

May REITview

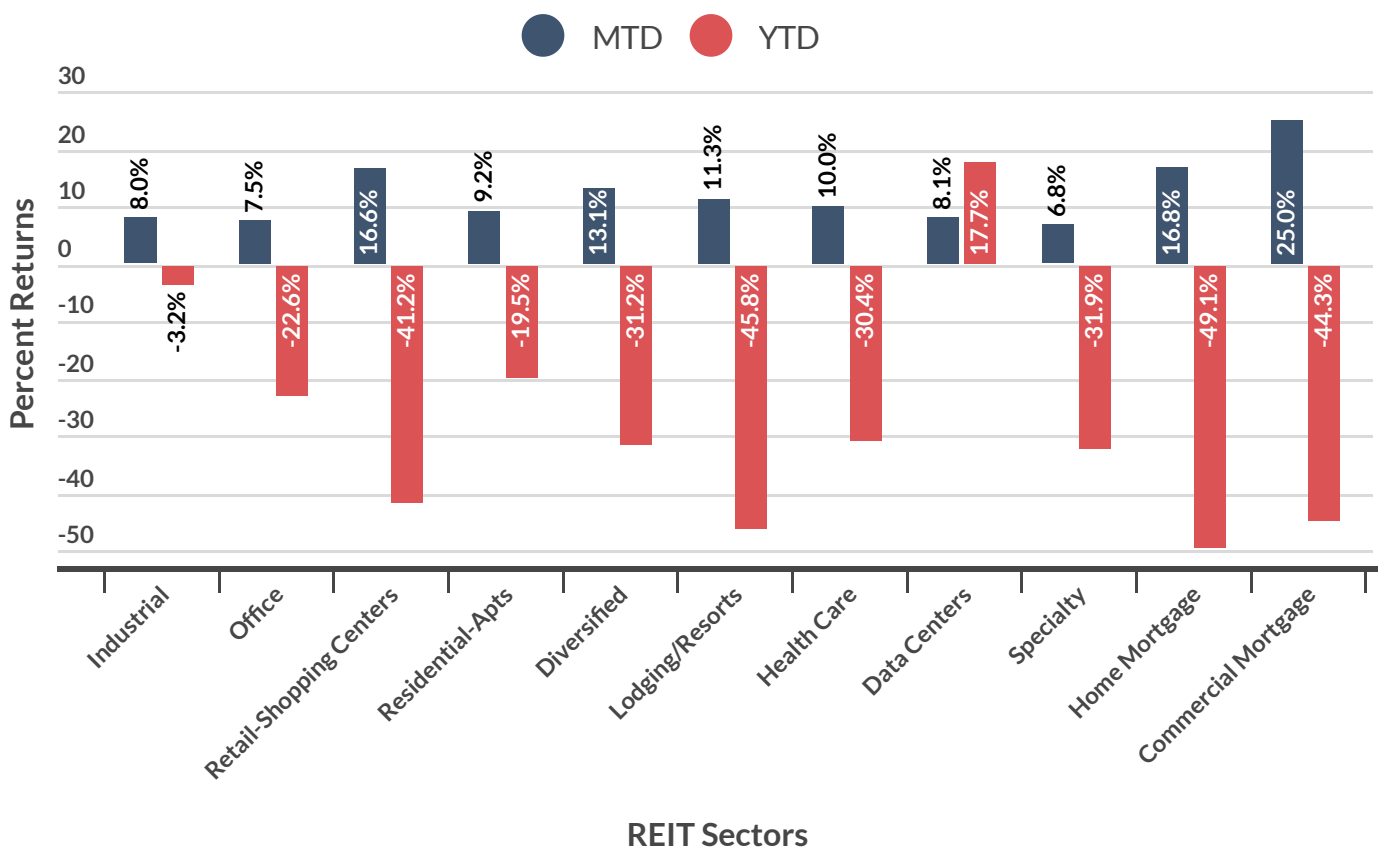
Welcome to our monthly REITView newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase a 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 162 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

April saw a significant rebound for all but one REIT sector (Data Centers) that RCG tracks. Equity REIT investments as a whole rebounded over 27.5 basis points from March. The biggest rebounds were in Home and Commercial Mortgage REITs, an astonishing 77 basis points for the latter. Retail REITs rebounded over 57 basis points, with the Shopping Center sector returning over **16.6 percent** for the month. The Lodging/Resorts sector improved 47.85 basis points over its March loss of **36.56 percent**. Only the (recently) defensive Data Center sector had a worse month than March, slowing by 2.39 basis points as investors regained confidence in the other REIT sectors. Of the REIT sectors that RCG tracks, the Industrial and Data Center sectors are up over the trailing 12 months as well as the 3 and 5-year horizons (together with the Residential sector).

