RCG economics

July REITview

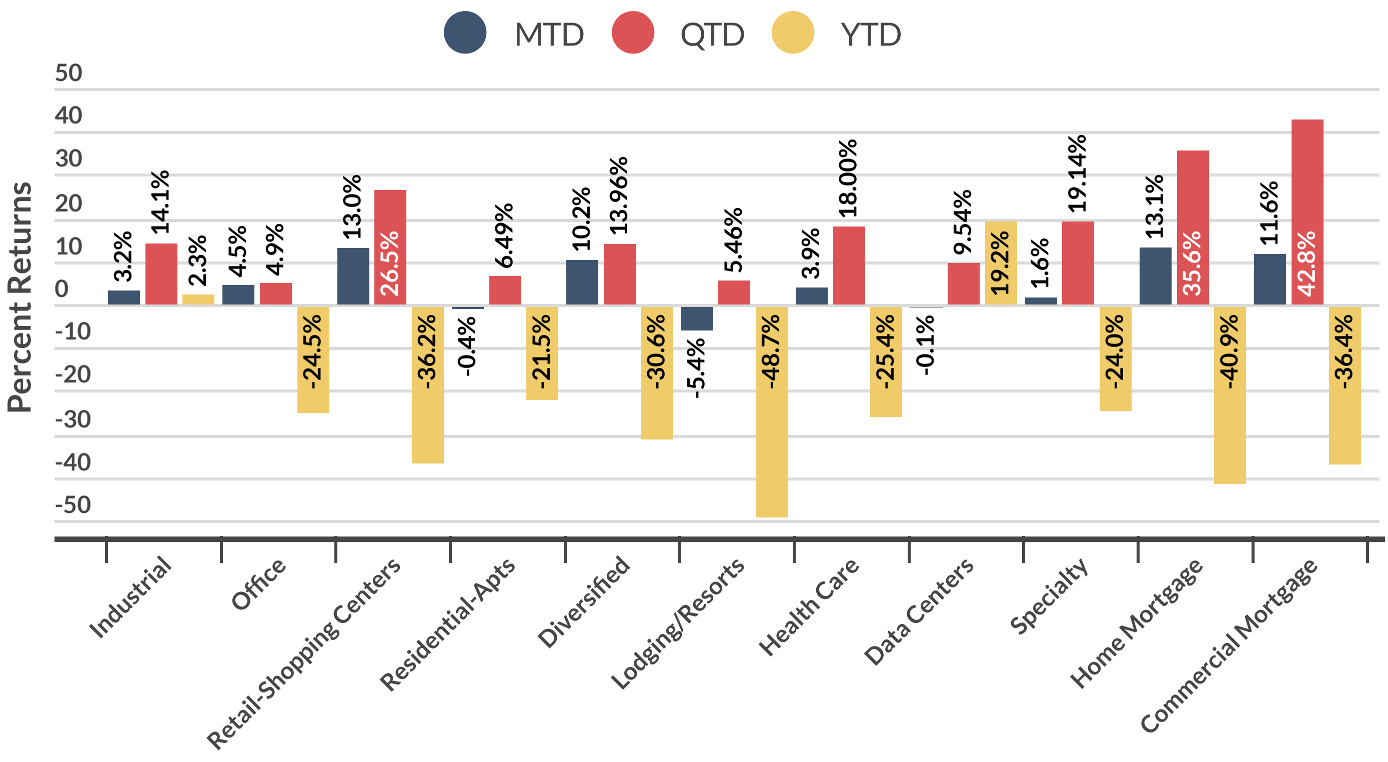
Welcome to our monthly REITView newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase a 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 158 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

As a whole, REITs continued their modest gains from May through June (**2.31 percent** total return), led by the Mortgage, Retail, and Diversified REIT sectors. The Lodging/Resorts sector was the biggest loser for the month, but still ended up almost **5.5 percent** for the quarter. Office REITs are still struggling to rebound from the pandemic-induced recession, yielding only **4.9 percent** for the quarter. Data Center REITs plateaued for the month but have a commanding lead year-to-date at **19.18 percent**.

