RCGeconomics

April REITview

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

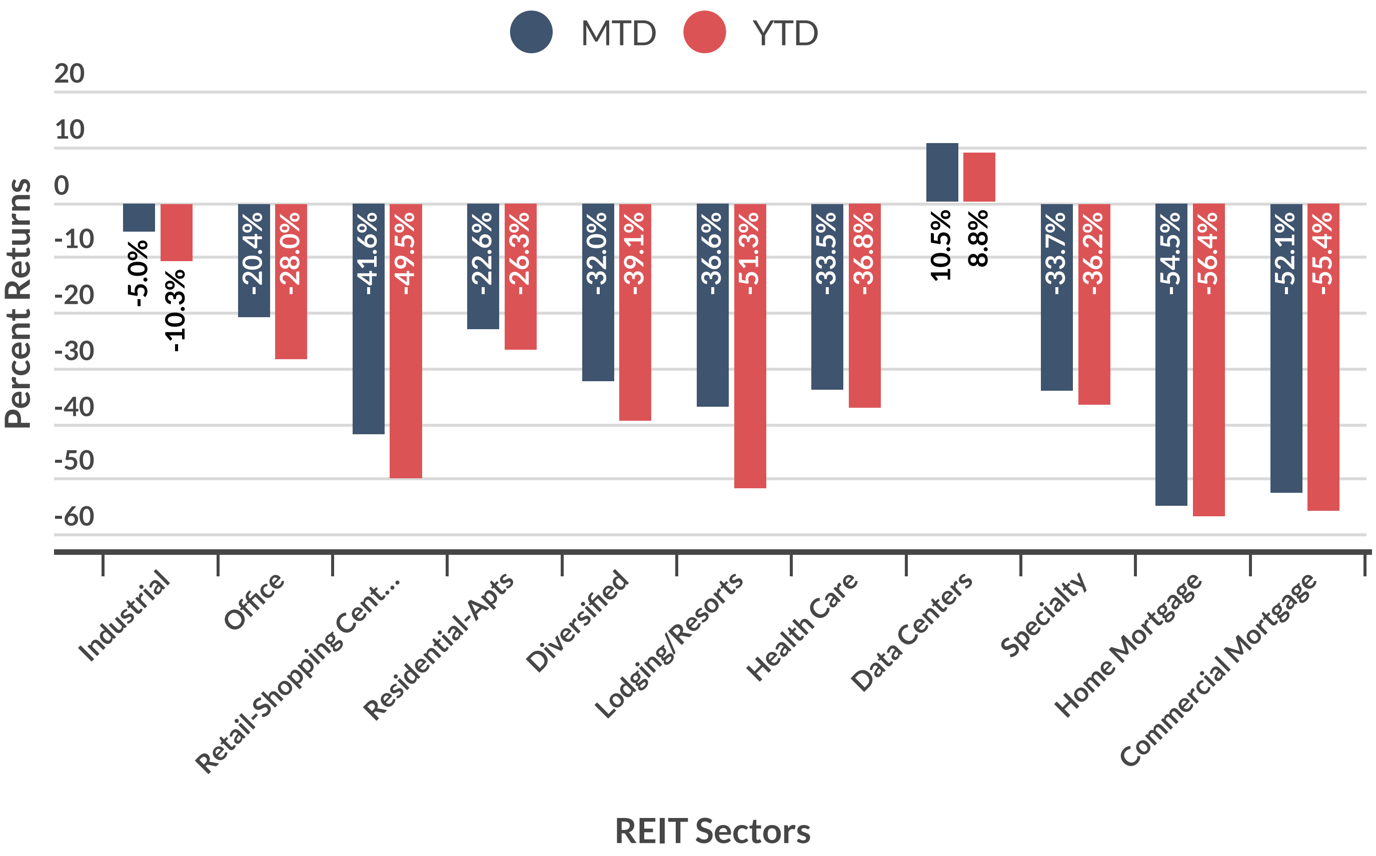
While REITs are not the biggest players in Nevada's commercial real estate landscape, secondary markets like Las Vegas with above-average population and job growth are likely to attract REITs looking for value and growth opportunities.

The sectors listed below were selected because they include at least 10 REITs each (except for Data Centers, which includes five). They represent more than 97 percent of the 162 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

Of the 12 REIT sectors that RCG tracks, the Industrial sector is still up over the trailing 12 months, and Industrial and Residential REITs are still positive over the 3 and 5-year horizons (though Apartment REITs are essentially flat over 3 years). If you're long in any of these stocks, that's the good news.

