

## **A 29-year real estate veteran who's returned 446% to investors in the past decade breaks down the 4 trends driving the sector in 2021 — and shares 11 'attractively valued' stocks**

By Vicky Ge Huang



BARON CAPITAL

Jeff Kolitch is the portfolio manager of two real estate funds at Baron Capital.

- **Jeff Kolitch has returned 446% to investors via the \$1.1 billion Baron Real Estate fund since 2009.**
- **The 29-year veteran investor breaks down the four trends driving the real estate market in 2021.**
- **He also shares 11 ‘attractively valued’ real estate stocks and their upside potential.**

**A**fter almost a year of lockdowns in the US, Jeff Kolitch still thinks the real estate sector is set up to reap attractive gains in 2021 – and it’s not just because he is at the helm of two outperforming funds.

Kolitch manages the \$1.1 billion Baron Real Estate fund, which beat 99% of its category peers last year to generate a 43.85% return and has cumulatively gained 446% since its inception at the end of 2009. He also runs the \$47.2 million Baron Real Estate Income fund, which ended up in the third percentile and returned 22.3% last year, according to Morningstar data.

But this level of outperformance might be hard to sustain in the year ahead, Kolitch said in a recent client note.

“We believed the dramatic correction presented a once-in-a-generation buying opportunity,” he said of the real estate market plunge incurred by the COVID-19 pandemic. “After the pullback, we had the double barrel of monetary and fiscal stimulus coupled with attractive equity valuations. We saw signs that real estate was starting to rebound after a short drawdown.”

Given such unprecedented market conditions, Kolitch said he implemented a more aggressive playbook than usual by raising cash and deploying them towards “best-in-class, growth-oriented companies that rarely are on sale” as well as “cyclical stocks in the bullseye of the pandemic such as hospitality-related and housing-related names.”

Today, with many stocks up significantly from their March lows, Kolitch believes that a lot of buying opportunities have passed, as have the negative headwinds that faced the sector last year.

Many of the pandemic-related real estate segments such as hotels, casinos, offices, and malls were decimated in 2020, with the REIT index down 9% on the year while the S&P 500 and Nasdaq returned 18% and 45%, respectively.

On top of that, as the economy reopens amid the vaccine rollout, Kolitch believes that real estate will not

only become one of the key beneficiaries but also embark on a new cycle and multiyear recovery.

As a result, even though bargains are harder to find in this new environment, real estate stocks are still on sale and “relatively cheap” compared to the broad stock market, bonds, fixed income alternatives, and private real estate.

In 2021, Kolitch is taking a barbell approach to investing in the real estate sector where he has identified four key themes to track compelling opportunities.

### **1. COVID-19 recovery beneficiaries**

These stocks represent businesses that were forced to shut down during the pandemic but are expected to recover as the economy reopens. They include hotels, timeshare companies, amusement park companies, land development companies, certain real estate operating companies, as well as office, apartment, healthcare, and gaming REITs.

### **2. Residential real estate**

Propelled by “low inventory levels relative to demographic needs, pent-up demand, historically low mortgage rates, and perhaps a rebound in job and economic growth,” Kolitch is bullish on residential real estate and particularly home builders, single-family rental REITs, manufactured housing REITs, residential building product and service companies.

### **3. Intersection of technology and real estate**

As software continues to eat the world, adjacent technologies such as cloud computing and wireless infrastructure have also seeped into the real estate market. Kolitch believes that the best way to capitalize on the growth is through investing in data centers, tower companies, industrial logistics companies, and real estate data analytic companies.

### **4. Niche REITs**

As opposed to traditional REITs, unconventional REITs with exposure to sectors experiencing long-term demand have the potential to grow faster. Examples include life-science REITs that could benefit from more funding for drug development, cold-storage REITs exposed to the growth of e-grocery, and single-family rental REITs capturing the shifting consumer preference for renting over buying.

In addition to laying out the four trends, Kolitch also shared 11 “attractively valued” real estate companies.

These 11 stocks, which range from dividend-paying REITs to undervalued real estate-operating companies, are listed below along with their tickers, market caps, and manager commentaries.

