RCG economics

February 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.

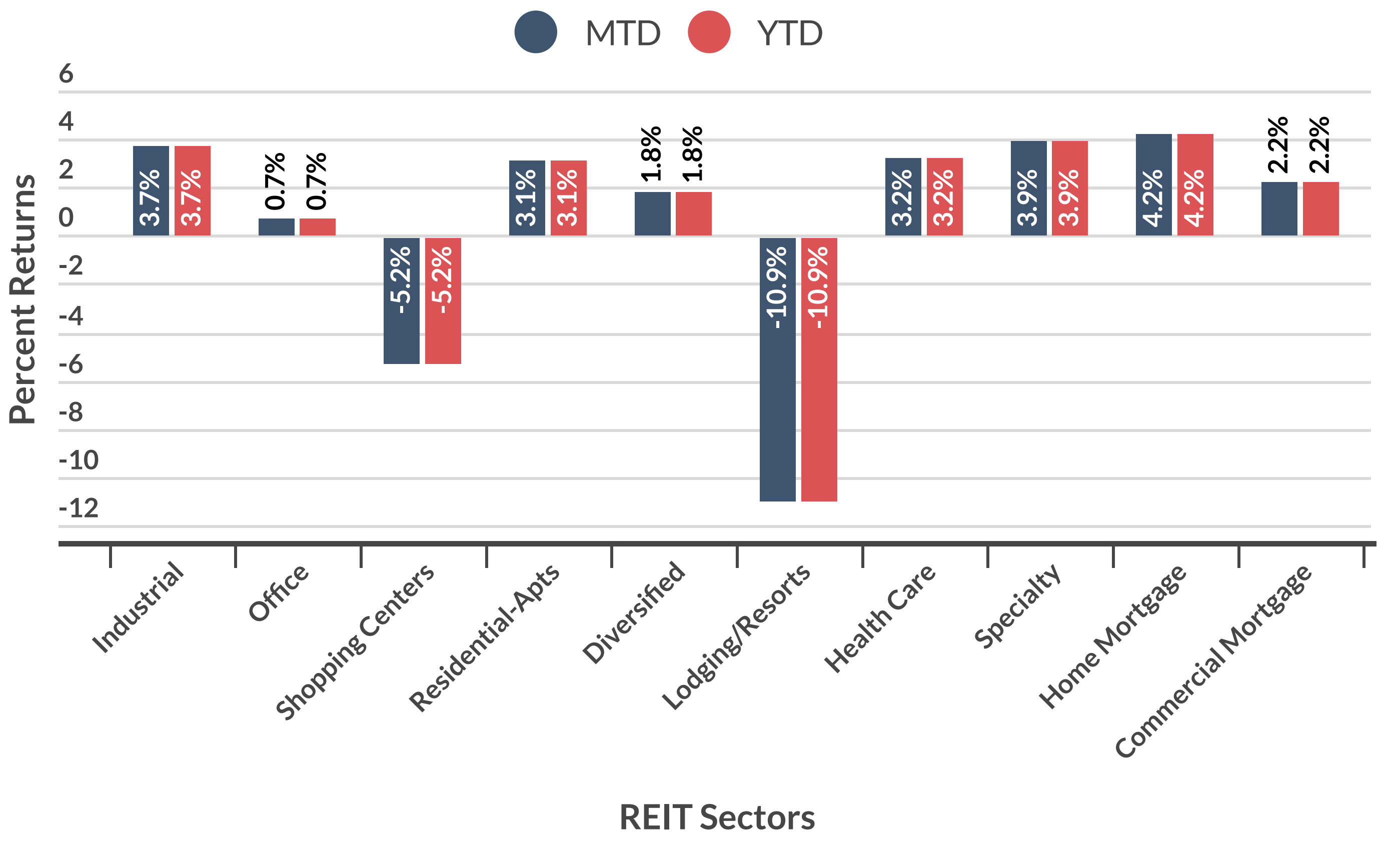
While REITs are not the biggest players in Nevada's commercial real estate landscape, secondary markets like Las Vegas with above-average population and job growth are likely to attract REITs looking for value and growth opportunities.

The sectors listed below were selected because they include at least 10 REITs each. They represent more than 97 percent of the 164 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

Overall, REIT returns increased modestly in January , returning **1.27 percent** across the 164 equities that FTSE tracks, up **0.66 basis points** from the previous month. Of concern for the Las Vegas market, though, Lodging/Resorts REITs took a **16 basis point** dive in January, down almost **11 percent** for the month. REITs in this sector with properties in Asian markets are likely suffering from the global health crisis emerging from Wuhan, China; according to Morning Consult's February 2nd survey, forty-four percent of US travelers say they are less likely to travel abroad over the next six months as a result of the coronavirus outbreak.

