RCGeconomics

Q4 2022 REITview

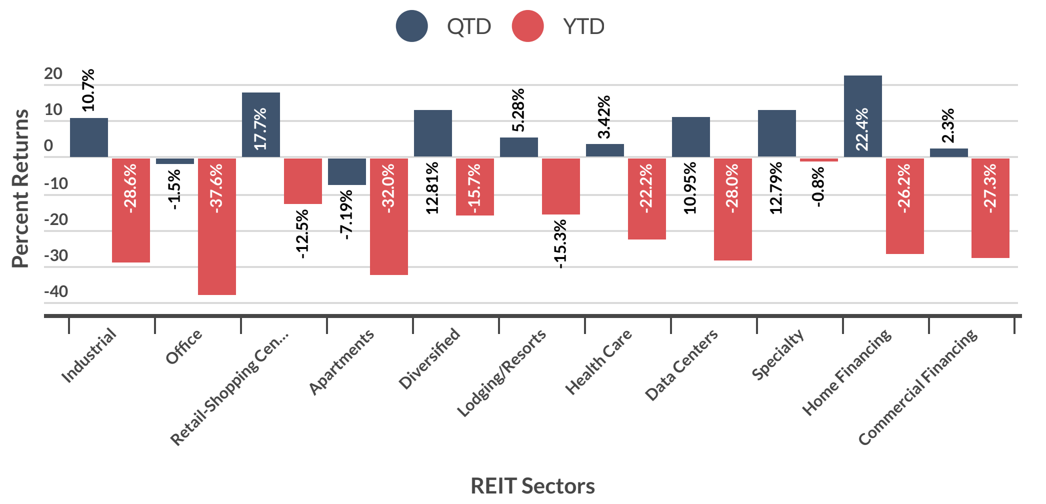
Welcome to our quarterly REITview newsletter – where we analyze the latest national trends in real estate investment trusts (REITs) and their implications for investors and the Nevada real estate market. REITs own and often operate a pool of income-producing real estate assets. Investors can purchase 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 147 Financial Times Stock Exchange (FTSE) REITs currently being traded. It is important to examine both short-term and long-term returns to determine trends.

In contrast to their poor performance in Q3, REITs posted positive returns in Q4, up **4 percent** across the 147 equities that FTSE tracks. Although most sectors ended the quarter in the black, Residential REITs , all posted negative returns (except for Manufactured Home REITs). Two sectors that RCG tracks improved substantially over last quarter: Home Mortgage and Retail-Shopping Centers, with Home Mortgage REITs returning **22.37 percent.** The Industrial sector remains one of the strongest over the 5- and 10-year horizon, with compound annual total returns of **13.48 and 14.95 percent**, respectively.

Q4 2022 REIT Performance (as of December 31, 2022)

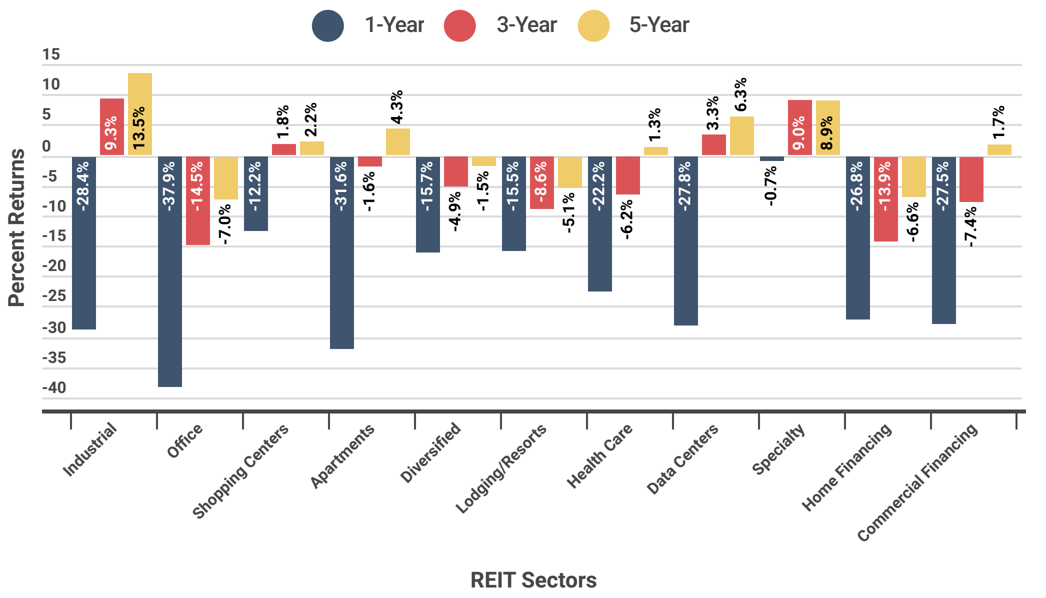


What the experts are saying:

- "One benefit of the last few years was that supply chain issues helped keep a lid on new construction. As a result, globally, fundamentals are pretty strong. This is particularly evident in residential and industrial markets, where greater than 75% of markets across the United States, Asia Pacific, and Europe all have vacancies today below their long-term average. In the U.S., all of the 50 largest industrial markets have vacancies today below their long-term average. For apartments, it's 43 of the top 50 markets with vacancies below equilibrium. Retail has lower vacancies today in 42 of 50 markets, with particular strength in neighborhood retail." – Clay Risher, Director of TrueNorth Capital Partners LLC, Nuveen's Carly Tripp Sees Increased Allocations to Real Estate, 11/18/2022