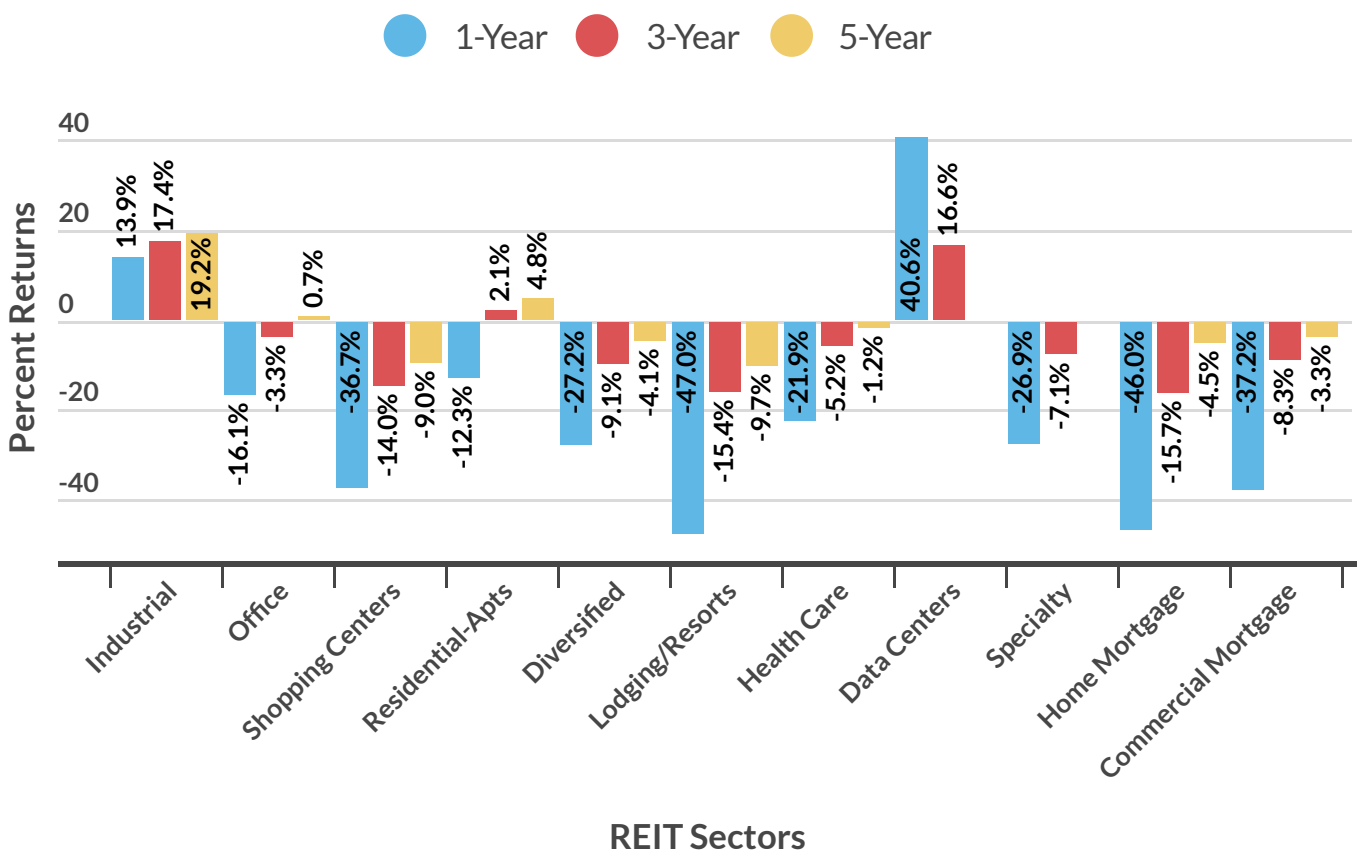
April 2020 REIT Performance (as of April 30, 2020)



As the chart above makes clear, the Data Center sector has proved to be an exception to the overall downturn in REIT investments (which we explored in the [April edition of REITview](#)). How long can that run continue? An [April 14 article](#) by NAREIT contends that they are poised to go higher. The pandemic "is serving to fast-track trends that were already evident in the data center space," analysts from New Street Research and Green Street Advisors said, creating an almost insatiable thirst for data consumption. Las Vegas-based Switch (NYSE: SWCH), for example, is up **17.3 percent** year-to-date.