## 1. Americold Realty Trust

### AMERICOLD REALTY TRUST SHS OF BENEF INTEREST

Stock, COLD

**35.05** -0.58 (-1.63%)

01:06:40 PM NYSE

Add to watchlist



Markets Insider

**Ticker:** [COLD](#)

**Market cap:** \$8.96 billion

**Commentary:** "A cold storage REIT whose shares have pulled back about 20% from recent highs. It is trading at about 15x cash flow vs. private market transaction trades of 18x to 20x."

*Source: Baron Capital*

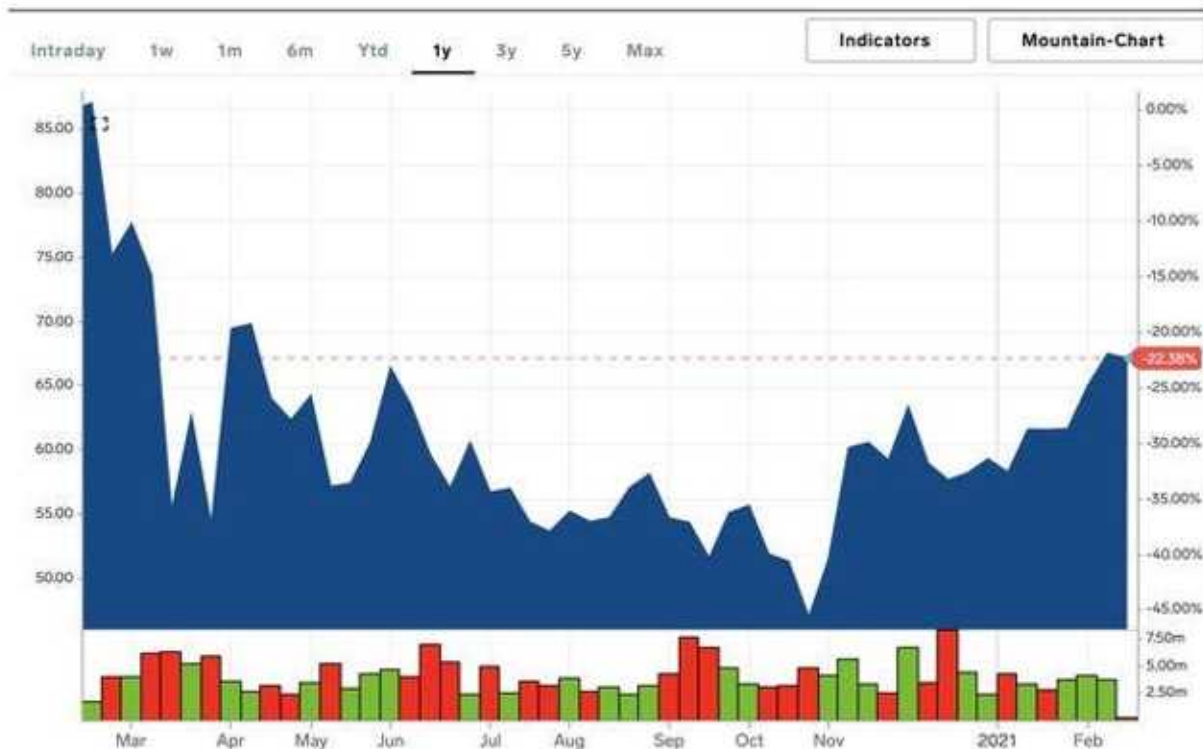
## 2. Equity Residential

**EQUITY RESIDENTIAL** Stock, EQR

Add to watchlist

**67.21** -0.29 (-0.43%)

01:08:06 PM NYSE



Markets Insider

**Ticker:** [EQR](#)

**Market cap:** \$25.19 billion

**Commentary:** "An apartment REIT whose business is cyclically depressed. We think it will recover as it becomes more affordable to rent vs. buy. Its shares declined 27% last year. It offers a 4% dividend yield while trading at an implied cap rate of north of 5%."

