June REITview

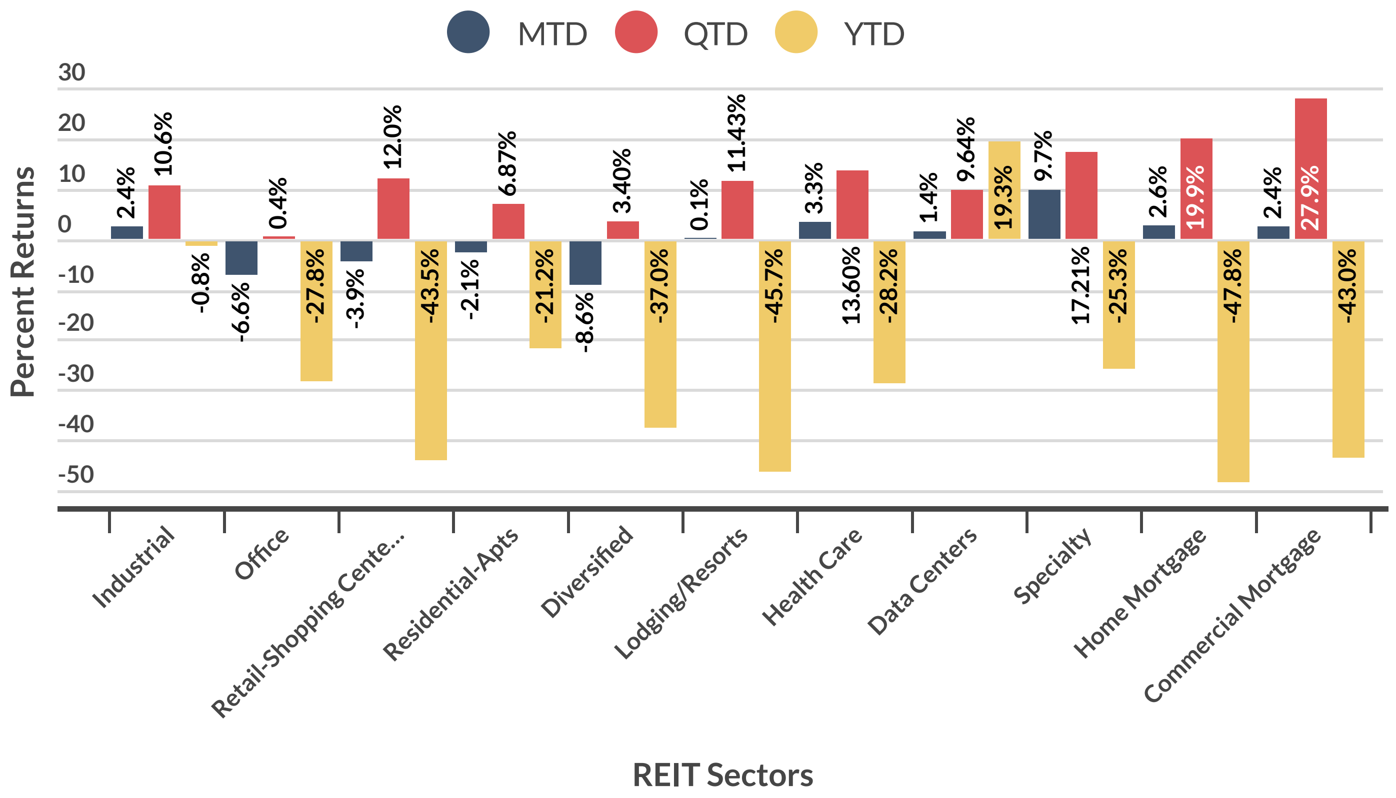
Welcome to our monthly REITView newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase a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

The rebound of many REIT sectors continued into May, improving **1.71 percent** over the previous month, though this increase in returns for the 162 FTSE REITs was a full seven basis points milder than the returns for April. Among the sectors RCG tracks, only the Specialty REIT sector had a better month than April, improving to **17.21 percent** for the quarter. The Lodging/Resorts sector was roughly flat for the month and is still down almost **46 percent** year-to-date. The five Data Center REITs are still way out in front over the past year, at nearly **37 percent**, and a close second to the Industrial sector over three years, which has returned **17.12 percent**.