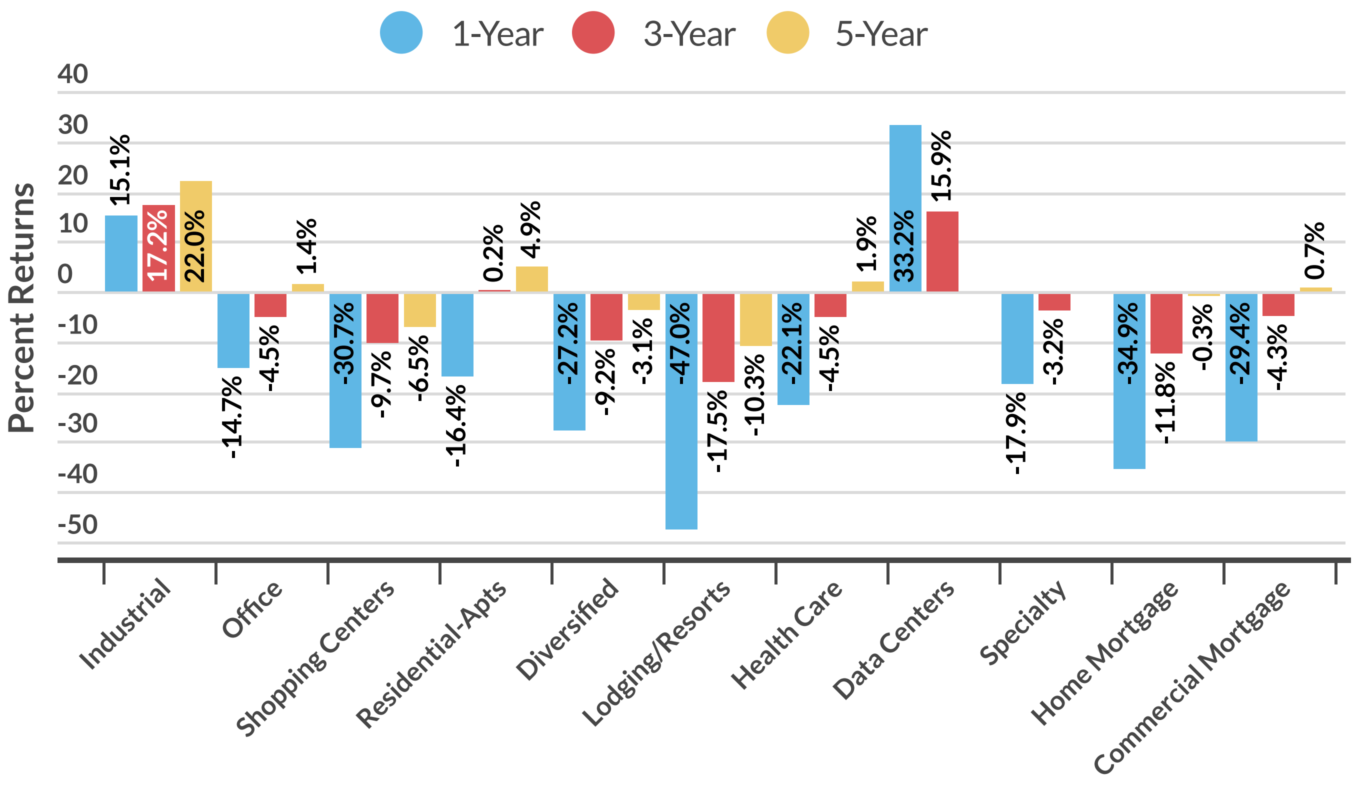
June 2020 REIT Performance (as of June 30, 2020)



REIT Sectors

The Retail sector has seen a marked improvement this quarter, in part, because rent collection for Shopping Center REITs improved by 11 percentage points from May to June, finishing at **60.5 percent** (of typical rent collection) for the month, according to a NAREIT survey of its members. Free Standing Retail, which has been more resistant to the pandemic (with rent collection in excess of **70 percent** for April and May), also improved rent collection by nearly nine percentage points in June. That said, Morning Consult--who tracks consumer comfort with returning to "normal" spending--reports that, after increasing since late April, comfort levels "dropped for the first time in late June and remained low in early July," with less than 30 percent of U.S. adults reporting that they feel safe visiting a shopping mall, for example. According to a June 17 article in Vox, economic relief measures during the pandemic "have done little for small businesses," based on data gathered by a research group at Harvard. "Stimulus spending [has] tended to go to Amazon or Walmart, not small local stores, and small businesses eligible for Paycheck Protection Program (PPP) loans are generally not any better off than ones that were not eligible." This data indicates that "the economic crash has been driven disproportionately by the actions of high-income Americans, whose consumer spending has crashed more than that of poorer Americans"--the recipients of unemployment checks, EIDL loans, etc.

