Eastgroup Properties
NYSE: EGP
Recommendation: BUY

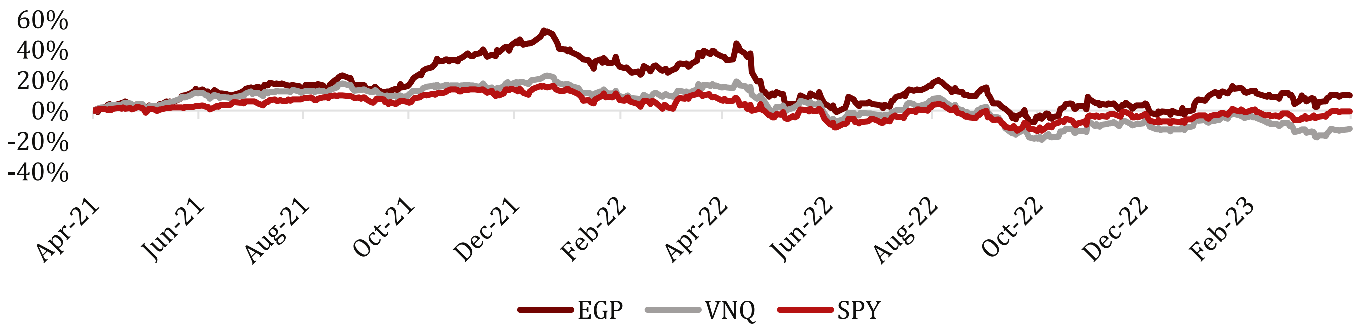
Company Data

Price	$162.58
Market Cap	$7.08Bn
P/FFO	21.2x
Dividend Yield	2.9%
Debt/EBITDA	5.6x
Price Target	$186.93
Upside	13.05%

Investment Thesis

We recommend a buy on Eastgroup Properties (EGP) with a target price of $186.93 and an implied upside of 13.05%. EGP is an Industrial REIT that develops and acquires distribution facilities, particularly within the sunbelt region. We believe EGP is an attractive investment opportunity as they have properties in strategic locations that are positioned to benefit from nearshoring, on-shoring, and company relocation trends. Additionally, the company has a unique development strategy that is backed by experienced management, park 'case studies', and a strong balance sheet to mitigate risk and create value. The factors we believe will cause share price appreciation include fortifying the balance sheet to put capital towards developments and acquisitions and transitioning developments to the Real Estate Portfolio. Risks to our thesis include rising rates impacting acquisition pipeline and smaller tenants.

2-Yr Performance



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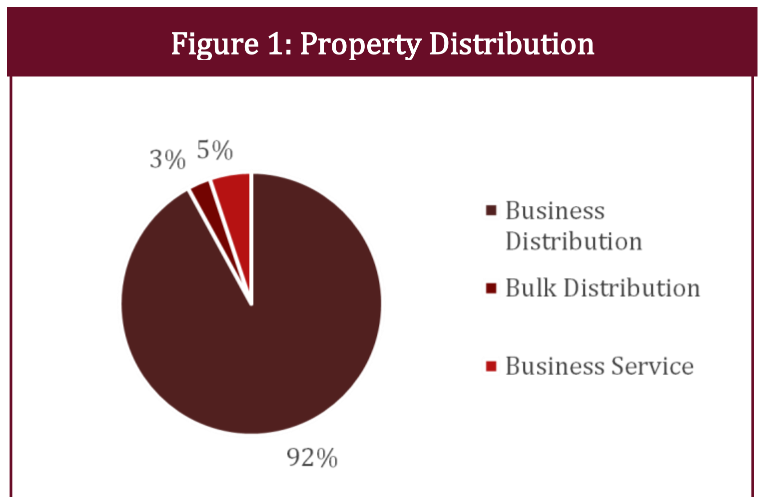
Business Overview:

EastGroup Properties (EGP) is a REIT focused on the development, acquisition, and operation of industrial properties in the United States. The company operates primarily in Sunbelt states, such as Florida (FL), Texas (TX), California (CA), Arizona (AZ), and North Carolina (NC). Since EGP is a pure-play REIT, they collect virtually all of their revenue (99.8%) from rental income. In 2022, EGP owned 487 industrial properties and one office property in 11 states, representing ~56Mn square feet. Of those 488 total properties, 449 are business distribution properties accounting for 51.2Mn square feet, 14 are bulk distribution accounting for 3.8Mn square feet, and 25 are business service properties accounting for 1Mn square feet (this includes the office building). EGPs portfolio is 98.7% leased to 1,600 tenants. No single tenant makes up more than 2.1% of revenue, and their top 10 customers account for 8.8% This creates customer diversification, and allows for EGP to not be dependent on one customer for a majority of revenue.

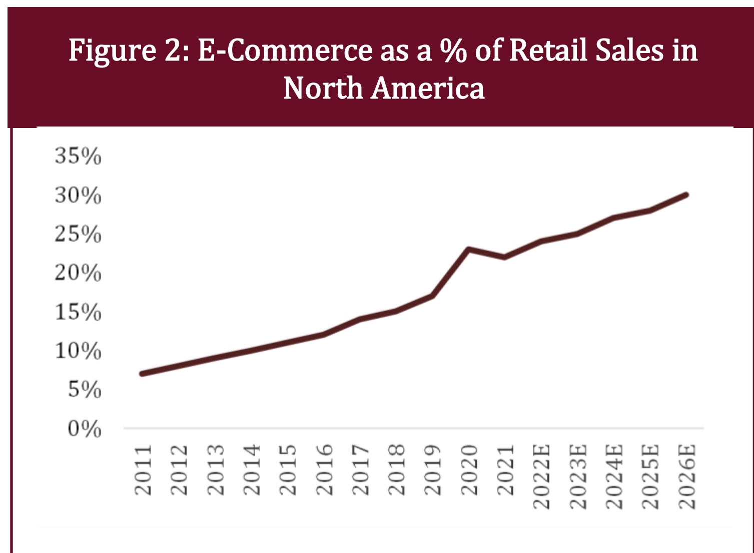
Sophia DiFonzo & Anthony White

EGP caters to smaller tenants, and therefore each property is within the 20,000 to 100,000 square foot range. Business distribution properties are multi-tenant and shallow bay. The one exception to this is Amazon who rents an entire park: land with multiple properties on it. Shallow bays are simply properties within the defined range above, meaning they are more compact and can be built quicker to meet demand. Additionally, Moody's Investors Service has assigned EGPs issuer rating of Baa2 with a stable outlook.



Industry Overview:

EGP operates within industrial REITs which focus on warehousing, distribution, and light manufacturing. The company's customers are smaller, shallow-bay distribution centers, which specialize in local distribution, are located near the end-customer, and cater to both smaller and large companies. Companies use industrial REITs to store inventory and distribute goods to end consumers. This includes retailers like Walmart, e-commerce stores like Amazon, and transportation companies like FedEx. The industrial sub sector has seen continued growth over the past decade due to the rise in e-commerce and is likely to continue to grow as e-commerce expands. As of 2021, e-commerce represented ~21% of retail sales in North America and that number is expected to grow to ~30% by 2026. An increase in e-commerce demand requires companies to have more distribution and warehouses, helping to drive growth for industrial REITs. Additionally, demand for shallow-bay distribution centers has increased as companies try to get products to consumers more rapidly, with 90% of consumers expecting delivery within 3 days. In addition to reduced delivery time, shallow-bays reduce transportation costs, as they are closer to the end customer. Due to shallow-bay distribution centers primarily focusing on localized and regional distribution, the growth of consumers around the facility has a large impact on demand. These bays are often cheaper to rent than larger distribution centers, and many smaller companies choose to use them. Since these bays are for smaller customers, there are concerns in industry over how the rising cost of capital will affect these companies. The biggest worry is that companies will be unable to keep up with rent payments, which will affect industrial REITs.



