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# Commercial Real Estate Overview | | | | | | | | | | | |



		Real Estate Sectors							
Sector	Description / Additional Information								
Office	•	Due to the effects of the pandemic and many industries implenting Work From Home (WFH) scheules, companies are able to reduce their office footprint.							
Hotels	Typical hotel occupancy runs about 65% in southern California, the pandemic has cut that occupancy signifiantly in some markets and owners are losing money. Too much incertainty going forward.								
Land	Investing in land is the most speculative undertaking due to market uncertainty and most land does not generate any income from leases. Investors will endure lots of sunk costs. Not recommended regardless of pandemic.								
	Retail is a broad category that o	describes several different property types. T	hese can include:						
	Regional Malls (Westfield, Tyler Gallerria, etc.)	Movie Theaters	Restaurants (Fast Food & Sit Down)						
Retail	Big Box Retailers (WalMart, Home Depot, etc.)	Shopping Centers (Power Centers (Over 200,000 sq. ft.), Neighborhood (Up to 125,000 sq. ft. usually include grocery store), etc.)	Banks (Freestanding or in Shopping Center)						
	Convienence Stores	Mixed Use - Combination of retail and office or some other use with retail	Gas Stations	Average/Fair					
	Auto Dealerships Strip Reatil - Building with multiple tenants in same building								
	Most retail is fairly stable however the pandemic has disrupted restaurants and theaters, and e-commerce has made brick and mortor retail less attractive								

# Commercial Real Estate Overview (Cont.)



Multi-Family		vestment for many investors for some time. A tion with high occupancy (>90%) generate gr	-	Good				
(Apartments)	The recent item for concern related to apartments is due to the pandemic, government policy allowed tenants to stop paying rent and no evictions. Obviously, investors lost millions and the future around this is still uncertain.							
Specialty	the star of This section is subsected and set as second of the UCIC Hairs absolute and a							
	Similar to retail, the term industria	I is a general term with many categories	within. Different types inc					
	General Warehouses - These come in various sizes from 10,000 to over 1,000,000 sq. ft.	ght Industrial - Smaller facilities where goods are assembled or manufactured	Heavy Industrial - Buildings tend to be away from residentail due to noise, dust, Flex Buildings - Hybrid of					
Industrial		Cold Storage - Facilities dedicated to storage of refridgerated or frozen goods. Climate controlled to store perishable goods.  business in the office but stores goods or inventory in the warehouse portion.						
	pay rent to store household goods. confidence in good locations with or minimal competition can generate from the great cash flows.	Research & Development (R&D) - Place where ompanies create new technologies, products, imprive existing ones. Some of the higher tech aclities are designed to develop medicine and must be 100% sterile.  costs vs. retail buildings, these buildings are	Data Centers - Place where companies put their equipment that holds their data, internet, and offsite storage. Average facility is					
Residential	Due to e-commerce, low construction costs vs. retail buildings, these buildings are attractive investments now a  There are also REIT's that invest in residential properties like houses and condominimums. These became attractive after the Great Recession when REIT's could buy large blocks of foreclosed houses from lenders for pennies on the dollar. The REIT leases the property to generate cash flow, then at some point when resale values are much higher, they can sell off the asset for a substancial profit.							

## Industry Overview



Duke Realty is a Real Estate Investment Trust (REIT). Duke's business model relies on their ability to buy or build industrial buildings and lease them to tenants for a profit. As a REIT, the internal Revenue Service (IRS) gives certain tax treatment to REITS. They are:

Real estate investment trusts (REITs) are a popular way for investors to own income-generating real estate without having to buy or manage property. Investors like REITs for their generous income streams. To qualify as a REIT, the trust must distribute at least 90% of its taxable income to shareholders. In turn, REITs typically don't pay any corporate income taxes because their earnings have been passed along as dividend payments. [1]

Source: Investopedia.com

Also, because REIT's have substantial cash on hand from investors, they use very little debt in their operations overall. This will be discussed further in the Discounted Cash Flow Analysis.

