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Outlook for REITs in 2009 Similar to 2008, Analysts Say

By Allen Kenney

(Jan. 15)—After a trying 11 months in 2008, U.S. REITs finished the year on a high note. The FTSE NAREIT All REIT Index gained 15.87 percent in December, but still ended the year down 37.34 percent.

The strong finish kept domestic REITs in line with the broader markets in 2008. The S&P 500 dropped 37 percent for the year, while the NASDAQ Composite fell 40.54 percent. The Russell 2000 was down 33.79 percent, and the Dow Jones Industrial finished 2008 down 33.84 percent.

Paul Adornato, an analyst with **BMO Capital Markets**, noted that REITs continued to exhibit the heightened volatility that had characterized the industry for all of 2008 in December. He pointed out that the FTSE NAREIT All REIT Index's "whopping" increase of nearly 16 percent in December far bettered broader market measures. The S&P 500, for example, inched up 1.06 percent for the month. However, in contrast to its strong December, the FTSE NAREIT All REIT Index dropped 21.51 percent in November and 30.23 percent in October.

"We think that for the month of December, as well as the full year 2008, REITs have not traded necessarily on the fundamentals of either the specific company or the industry. Macroeconomic concerns overweighed fundamentals," Adornato said. For example, general credit-related fears may have played a role in the industry's performance.

Adornato predicted more of the same in 2009, with one major wildcard: "We think the one big unknown item, the timing and magnitude of (President-elect Barack) Obama's stimulus plan, could affect REITs' performance in the near term."

Rough Year for Global REITs, Despite Strong December

A 9.66 percent increase in December did little to mask a difficult year for the FTSE EPRA/NAREIT Global Real Estate Index, which finished 2008 down 47.72 percent.

While the North American component dropped 40.63 percent for the year, that actually bested the Asian and European components, which saw total returns of -52.48 percent and -51.13 percent, respectively.

In its 2009 annual Global Market Report, commercial real estate services firm **NAI Global** said worldwide real estate fundamentals are starting to show the effects of the growing global economic slowdown. While some markets enjoyed a strong first half in 2008, vacancy rates began to rise and rental rates began to fall in the second half, according to NAI.

“This has been a very difficult year in the global economy, and the impact is clearly becoming visible in commercial real estate markets worldwide,” said Jeffrey M. Finn, president and CEO of NAI Global. “Markets from New York to New Delhi are seeing a rise in unemployment, a fundamental shift in financial industry practices, plummeting asset values and companies retrenching while grappling with debt and the prospect of declining markets.”

Investors should expect global commercial real estate markets to continue to weaken in 2009, as vacancy rates climb and rents fall, according to the report. Peter Linneman, NAI global chief economist, said the current economic turmoil will have broad-reaching effects on the commercial real estate industry.

“The U.S. is in recession, as is much of Europe and parts of Asia, as global markets adjust to the change in credit lending, record-setting unemployment, volatile energy prices and the resulting drop in consumer demand,” Linneman said. “What was globally envisioned in the summer of 2007 as a brief adjustment across the market has now become a massive restructuring with new development projects being placed on hold, property owners looking for new opportunities with existing inventory, sales and rental rate declines in nearly all sectors and vacancy rates that are setting records in some markets. The next 12 to 18 months will redefine industry practices for the coming decade.”

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