Since 2013, the vacancy rate among industrial REITs has fallen from 11.9% to 4% at the end of 2022. Additionally, industrial rent per square foot has been able to rise from $4.28 to $7.12 over the same time period. This shows that the demand for industrial properties have continued to grow, allowing for industrial REITs to see revenues rise. Nationwide demand for industrial REITs as a percentage of available supply is currently at 8.2%, well above the 5-year pre-covid average of 4.5%. Although this number is down from the Q1 2022 peak

of 11.2%, it is above the 5-year pre-covid average, illustrating demand still outweighs supply within the sector. Industrial REITs have seen multiples fall since their December 2021 peak, with forward FFO falling from ~35x in December 2021 to ~21x in December 2022. This correction came following over a year of forward FFO expansion within industrial REITs that began in March 2020 when forward FFO for industrial REITs was ~22x. Much of the forward FFO rise came from increased demand as e-commerce shopping grew during the pandemic. The large multiple correction was in part triggered by Amazon announcing a pullback in warehouse spending and a slowdown in e-commerce growth. The contraction has brought industrial REITs more in line with REITs overall and brought valuations down for companies across the sub sector.

Figure 3: Industrial Rent Per Square Foot ($) v. Vacancy Rates (%)

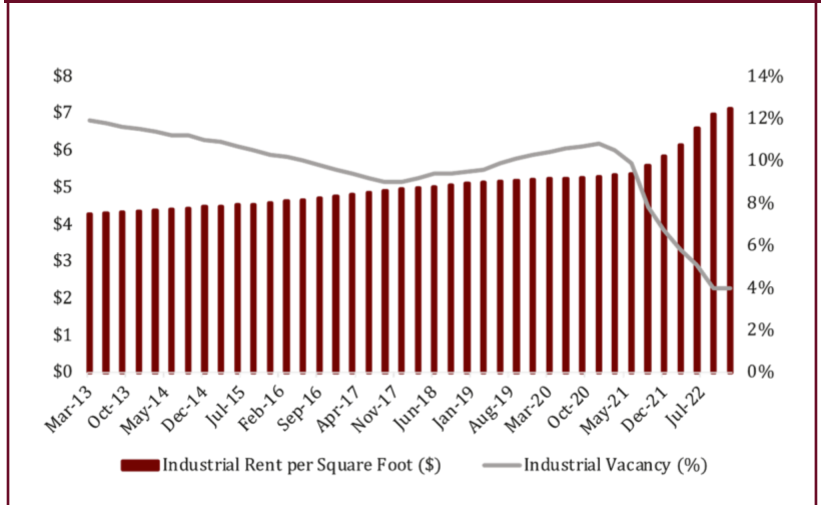
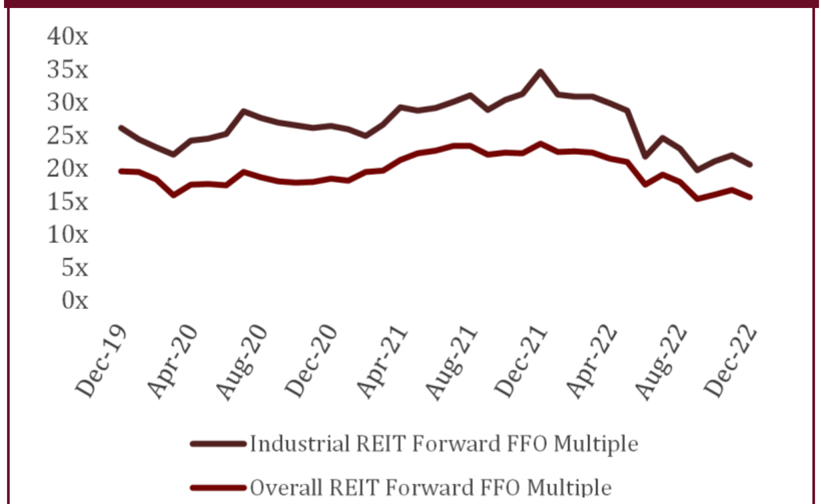


Figure 4: Industrial v. Overall REIT Forward FFO Multiple



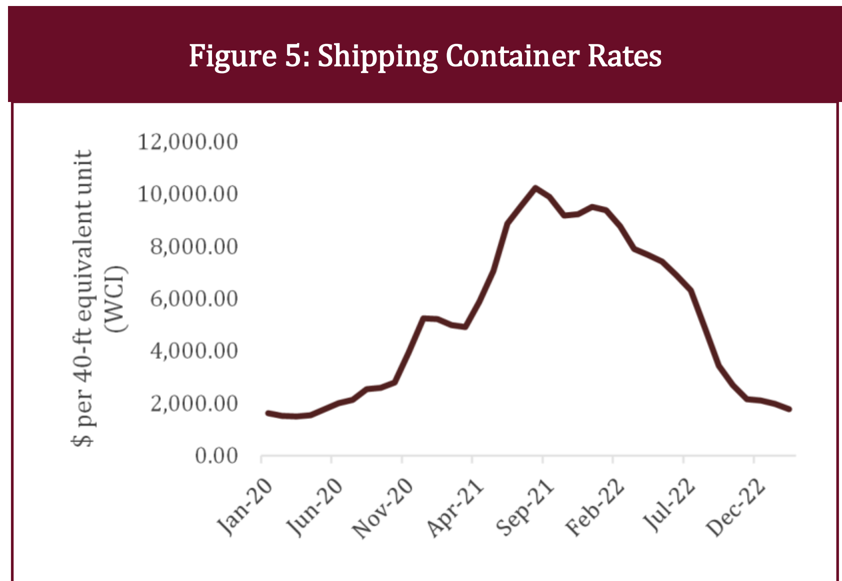
A rise in the cost of capital has slowed development from both companies and merchant developers. Prior to the cost of capital rising, these groups were rapidly developing properties and bringing them to market. Additionally, capitalization rates have been slightly rising for industrials since Q4 2022, making development less attractive to merchant developers. Merchant developers build properties with the intention to sell them immediately at completion. Fluctuations within cap rates for industrial REITs have resulted in these developers remaining on the sidelines, as they are unsure what conditions they will be delivering the property into. These conditions have led to a decline in development starts across the industry. It is estimated there are currently ~30-40% less development starts on shallow-bay industrial properties than in FY22 and it is expected that number will continue to grow in the coming months. As companies continue to deliver properties that are currently within their pipeline and fail to replenish their pipeline with new developments, the future supply of properties will fall. The deceleration of developments means a smaller number of future industrial buildings coming to the market, even as the industry remains at near-record high occupancy. While the combination of rapidly rising cost of debt and a fall in equity prices has resulted in less future development for industrial companies, it also impacted those who had previously started development projects. Throughout 2022, multiple regional developers and private companies were unable to complete projects that they had already bought land for or started construction on. As a result, larger companies have been able to purchase properties and developments with repricing.

The industrial REIT industry is seeing demand remain high while experiencing a multiple correction which puts them more in-line with other REIT industries. E-commerce continues to be the driving force behind the industry, as warehouses and distribution centers are crucial to e-commerce. Trends within e-commerce such as next-day delivery have helped increase demand for industrial properties, particularly shallow-bay. Increases in the cost of capital and cap rates have resulted in development starts slowing within the industry, resulting in a likely decline in future properties coming to market.

Rationale 1: Strategic Property Location Assists in Capturing Market Demand

EGP is located within multiple regions primed for business and manufacturing growth, allowing EGP to benefit as companies continue to shift their supply chains. During the pandemic, many companies experienced problems from having most of their manufacturing located in China. This includes rapidly increasing shipping container costs and manufacturing shutdowns. According to the World Container Index, an index that tracks rates of 40-foot containers on multiple global shipping routes, freight costs increased from $1,772.5 in early January 2020 to a $10,236.8 peak in early September 2021. The rapid rise in shipping costs impacted many companies in North America who rely on shipping containers to get their goods to the U.S. Additionally, the Chinese government implemented a “Zero Covid Policy", which saw the country take an extreme position against stopping the spread of the virus. This led to the quarantine of major manufacturing cities, such as Shenzhen and Changchun which are used by major companies like Volkswagen and Apple, and ultimately halted production. The large increase in shipping container costs experienced during the pandemic and the forced shutdown of multiple manufacturing factories for extended periods of time have made companies look to invest elsewhere for manufacturing. This has led many companies that have headquarters in the U.S. to turn to nearshoring or on-shoring. Nearshoring is the process of a company shifting operations to a country located near where the company is based, while on-shoring is companies relocating to be within the country they are based in. These measures work to create a more resilient supply chain, less impacted by shipping disruptions and geopolitical tensions.