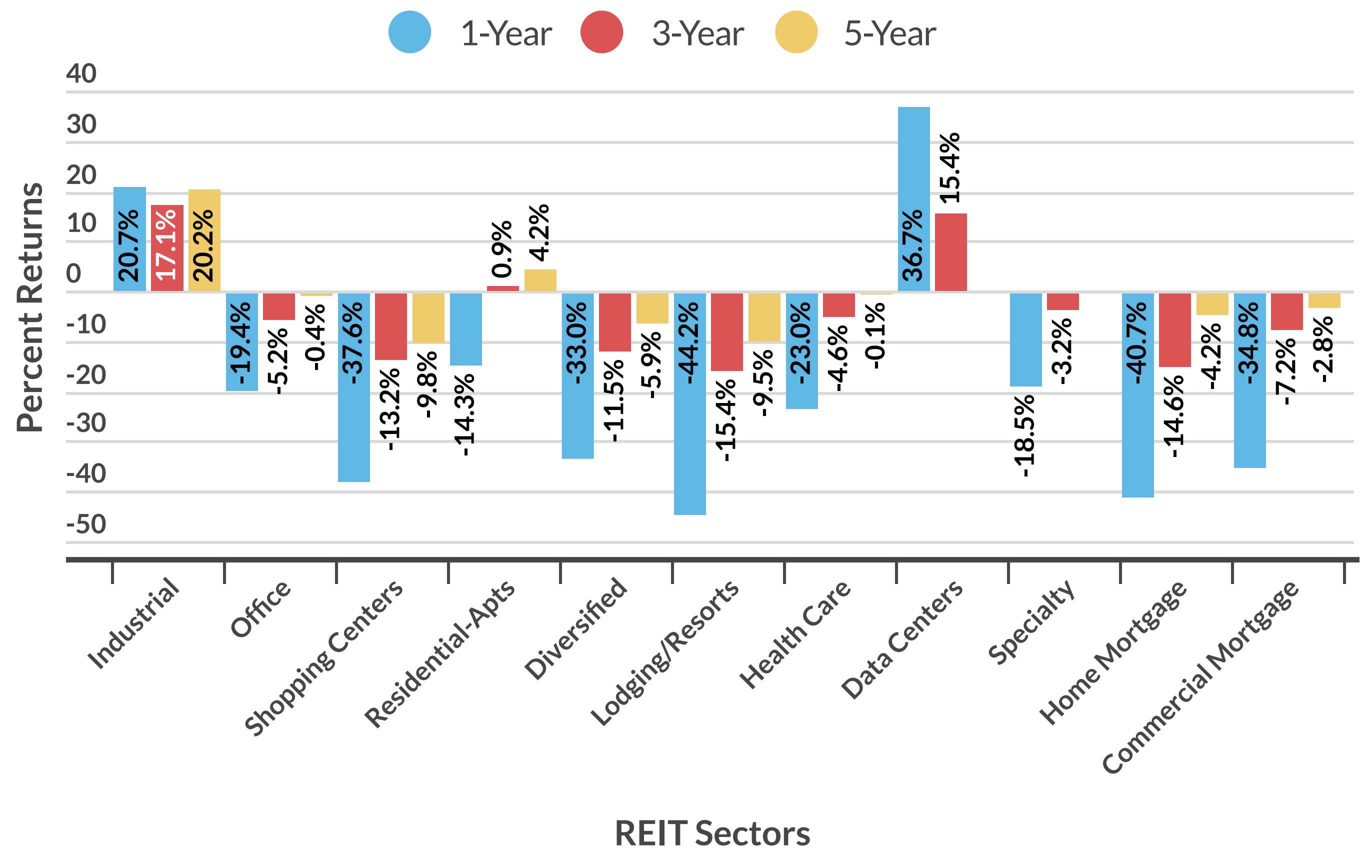
May 2020 REIT Performance (as of May 29, 2020)



It has been some time since we examined the Specialty REIT sector, comprised of 11 companies, so we will take that opportunity in this issue. Examples of the diverse properties owned by specialty REITs include movie theaters, casinos, farmland and outdoor advertising sites. Because Specialty REITs own such a wide array of property types, the market risks to members of this group are as diverse as the types of properties they own, since the risks to farmland are rather different than the risks for casinos. The 11 REITs that comprise this category are companies that are specialized enough that they don't fit neatly into another sector. Data Center REITs, for example, used to be part of this category until they numbered five, meriting a sector of their own.

