RCGeconomics

Q4 2021 REITview

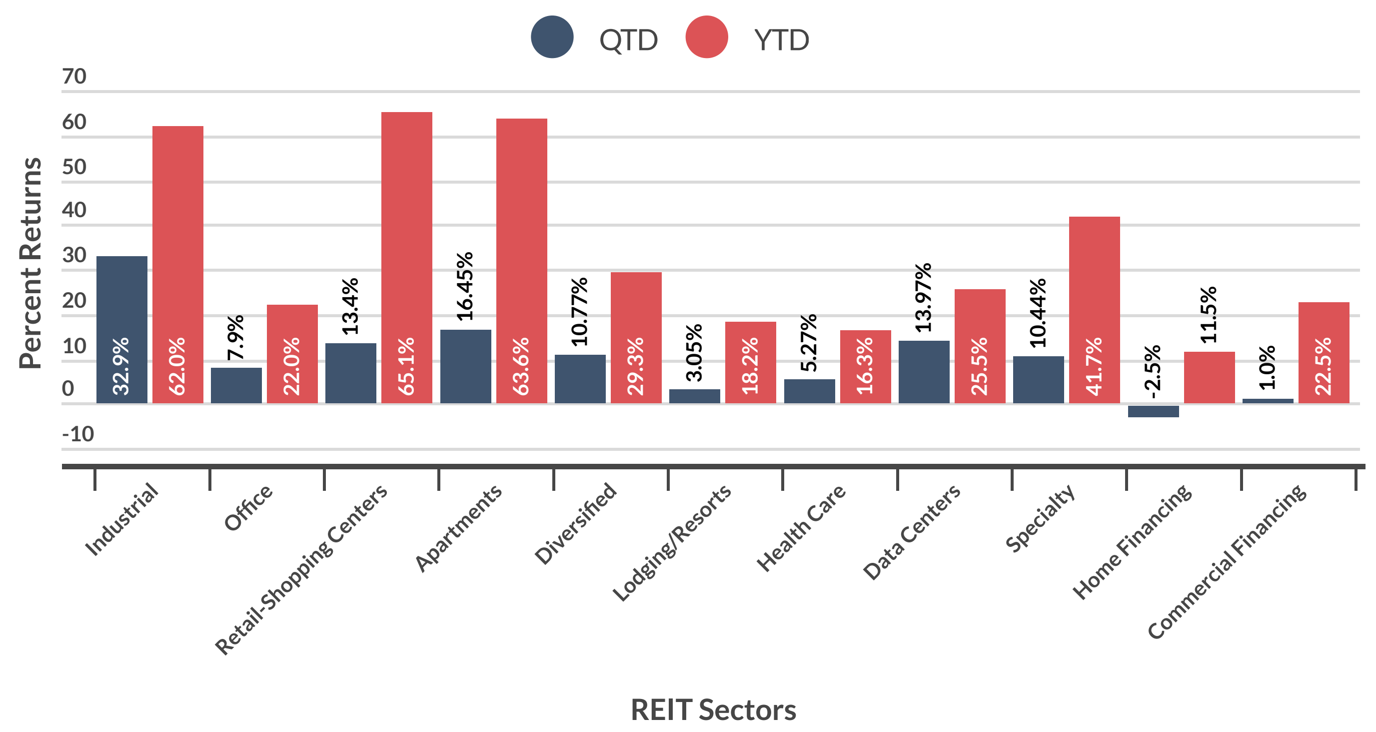
Welcome to our quarterly REITview newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase 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 include three). They represent more than 95 percent of the 159 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

REITs had an impressive quarter, increasing **16.17 percent** across the 159 equities that FTSE tracks, which is a substantial acceleration from last quarter's stagnant **0.23-percent** growth. This quarter saw a major improvement for Industrial REITs, especially, with the 14 REITs in this sector returning over **30 percentage points** better than their last quarter. Retail REITs in general had an excellent fourth quarter, improving their returns by **15.5 percentage points**. Except for home mortgage REITs, no REIT sector posted negative returns for the fourth quarter. Lodging/Resort REITs showed modest growth compared to other sectors with total returns of only **3.05 percent**; this was a better than **5 percentage point** improvement, however, versus Q2. Home Financing REITs lost **2.48 percent** in the fourth quarter.