Figure 5: Shipping Container Rates



Mexico is a popular destination for companies looking to nearshore due to the proximity to the U.S., and lower transportation and labor costs. Mexico has seen an increase in foreign direct investment, with an increase of 24.5% in the first half of 2022 compared to the first half of 2021. This increase in foreign investment has resulted in increased manufacturing within the country. Most of this increase in both foreign direct investment and manufacturing came from the cities bordering the U.S. and Northern Mexico. EGP is situated in multiple “ports of entry” along the U.S./Mexico border, including 11 properties in San Diego, CA, 7 in Tucson, AZ, 38 in Phoenix, AZ, and 4 in El Paso, TX. These properties are located near major Mexican manufacturing cities, including Juarez, Tijuana, and Nogales. The increased manufacturing investment in Mexico border cities provide opportunities for EGP to benefit in a multitude of different ways. Having larger amounts of factories requires a greater number of suppliers to be located near the factories. EGP has tenants in distribution centers along the U.S./Mexico border that supplies the manufacturing plants in Mexico. An increase in manufacturing

within Mexico can help drive demand for these properties. Additionally, tenants want to have distribution centers near the manufacturing facilities to lower transportation costs and delivery time. This is evident with EGP's lease to Amazon, who recently leased an entire distribution center park in southern San Diego. This park is located within close proximity to the U.S./Mexico border and Amazon's choice to rent out the entire park displays how companies value these locations. In addition to Amazon, EGP also has leases with companies like Chamberlain, who manufacturers products in Mexico and ships the products to their EGP location across the border. As companies continue to nearshore to Mexico and manufacturing within the country increases, the demand for distribution centers near the border, like the ones held by EGP, are going to continue to rise. An increase in demand will allow EGP to raise rental rates on existing tenants or find new tenants who are willing to pay more for their properties.

Along with nearshoring, EGP is also positioned to benefit from onshoring and company relocation within the U.S.. During 2020 and 2021, the number of jobs created in the U.S. due to the onshoring was double that created by foreign direct investment abroad. This comes after 6 consecutive years (2014-2019) where foreign direct investment accounted for larger amounts of job creation than onshoring. Additionally, 2022 saw a record amount of construction spending related to manufacturing within the U.S., at $108Bn. Companies increasing domestic spending allow EGP to capitalize off the increase in manufacturing facilities, and the tenants in need of distribution centers around those facilities. Within EGPs real estate portfolio, the company is located in multiple business-friendly states where onshoring or relocating companies may look to invest, such as Texas. This is the state where the company has the largest exposure, with Dallas and Houston representing 12.0% and 9.3% of the company's total square footage, respectively. In FY22, EGP saw 32% of their Property Net Operating Income (PNOI), the income from real estate operations minus the expenses from a company's real-estate operations, come from Texas. This exposure allows EGP to benefit as more businesses choose to move their operations there. 2021 saw a record increase in the number of corporate relocations to Texas, with 62 companies relocating from 17 different states and 3 different countries. 2022 saw a deceleration of this number, however, the number of headquarter relocations to the state remained high at 24. Texas is likely to continue to see business growth within the state due to having a favorable regulatory environment. EGP will benefit from this as the company is able to receive tenants from large company relocations, as relocating businesses bring with them a large number of suppliers looking for distribution locations. When Tesla relocated to Austin, TX in 2021, EGP was able to add tenants that supply the factory directly in both Austin and San Antonio. In addition

Figure 6: Construction Spending in the U.S. Related to Manufacturing

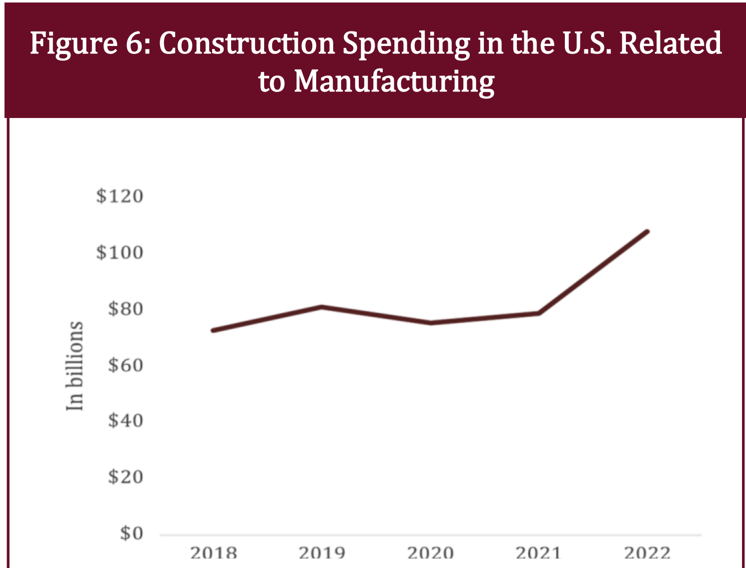
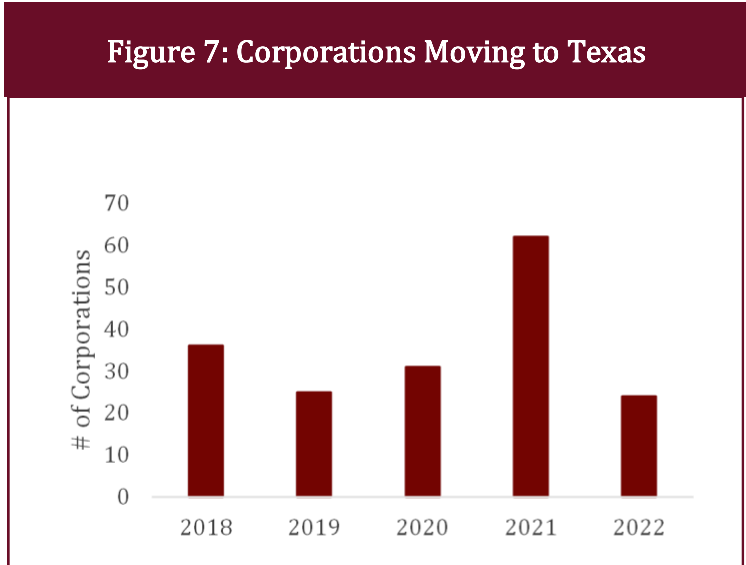
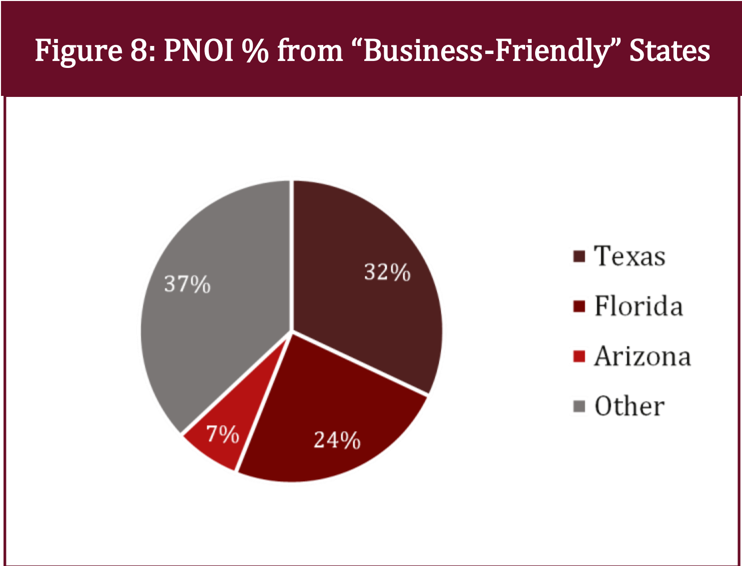


Figure 7: Corporations Moving to Texas



to having a large presence in Texas, EGP has many facilities in other business-friendly states such as Florida and Arizona, where the company saw 24% and 7% of their PNOI come from in FY22, respectively. Florida, Arizona, and Texas were the states that saw manufacturing employment increase the most from 2016-2021. This illustrates that businesses and manufacturing companies are choosing these locations to expand, allowing EGP to capitalize from new potential tenants. Although EGP has many properties located in business-friendly locations, the company also has many properties in California, where they received 22% of their PNOI in FY22. This does expose EGP to a state where companies are moving out, however, EGP has stated that they have received tenants who left California for states like Nevada, Arizona, Florida, and Texas. This shows that even though some companies may leave one EGPs markets, they are positioned in business-friendly states where companies are likely to move into, allowing them to capitalize. Additionally, multiple of EGPs distribution centers within California are near the border, allowing them to benefit from the increased manufacturing and business activity within Mexico. The geographical footprint of EGP positions the company to capitalize on the shift towards nearshoring, onshoring, and company relocation. Being located along the U.S./Mexico border and having most locations in business-friendly states like Texas and Florida allows the company to benefit from the business and manufacturing growth both in Mexico and in the U.S. These factors allow the company to see increased demand in these areas, helping them to push rental rates higher and ultimately increase revenues and margins.



