August REITview

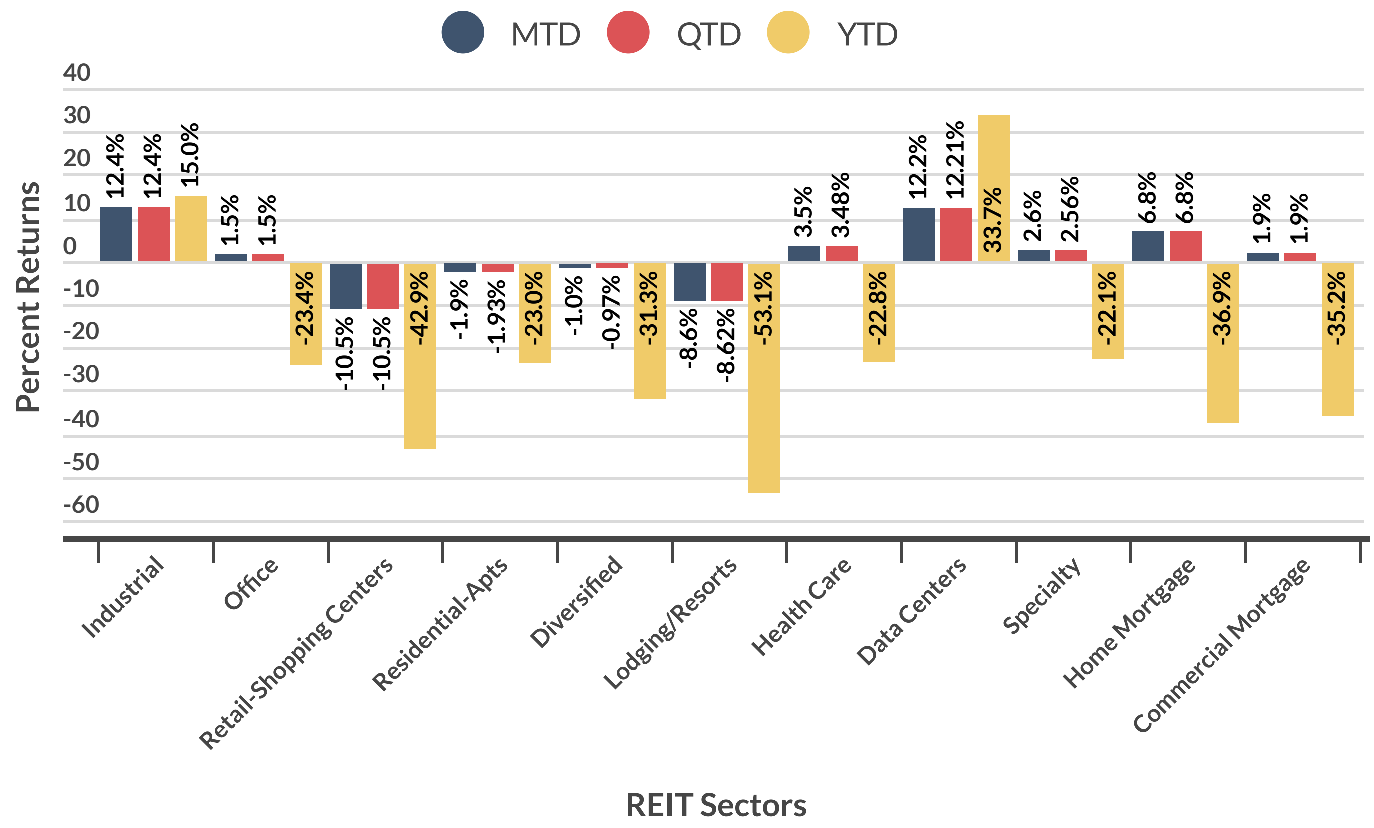
Welcome to our monthly REITView newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase a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

