RCG economics

Q3 2022 REITview

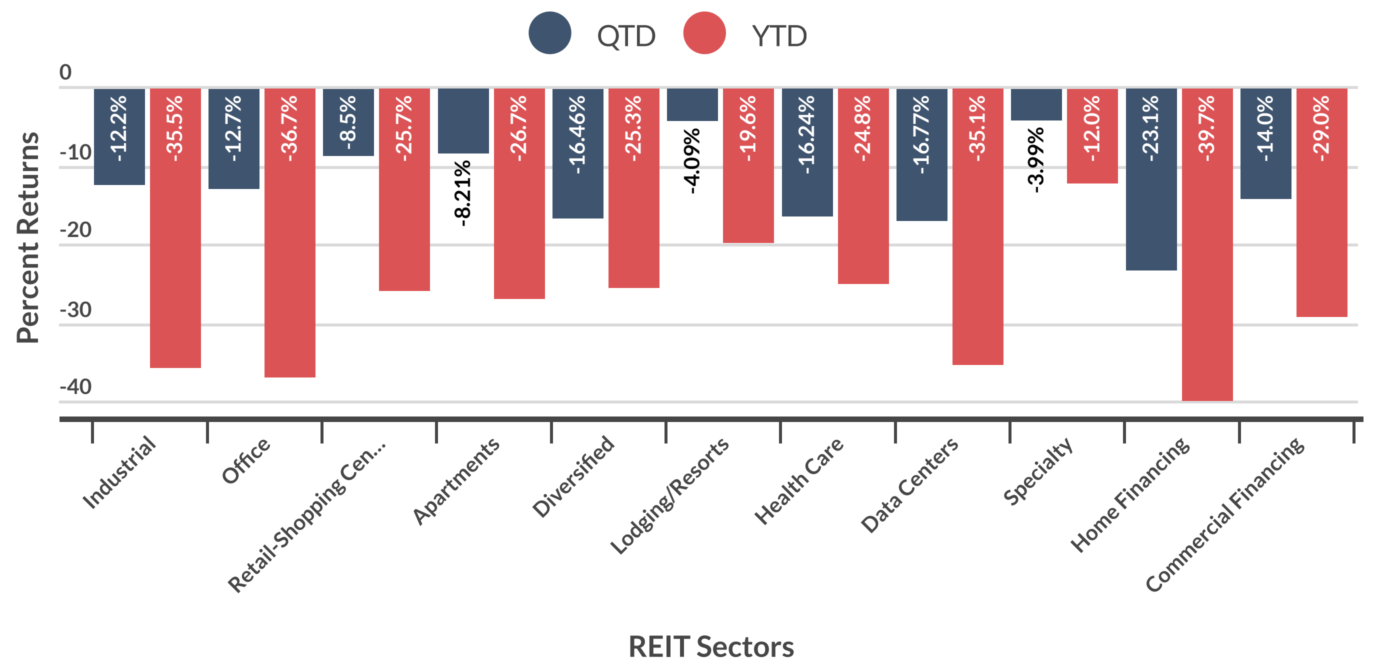
Welcome to our quarterly REITview newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase 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 9 REITs each (except for Data Centers, which include 2). They represent more than 95 percent of the 148 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

Following the downtrend of the stock market in general, REITs posted more losses in Q3, down almost **11 percent** across the 148 equities that FTSE tracks. This past quarter saw significant downturns in Home Financing, Data Center, Diversified, and Health Care REITs especially. For the second consecutive quarter, no REIT sector posted positive returns. Two sectors that RCG tracks did improve substantially over last quarter, however: Office and Lodging/Resorts, with Lodging/ Resorts returning **-4.09 percent.** The Industrial sector remains one of the strongest over the 5- and 10-year horizon, with compound annual total returns of **11.6 and 14.1 percent**, respectively.

Q3 2022 REIT Performance (as of September 30, 2022)

