Real Estate Investment Trusts (REITs)

An Introduction to REITs

ADVISORS ASSET MANAGEMENT

From an investment perspective, REITs may be an important allocation in a diversified portfolio seeking to generate income, reduce risk and enhance return.

WHAT IS A REIT?

In short, a REIT or real estate investment trust is a company that owns, operates and/or finances commercial real estate.

REITs invest in offices, apartment buildings, warehouses, retail centers, medical facilities, data centers, cell towers, infrastructure and hotels to name a few. Most REITs focus on a particular property type, but some hold multiples types of properties in their portfolios.

CHARACTERISTICS OF A REIT

To qualify as a REIT, a minimum 90% of the company's taxable income must be distributed to investors annually, which is a major reason REITs tend to be high-yielding investments.

REITs typically seek to own and operate real estate that will provide a predictable and recurring stream of revenue.

Most REITs are traded on major stock exchanges allowing investors to buy or sell intraday. There are also public non-listed and private REITs, both of which have additional risks.

REITs are professionally managed. However, REITs are particularly vulnerable to the risks of the real estate industry including declines in real estate values, changes in interest rates, economic downturns, overbuilding and changes in zoning laws and government regulations.

REITs BY THE NUMBERS

Since their creation by Congress in 1960, REITs have grown in size, impact and market acceptance.

$1.3 trillion[1]
Total market capitalization of all listed US REITs as of 12/31/23

64%[1]
Percentage of top 25 largest US and global institutional investors that use REITs in their portfolios

28+ REITs[1]
In the S&P 500 Index as of 12/31/23

136 REITs[2]
In the S&P US REIT Index as of 12/31/23

$92.3 Billion[1]
Dividend Income Distibuted in 2021 by REITs

3.99%
Indicated Dividend Yield[2]
S&P US REIT Index
As of 12/31/23

7.50%
Annualized Total Return[2]
S&P US REIT Index
Ten Years Ending 12/31/23

[1] Source: www.REIT.com
[2] Source: S&P Dow Jones. Past performance does not guarantee future results. It is not possible to invest directly in an index.

WHY REITs?

DIVERSIFICATION:

An allocation to REITs in a diversified portfolio potentially reduces risk and enhances return since REITs have not been highly correlated to many other asset classes. Diversification within a REIT allocation is also due to the ability to access dozens or even hundreds of properties spanning various regions and property types.

Correlations for Five Years Ending 12/31/2023	S&P US REIT Index versus
REITs	1.00
US Equities	0.86
Bonds	0.54
Commodities	0.47
Natural Resources	0.64
Infrastructure	0.74
Master Limited Partnerships (MLPs)	0.59
TIPS (inflation)	0.65

Source: Morningstar, Inc. Correlation is a statistical measure of how two variables move in relation to each other with coefficients ranging from +1 to -1. A correlation coefficient of +1 implies that as one variable moves, the other will move in exact lockstep. Alternatively, a correlation coefficient of -1 implies that if one variable moves, the other moves in the same amount in the opposite direction. If the correlation is 0, the movements of the variables are completely random. Asset class representation: REITs: S&P US REIT Index; US Equities: S&P 500 Index; Bonds: Bloomberg US Aggregate Bond Index; Commodities: Bloomberg Commodity Index; Natural Resources: S&P North American Natural Resources Index; Infrastructure: MSCI USA Infrastructure; MLPs: Alerian MLP; TIPS: Bloomberg US Treasury US TIPS.

INCOME:

REITs have historically produced a steady stream of income through a variety of market conditions, helping investors meet their cash flow needs. REIT dividends are characteristically large because these companies are required to distribute at least 90% of their taxable income to shareholders annually.

POTENTIAL HEDGE AGAINST INFLATION:

Rental and lease contracts typically include provisions for rent escalation, which passes increasing costs due to inflation to the tenant. This helps preserve real rates of return for the owner. Values have also tended to rise as investors often shift into "real" assets during inflationary periods.

TAX-EFFICIENT:

Income is generally not taxed at the corporate level, creating greater potential for distributions to shareholders.

LIQUIDITY AND DAILY PRICING:

Unlike direct property ownership, listed REITs are relatively liquid investments that trade on stock exchanges, allowing investors to obtain real-time, market-based pricing information.

All investments involve risk; principal loss is possible. Past performance does not guarantee future results. Diversification does not assure a profit or protect against loss. Investments in Real Estate Investment Trust (REIT) securities are subject to risks. REITs are particularly vulnerable to the risks of the real estate industry including declines in real estate values, changes in interest rates, economic downturns, overbuilding and changes in zoning laws and government regulations.

The **S&P US REIT Index** is a free-float adjusted, market capitalization-weighted index that defines and measures the investable universe of publicly-traded real estate investment trusts domiciled in the United States. The S&P 500 Index is an unmanaged capitalization-weighted index (weighted by the market value of the companies) of 500 stocks listed on various exchanges. **Bloomberg US Aggregate Bond Index** is an unmanaged, broad based index composed of US dollar denominated, investment grade, fixed-rate taxable bonds with at least $250 million par amount outstanding and at least one year to final maturity. The **S&P North American Natural Resources Index** provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS® energy and materials sector excluding the chemicals industry; and steel sub-industry. The **MSCI USA Infrastructure Index** captures the opportunity set of US companies that are owners or operators of infrastructure assets. Constituents are selected from the equity universe of the MSCI USA Index, the parent index, which covers large and mid cap securities in the US. All index constituents are categorized in one of thirteen sub-industries according to the GICS®, which MSCI aggregates and groups into five infrastructure sectors: Telecommunications, Utilities, Energy, Transportation and Social. **Alerian MLP Index** is a float-adjusted, capitalization-weighted index comprised of the 50 most prominent MLPs. The **Bloomberg Commodity Index** tracks prices of futures contracts on physical commodities on the commodity markets. The weightings for each commodity included are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time. **Bloomberg US Treasury Inflation Protected Securities (TIPS) Index** includes all publicly issued, US Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value. It is not possible to invest directly in an index.

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