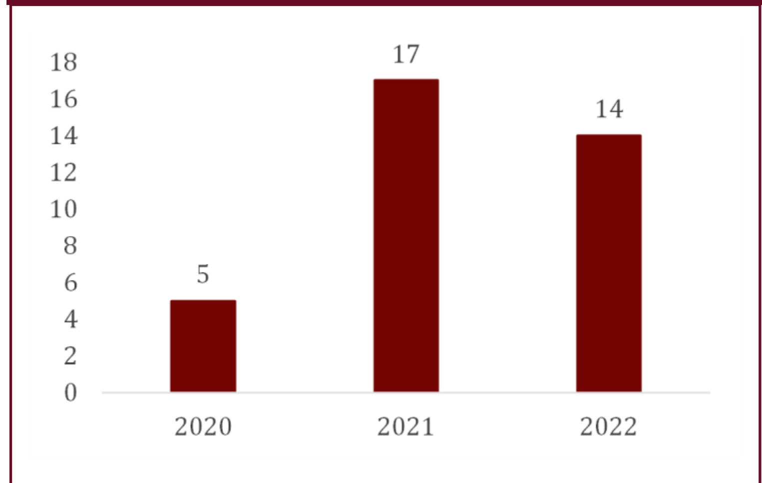
Rationale 2: Unique Development Strategy Mitigates Investment Risk and Creates Value

EGP has a strong development strategy that mitigates risk, which is increasingly important as the U.S. is headed towards a recession. For industrial REITs, acquisitions and developments drive property values, cap rates, and revenue, thus it is all the more important that a company is able to execute those during a recession. While many companies heavily engage in acquisitions, EGP prefers to develop; they still do acquire properties, just not as much as others. There is a difference between the two and it is important to distinguish this early on. Acquisitions refer to buying a property, and potentially taking on some of the tenants, whereas development is buying the land and then building the property. Additionally, with developments, there are no tenants already there, so it is the company's job to find tenants before the property is operational. If not done properly, it is risky. However, EGP has years of experience in this area and is well positioned to succeed, even during economic downturns.

One thing EGP has nailed down is where they develop properties. The company develops in on-shore and nearshoring areas (refer to rationale 1), but they also target the sunbelt region. Within the sunbelt, EGP primarily targets CA, TX, FL, GA, NC, and SC. 48% of EGPs portfolio comes from development within these states, which equates to ~25Mn square feet. The company has down where they develop, but it is how they execute their strategy that leads to their success. Within these states, EGP carefully evaluates 1-2 buildings in a park at a time. We think of this strategy similar to a case study, in which EGP studies demand and industry trends affecting their existing properties. If management is seeing positive trends, they will continue to invest capital in that area, but if they are seeing negative trends, they will pull away. This case study type of approach ensures that EGP is meeting, not overshooting, demand, which becomes increasingly important as the cost of

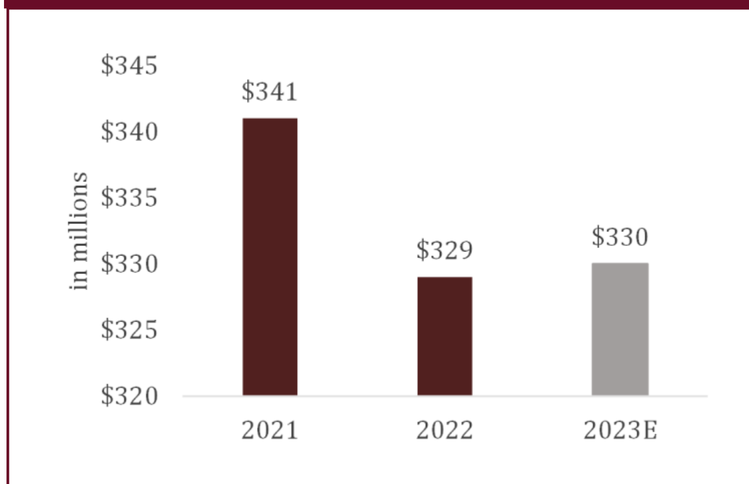
capital increases. In such a dynamic market, demand can change quickly, but since EGP builds smaller, multi-tenant properties, they are able to build faster. This is an advantage when compared to competitors like STAG and GOOD who do larger, single-tenant buildings. These types of buildings take longer to build, and therefore are more at the whim of the market. Once EGP determines there is demand in a development area, they immediately start looking for tenants. When a development is finished, it is close to full and EGP is ready to start charging rent, resulting in faster cash flows.

Figure 9: Construction of Development Starts



It is clear that EGPs strategy is well-thought out, and the company has been adapting it past the pandemic and into a volatile market. In 2020, EGP began construction of 5 development properties containing 850K square feet and transferred 18 properties from development and value-add to real estate properties. In 2021, they began construction of 17 properties containing 2.8Mn square feet and transferred 17 projects. From 2020 to 2021, there was a big change in development construction, and that was because costs were much lower and so were cap rates. In 2022, the macro environment was much different, but management was still aggressive and began construction of 14 developments containing 2.7Mn square feet and transferred 19 projects. Of those 19 projects, 18 were 100% leased. Still, an impressive year for EGP in spite of a cooling industrial market paired with increased construction costs and rising rates. Additionally, PNOI increased by $58.8Mn, or 19.9% compared to 2021. Newly developed and value-add properties accounted for $27.4Mn of that PNOI growth. Throughout 2022, EGP management was taking a measured approach on new building investments; evidenced as the company had $329Mn in new development starts compared to $341Mn in 2021. However, for FY23, management guided ~$330Mn in development starts, and are hopeful they will surpass this number. While the number is flat, it is better than it being lower, which would signal low confidence from management. Additionally, the weighted average return (including value added) for 2022 was 7.1%. This number is a development yield, which represents the spread between the return on the property and the financing. Management guides that this yield is higher than merchant and big-box yields, which again shows the benefit of smaller, multi-tenant properties. Merchant retailers typically sell a developed property after 1-2 years and big-box properties are massive freestanding structures, which a company like Walmart would use. For FY23, management expects mid-high 6%, but that is to be expected as they are slightly scaling back and cost of capital rises, which decreases the yield. There are 14 properties under construction to be converted in 2024, 6 are currently in lease-up to be converted in 2023, and there is 9.7Mn square feet in prospective development. In 2022, EGP moved 5 buildings out of the development pipeline, fully leased, and the full impact of those will be recognized in 2023. When development properties are

Figure 10: Funds Allocated to Development Starts



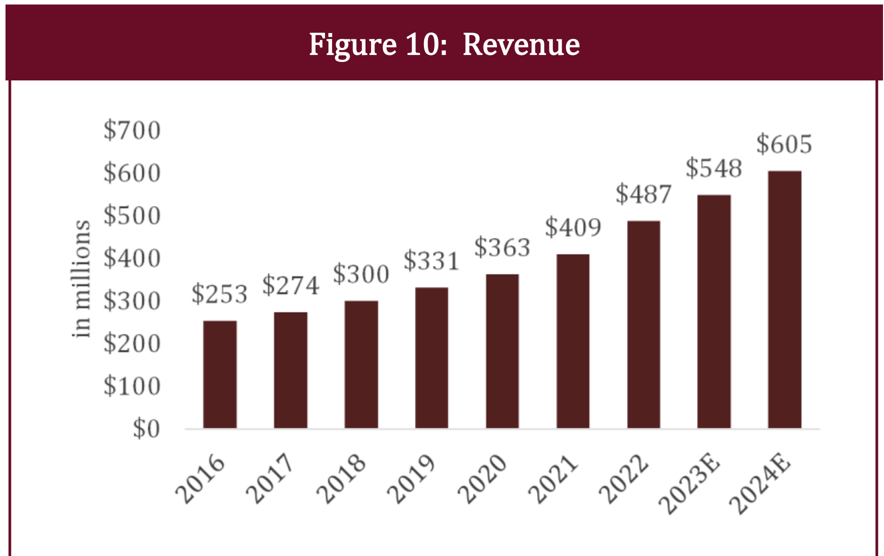


Figure 10: Revenue

moved out of the pipeline to real estate assets, this means that EGP can collect rent. Collecting rent contributes to revenue, but EGP also implements rent increases which drives revenue, creating value for the company.