## **Company Overview**



Duke Realty is a leading owner, developer, and manager of logistics and industrial properties. The projects across the country include state-of-the-art bulk warehouses and modern, efficient distribution centers.

Duke is, also, the leading U.S. industrial REIT, delivers excellence logistics real estate, with new and existing facilities in key distribution locations. To ensure sustainable and responsible impact in the world, they develop the highest, longest-lasting standard and maintain strong relationships with clients throughout their lease terms and beyond.



## **Company Overview**



## **DUKE REALTY** BY THE NUMBERS

19 U.S. LOGISTICS MARKETS

THAN TRADED COMPANY

NEARLY 5 YEARS IN BUSINESS

500 COMPONENT

THAN 150 M SQUARE FEET OF RENTABLE SPACE

800 CUSTOMERS

# \$21B ENTERPRISE VALUE

Duke Realty's stock performance has beat the S&P 500 over the past decade. (Yahoo Finance)

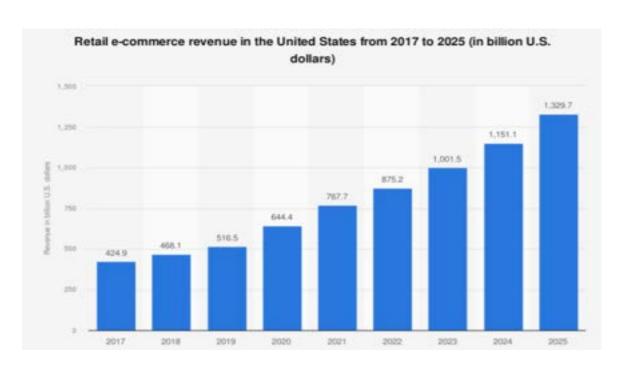
Duke Realty ( DRE 2.82% ) calls itself the nation's leading pure-play, domestic-only, industrial property REIT. The stock has posted a total return of about 450% in the past 10 years compared to about 288% for the S&P 500. Its stock is trading at about \$53 a share, and it has raised its dividend for 12 straight years, good for a current yield of about 2.43%. Duke Realty's strong spot within the red-hot industrial sector (which includes keeping fully occupied while raising rents), along with a modest payout ratio of 53% based on 2022 earnings estimates, position this real estate investment well for continued market-beating performance.

## **Investment Thesis**



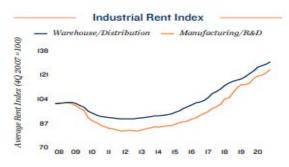
### Thesis #1

The demand for industrial space has been surging for the past several years and there is no indication that the demand will be slowing anytime soon for several reasons. First, the growth in e-commerce is growing on average by 12-14% / year. Traditional brick and mortar retailers has become less attractive, and the convenience of online shopping is here to stay due to the "Amazon effect".



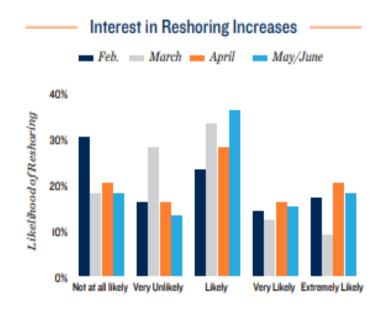






## **Investment Thesis**





### Thesis #2

Because of the pandemic, legislators are now considering bringing back more manufacturing companies to rely less on imports from other countries and ease possible supply chain constraints in the future whether we are experiencing a pandemic or not. This political shift will create greater demand for industrial warehouses nationwide, with companies like Duke Realty receiving increased demand and revenue.



### Thesis #3

Rising interest rates will not impact REIT's the same way they affect the housing market. REIT's take in cash from investors and have specific guidelines from the IRS as to how to spend and allocate it to keep their REIT status and avoid higher taxes. REIT's generally have very little debt,, therefore interest rate hikes will not adversely affect Duke.