- "In November 2022, the Bloomberg consensus forecast survey placed the odds of a U.S. recession within the next 12 months at 62.5%; the likelihood was 15% at the start of the year. While property fundamentals generally remained solid at the end of 2022, there has been some evidence of softening going into 2023. The industrial, retail, and apartment property types maintained elevated occupancy rates that were higher than their respective pre-pandemic levels. Office occupancy continued its downward trajectory, dropping nearly 3% from its 2019 average. Four-quarter rent growth rates remained healthy for the industrial, retail, and apartment sectors; office continued to work toward maintaining positive rent gains." – Ed Pierzak, Senior Vice President of Research at NARIET, 2023 REIT Outlook: REITs, Recessions, and Economic Uncertainty, 12/15/2022

Compound Annual Total Returns (as of December 31, 2022)

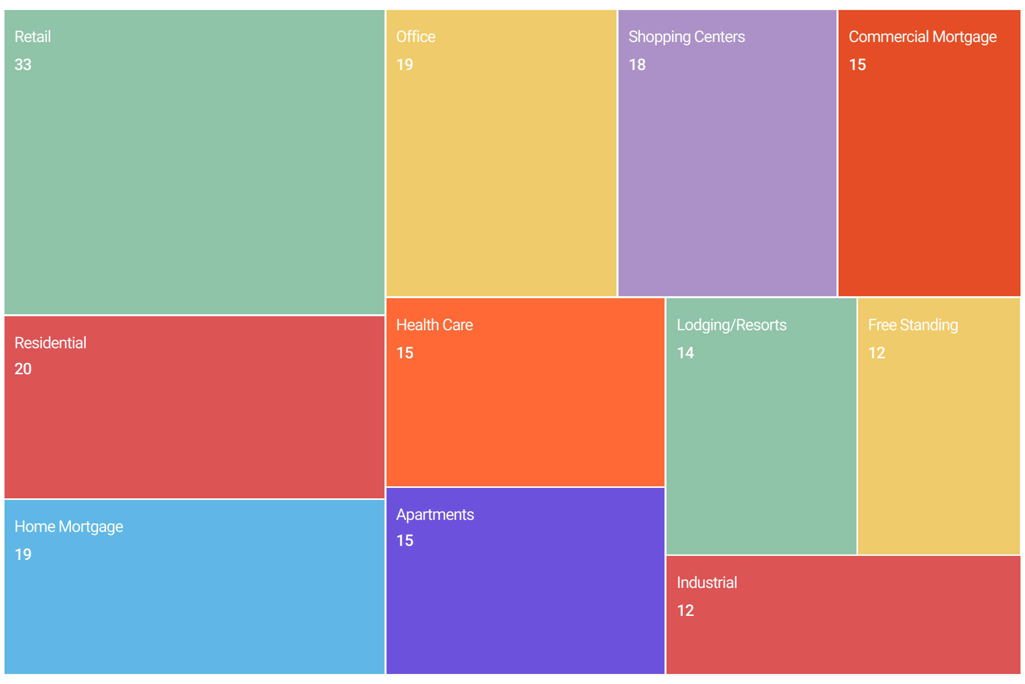


- "The office sector [was] the biggest drag on real-estate investment trusts in 2022, which is shaping up to be their second-worst year on record, according to Morgan Stanley's REIT outlook. Total returns were pegged at nearly -37%... on the year through Dec. 9, ranking office as the biggest drag on REITs. Overall, REITs were headed for a roughly -22% total return, on pace for the worst year after 2008 … 'REITs had a tough year,' the team wrote Friday. But they also expect more pain in 2023, given that REIT and S&P 500 earnings both likely still need to reset lower, as do commercial real-estate prices."-- Morgan Stanley Team, Office-property woes are driving REIT carnage as 2022 shapes up to be second-worst year on record, 12/19/2022

- "[T]he BLS estimates 284,000 jobs were added [nationally] in October and 263,000 in November on a seasonally adjusted basis with unemployment at 3.7% for both months. Hiring was strong in the hospitality, warehouse, and retail sectors in October, and the data marked 2.5 years with hires greater than separations. Total openings are at 10.3 million on a seasonally adjusted basis, down from March's peak earlier in 2022, but still well above pre-pandemic levels. Commercial real estate, including REITs, is boosted by strong economic growth, and typically REITs have performed well in inflationary environments, but not as well in recessionary environments. The strong job market may potentially counter some of the recessionary tailwinds, even as labor demand begins to slow. Looking by industry, … hiring has been strong in the hospitality sector; professional and business services; transportation, warehousing, and utilities; and retail. Strong hiring in these areas points to continued operating strength for the REITs in the lodging/resorts, industrial, and retail property sectors." – Nicole Funari, Vice President of Research of NAREIT, Job Growth Slowing but Demand for Workers Remains, 12/07/2022

- "Shopping Center REITs [were] one of the better-performing property sectors [in 2022] - outpacing their mall REIT peers - as impressive earnings results and record-low store closings have offset looming recession concerns. The versatility and larger footprint of the strip center format have been a winning formula as retailers have increasingly utilized their brick-and-mortar properties as hybrid 'distribution centers' in last-mile delivery networks. Critically, after a surge in store closings during the pandemic, the number of store openings has outpaced closings by nearly 2x since 2021 with particular strength in well-located strip centers. Results across the shopping center REIT sector have been as impressive as any property sector over the past three quarters with fundamentals that are stronger than before the pandemic. High-quality strip centers remain one of our favorite 'value-oriented' property sectors at current valuations given their significant 'embedded' dividend growth potential and solid positioning for a variety of economic scenarios." – Hoya Capital, SEC- Registered Investment Advisor, Shopping Center REITs: Bargain Hunting, 10/21/2022

Number of REITs Tracked



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