RCG economics

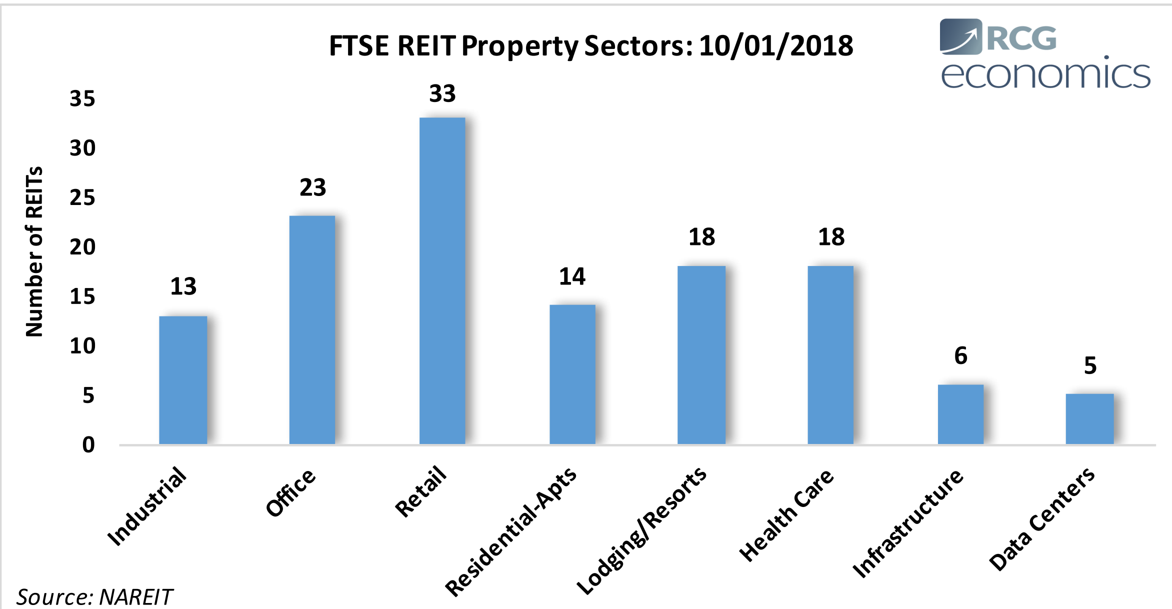
REITView Oct-2018

Welcome to our monthly REITView newsletter – analyzing the latest trends in real estate investment trusts (REITs) and the implications for investors and the Nevada real estate market. REITs own, and often operate, a pool of income-producing real estate assets. Investors can then purchase a liquid stake in these portfolios – think of them as mutual funds for real estate.

While REITs are not the biggest players in Nevada's commercial real estate landscape, secondary markets like Las Vegas with above-average population and job growth are likely to attract REITs looking for value and growth opportunities. According to *Raymond James*, "since the spring of 2016, non-gateway REITs have pulled ahead in total return.[1]"

REIT PROPERTY SECTORS

Despite news of brick-and-mortar retail's decline, that sector has 33 FTSE REITs[2] – the most of any sector, and adding a new FTSE trust since last month's newsletter. Lodging and Resorts also added a new REIT. The sectors listed below, which were selected based on relevancy to Nevada, represent about 70% of the 174 FTSE REITs currently being traded.



REIT RETURNS

It is useful to look at shorter-term and longer-term returns in various sectors to determine trends. For the year to date, Lodging/Resort REITs continue to lead the way with 7.5% gains, indicating that the tourism economy is strong. Close behind are Industrial and Apartment trusts. Office REITs are faring poorly for the year so far, with 4.4% losses.

In the shorter term, Returns were down across the board in September, with the biggest short-term declines in Lodging/Resorts and Health Care at 2% for each. This was enough to drag several sectors into red for the YTD, but also speaks more to short-term market trends or corrections generally than to particular moves within each sector. However, Apartment trusts took only slight 0.4% losses, due to hot rental markets across the county, among which Nevada is a leader.