*Source: Baron Capital*



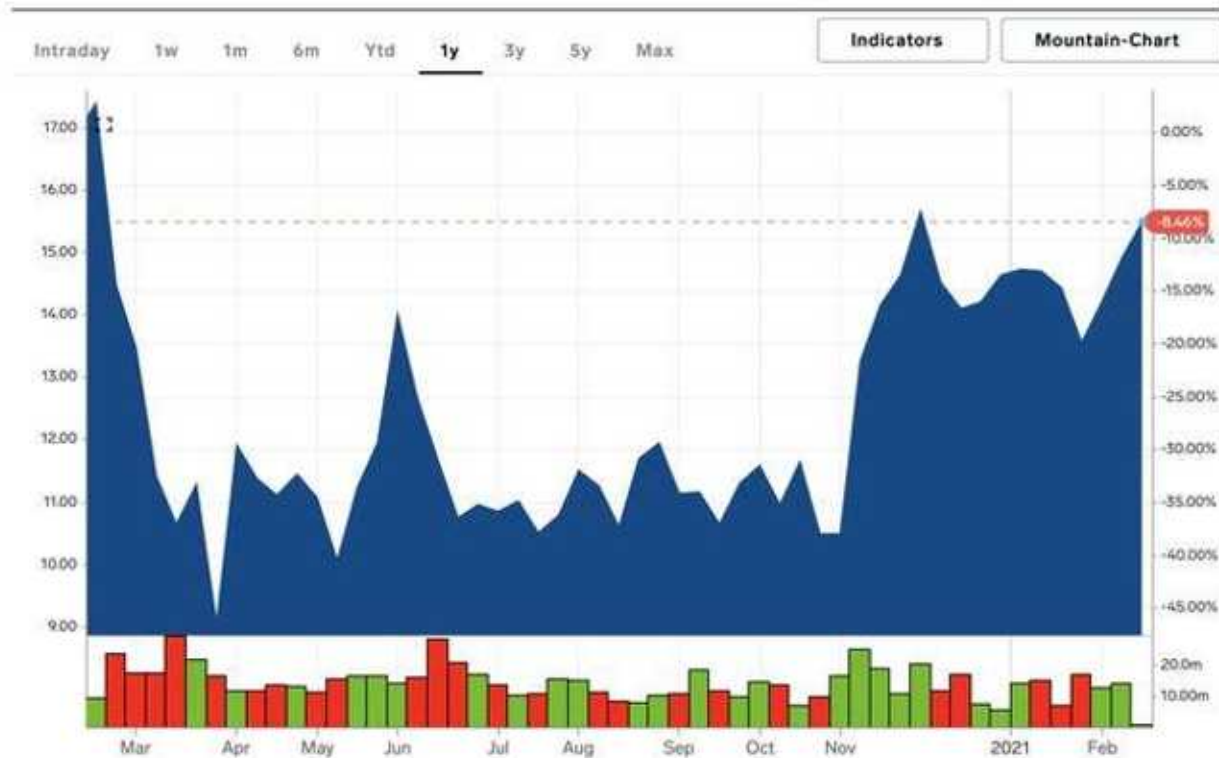
### 3. Host Hotels & Resorts

**HOST HOTELS & RESORTS INC.** Stock, HST

Add to watchlist

**15.49** +0.59 (+3.96%)

01:07:01 PM NAS



Markets Insider

**Ticker:** [HST](#)

**Market cap:** \$10.54 billion

**Commentary:** "A REIT with a portfolio of luxury hotel properties. It has a strong liquid balance sheet. Shares down over 20% last year. We think it trades at a significant discount to replacement cost."