For FY23 and beyond, we see these development projects creating value for the company. An indicator that management also sees value in these projects is that they are taking on additional debt to finance them. As mentioned, EGP was conservative with their capital allocation in 2022, and was weary of rising costs. Throughout 2022, management was deleveraging the balance sheet by selling assets, and began raising debt. Since the equity markets have not been performing well, management shifted gears and is ready to pivot to debt proceeds for capital sourcing. In Q4 the company closed on the private placement of two senior unsecured notes totalling $150Mn. One note for $75Mn has an 11-year term and a fixed interest rate of 4.9%, and the other has a 12-year term and a fixed interest rate of 4.95%. Additionally, in 2023, EGP closed on a $100Mn unsecured term loan with a 7-year term and fixed interest rate of 5.27%. Finally in January 2023 the company increased their revolver, which primarily funds acquisitions and developments, from $475Mn to $675Mn. This final step secured capital flexibility in a volatile market. While this may seem like a lot of debt to take on at once, the near-term maturity schedule is light, with only $115Mn scheduled to mature through July 2024. Annualized Debt/EBITDA is at 5.1x, which is in the REIT industry range of 4.0x-6.0x. Management is ready to continue their development pipeline, even during times of economic uncertainty, which underscores their belief these properties are valuable. EGP is ready to lean on their balance sheet to continue to develop in the likely event the country enters a recession.

This development strategy is risk-averse, creates value, and would not be possible without a strong management team. To recap, EGP evaluates land through a "case study" process, buys the land for low cap rates (typically less than 6%, as anything above they consider risky), then develops and moves properties to assets where they increase rents, thus driving up yields and revenue. The company is ready to deliver this in any macro-environment and well-positioned to be able to do so.

Risks

Industry Wide:

1. **Port Activity Shifting From the West Coast to the East Coast:**
   EGP and other industrial REITs are largely situated in the sunbelt region, which is straddled between the west and east coasts. Over time, port activity shifts from coast to coast, and this year it seems to be shifting to the east coast. For two decades, the Port of Los Angeles was the busiest port, but this has changed as CA had unresolved worker negotiations, and around the holiday's had goods stranded off their coast. The delayed deliveries not only upset consumers, but also caused prices to increase because demand outpaced supply. This meant that shippers and carriers could no longer solely rely on the east coast. As a result of this shift, industrial REITs may have to

change where their warehouse locations are. Since a majority of these companies are already straddled, it often means changing their acquisition/development pipeline. This can be costly, but also risky. Say a company starts heavily acquiring in Florida, Georgia, and/or the Carolinas to keep up with shifting port demand. However, if these states cannot keep up with demand, activity will shift back to the west coast. This will render those properties less valuable, and thus placing a higher cap rate on them.

2. **Rising Rate Environment Will Continue to Drive up Capitalization Rates**
The Fed has given no indication they plan to stop raising rates, so throughout 2023 we expect rate hikes around 25 bps, maybe lower. In theory, when interest rates rise, cap rates rise, however this is not a 1:1 correlation. When interest rates rise, the cost of debt becomes more expensive, which is the main financing method through which REITs acquire properties. When the cost of debt rises, there is a greater chance that a buyer will default on payments, which makes the property more risky and gives it a higher cap rate. This harms companies who may be looking to acquire/develop, but actively avoid locations in which cap rates are high.

Company Wide

1. **Rising Rates Negatively Impacting Acquisition Pipeline**
While EGP mainly focuses on developing properties, there is still some value to conducting acquisitions. With acquisitions, companies typically take on existing tenants, which eliminates the risk of finding tenants before a development is complete. Additionally, the tenants a company takes on are likely paying rents, which means there is an already established cash flow. With the Fed recently raising rates 25 bps, a trend that is likely to continue in the future, EGP has taken a step back from acquisitions. Management has guided that the company has not been overly active in the acquisition market the past several months. The only reason EGP sees themselves engaging would be for a core acquisition, something they believe would strongly benefit their portfolio. While EGP has no direct competitors, there are other larger industrial REITs that they need to compete against, and sometimes development alone is not the only way to do so. Through FY23 and perhaps into FY24, it is likely management will keep acquisition activity low. However, with the strengthening of the balance sheet, management could allocate more funding towards acquisitions if they see something valuable.

2. **Smaller Tenants Unable to Take on Additional Cost of Capital Can Lead to Increases in Bad Debt**
EGP works with smaller tenants, which can pose some problems with bad debt. EGP is concerned that some of their 1,600 tenants will have trouble making payments as it becomes more expensive for them to take on additional costs in a high rate environment. This environment combined with the U.S. heading into a recession, has caused EGP to project ~$2Mn in bad debt. Management does not believe it will get this high, but they want to price in what could be possible should things take a turn for the worse. In FY22, EGP reported they had only $140K in bad debt. FY22 was a strong year for the company, but management recognizes this will change along with the macro-environment. We want to emphasize that EGP is being cautious, and that overall they have had minimal bad debt as it has a historical run rate of 0.3% of revenue.

Catalysts

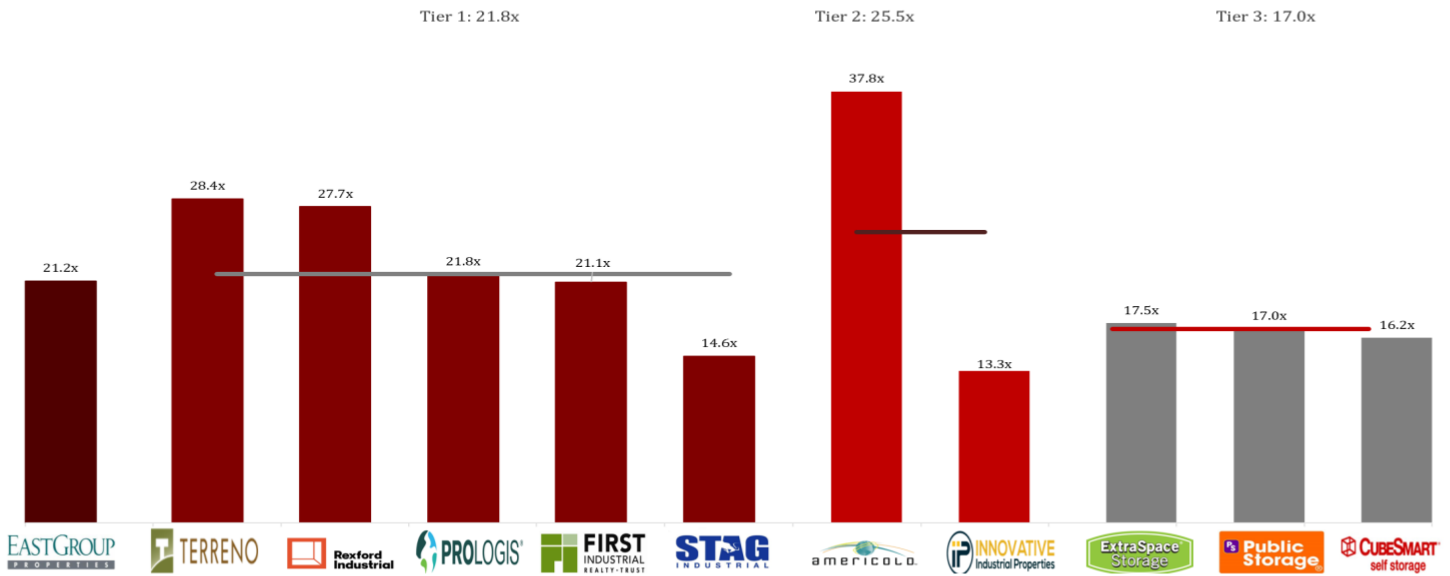
1. **Fortifying the Balance Sheet to Put Capital Towards Developments and Acquisitions**
   As mentioned in rationale 2, EGP is preparing their balance sheet so they are able to develop and acquire more properties during a downturn. While the company has provided guidance on the minimum amount dedicated to developments in FY23 ($330Mn), they are optimistic that they will beat that number. We see the balance sheet acting as a catalyst in this macro-environment because it will help EGP pursue opportunities they previously thought unattainable. Additionally, both developments and acquisitions help create value in the portfolio, drive revenues, and increase market share. Since guidance is vague, it cannot be priced in, however we are confident that this fortification will fuel gains within the company in the future.

