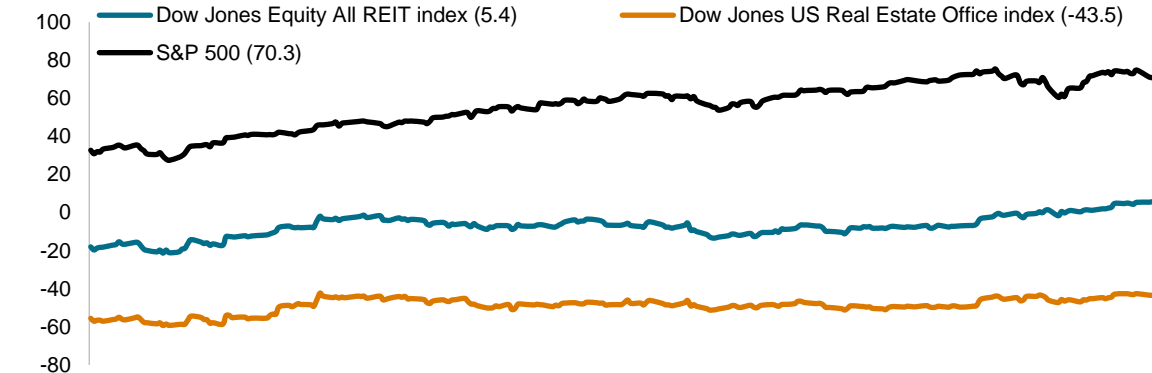
Data compiled Sept. 15, 2024.
Source: S&P Global Market Intelligence.

Same-store NOI change (%)



Data compiled Sept. 25, 2024.
Source: S&P Global Market Intelligence.

Dow Jones US Real Estate Office index comparison with other indices



Data compiled Sept. 15, 2024.
Source: S&P Global Market Intelligence.

Dividends of office REITs are struggling (continued)

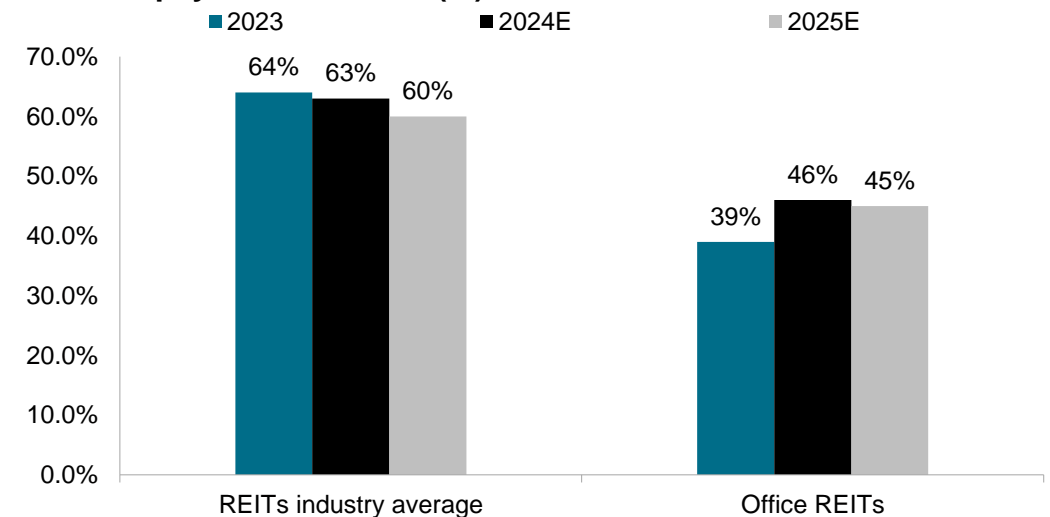
- **Among the 25 REITs that announced dividend cuts in 2023–24, nine REITs belong to the office category**, and due to the ongoing challenges because of less demand and downward trending occupancy rates, we do not expect any of these REITs to increase their DPS in 2025.
- As a result, the **payout for office REITs** has been **way below the industry average**, with an average payout of 46%, which is almost half of the REITs criteria of 90%.
- **SL Green Realty Corp. (SLG)** has reduced its 2024 dividend to an **annualized value of \$3 per share**. For the second quarter of fiscal year 2024, SLG reported FFO of \$2.05 per share. The company has increased its fiscal year 2024 guidance of FFO per share of \$7.45 to \$7.75. As per consensus estimates, the FFO is not rising much from fiscal year 2025 onward, and with total debt outstanding of \$4.5 billion, the company's increasing earnings will be devoted to paying the debt; the increase in dividend is less likely by the company. **The current payout ratio stands at 43%.**
- **Vornado Realty Trust's** management declared in the first quarter of 2024 that it **will pay a dividend in the last quarter**, as opposed to paying it in the first and last quarters. Given the company's recent guidance of lower FFO of \$2.21 and lower occupancy rates, **we expect a dividend cut in 2024 by 11.1% to \$0.60** compared with the gross DPS of \$0.675 in the previous year. With the occupancy rates and FFO remaining a challenge for the remainder of the year, we do not expect a dividend increase in 2025.

