NEW for 2021-2022
- Updated Morningstar® Fact Sheets
- REIT utilization by financial professionals
Are REITs underrepresented in your clients’ portfolios?

If you are among the 83% of financial professionals who recommend the use of REITs¹, you recognize that:

1. In addition to stocks, bonds and cash, commercial real estate is a fundamental asset class representing 14% of the U.S. investment market².

2. REITs are a low cost, effective and liquid means of investing in this asset class, allowing your clients to build a diversified portfolio that covers the entire U.S. investment market.

3. Commercial real estate can bring unique attributes to a portfolio including:
   - A distinct economic cycle relative to most other stocks and bonds
   - Potential inflation protection
   - Reliable income returns³

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1. Source: Nareit

2. Source: Morningstar

3. Source: Nareit
REITs are real estate working for you

The REIT approach to real estate investing provides investors with a straightforward and transparent means to access a fundamental asset class in order to pursue distinct goals.

Performance
The real estate market is the primary driver of REIT returns, therefore REITs may be used as a liquid proxy for gaining access to the entire commercial real estate asset class.

Liquidity
Bought and sold like other stocks, mutual funds and ETFs

Diversification
Low correlation with other stocks and bonds

Dividends
Reliable income returns driven by high and growing income from rents plus capital appreciation over time

Inflation Protection
Due in part to the fact that many leases are tied to inflation and that real estate values have tended to increase in response to rising replacement costs

Key performance statistics through December 31, 2020 include:

- **10.0%** The trailing 25-year annualized total return of the Index*
- **15** The total number of years out of the past 25 that the Index* has outperformed the S&P 500
- **3.8%** The dividend yield of the Index* (which was more than double the S&P 500 dividend yield of 1.5%)

* Key performance data for the FTSE Nareit All Equity REITs Index through 12/31/20. For the latest data, visit reit.com/data-research

Understanding REITs
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- Why REITs
- REITs and Diversification

Considering Allocations
- Leading Perspectives
- The Role of Lifestyles
- REIT Utilization

Performance Data
- Morningstar® Fact Sheets

Researching REITs
- Searchable Database
- Additional Resources
Exploring diversification opportunities

Over the past few decades, assets have become increasingly correlated. This has challenged advisors to identify investments to better diversify their clients' portfolios. Fortunately, REITs provide them access to meaningful diversification opportunities. In fact, according to Chatham Partners' research, the vast majority (83%) of advisors now invest their clients in REITs and the most frequently cited attribute they cite is “portfolio diversification.” Following are illustrations of the low correlation REITs have with the broad stock market and how they can improve a portfolio's risk-and-return profile.

**The low correlation of REITs with U.S. and global equity indexes has continued to provide meaningful diversification opportunities over a 20-year period.**

By contrast, employing size, style or international strategies has provided less diversification benefit.

Considering the impact on risk-and-return profiles

Morningstar has found that adding an allocation of REITs to a hypothetical portfolio:

- Increased returns without increasing risk (1972-2020)
- Added meaningful diversification—other stocks are subject to the business cycle while REITs represent a separate and unique asset class subject to the real estate market cycle
What is an appropriate allocation to REITs?

The answer will vary based on each investor’s goals, risk tolerance and investment horizon, but here are some key insights that can help:

- Multiple studies have found that the optimal REIT portfolio allocation may be between 5% and 15%.6
- David F. Swensen, PhD, noted late CIO of the Yale endowment and author of *Unconventional Success: A Fundamental Approach to Personal Investment*, recommended a 15% allocation to REITs in his model portfolio for investors.

Further insight comes from Chatham Partners’ research which found that advisors recommend allocations to REITs in the range of 4% to 12% – irrespective of the client’s age – from early career to in retirement.1
How do lifestages affect the optimal REIT allocation?

As this Wilshire Funds Management Glide Path Model shows, an optimal allocation for certain investors could start at 15%+ for an investor with a 45-year investment horizon, gradually declining to 7%+ at retirement and 6%+ after 10 years in retirement.7

The optimal allocations to global REITs and other real estate companies were found to be even higher.7

The Role of Lifestages

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REIT utilization among financial advisors

As the risks and opportunities for investors continue to unfold, a majority of advisors continue to agree on the underlying long-term fundamentals that support inclusion of REITs within a diversified portfolio.

Looking Back

80% of Advisors increased or maintained their use of publicly-traded REITs over the past 1 to 3 years

Looking Forward

92% of Advisors anticipate they will increase or maintain their use of publicly-traded REITs over the next 1 to 3 years

Monitoring trends the easy way

As in the past, Nareit’s Market Commentary Blog offers observations about REITs, outlining both short and long-term risks and opportunities for investors as they evolve.

For the latest updates, click here
Looking closer at REIT performance

Here’s what these Morningstar® Fact Sheets reveal about past REIT performance for the 49-year period ending December 31, 2020 (the longest period for which data are available):

- **Largest Increase**
  - Compared to bonds, T-Bills and other stocks, REITs provided the largest increase in wealth in over 49 years. [Details]

- **Increased Returns**
  - Adding REITs to a hypothetical portfolio increased returns with no increase in risk. [Details]

- **Extended Lifespan**
  - Adding REITs to a hypothetical portfolio reduced the risk of outliving assets for retirees. [Details]

Click here to view, download or print the Fact Sheets

[Morningstar® Fact Sheets]  |  [Market Commentary]
Learn more and get performance data for REIT mutual funds and ETFs

Nareit’s free, searchable database is the only place you can:

- **RESEARCH** more than 300 REIT mutual funds and ETFs for your clients: reit.com/investing/reit-funds
- **ACCESS** performance details on individual REITs: reit.com/investing/reit-directory

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Morningstar® Fact Sheets | Market Commentary
How REITs work

Watch our educational videos explaining the basics of the REIT approach to real estate investment.

Learn more at

reit.com/quickfacts

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- List of REIT Funds
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1. Source: Nareit sponsored REIT Utilization Study of 349 financial advisors by Chatham Partners, LLC, March 2021
5. Source: Nareit, FactSet: Data as of December 2020, Total Stock Market: Dow Jones U.S. Total Stock Market Index; Large Cap: S&P 500; Mid Cap: S&P 400; Small Cap: S&P 600; Growth Russell 1000 Growth; Value Russell 1000 Value; Tech- Nasdaq Composite, International: MSCI EAFE; REITs: FTSE Nareit All Equity REIT Index.
6. Examples of studies within the stated range include: Ibbotson Associates, Morningstar, and Wilshire Funds Management.

IMPORTANT: These facts exclusively address stock exchange-listed Equity REITs. To learn how this type of REIT differs from a Mortgage REIT, and how listed REITs differ from non-listed REITs, see the SEC Investor Bulletin Real Estate Investment Trusts (REITs) available at http://sec.gov/investor/alerts/reits.pdf. REIT investments are not suitable for all investors. Past performance is no guarantee of future results.

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