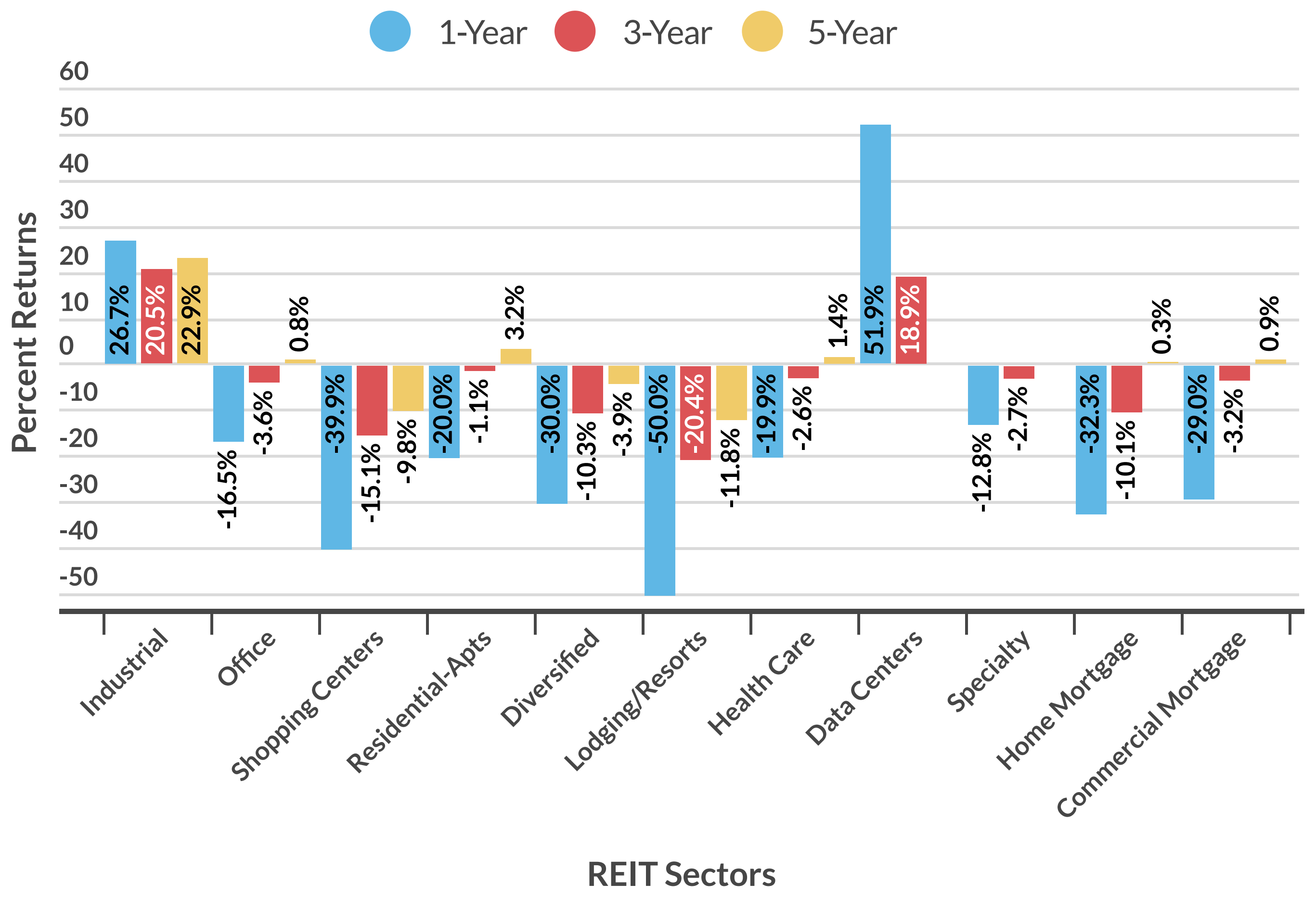
In July REITs as a whole improved their total returns by 1.5 basis points (a 65 percent increase). Industrial and Data Center REITs had a monster bounce from the previous month, improving 9.27 and 12.3 basis points, respectively, while two of June's leaders (the Retail, and Diversified REIT sectors) gave up their gains from the previous month. Data Center REITs are now up **33.73 percent** year-to-date, more than double the returns from the Industrial sector (the second-best performer). The Industrial sector still has the lead over the three-year horizon, but has also been dwarfed by Data Centers over the trailing 12-months.

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



A lengthy July 31 article in REIT Magazine reviewed the outlook for various REIT sectors amid "pressure on vacancy rates, property prices, and rent growth" in the months ahead. Because demand from the aging baby boomer population cohort continues to grow, Jordan Sadler of KeyBanc Capital Markets believes that senior housing communities will thrive, eventually, but only once a vaccine has been developed; for now, Health Care REITs that own medical office buildings "are the least impacted by the virus in the long-term." In the Industrial sector, while vacancy rates are below 5 percent, rents are also low: "15 percent to 20 percent below market," says John Guinee, managing director at Stifel. "The consensus is that a clear winner in this crisis are [REITs with properties in] the Sunbelt and Southern states because the great affordability migration that was already happening"--tenants relocating to less expensive properties--"will be enhanced by COVID-19." Industrial properties in New York City are an exception, he adds, which has been resilient historically. For the Lodging/Resorts sector, Lukas Hartwich, senior analyst with Green Street Advisors, says they expect the pain to continue for several more months. "[S]ome REITs [in this sector] will have to raise capital, extend their debts, and sell some assets to get through this rough patch."