Office REITs dividend decrease ▼

Company name	Category	Current DPS	2024 YOY change	DPS 2025 (E)	2025 YOY change
Net Lease Office Properties	Office REITs	0	-100.0%	0.0	0.0%
Office Properties Income Trust	Office REITs	0.01	-96.9%	0.01	0.0%
Hudson Pacific Properties Inc.	Office REITs	0.0	-73.3%	0.0	0.0%
Paramount Group Inc.	Office REITs	0.0	-61.6%	0.0	0.0%
City Office REIT Inc.	Office REITs	0.10	-33.3%	0.10	0.0%
Piedmont Office Realty Trust Inc.	Office REITs	0.125	-25.4%	0.125	0.0%
Brandywine Realty Trust	Office REITs	0.15	-16.7%	0.15	0.0%
Vornado Realty Trust	Office REITs	0.60	-11.1%	0.60	0.0%
SL Green Realty Corp.	Office REITs	0.25	-6.5%	0.25	0.0%

Data compiled Oct. 10, 2024.
Source: S&P Global Market Intelligence.

Dividend payout ratio trend (%)



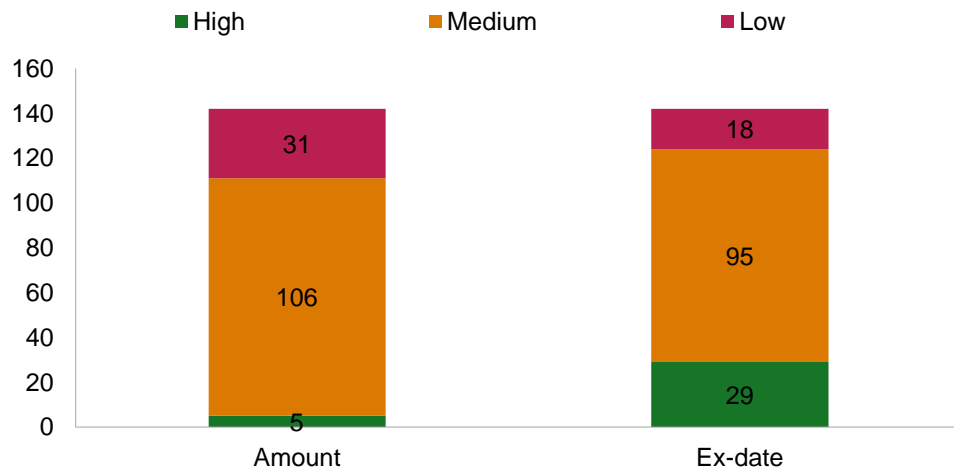
Data compiled Oct. 10, 2024.
Source: S&P Global Market Intelligence.

Data points to look forward to for the remainder of 2024



Confidence level breakdown

No. of announcements



Data compiled Oct. 10, 2024.
Source: S&P Global Market Intelligence.

High-confidence dividend amounts in the next quarter

Company name	Category	Forecast dividend	Confidence
Clipper Realty Inc.	Residential	0.095	High
Community Healthcare Trust Inc.	Healthcare	0.465	High
American Tower Corp.	Specialized	1.62	High
Welltower Inc.	Healthcare	0.67	High

Data compiled Oct. 10, 2024.
Forecast dividend is the DPS for the upcoming quarter.
Source: S&P Global Market Intelligence.

Data points to look forward to for the remainder of 2024 (continued)

Low-confidence dividend amounts in the next quarter

Ticker	Company name	Amount	Amount confidence
CAR.UN	Canadian Apartment Properties	0.125	Low
CSR	Centerspace	0.75	Low
DRH	Diamondrock Hospitality Co.	0.03	Low
ELME	Elme Communities	0.18	Low
GLPI	Gaming and Leisure Properties Inc.	0.76	Low
GOOD	Gladstone Commercial Corp.	0.1	Low
LAND	Gladstone Land Corp.	0.0464	Low
HIW	Highwoods Properties Inc.	0.51	Low
ILPT	Industrial Logistics Properties Trust	0.01	Low
NSA	National Storage Affiliates Trust	0.56	Low
OPI	Office Properties Income Trust	0.01	Low
OUT	Outfront Media Inc.	0.3	Low
PGRE	Paramount Group Inc.	0	Low
PECO	Phillips Edison & Co.	0.1025	Low
PCH	Potlatchdeltic Corp.	1	Low
SLG	SL Green Realty Corp.	0.27	Low
UNIT	Uniti Group Inc.	0	Low
VNO	Vornado Realty Trust	0.6	Low
WPC	W.P. Carey Inc.	0.88	Low
XHR	Xenia Hotels & Resorts Inc.	0.12	Low

Data compiled Oct. 10, 2024.