That said, there are signs of increased investor interest in gaming REITs. In October of last year, Blackstone REIT (BREIT) entered into a joint venture with MGM Resorts International to purchase the Bellagio property. "The multiple that Blackstone paid to get into the space was the highest ever paid" for any gaming real estate asset, James Stewart, CEO of MGM Growth Properties (also a gaming REIT), told REIT Magazine in January. At the moment, Gaming and Leisure Properties (Nasdaq: GLPI), MGM Growth Properties (NYSE: MGP), and VICI (NYSE: VICI) dominate the gaming real estate domain, but they only own 35 percent of U.S. commercial gaming assets. Blackstone and Kansas City-based EPR Properties (NYSE: EPR) have signaled their intent to become players in gaming real estate. In January, BREIT and MGP entered into new joint venture agreements for the acquisition of the MGM Grand and Mandalay Bay.

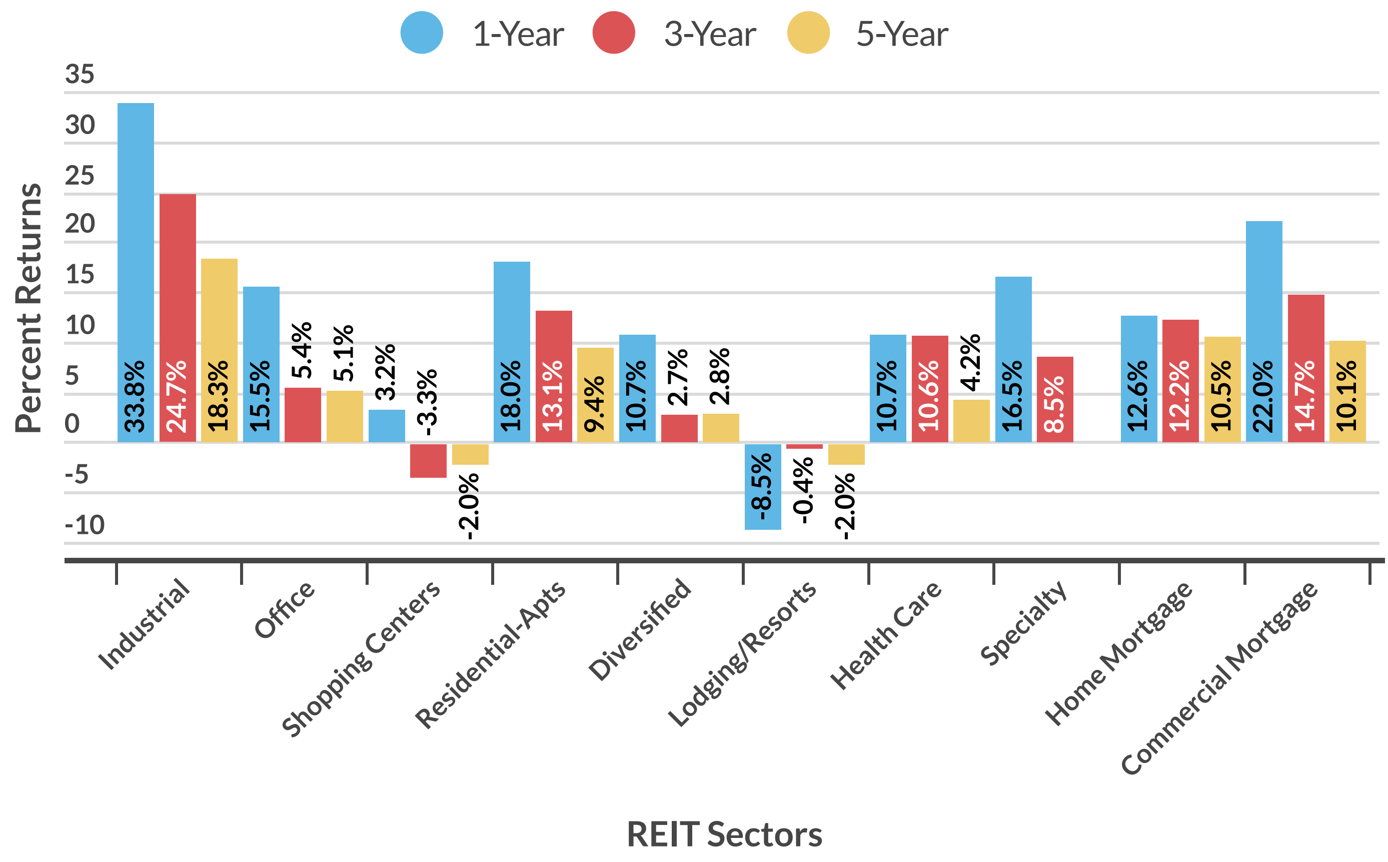
January 2020 REIT Performance (as of January 31, 2020)