Overall, the 162 REITs traded on the FTSE ended March down **18.68 percent,** down almost 12 percentage points from February. The hardest hit sectors last month were Home Mortgage and Commercial Mortgage sectors, down 46 and 43 basis points, respectively, from the prior month. The Retail sector, which has already had a difficult five years (down over **12.5 Percent**), is down 35 basis points from March. Finally, the Lodging/Resorts sector has now turned negative over even the 10-year horizon, after a quarterly performance that only the Mortgage REIT sector could envy.

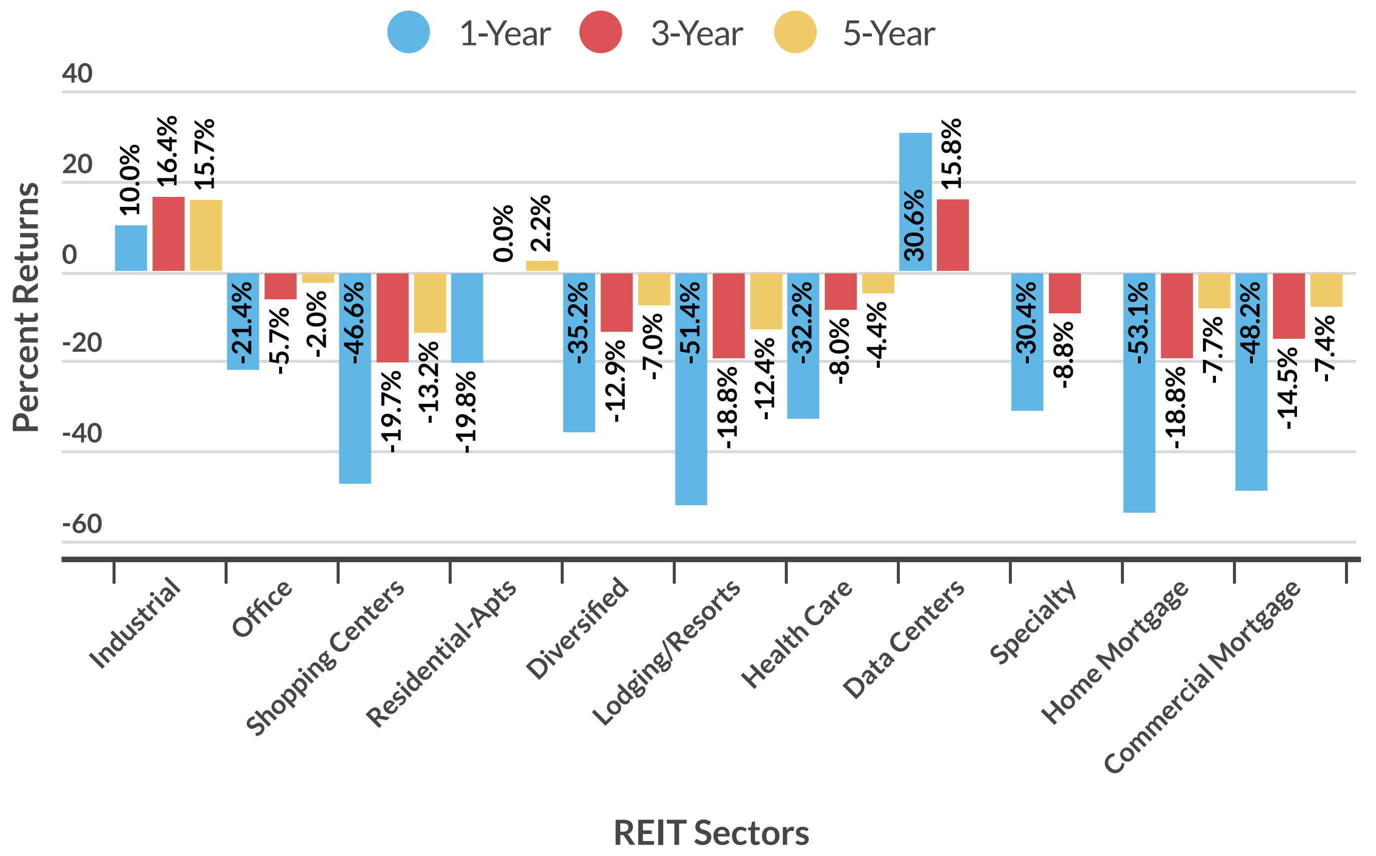
March 2020 REIT Performance (as of March 31, 2020)



In our March edition of REITview, we evaluated the prospects of data center and cell tower REITs in the current economic environment, given the increased demand for internet shopping and virtual meetings. The week ending March 6, data center REIT Digital Realty Trust (DLR) was up over **5 percent** and tower REITs Crown Castle and American Tower were up over **7 percent**. Over the past month, DLR is up **16 percent** and the two cell tower REITs are up over **4 percent**.

