

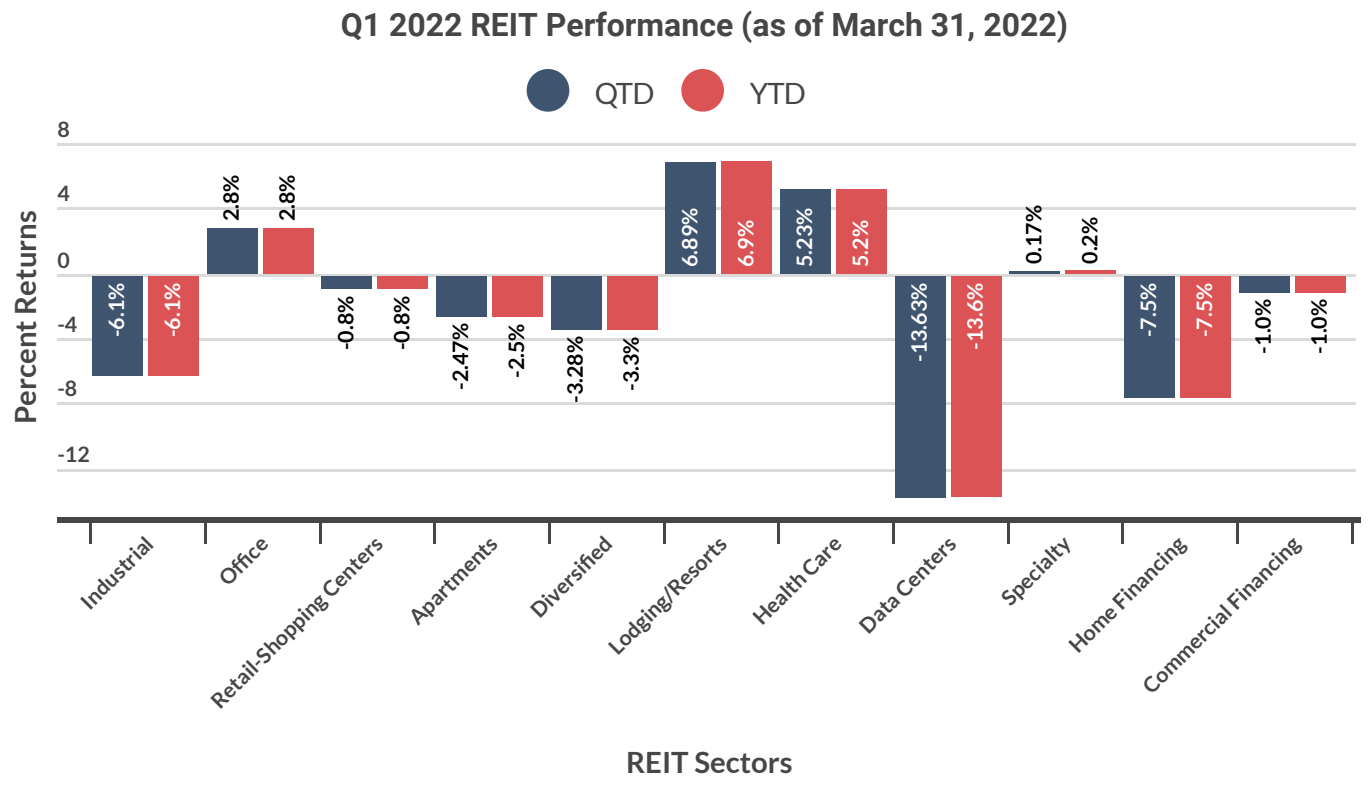
Q1 2022 REITview

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.