Healthcare REITs had another good month, improving almost **4 basis points** from December. The sectors posting the biggest gains for the month, however, were Residential and Industrial, reversing their prior-month losses by **7.03 and 6.13 basis points**, respectively. If you've considered investing in the healthcare space, REIT Magazine featured one in its January/February issue. Founded in the 1980s as Health Care Property Investors, the REIT just rebranded to Healthpeak Properties, Inc. (NYSE: PEAK). Focused on the life science, medical office building (MOB), and senior housing private-pay segments in the premium healthcare space, Healthpeak owns approximately 650 assets across the country (i.e., well-diversified geographically). Hitting bottom in March of 2009, the stock price peaked four years later, up 300% from that valley. It declined 45% from April 2013 until February 2018 but is up 70% over the past two years.

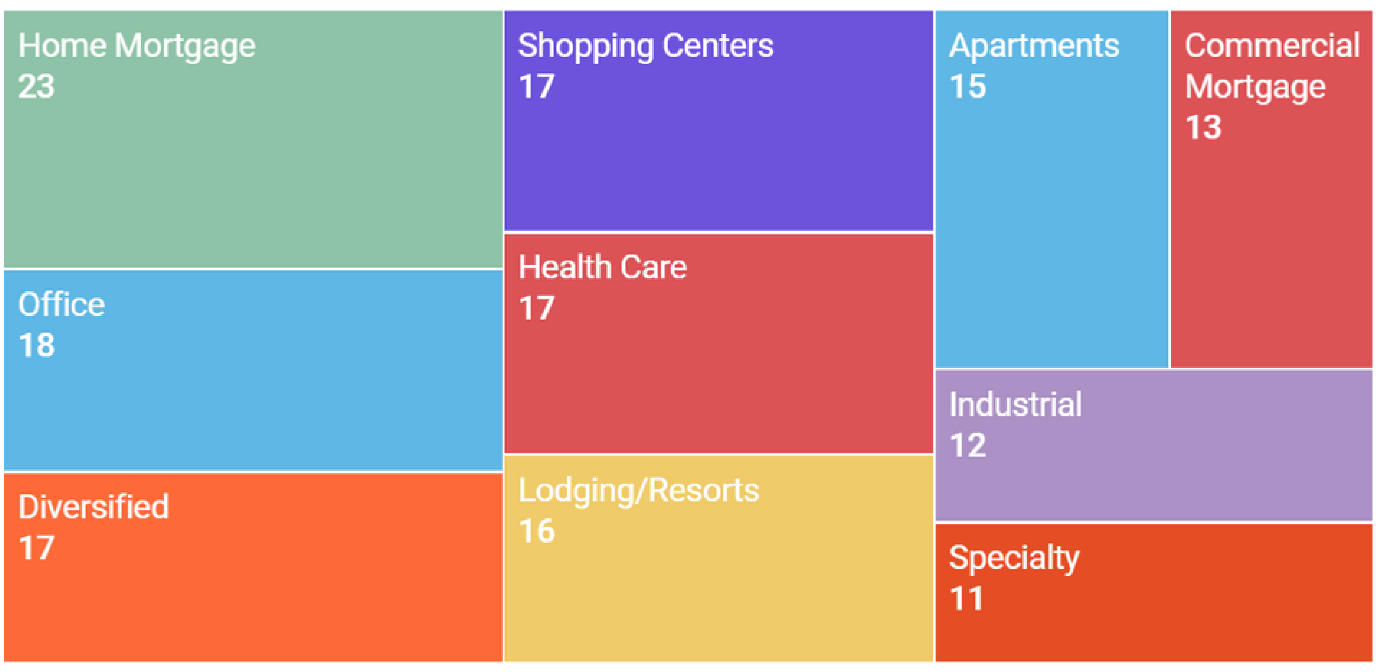
Among the REIT sectors RCG tracks, the healthcare sector is a diversification play. As you see in the chart below, only the 3-year returns are competitive with the other sectors, but its 10-year returns are also at roughly **11 percent** annually.

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



Among large REIT sectors, Industrial REITs continue to hold a commanding lead over all but the 10-year horizons, with eight to ten basis point advantages over the one, three, and five-year time frames. Over ten years, Residential REITs are only 0.8 basis points behind (with **16.5 percent** returns) and Commercial Mortgage REITs are only 0.3 basis points behind (with **17.06 percent** returns).

Number of REITs Tracked



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