## Revenue Breakdown



### **Revenue Drivers**

Duke is engaged in the development, leasing, property management, construction, and involved in capital transactions.

## **Revenues from Leasing Activity**

Duke Realty, as landlord owns and leases industrial buildings to their tenants, whether the buildings are newly acquired by Duke, newly constructed, or have entered into a new lease agreements with the tenant. All of these examples are revenue sources to Duke. In 2021, Duke's lease renewals increased by 40.8% (Yahoo.com). Duke was able to achieve this feat by renegotiating approximately 150 expiring leases. Based on the companies 10K's, there will be another 145 leases / year to renegotiate between 2022 and 2026 which will force existing tenants to decide whether to relocate, which costs the company considerable time and money, or to sign a new lease at the current market rates.

### General Contractor and Service Fee Revenue

General contractor and service fee revenues are comprised primarily of construction and development related revenues earned from third parties while acting in capacity of a developer, as a general contractor or a construction manager. We evaluate the goods and services provided in these construction arrangements to determine whether we are acting as principal or agent and, accordingly, recognize revenue on a gross or net basis based on that evaluation. There are other ancillary streams of revenue included in general contractor and service fee revenues (see Note 9), such as management fees earned from unconsolidated joint ventures in accordance with the terms specific to each arrangement, which are not significant.

## Revenue Breakdown (CONT.)



## **Property Sales**

Lastly, Duke also makes money from the proceeds of selling properties. For example, if a property is bought in 2010 for \$10,000,000, and is sold in 2022, fully leased to another buyer for \$18,000,000, Duke will have collected rental payments for the entire time they owned the property and the they will receive a profit of \$8,000,000 on the sale of the property.



 Environment: There was a 25% decrease in water and 19% decrease in energy usage year over year.

#### SUSTAINABLE CONSTRUCTION TO PROVIDE MORE EFFICIENT BUILDINGS



Diverted approximately (3) of the construction waste from landfills;



Incorporated 25% recycled content of the building materials utilized in construction;



Achieved an average potential of \$ 200 energy usage cost savings for the occupying tenant;



Reduced the potential indoor water usage by 36% for the occupying tenant.



46% women



Diversity Balance 14% people of color 86% white



Age Balance
46 years average
associate age

Diverse Suppliers \$15H spend 9% utilization



AOS stiverse axociates in mid and top-level



#### Upper Hanagement

24% positions held by women 8% positions held by people



#### Gender Pay Equity

100% average percentage of femaleto-male total compensation'



#### Racial/ Ethnic Pay Equity

98% average percentage of minority-tonon-minority total compensation

- Social: Associates also participate in community activities, contributions are matched, and a bond total of \$850m (1st half 2019, 2nd half 2021) has been issued to help finance "eligible green projects."
- Includes "green buildings," energy efficient projects, sustainable water and waste management systems, etc.

 Governance: Corporate responsibility council that shares its results and areas for improvement with an internal operating committee bi-annually along with the board of directors.



## **Projections**



- Q4 2021 leasing volume totaled 8.9m square feet, full year totaled 33.5m (Highest in company history)
- Total in-service portfolio is 98.1% leased and delivery of 7.7 million sq ft of new development projects in 2021.
- Rent growth on 2nd gen leasing activity was 40.8%, highest quarter growth ever, and 20.6% on a cash basis.