Q4 2021 REIT Performance (as of December 31, 2021)

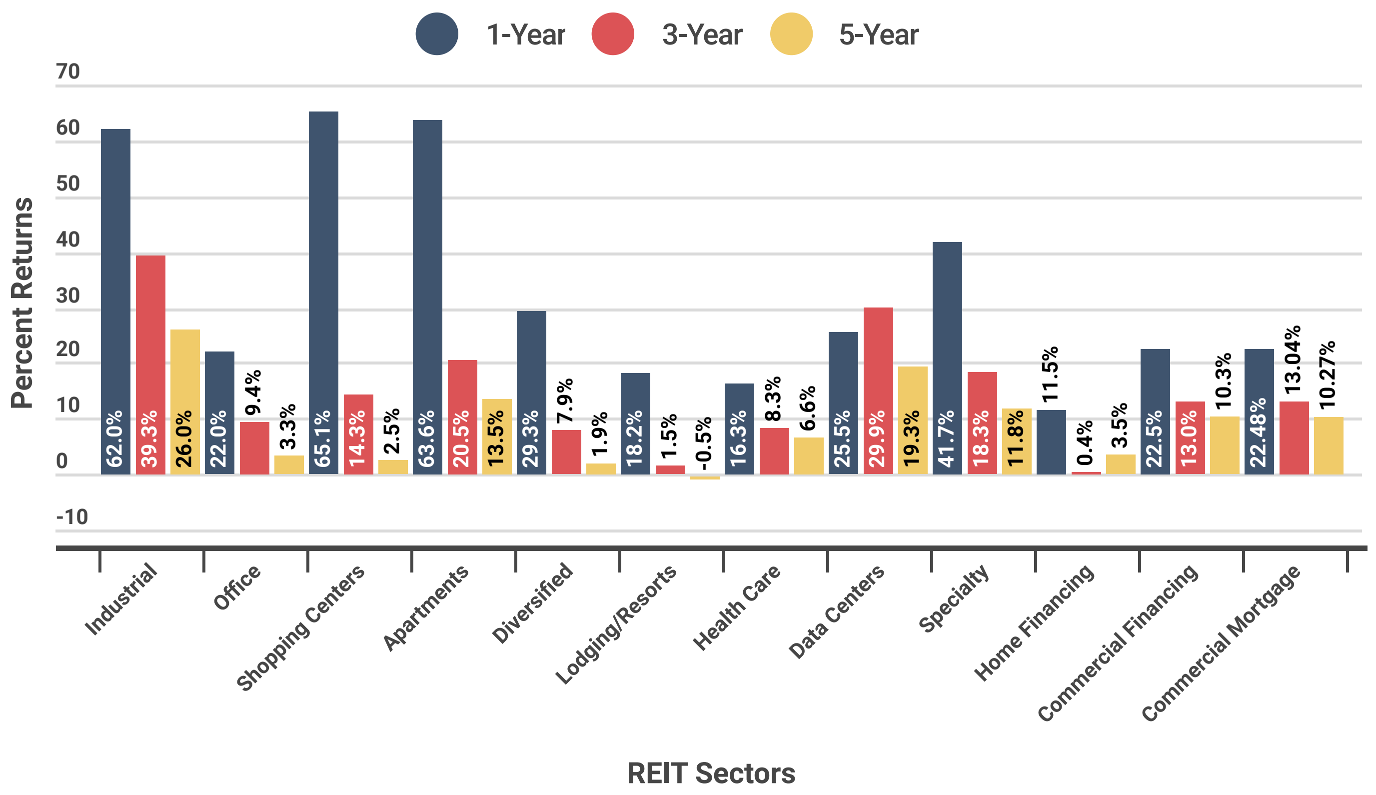


What the experts are saying:

- "The [Goldman Sachs] report noted this about the best silos of the REIT arena: 'We expect funds-from-operations growth will be positive in 2022 for almost all our REITs, where we expect most companies' earnings in 2022 will surpass pre-COVID 2019 levels. Industrial, Single Family Rental, and Storage earnings have proven to benefit most from COVID-induced trends, driven by strong e-commerce growth, urban to suburban migration, and life changes requiring more space (e.g., work from home), respectively. Overall, we expect these sectors to continue growing in 2022, where the aforementioned trends are proving to be relatively sticky'"--24/7 Wall St., "Goldman Sachs Favorite REITs Are Inflation Busters With Big Dividends"

- Rick Gable of MFS Investment Management told REIT Magazine, "The environment [for real estate investment] looks good for now in most markets [both U.S. and internationally], as inflation is above trend and borrowing costs remain low. This means property fundamentals should stay strong. Investment demand for real estate also continues to be robust, partly due to the high relative yield it provides, and because it provides good inflation protection. I will grow more concerned next year if borrowing costs start to increase and inflation starts to decelerate, but remains above trend. This would indicate to me that real estate investors will need to get more conservative in their underwriting of rents and occupancy, as businesses and consumers could start to have problems absorbing the higher prices. I suspect that investors may seek out longer lease length assets if the U.S. economy shows signs of slowing in 2022." --Nareit, "Global Real Estate Investors Discuss the Market Forces Impacting REITs"