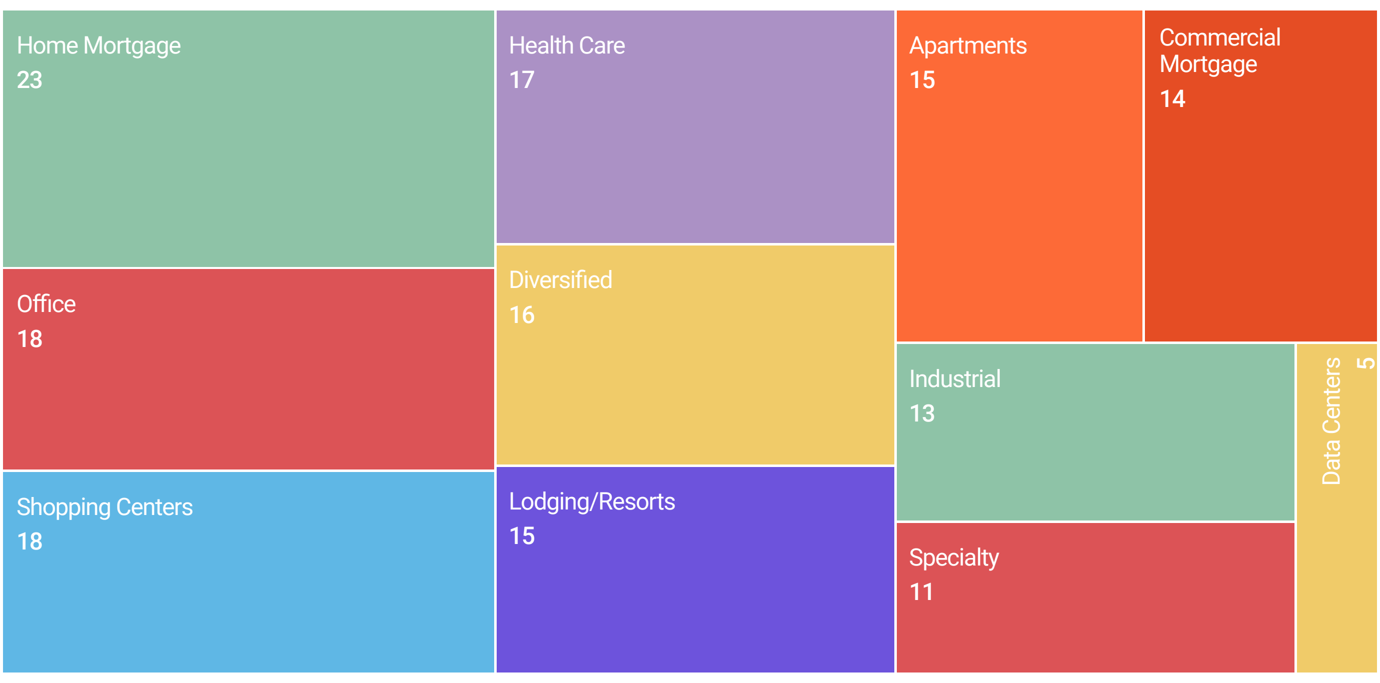
The Specialty REIT sector's overall performance is somewhat misleading, though, since its highest performing member--Safehold Inc. (NYSE: SAFE), with **104 percent** one-year total returns--yielded four times the return of its nearest sector rival--Gladstone Land Corp. (NYSE: LAND)--over that period. Consequently, the median returns of this REIT sector are not nearly as positive as its average returns. As for its investment strategy, Safehold's focus on the acquisition, management, and capitalizing of ground leases, which its CEO explained to REIT Magazine this way: "think [of] buying real estate as two separate investments. One investment, in the building, is a higher return asset that you're going to own, manage, operate, lease, market, and hopefully sell at a good profit." The second is the land, which appreciates more slowly. Safehold provides clients the capital to separate the ownership of the land from ownership of the building, giving the building owner the economic rights to the structure for a period of usually 99 years.

Compound Annual Total Returns (as of May 29, 2020)



As a whole, the outlook is bearish for REITs in 2020; the Urban Land Institute's latest Real Estate Economic Forecast expects negative **18 percent** returns in 2020, with rallies in 2021 and 2022 of 10%. This forecast is based on a survey of 39 economists and analysts at 35 leading real estate organizations. That said, respondents to the survey expect "[r]ent growth for the next three years ... to be led by the industrial sector, averaging 2.2% from 2020-2022. Apartment rents will fall by 2% in 2020 but have an overall three-year positive average of 1%." NAREIT's May survey of its member REITs is also optimistic for the Industrial sector, which leads the pack with rent collections in May "equal to nearly 96% of typical rents. ... This reflects a drop of just under 3 percentage points from the nearly 99% of rents collected as reported in April." Given that revenue perseverance, if the Urban Land Institute's projections are realistic then it might be a good time to have another look at Prologis (NYSE: PLD). For more on that, see our March edition of REITview.

Number of REITs Tracked



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