*Source: Baron Capital*

#### 4. MGM Growth Properties



Markets Insider

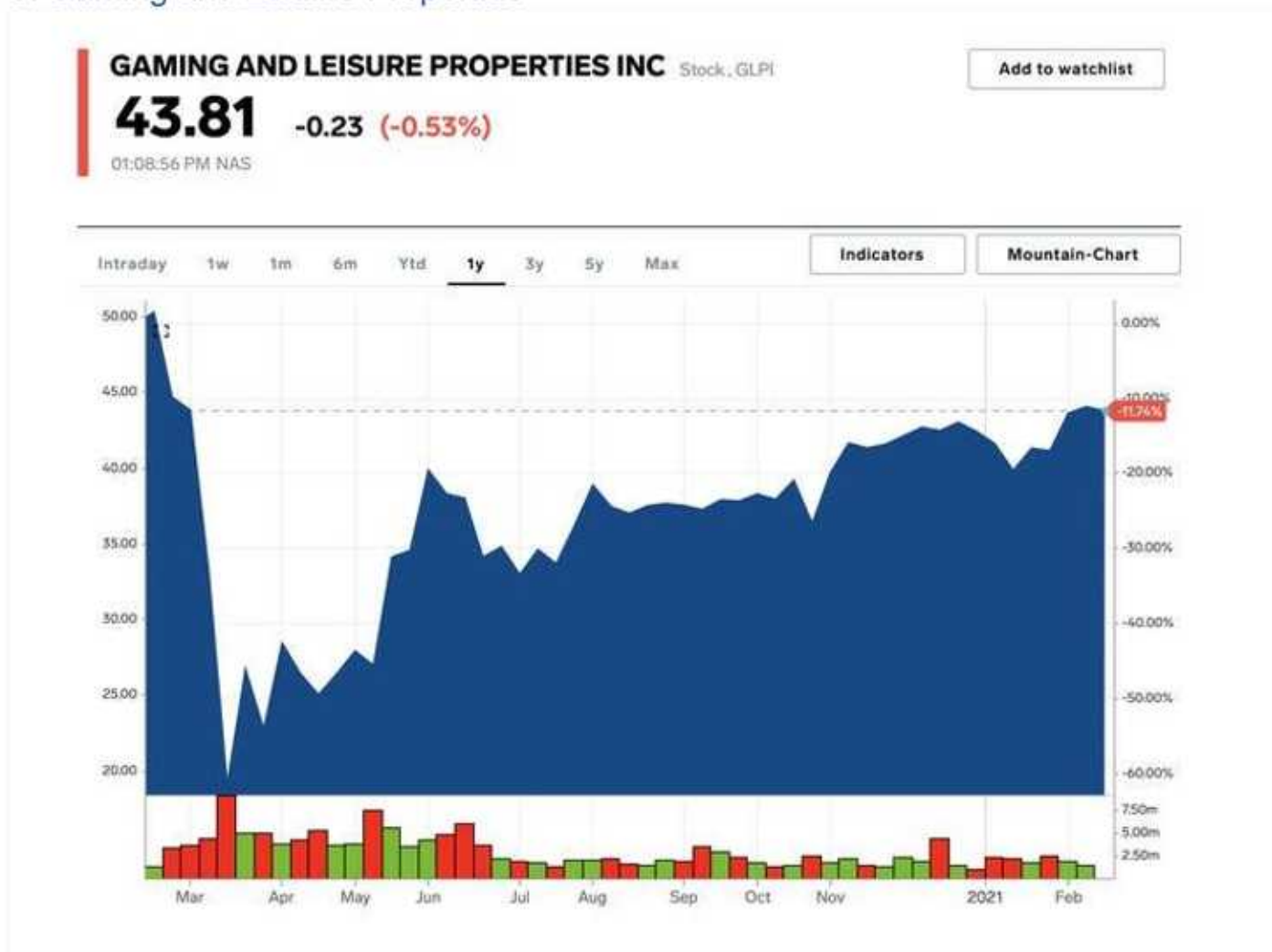
**Ticker:** [MGP](#)

**Market cap:** \$4.38 billion

**Commentary:** "Unlike most gaming REITS, this company sports a 6.5% dividend yield that's well covered. This time last year, it offered a 5.5% yield when interest rates were 100 basis points higher. That's a 20%-plus upside."