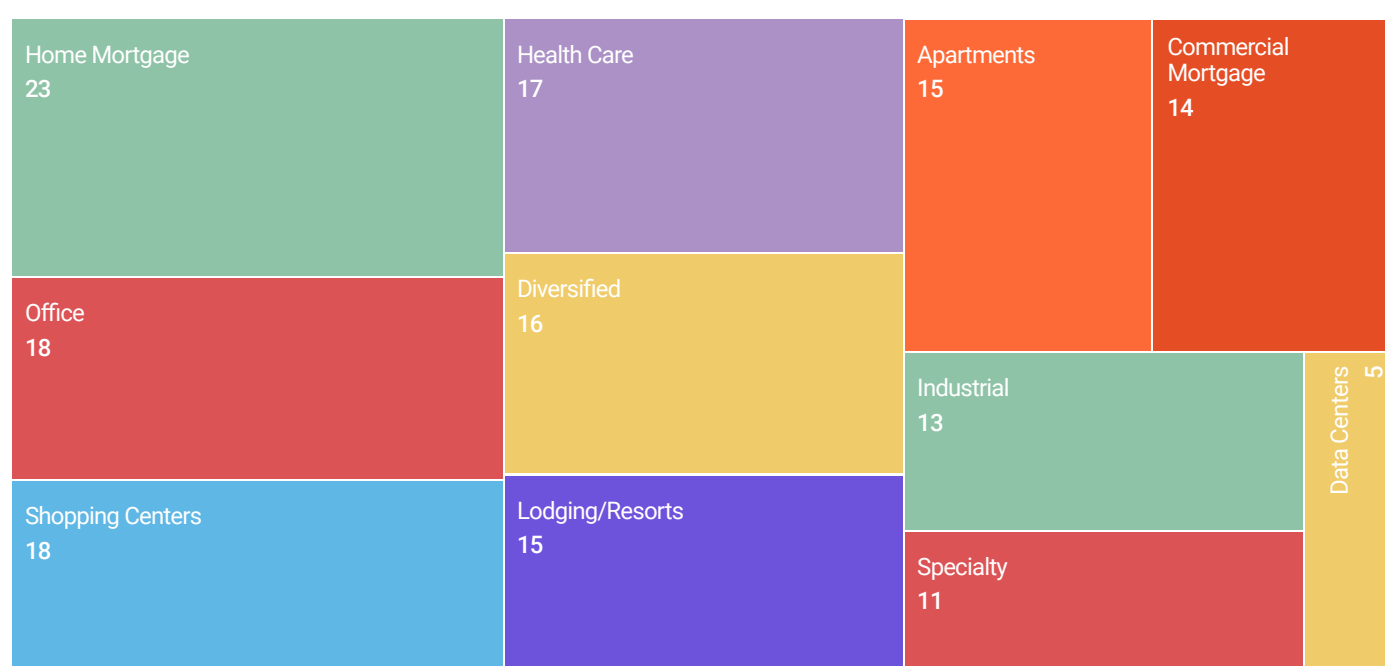
One REIT in the sector, Equinix (Nasdaq: EQIX) published the results of a survey in early April where, globally, "71% of respondents [said they] plan to move more of their IT functions to the cloud, with 66% of these respondents planning on doing so within the next 12 months." Erik Rasmussen, an analyst at Stifel, says that companies are realizing that a digital migration strategy is vital to surviving this pandemic and any crisis like it that could occur in the future. Rasmussen also characterizes this sector’s balance sheets and liquidity as "sufficient... to ride out the [economic] dislocation." The space is also ripe for mergers and acquisitions once things stabilize, salvaging distressed assets through consolidation.

Compound Annual Total Returns (as of April 30, 2020)



As a whole, equity REITs are down **16.68 percent** year-to-date, but declines are slowing for these investment instruments. In an [April 13 article](#), NAREIT senior economist Calvin Schnure advised that the outlook for REITs has improved as a result of "Federal Reserve policy provisions to support real estate if tenants fail to make rent payments." That said, he expects the unemployment rate, already 15%, to easily reach 20%. These unemployment numbers are foreboding for the residential and home mortgage REIT sectors, "as workers who have lost jobs fail to make rent payments, and homeowners fall behind on their mortgages." Shops and businesses who rent commercial space are and will continue to struggle to make lease payments.

Number of REITs Tracked



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