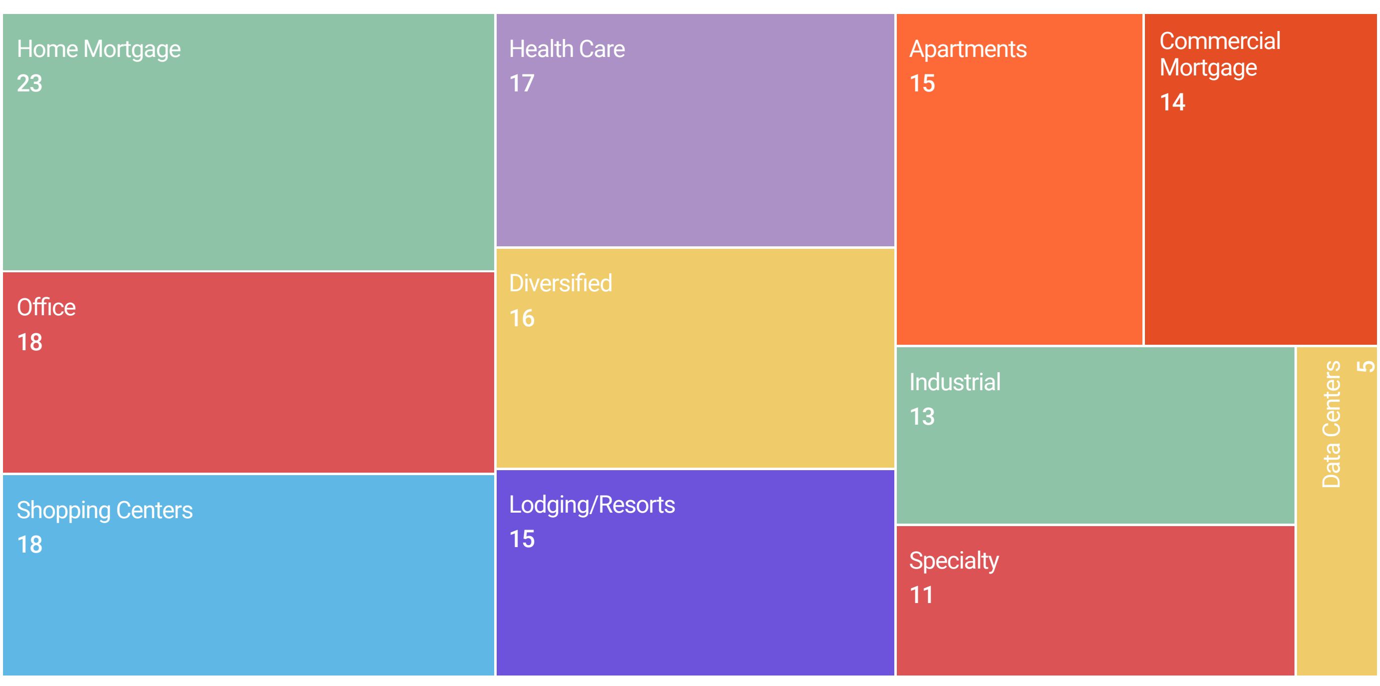
An article on April 8 in Forbes describes the state of the REIT market this way: the data center sector, comprised of just five companies, "was the *only* one of the 16 NAREIT industry segments to show a positive gain for the first quarter of 2020, growing by **8.8 percent**. Digital Realty Trust (DLR), the largest North American data center company, was the 7th best performing stock on the S&P 500 as of March 30th." The data center properties these companies are leasing to clients are making possible the 20x meetings growth that Zoom and its competitors (RingCentral, etc.) have seen since December. Cable and internet service providers also depend on these data centers; Comcast, for one, reports that its network traffic has increased 32 percent since March 1. Even after the pandemic has subsided, "data centers appear well positioned for future growth," Forbes adds. "WiFi enabled appliances such as Ring doorbells and smart fridges have increased data needs, and there is a massive potential opportunity should autonomous vehicles become widespread."

Compound Annual Total Returns (as of March 31, 2020)



As for growth potential in other sectors, in a March 17 interview with NAREIT magazine, two real estate investment fund managers forecast some light ahead for residential and industrial REITs in 2020, despite the pandemic. "We continue to be favorable on single-family home rentals and industrial warehouse," says Todd Kellenberger of Principal Global Investors. "For single-family rentals, we are seeing robust demand growth driven by lifestyle choices and [housing] affordability issues. ...We also like the industrial sector where fundamentals remain in great shape with high occupancy levels and strong pricing power and downward pressure on cap rates." Rick Romano of PGIM Real Estate agrees: "we look for industrial, single-family rental, and manufactured housing to be the biggest outperformers [this year] based on strong fundamentals and cash flow growth prospects."

Number of REITs Tracked



Data Source: National Association of Real Estate Investment Trusts (NAREIT)

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