2. **Transitioning Developments to the Real Estate Portfolio**
   When EGP buys land to develop properties, the end goal is to transition these properties to their portfolio. In 2022, the company transferred 19 of their properties to their portfolio. Management guides that they will get the full impact of these properties in 2023. Once these developments are turned into operating assets, EGP can implement rent escalators on them, which contributes to top-line growth. Throughout this year, we will see how new properties affect revenue, and new development initiatives will take place. This transition will act as a catalyst in the coming years as EGP continues to add to their portfolio.

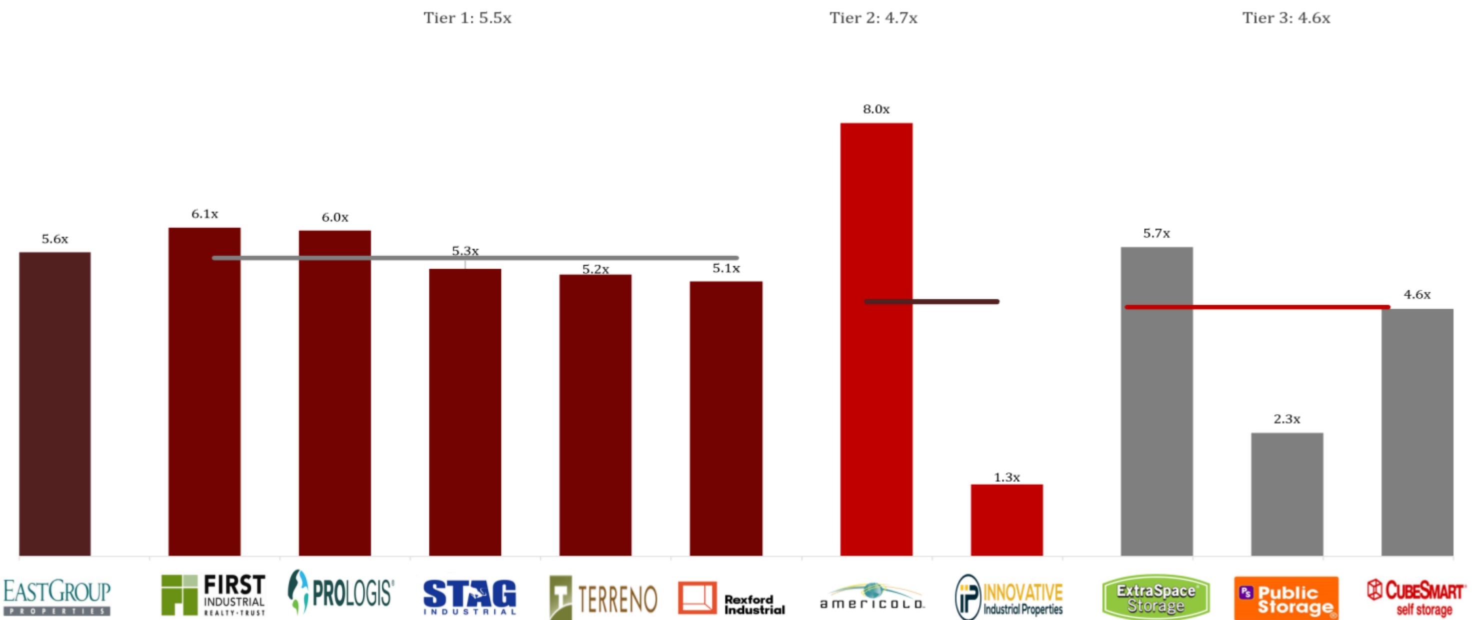
3. **Alleviation of Supply Chain Issues in the Future**
   Supply chain problems emerged during the pandemic as it became more difficult for countries to import/export goods due to lockdowns. The U.S. took a hit when China implemented their Zero-Covid policy, which put a halt on many of their exports. During this time demand increased and so did prices. In a post-pandemic world, supply chain issues are slowly starting to resolve. With this resolve, we believe there will be more activity at ports EGP is located. The company will likely see an increase in tenants in those areas, especially those in nearshoring and on-shoring, and potentially start making acquisitions and/or developing.

Comparable Company Analysis

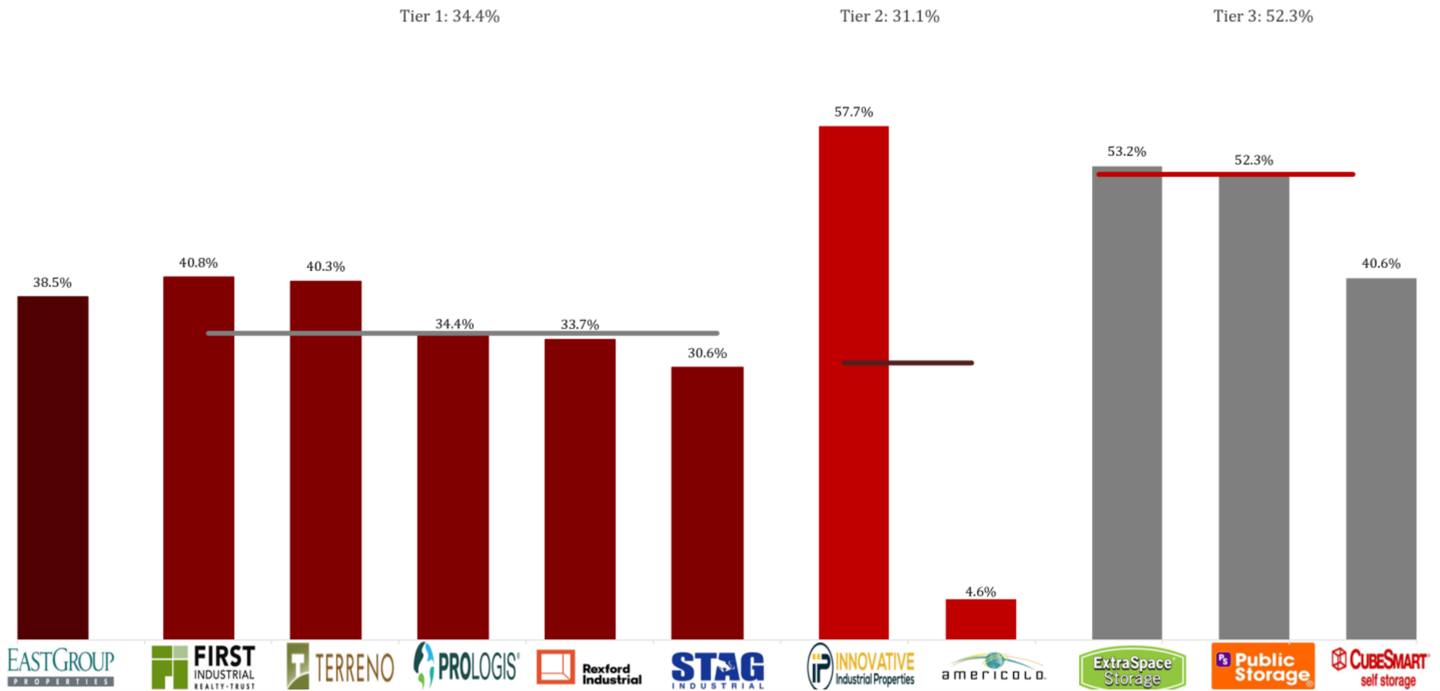
Price to Funds From Operations (P/FFO):