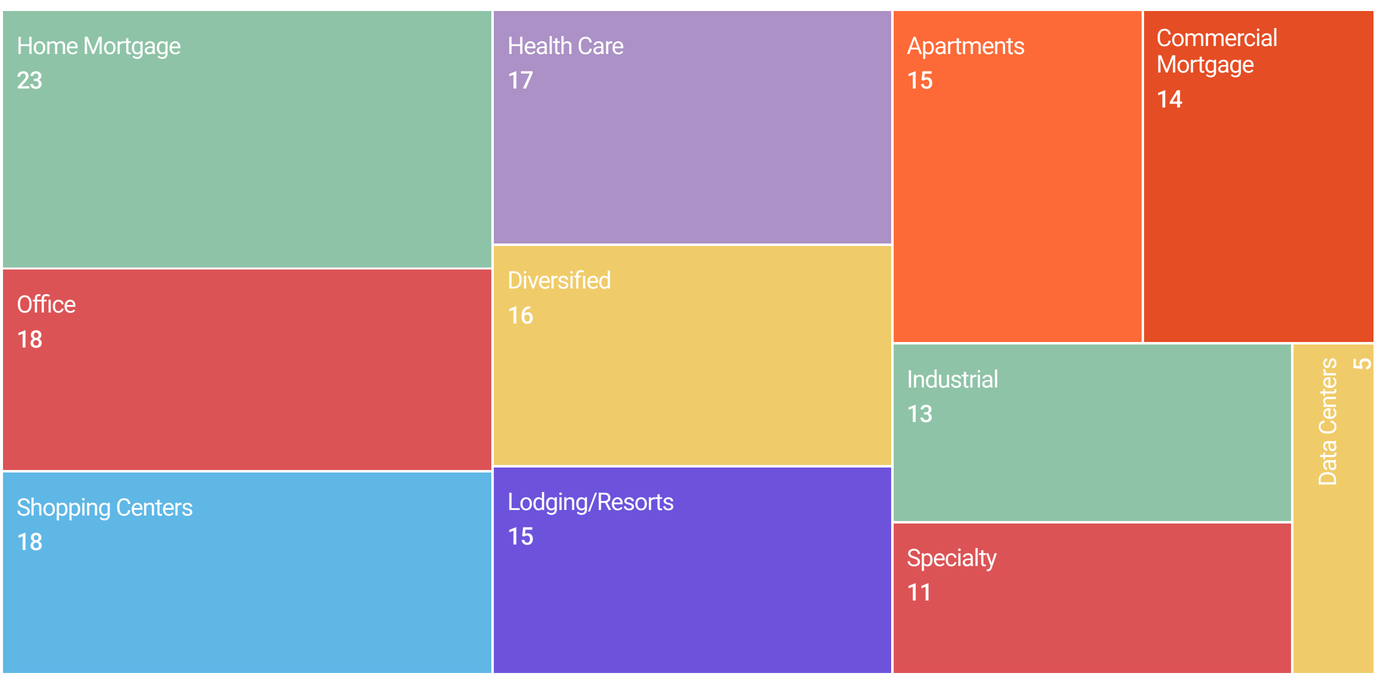
Compound Annual Total Returns (as of July 31, 2020)



James Sullivan, managing director and REIT analyst at BTIG, also considers the outlook for the Residential-Apartments sector bleak, despite a higher than average renewal rate as tenants avoid adding the stress of moving to their existing stress. "We expect a decline in occupancy this year because of job losses and the possibility of a decline in demand in high-density cities with high infection rates. Some people who can work remotely have gone home to live with their parents and they may decide to stay." He expects markets with high exposure to the hospitality and retail industries, like Las Vegas, to experience stronger downward pressure on rental rates.

The good news is, despite their outstanding performance year-to-date, MoffettNathanson's Nick Del Deo believes that Data Center REITs still have substantial room left to run, domestically, not to mention in overseas markets that "can offer attractive opportunities to leverage existing customer relationships" as those customers turn their focus toward global regions that are "less digitally mature." Del Deo advises investors to look for differentiated players in the space with lower than average cost of capital. If true, it would be worth giving one of REITview's favorites another look: Digital Realty Trust (DLR), which we covered in our March and April issues. Digital Realty's CEO said on July 30th that they have been continuing to "seed investments to support our customers' future growth across the Americas, APAC and EMEA." DLR also has a weighted average cost of capital (WACC) of 7 percent. The average WACC for the real estate sector is 7.8 percent.

Number of REITs Tracked



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