What REIT investors can learn from Monopoly players

With the M&A bonanza in UK REITs continuing, Matthew Norris, Head of Real Estate Securities at Gravis and manager of the VT Gravis UK Listed Property Fund, discusses the importance of Boards recognising the full value of their businesses.

"Private equity is targeting UK REITs, seeking full control to unlock value in undervalued property portfolios. With REITs trading at deep discounts, the question for boards is clear – how much is control really worth?"

Key take-outs:

- UK REITs are undervalued; many trade at deep discounts to NAV, making them attractive takeover targets for private capital
- Control carries a premium; private equity isn't just buying assets, it's paying for full ownership, which unlocks greater value beyond share price metrics
- Boards must secure fair value; with index trackers often voting in line with the Board, their endorsement carries weight and must reflect the full value of the company, not just the share price

Owning a single property on a Monopoly board earns you some rent — but as avid players know, true power lies in owning the full set. Once you control all sites in a colour group, you dictate development, set rent, and unlock greater value. The same principle applies in corporate takeovers: control carries a premium.

The recent wave of private equity acquisitions of UK real estate investment trusts (REITs) underscores a key investment truth: price is what you pay, value is what you get, but control is where true opportunity lies. This dictum appears to resonate deeply in the investment committees of private capital. Daily share prices are visible to all, but only full ownership allows investors to unlock the long-term potential hidden in undervalued assets.

Why is real estate private equity targeting public REITs? The answer lies in the ability to deploy vast sums of capital into fully operational, high-quality portfolios — often with strong brands and robust development pipelines. These acquisitions promise attractive returns and due to their size, an accelerated route to fee generation.

Timing is important too. The sentiment of property valuers appears to be improving with many now pointing to an inflection point in commercial real estate values after a couple of years of declines. Takeover deals offer private equity houses a chance to invest at scale and with pace into attractive real estate mega trends such as ageing population, generation rent and digitalisation. The real-world equivalent of buying a complete Monopoly property set in one go.

Many REITs trade at significant discounts to their net asset values. As of February, UK REITs averaged a 29% discount — notably wider than the ten-year average of 17% — suggesting a sector-wide mispricing. But the key question remains: what is management control worth to a new owner? This control premium should be central when evaluating unsolicited bids, rather than metrics tied to pre-bid share prices. After all, in the realm of private equity, acquisitions are their lifeblood, they transform public entities into private engines of long-term growth and fee generation.

The recent takeover offer for Assura, a leading healthcare REIT, by a consortium including KKR, the global private equity firm, underscores the growing appeal of assets tied to an ageing population and the Labour government's push to expand investment in primary healthcare. Yet the bid itself is distinctly underwhelming.

At first glance, the offer may seem to match Assura's last reported net asset value. Yet when measured against net disposal value, which factors in liquidation scenarios and debt advantages, it becomes clear that this is, in fact, a significant discount.

Over two decades, Assura has carefully built a portfolio of more than 600 healthcare buildings, but its true value lies beyond bricks and mortar. Its intellectual capital, operational expertise, and strategic positioning in a high-growth sector make it an asset worth more than this bid suggests.

Founding entrepreneurs know this well. Last year, the creator of AIM-listed Lok'nStore, a leading self-storage firm, sold the business at a 13% premium to book value. A year earlier, the founder of Industrials REIT, a multi-let industrial park owner, orchestrated its sale to Blackstone, the world's largest alternative asset manager, at a 12% uplift to net asset value. In both cases, the board rightly secured investors a well-earned premium. This reflected not only the years of groundwork in building the business and assembling the property portfolio — effectively handing deep-pocketed buyers a Monopoly-style 'Advance to Mayfair' card — but also the full control of the company and its future potential.

It's no surprise, then, that Warehouse REIT, the owner of a portfolio of multi-let industrial estates home to more than 400 businesses, has rejected a recent takeover proposal from a consortium including Blackstone at a double-digit discount to the last reported book value. Warehouse REIT's founders, actively involved in growing and managing the portfolio for over a decade, understand its true worth. With Blackstone already invested in this sector, the deal would grant it economies of scale and strategic advantages.

For REITs with best-in-class portfolios, any negotiation with private equity must secure a control premium, not a discount. Non-executive directors also play a crucial role in recognising the additional worth their endorsement provides. Passive, index-tracking investors now dominate many shareholder registers, importantly often voting in line with board recommendations. This makes board approval even more valuable, warranting a premium that benefits both active and passive shareholders alike.

Private equity bids should be welcomed — but only if boards extract an ownership premium that reflects the benefits of full control and the true potential of the business. Otherwise, best-in-class REITs, capitalising on long-term mega trends, risk disappearing from public markets, with private equity poised to reap the rewards.

For public market investors, as in Monopoly, the message is clear: undervalue control, and you risk missing out on the biggest gains.

Disclosure

The VT Gravis UK Listed Property (PAIF) Fund is an investor in Assura and Warehouse REIT, and the VT Gravis UK Infrastructure Income Fund is an investor in Assura.

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