Compound Annual Total Returns (as of June 30, 2020)



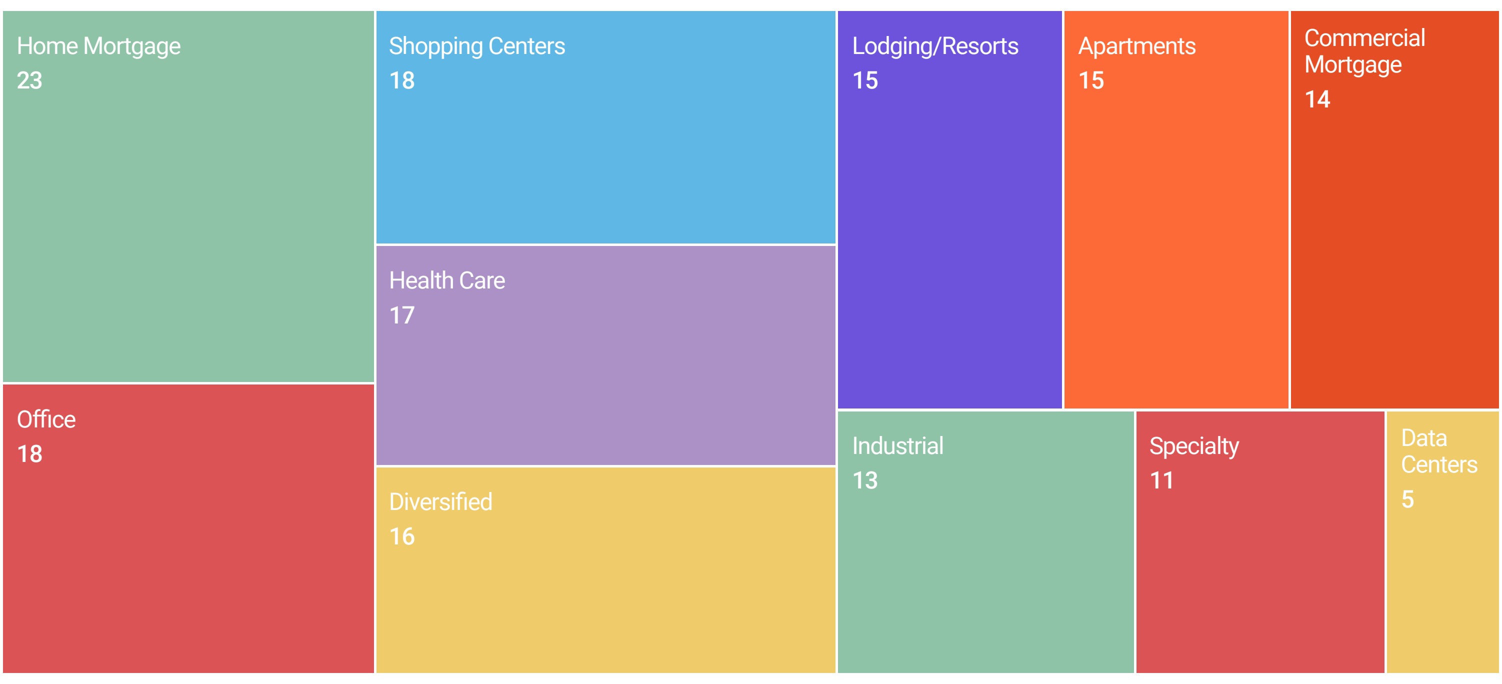
REIT Sectors

Despite the Mortgage REIT sectors' strong recovery this quarter, a July 6 article in SeekingAlpha contends that there are still bargains to be found. "Mortgage REITs with MSRs (mortgage-servicing rights) are still trading at much lower than average price-to-book ratios," i.e., the discounts to book value (the value of the REIT's assets on the balance sheet) are substantial. The Colorado Wealth Management Fund, who authored the article, is bullish on Cherry Hill Mortgage Investment (CHMI), which it argues has an internal hedge on mortgage rates with both MSRs and Mortgage Backed Securities (MBS).

Fidelity Real Estate remains bullish on data centers, the industrial sector, and cell-tower REITs, which we covered in the March and April editions of REITview. "Some of this optimism is priced into the stocks—tech-oriented REITs in the S&P 500 have returned 11% in 2020, on average. But that shouldn't scare off long-term investors,"says fund manager Steve Buller in a July 4 article in Kiplinger. He also sees value in select housing and office REITs "that will regain steam as the economy reopens."

If you're thinking of diversifying into the Residential sector, Jeff Kolitch of Baron Real Estate recommends Invitation Homes (INVH). This REIT owns some 80,000 single-family rental homes, and its stock price plunged 51% between February and March on fears that tenants would skip rent payments. "But collections amid the pandemic [have] hovered around Invitation's historical average. Less than 2% of tenants deferred a portion of April's rent." The stock has rebounded but is still 15% below its February high, "despite looking poised to capitalize on long-term trends, such as a preference among millennial renters for spacious suburban homes as they begin to start families" and the "dearth of housing supply." Invitation hiked its dividend payout by 15% in February.

Number of REITs Tracked



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