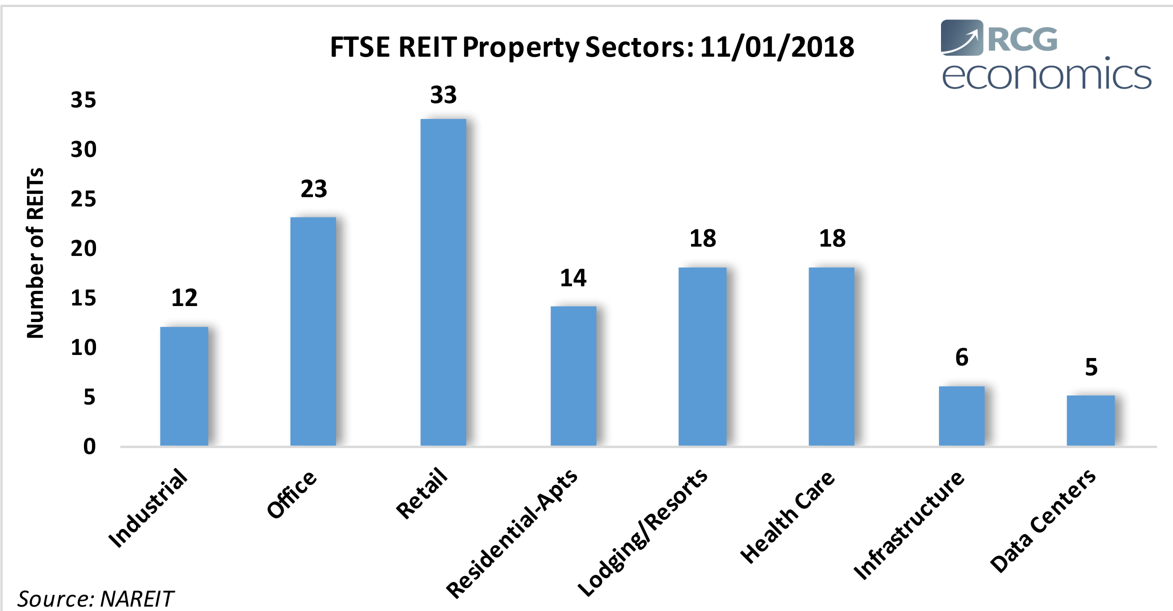
REITView Nov-2018

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

REIT PROPERTY SECTORS

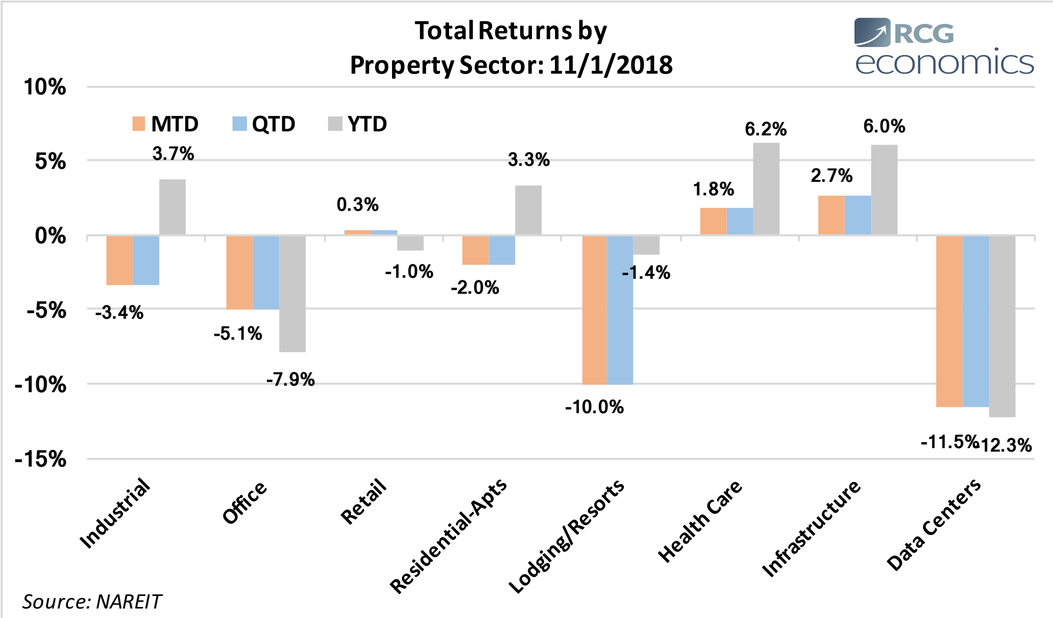
The sectors listed below, which were selected based on relevancy to Nevada, represent more than 75% of the 173 FTSE REITs currently being traded. A new Industrial REIT was added since our October update:



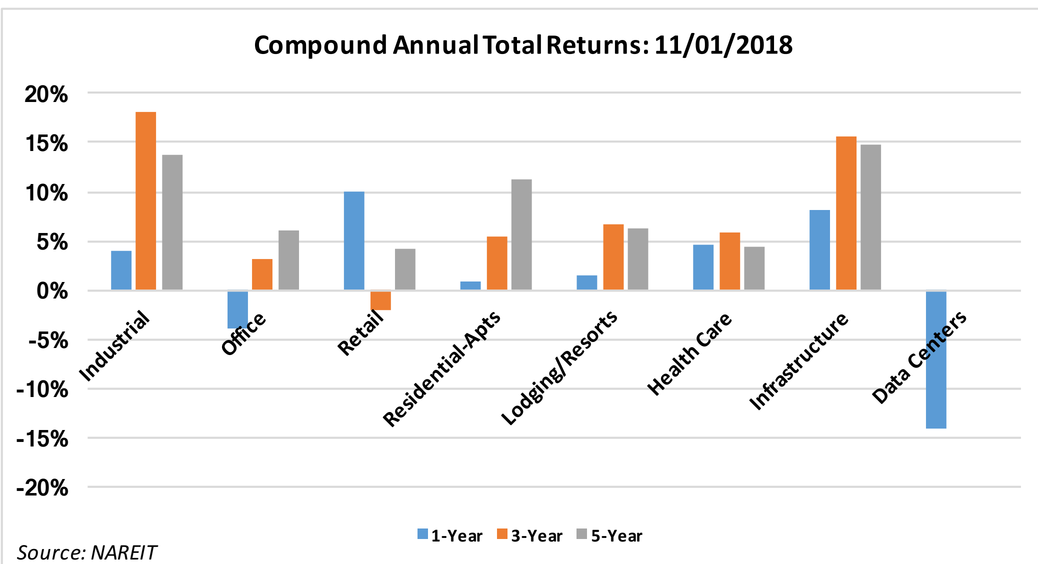
REIT RETURNS

It is useful to look at shorter-term and longer-term returns in various sectors to determine trends. The monthly returns for the beginning of Q4 were mostly down. Infrastructure posted the strongest gains at 2.7% while Health Care saw 1.8% growth. Meanwhile, Lodging/Resorts and Data Centers took double-digit contractions. Health Care is the strongest performer for the year to date. While this sector faces challenges due to wages, inflation, and poor government reimbursements, the fundamentals are strong as the health needs of aging Baby Boomers grow. Infrastructure saw the second-largest YTD returns.

Lodging had been doing well until the last month, while Office and Data Centers are performing even worse over the year. Industrial and Apartment trusts are still up for the year, despite a dip in monthly returns. This is a sign of strong demand and rising rents over the year, in Nevada and other major metros. Industrial vacancies in the Las Vegas metro are very low, while still above where we'd like to see them for office space. It seems like similar trends have taken hold across the major markets.



Looking longer-term, at compound annual total returns, we see that infrastructure and industrial REITs are performing the best during a 5-year period, each with gains of about 14%. Industrial is the best performer in the 3-year period at 18% growth, consistent with the rapid expansion of online retail fulfillment over the same timeframe. Retail is unique in that it has seen gains in 5-year and 1-year timespans, but saw a decline in the 3-year window – the same time that industrial fulfillment performed best. Stronger 1-year gains point to efforts for malls and other retail spaces to adapt by leaning into customer experiences and tenants that are, at least for now, "Amazon-immune." Apartments have been doing better over the last 5 years, as the housing market recovered, than they are recently. The same could be said with office space, although the recovery has been smaller and looks like it may have come to an end this year.



CONCLUSION

Conditions are ripe for growth in real estate development. Strong fundamentals are producing strong returns for health care, infrastructure, and industrial properties, while retail is adapting to market changes. However, concern about the next recession and the impacts of tariffs on the cost of raw materials contributed to a significant downturn in October. We'll see if there's an upward adjustment in the months to come.