XD = Ex-date.

Amount refers to the dividend amount in the upcoming quarter.

Source: S&P Global Market Intelligence.

Upcoming ex-dates with low confidence

Ticker	Company name	Ex-date	XD confidence
ALEX	Alexander & Baldwin Inc.	Dec. 23, 2024	Low
CLPR	Clipper Realty Inc.	Nov. 14, 2024	Low
CTO	CTO Realty Growth Inc.	Dec. 16, 2024	Low
INVH	Invitation Homes Inc.	Dec. 26, 2024	Low
JBGS	JBG SMITH Properties	Nov. 18, 2024	Low
KIM	Kimco Realty Corp.	Dec. 5, 2024	Low
KRG	Kite Realty Group	Jan. 3, 2025	Low
LINE	Lineage Inc.	Dec. 31, 2024	Low
OLP	One Liberty Properties	Dec. 20, 2024	Low
PCH	Potlatchdeltic Corp.	Dec. 26, 2024	Low
SBAC	SBA Communications Corp.	Nov. 14, 2024	Low
SITC	SITE Centers Corp.	Oct. 22, 2024	Low
STRW	Strawberry Fields REIT Inc.	Dec. 16, 2024	Low
INN	Summit Hotel Properties Inc.	Nov. 14, 2024	Low
SHO	Sunstone Hotel Investors Inc.	Dec. 30, 2024	Low

REITs: 2025 dividend outlook

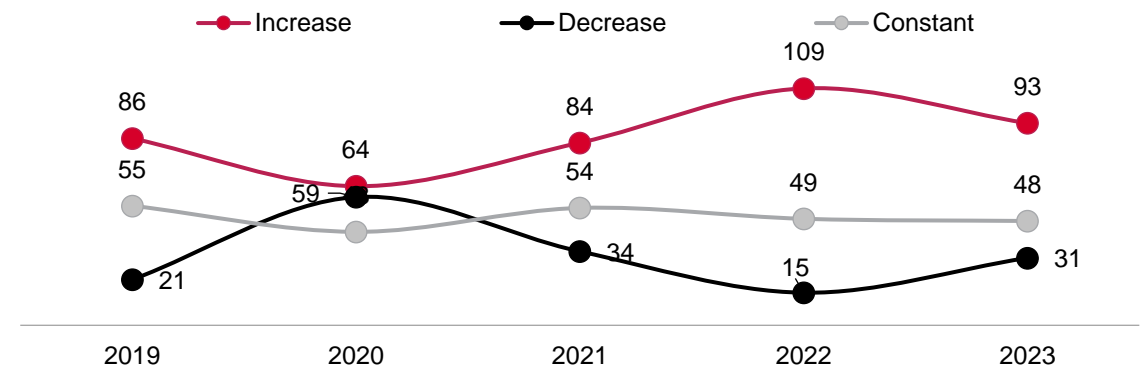


The largest dividend growth is expected to be in industrial REITs, which are expected to grow by 14.4%. Within the category, the major contributors for this growth are:

- **Prologis Inc.:** Being one of the largest REITs in the US by market capitalization, even an insignificant change in the DPS can cause a significant change in aggregate dividend. With the rising FFO guidance for 2024 of between \$5.39 and \$5.47, the company can accommodate another dividend hike with the same magnitude as the current year increase of 10.4% is expected in 2025, making the aggregate dividend of the company equal to \$3.93 billion.
- **Lineage Inc.:** The company has recently initiated the quarterly dividend with a pro-rated dividend of \$0.38 per share and an annualized dividend rate of \$2.11 per share. This will make a quarterly dividend of \$0.5275 per share, a quarter-over-quarter increase of 38%.

From a company level, **Veris Residential Inc.** is expected to increase its dividend by 20%. With the occupancy rate reaching 95.1% and rental growth of 5%, the NOI increased by 5.9% in the recent quarter and management expects it to rise after 2025 as well. Hence, it can accommodate the forecast DPS.

Dividend change trend by number of companies



- Since 2022, the number of companies decreasing dividends in the sector has been increasing due to lower occupancies in the commercial REITs category, resulting in less NOI and lower FFO.
- Continuing the wave in 2024 until the second quarter, almost 24 REITs decreased their dividends in the year to date, signaling the threat to dividends is still ongoing.
- However, due to the subcategorical dynamics, there are some companies that are expected to grow their dividends in 2025 despite the sector headwinds.

Data compiled Sept. 15, 2024.
Source: S&P Global Market Intelligence.

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