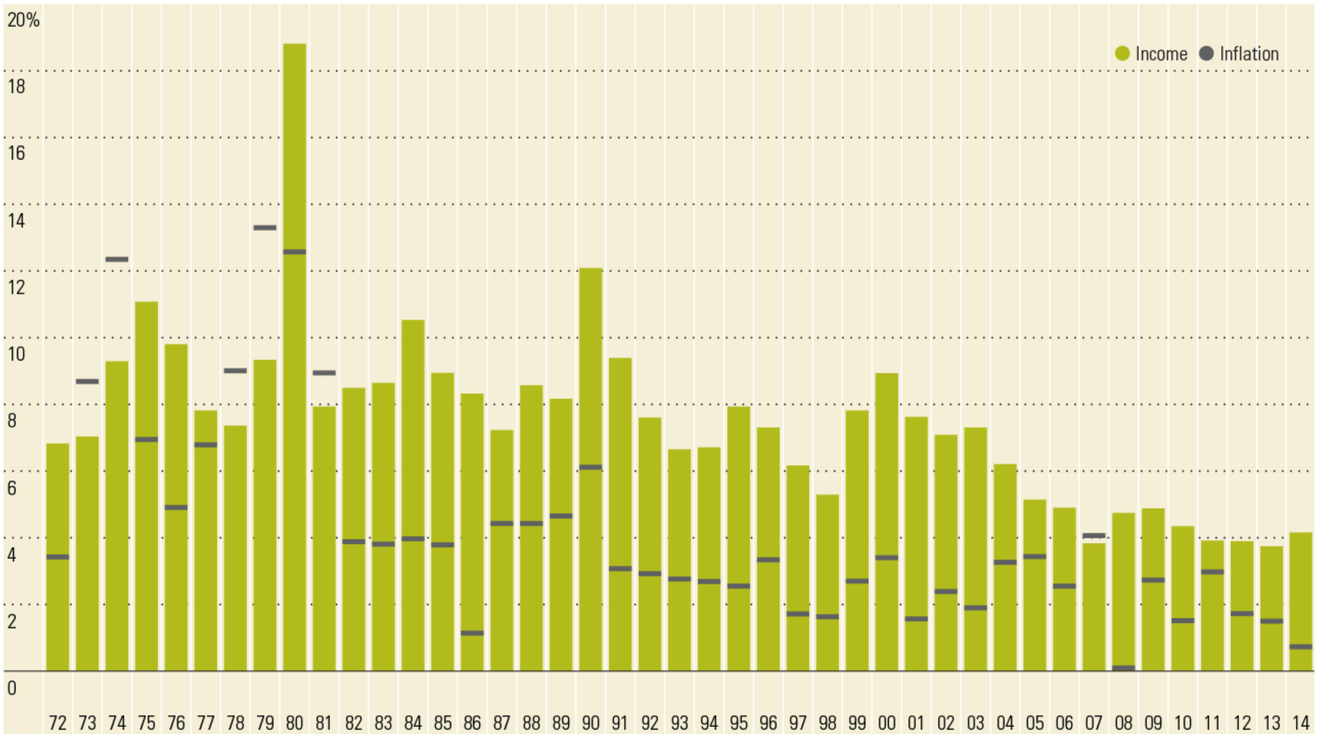
REIT Income Relative to Inflation

1972–2014



Overlooking inflation can be costly

For investors, particularly income-oriented investors, purchasing power risk is a great concern. Investors need to ensure that the income generated from their investments is enough to outpace inflation so that they will be able to purchase the same amount of goods or services in the future as they can today.

While inflation hasn't been at alarming levels recently (1.5% in 2013 and 0.8% in 2014), it does, however, erode savings over long time periods. Those looking for ways to achieve real returns may wish to consider asset classes that have historically performed well in periods of accelerating inflation. REITs may serve as a solution because the rents and profits generated by commercial properties generally increase as inflation increases.

REITs may serve as an inflation hedge

The image illustrates the income return of REITs compared with inflation since 1972. The income return of REITs has outpaced inflation for 37 of the 43 years analyzed. The average annual income return for REITs and the average annual rate of inflation from 1972 to 2014 were 7.5% and 4.2%, respectively. Historical data suggests that REITs may be effective when their income grows faster than the rate of inflation.

Investors may want to consider investments such as REITs, which offer the income potential to keep up with inflation. Amid the changing markets, it might be wise to include inflation protection, especially if you have a low tolerance for risk. Ask your financial advisor about how to protect your portfolio from potential high inflation.

REIT investments are not suitable for all investors. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. The 1972 start date is constrained by the maximum available historical data for stock exchange-listed equity REITs. The average annual income return and average annual rate of inflation are arithmetic means.

REITs are not guaranteed and have been more volatile than other asset classes. REITs typically provide high dividends plus the potential for moderate, long-term capital appreciation. A REIT must distribute at least 90% of its taxable income to shareholders annually. REITs involve special risks such as management quality, corporate structure, the ability to increase revenues from rents, and the balance of the supply of new buildings with demand for space. Additional risks include general and local economic conditions, interest rate fluctuation, credit risks, and liquidity risks. Holding REITs for the long term does not ensure a profitable outcome and investing in REITs always involves risk, including the possibility of losing the entire investment. The information, data, analyses and opinions contained herein do not constitute investment advice offered by Morningstar and are provided solely for informational purposes.

Source: REITs—FTSE NAREIT All Equity REIT Index®; Inflation—Consumer Price Index.