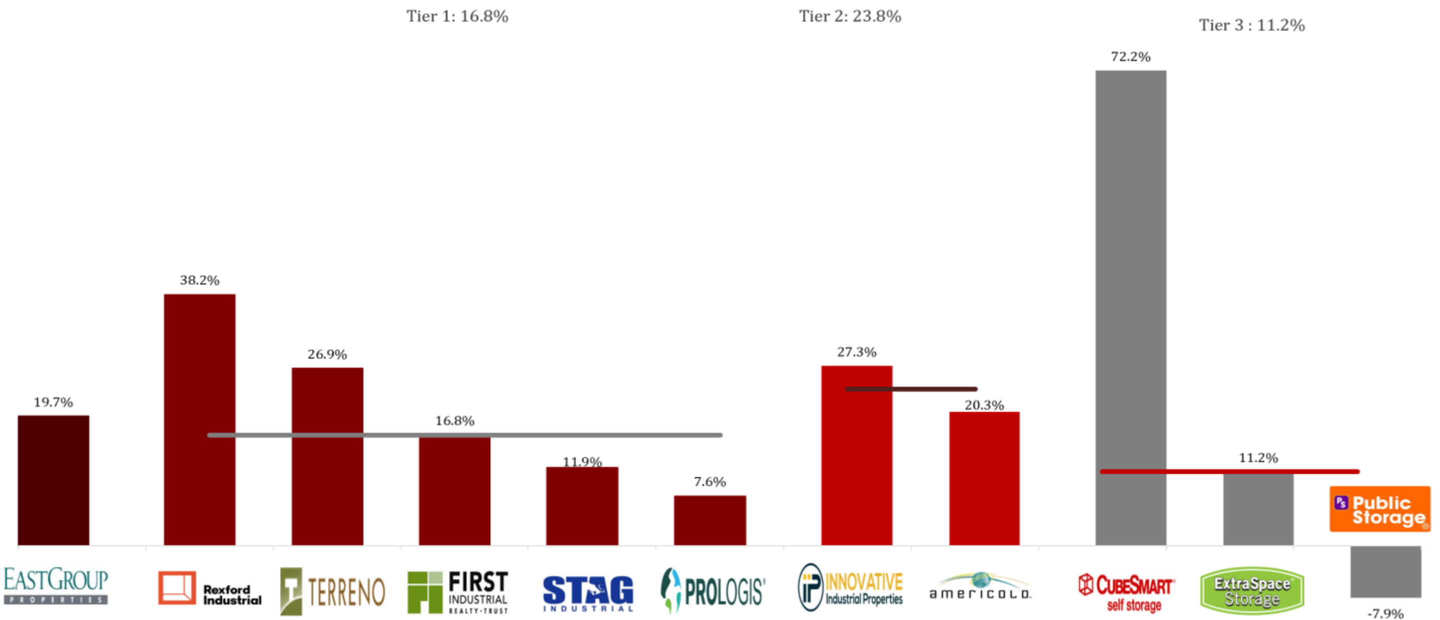
Debt/EBITDA:



Operating Margins:



1-Year FFO Growth:



Eastgroup Properties ($ in millions, except per share data)											
Company	Ticker	Equity Value (M)	ROIC	P/FFO	FFO 1 Yr Growth	FFO	Debt/ EBITDA	SS NOI Growth	NOI	Operating Margins	Dividend Yield
Eastgroup Properties	**EGP**	**$7,202**	**5.3%**	**21.2x**	**19.66%**	**$299**	**5.6x**	**8.90%**	**$354**	**38.52%**	**2.9%**
Tier I: Industrial Peers											
First Industrial Realty Trust	FR	$6,903	7.2%	21.1x	16.84%	$395	6.06x	9.60%	$395	40.76%	2.3%
Stag Industrial Inc.	STAG	$6,024	3.5%	14.6x	11.92%	$401	5.30x	3.60%	$532	30.61%	4.5%
Terreno Realty Corporation	TRNO	$5.253.2	3.9%	28.4x	26.92%	$151	5.19x	-	$207	40.29%	2.4%
Rexford Industrial Realty Inc.	REXR	$11,495	2.9%	27.7x	38.24%	$365	5.1x	7.40%	$480	33.72%	2.3%
Prologis Inc	PLD	$114,268	3.6%	21.8x	7.58%	$4,880	6.0x	7.70%	$3,930	34.42%	2.6%
Mean		**$34,672**	**4.2%**	**22.7x**	**20.30%**	**$1,239**	**5.5x**	**7.08%**	**$1,109**	**35.96%**	**2.8%**
Median		**$9,199**	**3.6%**	**21.8x**	**16.84%**	**$395**	**5.5x**	**7.55%**	**$480**	**34.42%**	**2.4%**
Tier 2: Specialized Pure-Play											
Americold Realty Trust Inc	COLD	$7,202	1%	37.8x	20.31%	$205	8.0x	-	$696	4.58%	3.1%
Innovative Industrial Properties Inc.	IIPR	$2,020	8%	13.3x	27.29%	$211	1.3x	-	-	57.68%	9.9%
Mean		**$4,611**	**4.5%**	**25.5x**	**23.80%**	**$208**	**4.7x**	**-**	**$696**	**31.1%**	**6.5%**
Median		**$4,611**	**4.5%**	**25.5x**	**23.80%**	**$208**	**4.7x**	**-**	**$696**	**31.1%**	**6.5%**
Tier 3: Self-Storage											
Public Storage Inc.	PSA	$54,753	13%	17.0x	-7.92%	$2,900	2.3x	17.90%	$2,970	52.27%	7.1%
Extra Space Storage Inc.	EXR	$22,171	10%	17.5x	11.23%	$1,200	5.7x	20.30%	$183	53.20%	3.7%
Cubesmart	CUBE	$10,836	7%	16.2x	72.24%	$563	4.6x	16.70%	$716	40.64%	3.8%
Mean		**$29,254**	**9.9%**	**16.9x**	**25.18%**	**$1,554**	**4.2x**	**18.30%**	**$1,289.78**	**48.7%**	**4.9%**
Median		**$22,171**	**9.9%**	**17.0x**	**11.23%**	**$1,200**	**4.6x**	**17.90%**	**$716.36**	**52.3%**	**3.8%**

We divided comparable companies for EGP into three tiers and compared them based on Price to Funds From Operations (P/FFO), 1-Year Funds From Operations Growth, Debt/EBITDA, and Operating Margins. The first tier of companies are industrial companies involved in distribution centers and warehousing that we identified as direct competitors to EGP. These companies include First Industrial Realty Trust (FR), Stag Industrial Inc. (STAG), Terreno Realty Corporation (TRNO), Rexford Industrial Realty Inc. (REXR), and Prologis Inc. (PLD). Most of these companies have relatively similar market capitalizations, besides PLD who is the largest player in the industry. Looking at P/FFO, EGP performs better than peers besides FR and STAG. FR and EGP trade extremely close, while STAG focuses on single tenant development compared to EGP's park development strategy that mitigates risk. On a P/FFO basis, EGP is above most competitors. EGP's Debt/EBITDA is slightly above peers, however it is still in a healthy range and the company has recently been deleveraging. Finally, looking at Operating Margins, EGP again falls above most of their peers.

The second tier is industrial REIT companies that are industrial REITs but focus on a specialized industry. This includes Americold (COLD) and Innovative Industrial Properties Inc. (IIPR). COLD focuses on temperature-controlled warehousing and transportation while IIPR leases to companies in the cannabis industry. These companies are subjected to trends within their specific industries that do not affect EGP, such as IIPR experiencing multiple tenants being unable to pay rent within the cannabis industry. For this reason, we separated these companies into a separate tier.

The final tier we chose is self-storage REITs. We chose this industry as it trades similarly to industrial REITs and both industries have experienced rapid growth in recent years. The companies we chose include Public Storage Inc. (PSA), Extra Space Storage Inc. (EXR), and CubeSmart (CUBE). These companies have a lower P/FFO and lower one-year FFO growth (excluding CUBE).