*Source: Baron Capital*

## 5. Gaming and Leisure Properties



Markets Insider

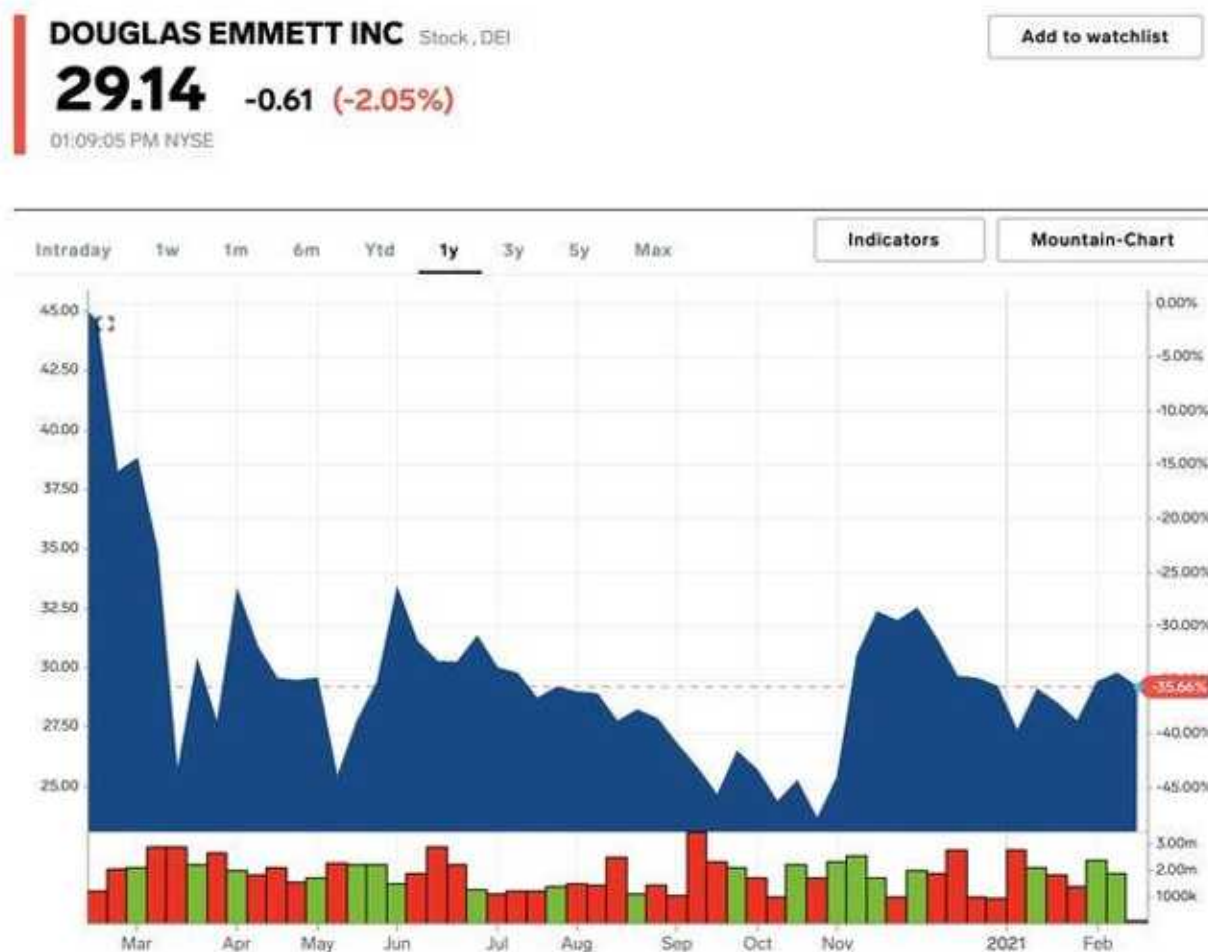
**Ticker:** [GLPI](#)

**Market cap:** \$10.15 billion

**Commentary:** "Another gaming REIT yielding over 6%."

*Source: Baron Capital*

## 6. Douglas Emmett



Markets Insider

**Ticker:** [DEI](#)

**Market cap:** \$5.20 billion

**Commentary:** "A West Coast office and apartment REIT whose shares declined 35% last year. It is trading at 45 to 47 cents on the dollar, meaning its office portfolio is publicly valued at \$475 per square foot while transactions in the private market sell for over \$1,000 per square foot. Its yield is just under 4%."