# Valuation



DCF Analysis										
Company Name & Ticker:	Duke Realty - DRE									
Current Market Price:	\$53.90									
Assumptions										
		2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue Growth		6.9%	21.4%	2.7%	2.0%	11.3%	10.0%	10.0%	9%	8%
EBIT Margin		24.84%	24.34%	26.57%	28.77%	32.19%	26.0%	24.0%	22.0%	22.0%
Interest Rate		3.6%	3.2%	3.0%	2.7%	2.2%	2.1%	2.0%	1.9%	1.8%
Tax Rate		-0.14%	2.25%	1.97%	-1.71%	2.11%	1.0%	1.0%	1.0%	1.0%
Net Working Capital										
Total Assets		7,388	7,804	8,421	9,111	10,446	11,490	12,639	13,777	14,879
Current Assets		940.97	637.28	425.19	334.90	490.75	574.51	631.96	551.07	595.16
% Total Assets		12.7%	8.2%	5.0%	3.7%	4.7%	5%	5%	4%	4%
Current Liabilities		140.99	181.80	152.95	164.94	218.21	229.80	252.78	247.98	267.82
% Total Assets		1.9%	2.3%	1.8%	1.8%	2.1%	2.0%	2.0%	18%	1.8%
Net Working Capital		799.98	455.48	272.24	169.96	272.54	344.71	379.18	303.09	327.34
Change in Net Working Capital			-344.50	-183.24	-102.28	102.58	72.16	34.47	-76.09	24.25



Capital Expenditures									
Gross Fixed Assets	6,995	7,726	8,585	9,498	10,435	11,186	12,305	13,412	14,485
Fixed Asset Turnover	0.11	0.12	0.11	0.11	0.11	0.11	0.11	0.11	0.11
CAPEX		731	859	914	937	751	1,119	1,107	1,073
Depreciation & Amortization	246.3	253.9	286.6	307.7	313.0	335.5	369.0	402.3	434.4
Unlevered Free Cash Flows									
Revenue	790.3	957.2	983.9	1,004.3	1,118.6	1230.5	1353.5	1475.3	1593.4
Growth	6.9%	21.1%	2.8%	2.1%	11.4%	10.0%	10.0%	9.0%	8.0%
Operating Expenses									
ЕВІТ	196.3	232.9	261.4	289.0	360.0	453.6	562.5	686.3	837.2
Margin	24.8%	24.3%	26.6%	28.8%	32.2%	36.9%	41.6%	46.5%	52.5%
D&A	246.3	253.9	286.6	307.7	313.0	335.5	369.0	402.3	434.4
Interest Expense	87.0	85.0	89.8	93.4	84.8	56.13	53.46	50.78	48.11
Tax	-0.40	8.83	8.69	-5.10	18.55	3.98	5.09	6.35	7.89
Operating Cash Flows	443	478	539	602	654	785	926	1,082	1,264
Capex		731	859	914	937	751	1,119	1,107	1,073
Change in NWC		-344	-183	-102	103	72	34	-76	24
Unlevered FCF		92	-137	-210	-385	-38	-227	51	167



Terminal Value										
EV/EBITDA Multiple	28.00									
EBITDA		443	487	548	597	673	789	932	1,089	1,272
TV										35,60
FCFF+TV			92	-137	-210	-385	-38	-227	51	35,77
WACC										
Market Value of Equity (In Millions)	\$20,633									
Debt (Inc. Oper. Leases & ST Debt)	2672.8		EV			\$27,1	138.73			
Weight of Equity	0.8853		Debt			2672.8				
Weight of Debt	0.1147		Cash			69.752				
				quity Value		\$24,5	35.66			
Beta	0.93		Shares O	utstanding	(Millions)	382.8				
Market Return (Historical)	8.00%									
RF Rate (10 yr T-Note)	1.97%		Intrinsic I	Price per S	hare	\$64	1.10			
Cost of Equity	7.58%		Upside/Downside		18.9%					
Implied Cost of Debt	2.25%									
Tax Rate	2.11%									
A.T. Cost of Debt	2.20%									
WACC	6.96%									

The beta was calculated using the slope and the covariance in Excel comparing the weekly stock returns of Duke over a five-year period compared to the S&P 500.

A regression analysis was considered to forecast the companies' revenues. However due the change in accounting practices that were implemented in 2016 where GAAP standards required REITs to record certain activity differently, which gave the illusion that the company suffered a loss of revenue. The appearance of lost revenue would have produced an unreliable revenue forecast.



