Are REITs underrepresented in your clients’ portfolios?

If you are among the vast majority of financial professionals who recommend the use of REITs for portfolio diversification¹, you recognize that:

1. Commercial real estate is a fundamental asset class representing 17% of the U.S. investment market².

2. REITs are an 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

Understanding REITs
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Considering Allocations
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Performance Data
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Researching REITs
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¹ At 17%, commercial real estate is the third largest asset class in the U.S. investment market².
² Source: Nareit Research Reports.
The significance of commercial real estate should not be underestimated

**A key asset class**
commercial real estate, like stocks, bonds and cash, is a fundamental part of a diversified portfolio that covers the entire U.S. investment market

**A distinct economic cycle**
relative to the cycle for most other stocks and bonds due, in part, to supply inelasticity

**Long-term investment returns**
that have provided high and growing income from rents plus moderate capital appreciation over time

**Inflation protection attributes**
due in part to the fact many leases are tied to inflation and that real asset values have tended to increase in response to rising replacement costs
REITs are real estate working for you

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 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

Simplicity
Compared with alternatives, REIT investing is straightforward and transparent, so investors may be more likely to understand and utilize REITs in their portfolios

Key performance statistics through December 31, 2019 include:

- 10.89% 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
- 3.70% The dividend yield of the Index* (which was double the S&P 500 dividend yield of 1.85%)

*Key performance data for the FTSE Nareit All Equity REITs Index through 12/31/19. For the latest data, visit reit.com/data-research

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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%.

- David F. Swensen, PhD, noted CIO of the Yale endowment and author of *Unconventional Success: A Fundamental Approach to Personal Investment*, recommends a 15% allocation to REITs for most investors.

Further insight comes from Princeton Economics Professor Burton Malkiel, PhD who suggests that a long-term investor saving for retirement should consider a portfolio that is heavily equity-oriented, with a meaningful portion of their equity investments focused on real estate.

Read the interview in REIT Magazine
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.\(^7\)

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Looking closer at REIT performance

Here’s what these Morningstar® Fact Sheets reveal about past REIT performance for the 48-year period ending December 31, 2019 (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 48 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

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reit.com/researchREITs

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

- **RESEARCH** more than 300 REIT mutual funds and ETFs for your clients
- **ACCESS** performance details on individual REITs
- **CUSTOMIZE** your dashboard to follow specific funds, individual REITs and more

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How REITs work

Watch this whiteboard video to learn more about the rules that govern REITs and how they operate.

Learn more at

reit.com/quickfacts

Visit now for easy access to:

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1. Source: Investment News’ 2018 Outlook Survey of 344 advisers in December 2017
6. Examples of studies within the stated range include: Ibbotson Associates, Morningstar, and Wilshire Funds Management.
7. Source: Nareit sponsored study by Wilshire Funds Management, 2020 – The Role of REITs and Listed Real Estate Equities in Target Date Fund Allocations.


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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