*Source: Baron Capital*



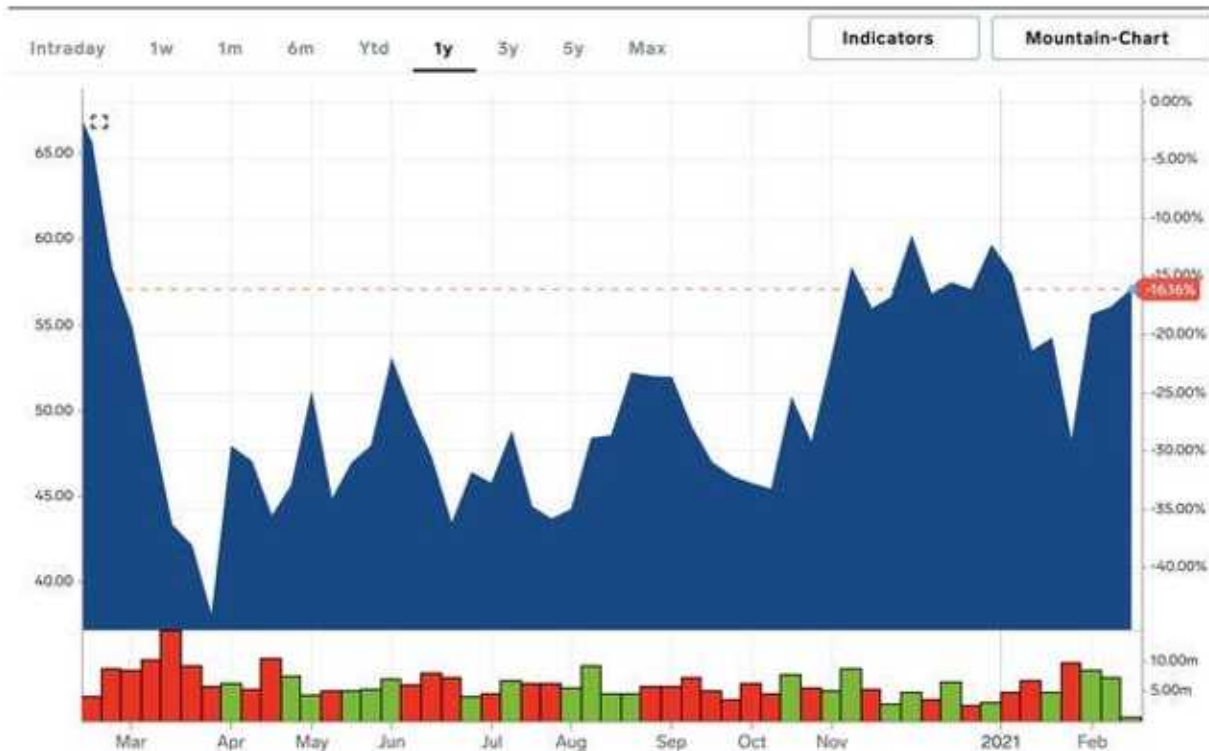
## 7. Las Vegas Sands

**LAS VEGAS SANDS CORP.** Stock, LVS

Add to watchlist

**57.02** +0.93 (+1.65%)

01:08:52 PM NYSE



Markets Insider

**Ticker:** [LVS](#)

**Market cap:** \$42.91 billion

**Commentary:** "A casino company whose shares dropped from a peak of \$74 last year to \$54 today. It has a liquid, investment grade balance sheet. The company is looking to sell assets, which should be accretive to the multiple. We believe it's valued at a discount to replacement costs."