Valuation

Assumptions	
Exit Cap Rate	5.0%
Historical Vacancy Rate	2.0%
Selling costs (%)	8.0%

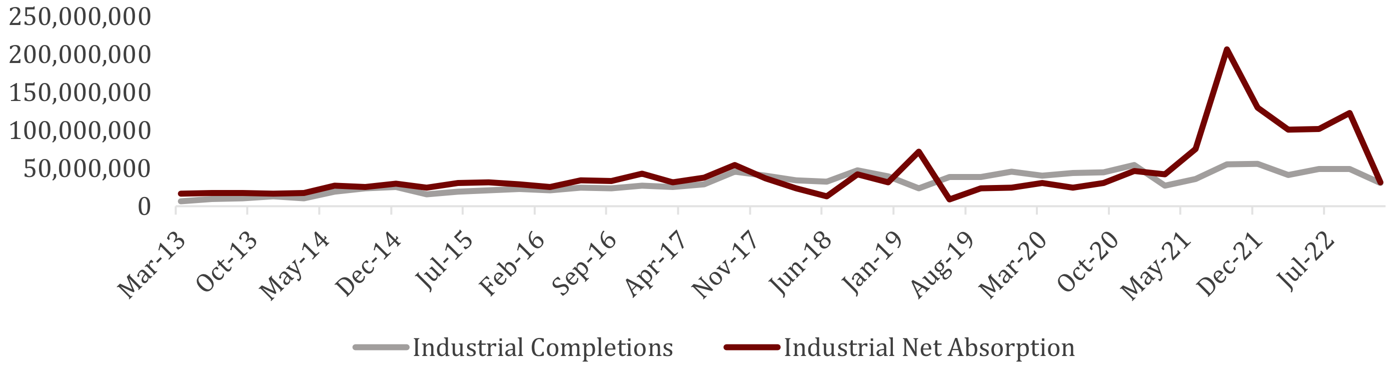
		1	2	3	4
	2022	**2023**	**2024**	**2025**	**2026**
Potential Gross Income	496,766	526,571	563,431	605,689	654,144
% Growth		*6.0%*	*7.0%*	*7.5%*	*8.0%*
Less: Vacancy Loss	9,935	10,531	11,269	12,114	13,083
Effective Gross Income	487,025	516,040	552,163	593,575	641,061
Less: Total Operating Expenses	(133,915)	(100,049)	(101,418)	(102,967)	(104,663)
OpEx as % of Gross Income		*19%*	*18%*	*17%*	*16%*
Net Operating Income	353,110	415,991	450,745	490,608	536,398
Reversion					
Sale Price		8,319,829	9,014,903	9,812,158	10,727,960
Less: Selling Costs		665,586	721,192	784,973	858,237
Net Sale Proceeds		7,654,242	8,293,711	9,027,186	9,869,723
Property Cash Flows	353,110	415,991	450,745	490,608	536,398
PV of Property Cash Flows	336,295	396,182	408,839	423,806	441,296
Cash Flows Yr 1 Exit		8,070,234			
PV of Cash Flows		7,685,937			
Cash Flows Yr 2 Exit		396,182	8,744,456		
PV of Cash Flows			8,327,661		
Cash Flows Yr 3 Exit		396,182	408,839	9,517,794	
PV of Cash Flows				9,026,849	
Cash Flows Yr 4 Exit		396,182	408,839	423,806	10,406,121
PV of Cash Flows					9,789,969

Sum of Cash Flows		9,789,969
Cash		56,000
Debt		1,861,778
Net Debt		1,805,778
Equity Value		7,984,191
Diluted Shares Outstanding		42,712
Equity Value/Share	$	186.93
Current Share Price	$	165.35
Upside at Year 4 Exit		**13.05%**
Equity Val Yr 1		5,880,159
Yr 2		6,521,883
Yr 3		7,221,071
Yr 4		7,984,191
Equity Val/Share Yr 1	$	137.67
Yr 2	$	152.69
Yr 3	$	169.06
Yr 4	$	186.93
Upside Yr 1		-16.74%
Yr 2		-7.65%
Yr 3		2.25%
Yr 4		13.05%

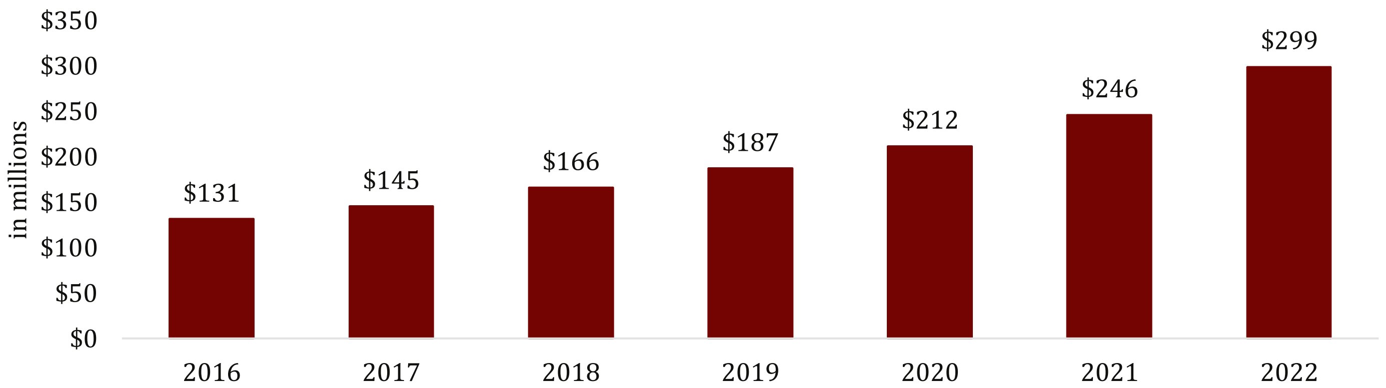
For our model, we built a REIT DCF. Based on the cap rate EGP acquires properties at and the historic cap rate for the industry, we gave an exit cap rate of 5.0%. Additionally, this cap rate takes into account that multi-tenant, shorter term lease industrial cap rates have been stickier than single-tenant industrial leases. Additionally, since EGP is developing properties and transitioning them to assets internally, they are not selling these properties at a higher cap rate like merchant developers. Management highlights that they aim to acquire land (which they internally value) and properties at cap rates in the range of 3% to 5%. Additionally, with a slow down in acquiring properties, EGP is avoiding those higher industry cap rates. They are clear that any cap rates in the 6% range are far too risky, and actively avoid them. EGP currently has a vacancy rate of 2% and we used this as our vacancy rate moving forward. Also incorporated in this model is a 8% selling cost. This is important as it takes into account the costs associated with selling the properties and results in an accurate reflection of the sale proceeds. These considerations and expectations on growth and operating expenses led us to an upside at a 4 year exit of 13.05%.

Appendix

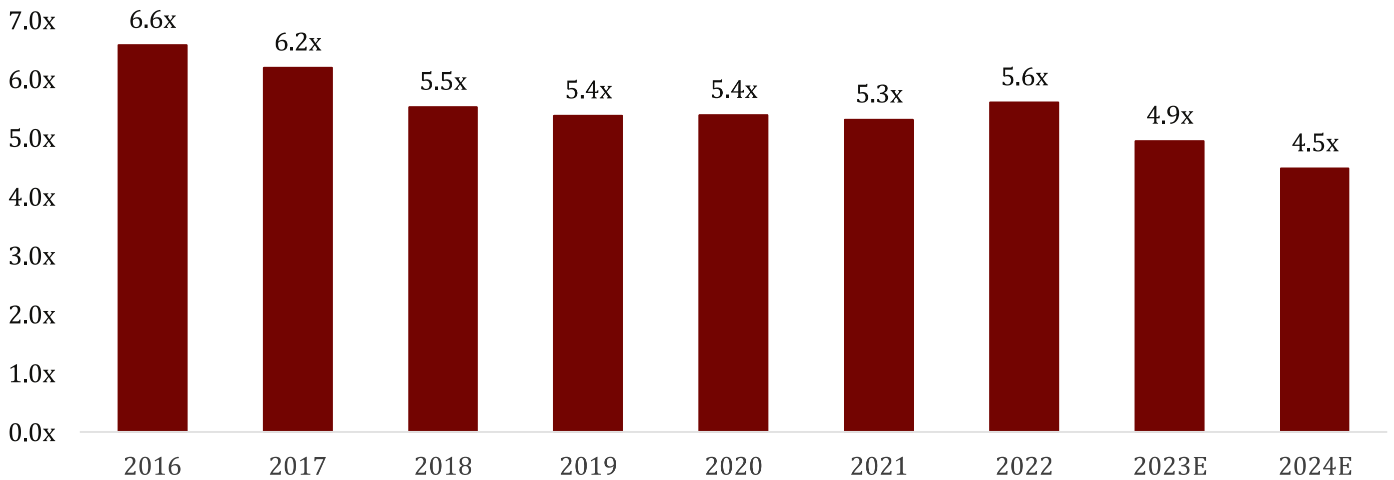
Industrial Completions and Absorptions (sq. ft.)



Funds From Operations (FFO)



Debt/EBITDA



Lease Expirations