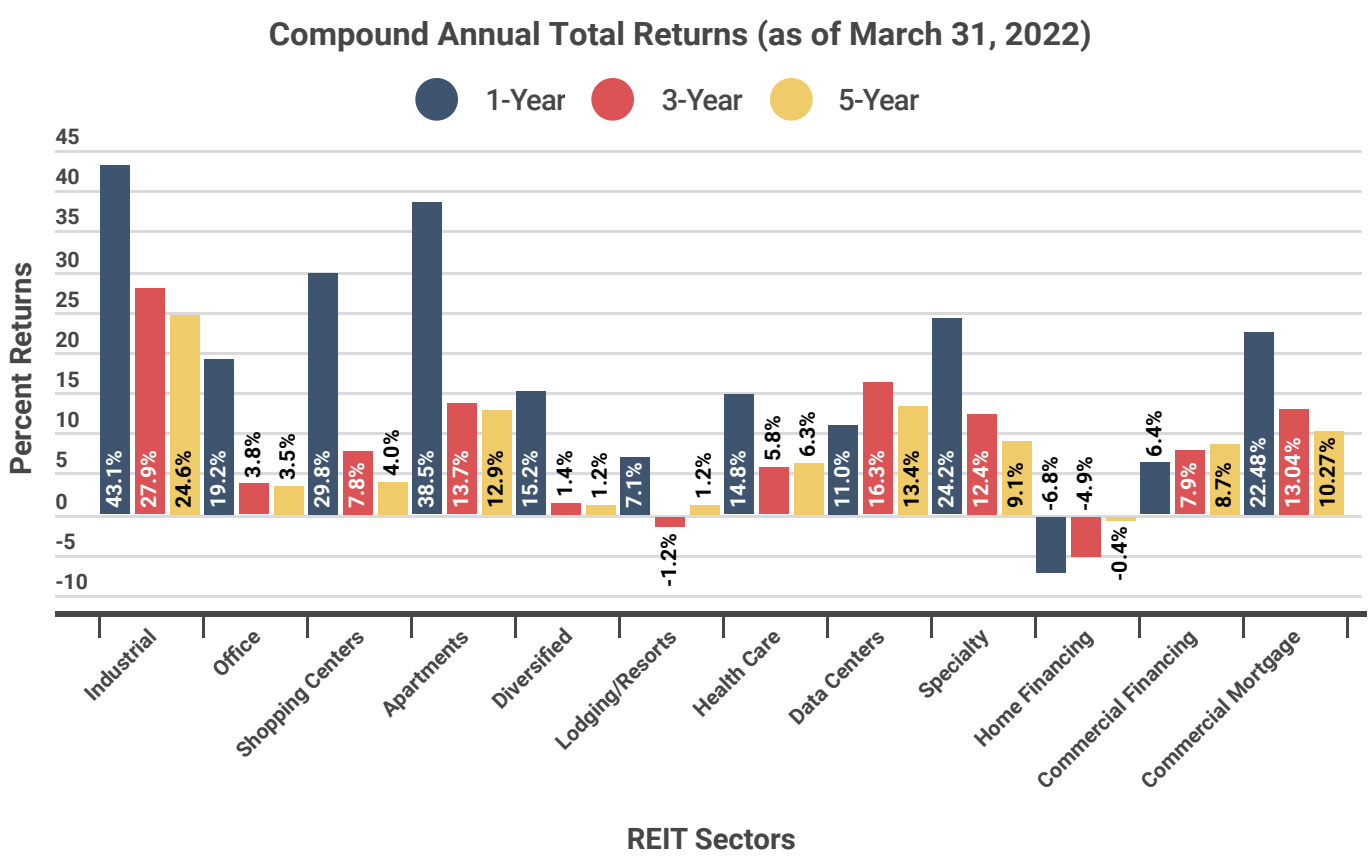
The sectors listed below were selected because they include at least 10 REITs each (except for Data Centers, which include three). They represent more than 95 percent of the 154 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

REITs had an abysmal quarter, decreasing **21.46 percent points** across the 154 equities that FTSE tracks, which is a substantial reversal from last quarter's remarkable **15.94 percent point** growth. This quarter saw a major downturn for Industrial REITs, especially, with the 13 REITs in this sector falling almost **39 percentage points** from their performance last quarter. Retail REITs in general had an awful first quarter, underperforming their Q4 2021 returns by **21.76 percentage points**. The REITs posting positive returns for the quarter were limited to the Lodging/Resorts and Health Care sectors.



What the experts are saying:

- “Industrial fundamentals are at incredibly strong levels, reflected in their compressed cap rates, with tailwinds apparent over the next few years due to increasing e-commerce adoption, strong demand for consumer goods, and rising inventory levels for tenants. Rent growth was 10%-15% in major markets last year with vacancy rates at its all-time low of 4.2%, despite an uptick in new supply. ... [However, with] rising interest rates and construction, land, and labor costs, this could compress yields and margins.”--John Kim, BMO Capital Markets, [REIT Magazine, March/April 2022](#)
- “We expect another strong year for industrial fundamentals. Demand is expected to remain strong, driven in part by e-commerce growth as well as an increasing desire to house more inventory in the U.S. as supply disruptions have been a clear challenge. Inventory levels remain below pre-pandemic levels and tenants want to re-stock as well as have excess inventory on hand. Surging shipping costs for ocean freight and challenges with supply disruption have driven on-shoring trends. There has been significant new supply which generally has kept pace with demand. Currently, new supply has higher than average pre-leasing levels. The cost of construction moving higher should be another factor driving rents higher.”-- Sheila McGrath, Senior Managing Director, Evercore ISI, [REIT Magazine, March/April 2022](#)



- “In the second half of 2021, weekend/leisure RevPAR remained steadily above prior peak levels, while midweek/corporate RevPAR varied widely by week but averaged around 80% of 2019 levels, although under 70% in the top 25 markets. We expect key themes of 2022 to be: the recovery in corporate transient and group demand, notably in the top 25 markets, with continued strength in domestic leisure travel; inflation and its differentiated impact on rates among lower-/higher-end hotels; the potential for early cycle M&A over the typical mid-to-late cycle M&A in lodging; structural changes at the property level driven by shifting consumer preferences; and, long-term headcount reductions in an elevated labor cost environment.”-- Dori Kesten, Senior Equity Research Analyst, Wells Fargo Securities, [REIT Magazine, March/April 2022](#)
- “Fundamentals remain impacted by COVID-19 in the senior housing and skilled nursing sectors. While demand and occupancy have been better for assisted living/independent living versus skilled nursing, both property types are facing wage pressure due to use of temporary agency labor. Earnings have been far less impacted in medical office, while life science segment trends are very favorable. The National Investment Center for Seniors Housing & Care’s (NIC) fourth quarter 2021 industry data shows occupancy has recovered by 230 basis points off the 2020 bottom for assisted living/independent living in 2022, now at 81%, while skilled nursing occupancy is up 310 basis points to 77.2%. However, both segments are still below pre-COVID occupancy levels of 87.6% and 86.4% respectively.”--Nick Yulico, Managing Director, Scotiabank, [REIT Magazine, March/April 2022](#)

Number of REITs Tracked



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