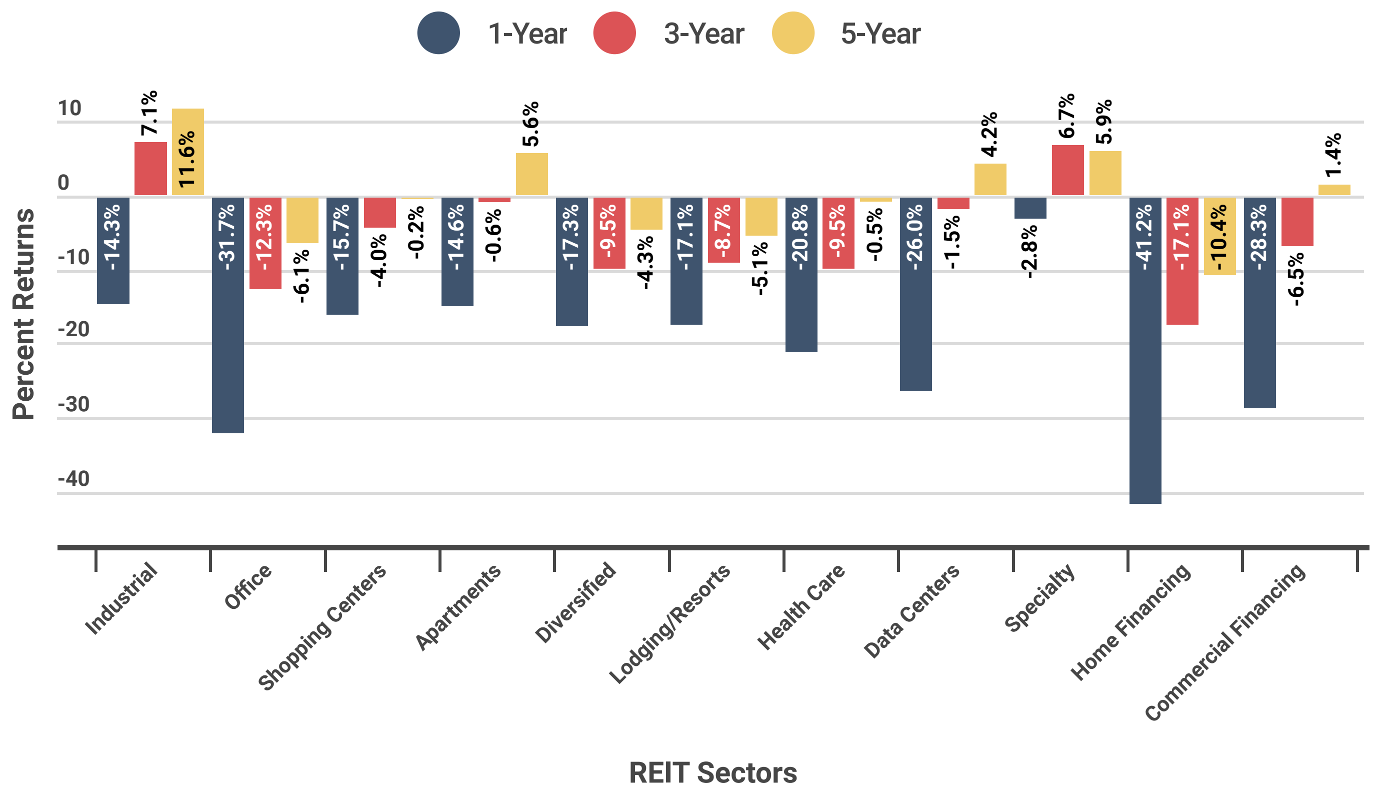


What the experts are saying:

- "The industrial real estate asset category has been playing a crucial role in the growing e-commerce market, transforming how consumers shop and receive their goods… . The U.S. industrial vacancy rate remained 'tight' at 3.2% [in Q3], denoting a 20-basis point (bps) quarter-over-quarter uptick. Moreover, each region in the United States once again reported vacancy rates sub-4%, with the lowest being the West region at only 2.5%. With elevated demand and high occupancy rates, rental rates continued to scale new heights. The U.S. overall industrial asking rental rate ended the third quarter at $8.70 per square foot (psf), denoting a 4% sequential increase and a 22% annual surge. In fact, it marked the strongest year-over-year growth rate recorded, per the Cushman & Wakefield report." – Moumita C. Chattopadhyay, Lead Analyst at Zacks Investment Research, Industrial REITs to Shine in Q3 Earnings on Robust Demand, 10/11/2022

- "Dubbed the 'Summer of Revenge Travel', Americans traveled this summer at rates that approached or exceeded pre-pandemic levels as several years of COVID-delayed leisure demand was unleashed. Critically, hotel operators have enjoyed significant pricing power during this period, pushing average daily room rates to levels that were 10-30% above pre-pandemic rates throughout the summer… . According to recent data from STR, U.S. hotel revenue per available room ('RevPAR') set a series of all-time highs throughout the summer as the hotel industry exceeded pre-pandemic profitability levels in every month since April. In the most recent week of data, average hotel occupancy was still about 2% below 2019-levels, but Average Daily Rates ('ADR') were remarkably more than 15% higher than 2019, resulting in an average Revenue Per Available Room ('RevPAR') that was 14% above pre-pandemic levels." – Hoya Capital, Hotel REITs: Winter Is Coming, 10/05/2022