	STAG FIRST INDUST		FIRST INDUSTRIAL	L REXFORD				DUKE REALTY		
	11	NDUSTRIAL, INC.		REALTY TRUST,		INDUSTRIAL REALTY,		PROLOGIS, INC.	(	CORPORATION
	血	(XNYS:STAG)	血	INC. (XNYS:FR)	血	INC (XNYS:REXR)	血	(XNYS:PLD)	血	(XNYS:DRE)
Stock\$	\$	39.62	\$	58.52	\$	71.44	\$	148.45	\$	53.90
Mkt Cap	\$	7,050,485,000	\$	7,711,829,000	\$	11,468,710,000	\$:	109,853,000,000	\$2	0,631,170,000
Beta		0.97		0.94		0.76		0.86		0.93
PE Ratio		34.34		27.36		86.51		36.36		23.38
EPS		1.15		2.09		0.80		3.94		2.25
Div Yield		3.69%		2.02%		1.76%		2.13%		2.08%

### P/E Valuation

Based on industry averages for other REITs of industrial related firms, the average price -to-earnings (P/E) ratio is:

Average (All Comparables)	46.14
Average (Excluding Rexford)	32.69
Duke Realty	23.99

Earnings per Share (EPS) for Duke Realty is 2.25. Prologis is the closest competitor at 37.66. Even using a conservative EPS of 30, we conclude a value of \$67.50. (2.25 x 30)



## **EV/EBITA Multiples**

Based on industry averages for all REIT's, the average EV?EBITA multiples are:

Source	EV/EBITA Multiple
Eval for Real Estate Investment Trust	21.62
NYU School of Business for Real Estate Investment Trust	26.80
Statista for Real Estate Investment Trust	23.06
Average	23.83
Calculation of Duke Realty's Actual EV/EBITA Multiple	29.67
Conclusion	28.00

Since industrial properties are in greater demand vs. office and retail; properties, it is appropriate to use a multiple slightly higher than the average to reflect the demand of the subject investment.

## Conclusion



Based on our team's analysis of Duke Realty, we believe this company is an attractive investment and offers solid returns through the markets strong demand for industrial buildings that continue to meet the need of consumers as we gravitate towards ecommerce and the recent demand created by the pandemic where lawmakers are likely to shift a greater portion of manufacturing back to the United States and have less reliance on imported goods from other countries.

Source	Price Target
Discounted Cash Flow (DCF)	\$64.10
Price-to-Earnings (P/E) Multple	\$67.50
Average	\$65.80
Conclusion	\$64.00
Upside	18.9%

his concludes our presentation. We are happy to answer any questions you may have.

## Thank you!

## Sources



### **Company Data:**

www.dukerealty.com

### **Market Watch:**

https://www.marketwatch.com/investing/stock/dre/financials/secfilings?docid=15583528

### **E-commerce:**

https://www.statista.com/statistics/272391/us-retail-e-commerce-sales-forecast/

### **Industrial Warehouse Demand:**

https://www.marcusmillichap.com/research/market-report/multiple-markets/2021-us-industrial-investment-outlook

### Yahoo Finance:

https://www.fool.com/investing/2022/02/02/these-2-reits-are-getting-humongous-rent-increases/?source=eptyholnk0000202&utm\_source=yahoo-host&utm\_medium=feed&utm\_campaign=article

### Investopedia:

https://www.investopedia.com/articles/pf/08/reit-tax.asp

## **EV/EBITA Multiples:**

https://pages.stern.nyu.edu/~adamodar/New\_Home\_Page/datafile/vebitda.htm https://www.eval.tech/valuation-multiples-by-industry

https://www.statista.com/statistics/1030150/enterprise-value-to-ebitda-in-the-finance-insurance-and-real-estate-sector-

worldwide/#:~:text=Worldwide%2C%20the%20average%20value%20of,valuation%20multiples%20with%2023.06x.