*Source: Baron Capital*

## 8. Brookfield Asset Management



Markets Insider

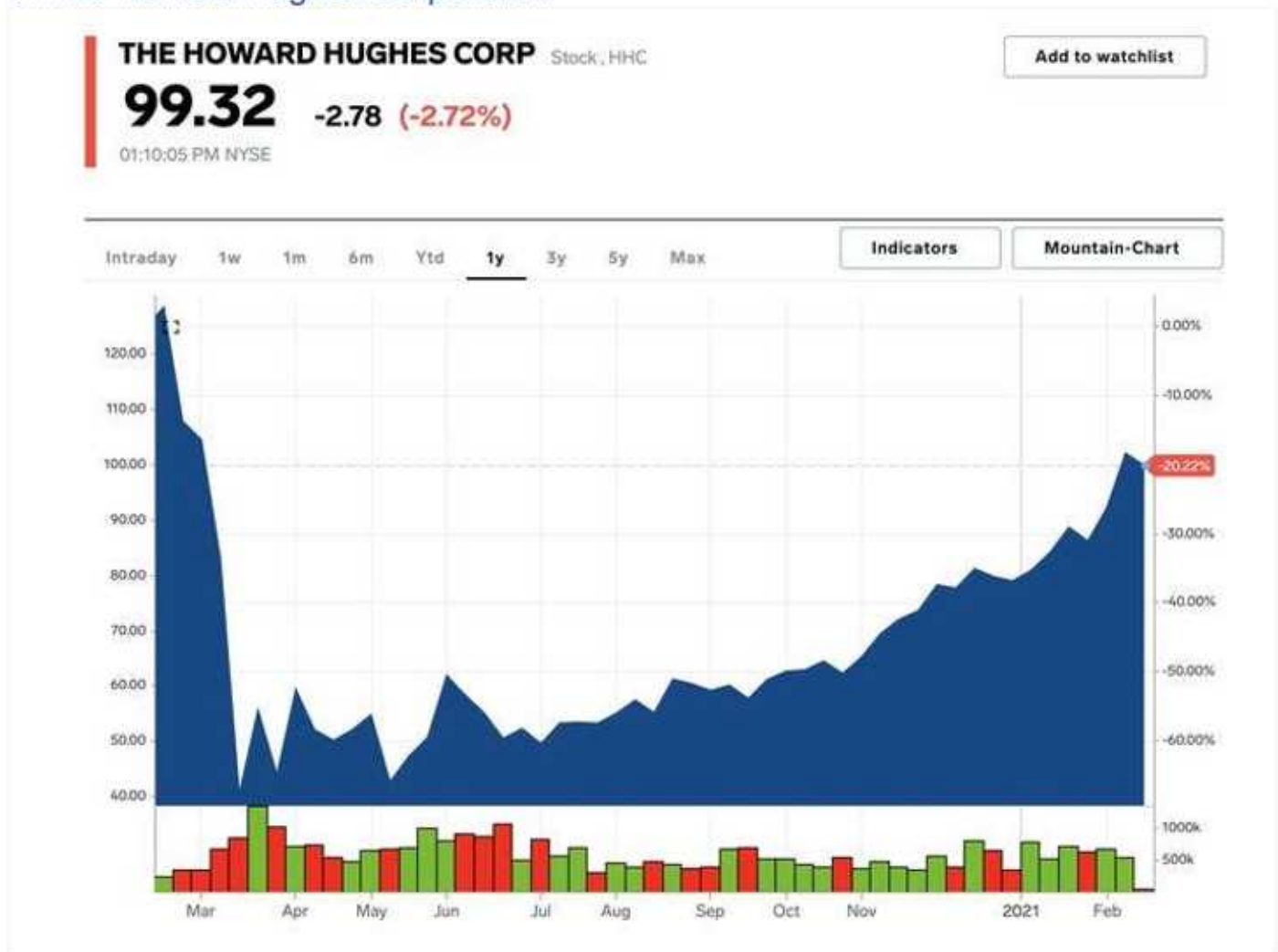
**Ticker:** [BAM](#)

**Market cap:** \$68.12 billion

**Commentary:** "A leading global asset manager with investments in several real estate-related categories. Management believes the net asset value translates to \$60 a share, while the stock is currently trading at \$38. In September, management laid out a five-year plan that could move the stock north of \$100 over the next five years."

*Source: Baron Capital*

## 9. The Howard Hughes Corporation



Markets Insider

**Ticker:** [HHC](#)

**Market cap:** \$5.62 billion

**Commentary:** "A land development company with 10 years of development opportunities, trading at about a 35% discount to liquidation value."

*Source: Baron Capital*

## 10. Jones Lang LaSalle



Markets Insider

**Ticker:** [JLL](#)

**Market cap:** \$8.01 billion

**Commentary:** "A leading commercial real estate service company trading at 14 times depressed earnings. Typically, at this stage in a recovery, it would be trading in a high-teens-to-20 times multiple."

*Source: Baron Capital*



## 11. Cellnex Telecom, S.A.

**CELLNEX TELECOM S.A.** Stock, CLNXF

Add to watchlist

**45.50** EUR -0.09 (-0.20%)

01:11:12 PM STU



Markets Insider

**Ticker:** [CLNXF](#)

**Market cap:** \$27.13 billion

**Commentary:** "A wireless tower company with the leading platform in Europe. It trades at an inline multiple to other tower companies, yet we believe it will grow its cash flow 70% to 100% in the next three years. Today, it announced a major partnership with Deutsche Telekom, which has about 40,000 towers it can sell to Cellnex."

