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Value Investor INSIGHT

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Making Room

Real estate is a diverse sector and the potential lasting impacts of the pandemic vary widely by the type of business in it. Surveying the global field, Quentin Velleley offers his choice for the sector's most attractive investment option.

Real estate is one industry where the longer-lasting impacts of the pandemic are the most difficult to judge. Will living, working and shopping patterns thrown dramatically off-kilter by the virus permanently change, revert back to normal, or something in between? The investing implications loom large.

Quentin Velleley of the Third Avenue International Real Estate Value Fund believes he's found the right combination of reward to risk today in non-U.S. operators of self-storage facilities. While the industry overseas is not as well established – the U.S has over nine square feet of self-storage space per capita, vs. less than two in Australia, the U.K. and Europe – the business is catching on and he sees scale players as well positioned to capitalize. Three such companies make up roughly 15% of his portfolio: Big Yellow Group in the U.K., National Storage REIT in Australia and Brussels-based Shurgard Self Storage. "This is the single most attractive real-estate asset class outside the U.S.," he says.

Big Yellow illustrates the potential upside. Velleley expects higher U.K. demand for self-storage to be driven by rising customer awareness – 50% of recently surveyed consumers were broadly aware of self-storage as an option, up from 38% in 2014 – and from people freeing up living space as they work more from home post-pandemic. Small businesses are also turning to self-storage to help manage physical inventory as they sell more online.

Market leaders like Big Yellow are better able to take advantage of rising demand, he says. They invest in sophisticated revenue-management systems that help optimize rental rates and occupancy. They have bigger marketing and brand-building budgets. They better utilize technology like contact-less leasing, entry and exit, saving on operating costs. Importantly, they also have the resources and expertise to develop new projects in urban markets like London, where tight regulation keeps a lid on how quickly supply can grow.

The company has other levers to drive margins and earnings higher. Occupancy rates across its portfolio are materially lower than those of self-storage REITs in the U.S. As rising demand pushes occupancy levels higher, that should translate into more ability to raise rental rates. Its

INVESTMENT SNAPSHOT

Big Yellow Group
(London: BYG)

Business: Provider of rental self-storage space in the United Kingdom; has nearly 80 operating sites, with 15 in development.

Share Information
(@7/29/21, Exchange Rate: $1 = £0.72):

Price	**£14.27**
52-Week Range	£9.85 – £14.53
Dividend Yield	2.4%
Market Cap	£2.60 billion

Financials (Year ending 3/31/21):

Revenue	£135.2 million
Operating Profit Margin	60.3%
Net Profit Margin	56.1%

Valuation Metrics
(@7/29/21):

	BYG	S&P 500
P/E (TTM)	33.7	33.7
Forward P/E (Est.)	28.0	22.5

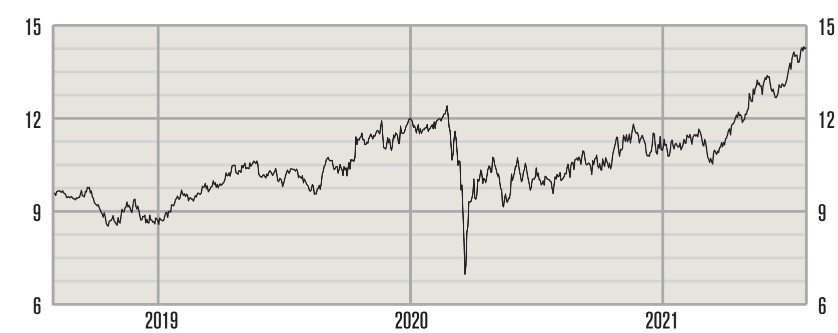
Largest Institutional Owners
(@3/31/21 or latest filing):

Company	% Owned
Resolution Capital	4.7%
Threadneedle Asset Mgmt	4.5%
Jupiter Asset Mgmt	4.4%

Short Interest (as of 7/15/20):

Shares Short/Float	n/a

BYG PRICE HISTORY



THE BOTTOM LINE

As demand for self-storage continues to expand in the U.K., the company as a market leader with scale is well positioned to take advantage, says Quentin Velleley. He believes the stock just from earnings growth and dividends can compound at 12-13% per year.

Sources: Company reports, other publicly available information development pipeline is also full, with 15 committed projects underway that should increase its overall rental capacity by 20% over the next four to five years.

At a recent £14.25, Big Yellow's shares aren't cheap, trading at 28x Velleley's 2022 adjusted-EPS forecast. That roughly matches U.S. comps, but he believes the company has much higher growth potential. Assuming no change in multiple, he expects to benefit from the 10%-plus annual earnings growth he's forecasting plus the current 2.4% annual dividend yield. Takeover potential helps limit the downside: "You've seen many privatizations of U.K.-listed real estate companies of this size," he says. "I'm hopeful that doesn't happen too soon because I believe this can grow so well on its own."

DISCLOSURES

REITs - A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors.

S&P 500 - The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S.

P/E (TTM) - The price/earnings ratio is often referred to as P/E (TTM) and is calculated as the stock's current price, divided by a company's trailing 12-month earnings per share (EPS).

Forward P/E (Est.) - Forward P/E is a version of the ratio of price-to-earnings that uses forecasted earnings for the P/E calculation. Because forward P/E uses estimated earnings per share (EPS), it may produce incorrect or biased results if actual earnings prove to be different.

Short Interest - Short interest is the number of shares that have been sold short but have not yet been covered or closed out. Short interest, which can be expressed as a number or percentage, is an indicator of market sentiment. The percentage of shares shorted compared to the float is referred to as the short interest. It is calculated by taking the total amount of shares shorted and dividing it by the total amount of shares available for trade.

Adjusted EPS - Adjusted EPS is a type of EPS calculation in which the analyst makes adjustments to the numerator. Typically, this consists of adding or removing components of net income that are deemed to be non-recurring.

Fund Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets. Factors that could affect the value of the Fund's holdings include the following: overbuilding and increased competition, increases in property taxes and operating expenses, declines in the value of real estate, lack of availability of equity and debt financing to refinance maturing debt, vacancies due to economic conditions and tenant bankruptcies, losses due to costs resulting from environmental contamination and its related clean-up, changes in interest rates, changes in zoning laws, casualty or condemnation losses, variations in rental income, changes in neighborhood values, and functional obsolescence and appeal of properties to tenants. The Adviser's use of its ESG framework could cause it to perform differently compared to funds that do not have such a policy. The criteria related to this ESG framework may result in the Fund's forgoing opportunities to buy certain securities when it might otherwise be advantageous to do so, or selling securities for ESG reasons when it might be otherwise disadvantageous for it to do so. For a full disclosure of principal investment risks, please refer to the Fund's Prospectus.

Please see Top 10 Holdings here.

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Earnings growth is not a forecast of the Fund's future performance.

Holdings and dividends are subject to change.

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