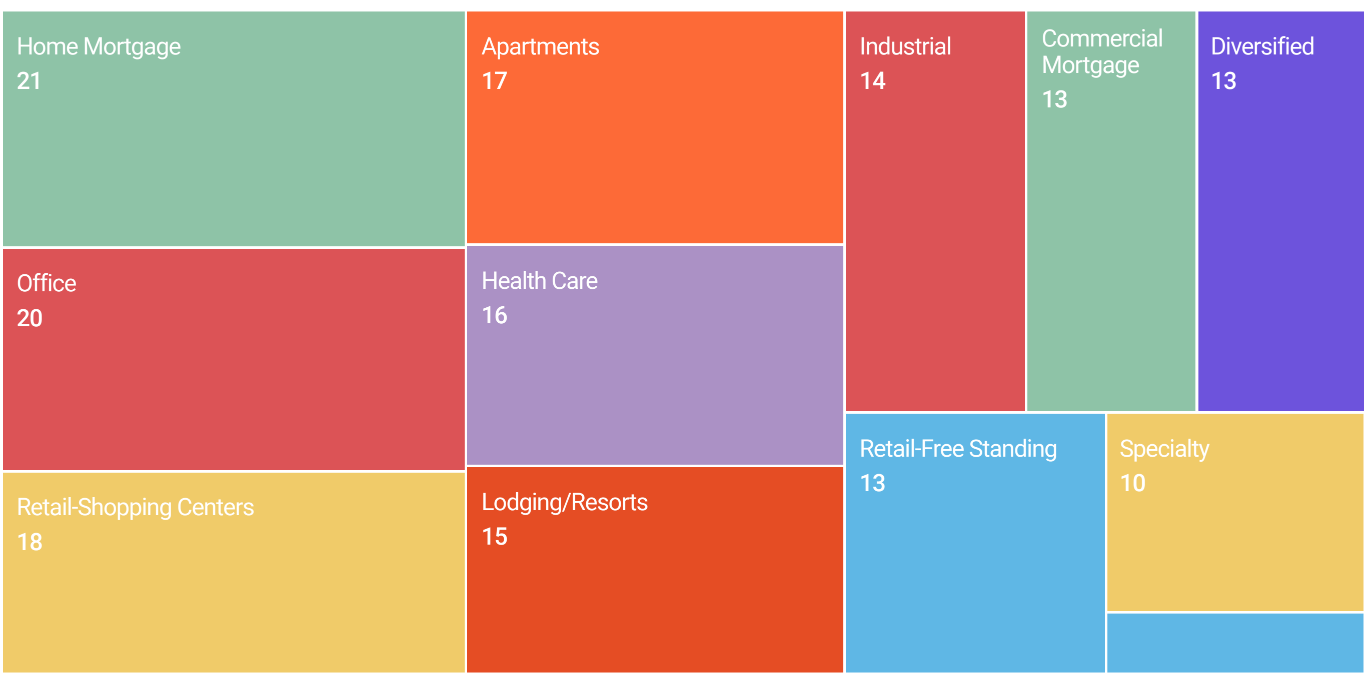
Compound Annual Total Returns (as of December 31, 2021)



- James Murray says that his firm, Phocas Financial, "believe[s] that real estate remains attractive, even when the FTSE NAREIT All Equity REIT Index, a prominent all-equity REIT index, is up more than 29% for the year through 11/30. We [at Phocas Financial] also continue to believe that Health Care deserves attention due to impacts of the Pandemic, including increased openings of medical office facilities. For example, dialysis centers in shopping centers can boost valuations of retail real estate. The question investors should be asking is 'Who thinks that any of those sectors is going to be shrinking soon?'"--CISON PR Newswire, "Phocas Financial Issues First Quarter Investment Outlook for REIT Market"

- "Online [retail] sales surged ... in the early months of the pandemic, as shopping centers and malls shut down due to social distancing restrictions. Sales through brick-and-mortar channels fell $57 billion in the second quarter of 2020, while e-commerce sales rose a record $41 billion. Brick-and-mortar sales came back with a vengeance as stores reopened, however, more than reversing their earlier decline with an $82 billion gain in the third quarter [of that year]. What is most surprising, though, is that e-commerce sales didn't fall with the rebound in brick-and-mortar sales, but rather have continued to build on their earlier increases...This consumer preference for 'more of both' will likely boost the recovery of the brick-and-mortar retail sector in 2022, and also support the continuing long-term growth of REIT sectors that support the digital economy, including industrial/logistics, data centers, and infrastructure/communications towers."--Nareit, "2022 Outlook for the Economy, Commercial Real Estate and REITs"

Number of REITs Tracked



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