*Source: Baron Capital*

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*Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read them carefully before investing.*

**Baron Real Estate Fund's** annualized returns for the Institutional Shares as of December 31, 2020: 1-year, 44.28%; 5-years, 15.97%; 10-years, 15.72%; Since Inception (12/31/2009), 16.70%. Annual expense ratio for the Institutional Shares as of December 31, 2019 was 1.08%.

**Baron Real Estate Income Fund's** annualized returns for the Institutional Shares as of December 31, 2020: 1-year, 22.30%; Since Inception (12/29/2017), 14.11%. Annual expense ratio for the Institutional Shares as of December 31, 2019 was 5.63%, but the net annual expense ratio was 0.80% (net of the Adviser's fee waivers).

*The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.*

**Risks:** In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

**Morningstar calculates the Morningstar Real Estate Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.**

**As of 12/31/2020, Baron Real Estate Income Fund ranked in the top 3% of all real estate funds for its' 3-year and 1-year performances among 225 and 248 funds, respectively**

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**Portfolio holdings for both funds as a percentage of net assets as of December 31, 2020 for securities mentioned are as follows:** **Americold Realty Trust** – Baron Real Estate Fund (1.6%), Baron Real Estate Income Fund (2.3%); **Equity Residential** – Baron Real Estate Fund (1.2%), Baron Real Estate Income Fund (2.5%); **Host Hotels & Resorts, Inc.** – Baron Real Estate Income Fund (0.5%); **MGM Growth Properties LLC** – Baron Real Estate Fund (1.6%), Baron Real Estate Income Fund (2.5%); **Gaming and Leisure Properties, Inc.** – Baron Real Estate Fund (1.3%), Baron Real Estate Income Fund (2.3%); **Douglas Emmett, Inc.** – Baron Real Estate Fund (2.3%), Baron Real Estate Income Fund (1.5%); **Las Vegas Sands Corporation** – Baron Real Estate Fund (2.8%), Baron Real Estate Income Fund (5.1%); **Brookfield Asset Management, Inc.** – Baron Real Estate Fund (2.9%); **The Howard Hughes Corporation** – Baron Real Estate Fund (1.6%); **Jones Lang LaSalle Incorporated** – Baron Real Estate Fund (2.3%); **Cellnex Telecom, S.A.** – Baron Real Estate Fund (1.6%), Baron Real Estate Income Fund (1.6%).

**Top 10 holdings as of December 31, 2020:**

**Baron Real Estate Fund**

| Holding                           | % Holding |
|-----------------------------------|-----------|
| Wynn Resorts Ltd.                 | 4.9       |
| GDS Holdings Limited              | 4.7       |
| Penn National Gaming, Inc.        | 3.9       |
| Red Rock Resorts, Inc.            | 3.3       |
| Boyd Gaming Corporation           | 3.3       |
| American Tower Corp.              | 3.1       |
| Opendoor Technologies Inc.        | 3.0       |
| Equinix, Inc.                     | 3.0       |
| Brookfield Asset Management, Inc. | 2.9       |
| Las Vegas Sands Corporation       | 2.8       |
| Total                             | 34.9      |

**Baron Real Estate Income Fund**

| Holding                                 | % Holding |
|---|-----------|
| American Tower Corp.                    | 6.3       |
| Prologis, Inc.                          | 5.8       |
| Las Vegas Sands Corporation             | 5.1       |
| Equinix, Inc.                           | 5.1       |
| Invitation Homes, Inc.                  | 4.9       |
| Equity Lifestyle Properties, Inc.       | 3.6       |
| Alexandria Real Estate Equities, Inc.   | 3.2       |
| Brookfield Infrastructure Partners L.P. | 3.2       |
| CoreSite Realty Corporation             | 3.0       |
| Colony Capital, Inc.                    | 3.0       |
| Total                                   | 43.2      |

**Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.**

The portfolio manager defines “**Best-in-class**” as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager’s opinion and is not based on a third-party ranking.

The **MSCI US REIT Index** is an unmanaged free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **Nasdaq Composite Index** is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange. The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

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