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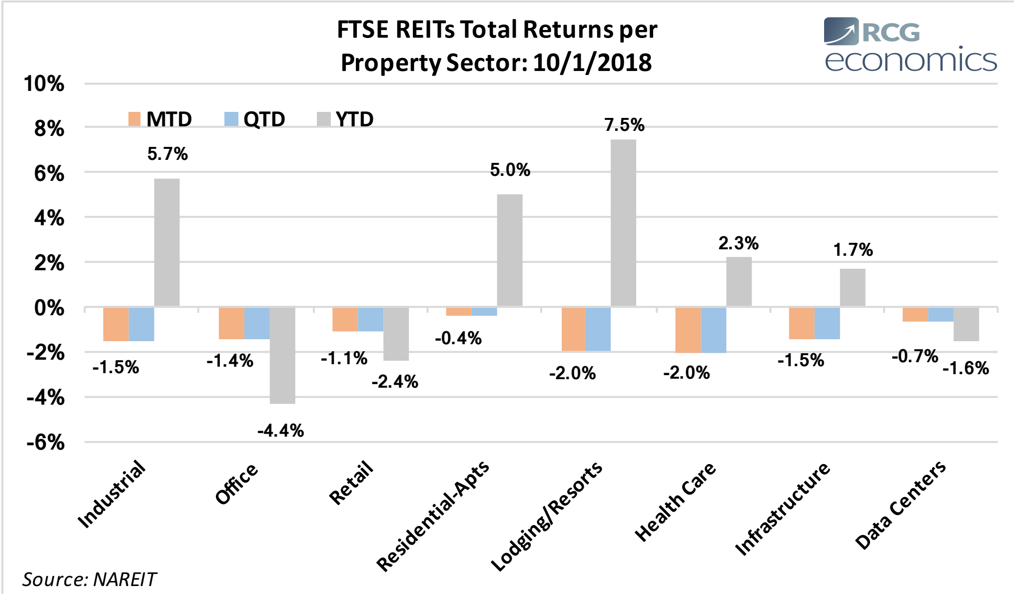
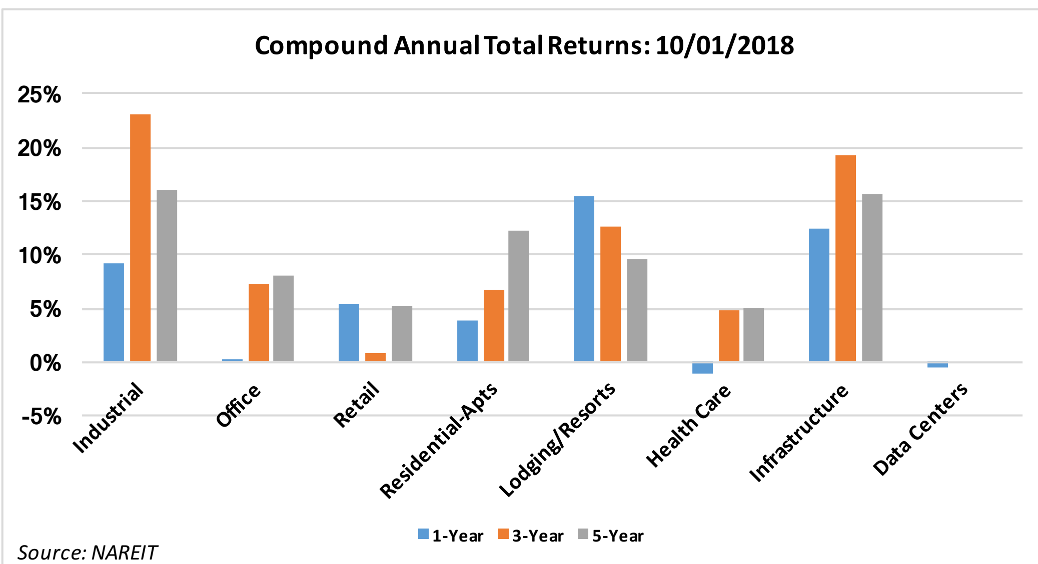
[1] *http://www.raymondjames.com/forefront/real-estate/text/non-gateway-reits-offer-new-horizon-for-investors*

[2] *REITs that are tax-qualified and can be found on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.*



Looking longer-term, at compound annual total returns, we see that infrastructure and industrial REITs are performing the best during a 5-year period, each with gains of about 16%. Industrial is the best performer in the 3-year period at with 23% growth, consistent the rapid expansion of online retail fulfillment over the same timeframe. Lodging and resorts are performing better in the last 12 months, with more modest returns over 3 and 5 year windows. Apartments show the opposite trend – they have been doing better over the last 5 years, as the housing market recovered, than they are now. Retail is unique in that it has seen modest gains in 5-year and 1-year timespans, but saw almost no growth in the 3-year window – the same time that industrial fulfillment performed best.



CONCLUSION

With most economic measures indicating full recovery from the Great Recession, conditions are ripe for growth in real estate development and increased revenue. However, with the benefits of the Tax Cuts and Jobs Act having time to price into the market, and current and potential tarriffs increasing the cost of raw materials, we saw modest declines across sectors in September. It will be interesting to see how these broad factors impact the market in the months to come.