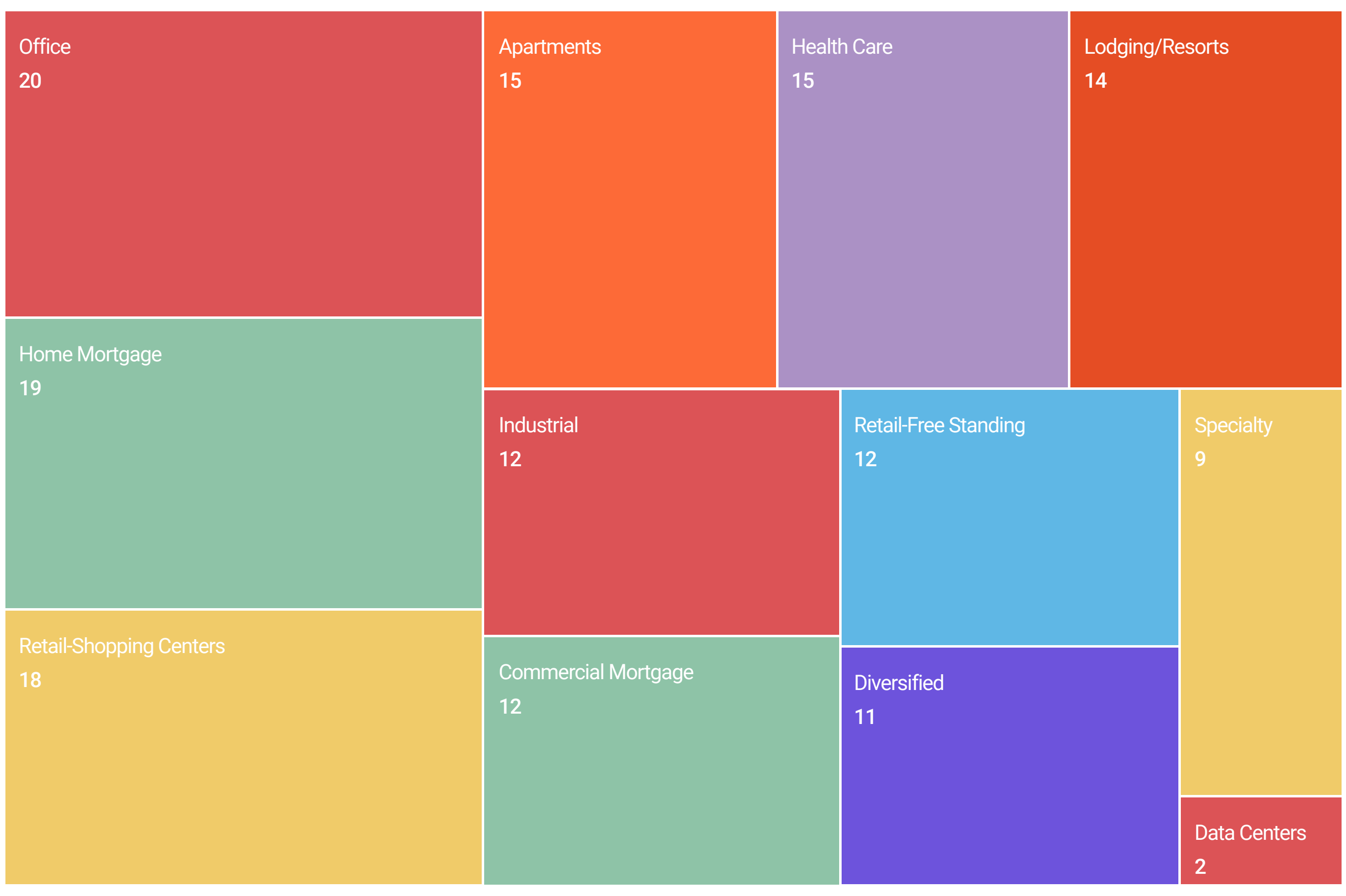
Compound Annual Total Returns (as of September 30, 2022)



- "The ongoing housing crunch has helped REITs maintain strong operating performance through the past few years. As more adults choose to live alone, demand for housing continues to rise even without population growth. Occupancy rates for apartments have been at all-time highs—more than 96% in the first quarter of 2022. The latest earnings report shows residential REIT FFO was up 5.6% from the previous quarter and up 24.9% over the previous year in the first quarter of 2022. Residential REITs finished 2021 with market returns up 58.3%, outpacing the FTSE All Equity REITs Index return by 17 percentage points. However, with tightening monetary policy and recession fears increasing, the property sector has not been spared the broad downturn in the stock market. Year-to-date returns for July 30 are down 14.6%."--Nareit, "Sector Spotlight: Residential," 9/15/22

- "[T]he average office occupancy rate was 43.8% in the week prior to Labor Day 2022. It surged to 47.5% in the week after the holiday. … Although employees have shown reluctance to return to the office, their employers have remained diligent in paying rent. As discussed in another recent Nareit Market Commentary, "The Recovery and Resiliency of U.S. REIT Operational Performance," the office sector posted an average quarterly funds from operations (FFO) decline of just 1.9% from 2019 to 2020. According to the Nareit T-Tracker®, the office sector's quarterly FFO well-exceeded its 2019 (pre-pandemic) average in the second quarter of 2022."--Edward F. Pierzak, Senior Vice President of Research at Nareit, "Return to Office Surges Post-Labor Day," 09/27/2022

Number of REITs Tracked



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