

A photograph of a modern, curved glass skyscraper with a tree in the foreground. The building has a distinctive white, grid-like facade on the left side. The sky is clear and blue.

2023-2024

REIT Quick Facts

For financial professionals

NEW for 2023-2024

- Achieving Diversification through both Traditional and Modern Property Sectors
- Updated Morningstar® Fact Sheets

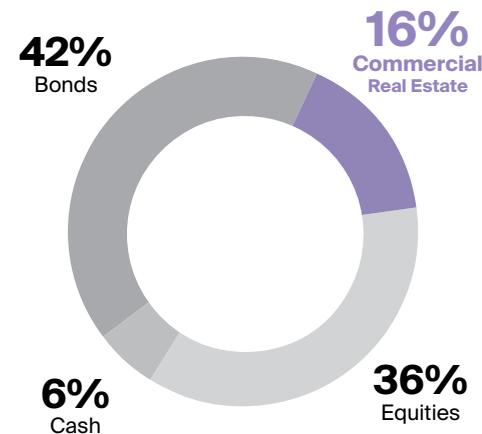
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Are REITs underrepresented in your clients' portfolios?

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 16% of the U.S. investment market²
- 2 REITs have been 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

At 16%, commercial real estate is the **third largest asset class** in the U.S. investment market²



◀ Key Insights

REITs are real estate working for you

The REIT approach to real estate investing provides investors with a straightforward and transparent means of accessing 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 class²

Liquidity

Bought and sold like other stocks, mutual funds and ETFs

Diversification

Historic low correlation with other stocks and bonds⁴

Income

Reliable income returns³ have been 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 historically tended to increase in response to rising replacement costs

Key performance statistics through December 31, 2022 include:

8.2% 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

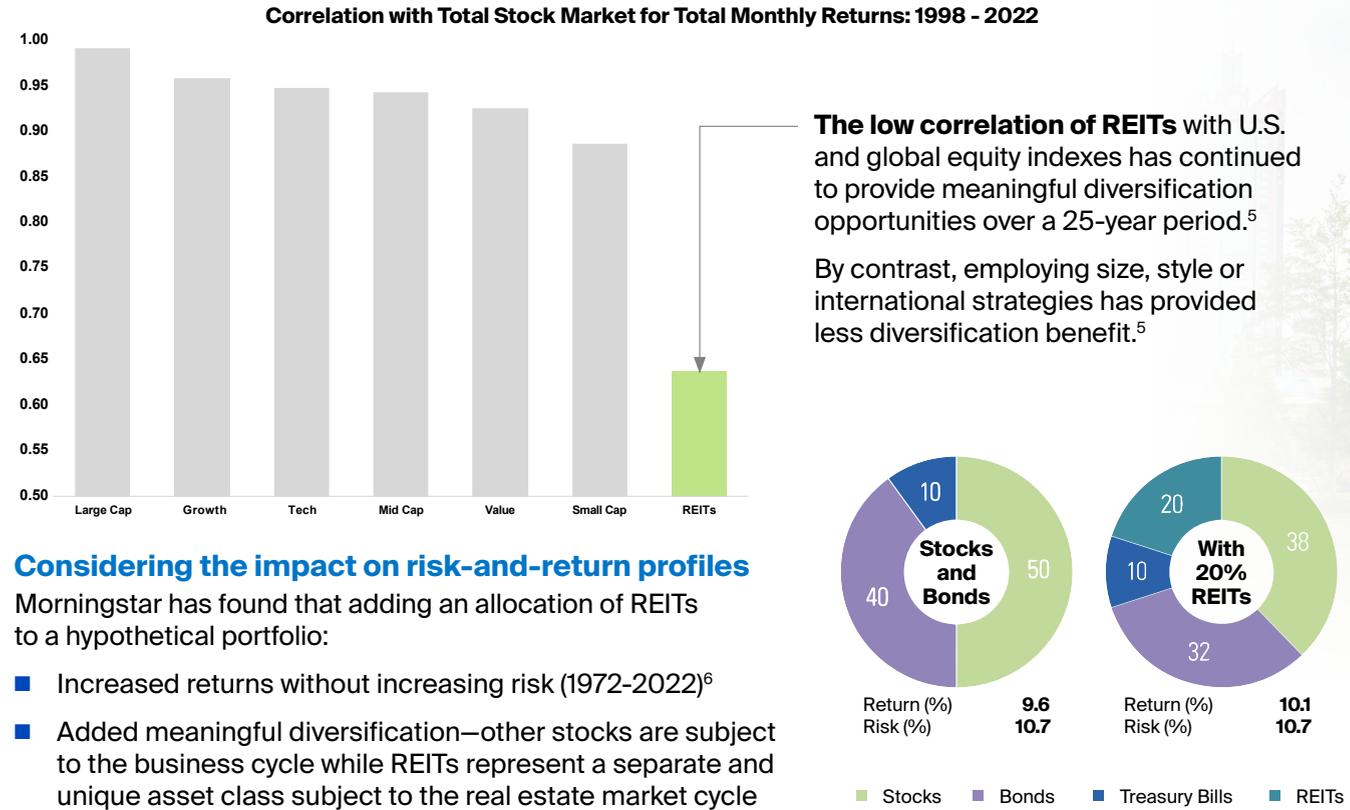
4.0% The dividend yield of the Index* (which was more than double the S&P 500 dividend yield of 1.7%)

*Key performance data for the FTSE Nareit All Equity REITs Index through 12/31/22. For the latest data, visit reit.com/data-research

◀ Why REITs

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.⁶ 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."¹ Following are illustrations of the low correlation REITs have had with the broad stock market and how they could improve a portfolio's risk-and-return profile.



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 (1972-2022)⁶
- 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

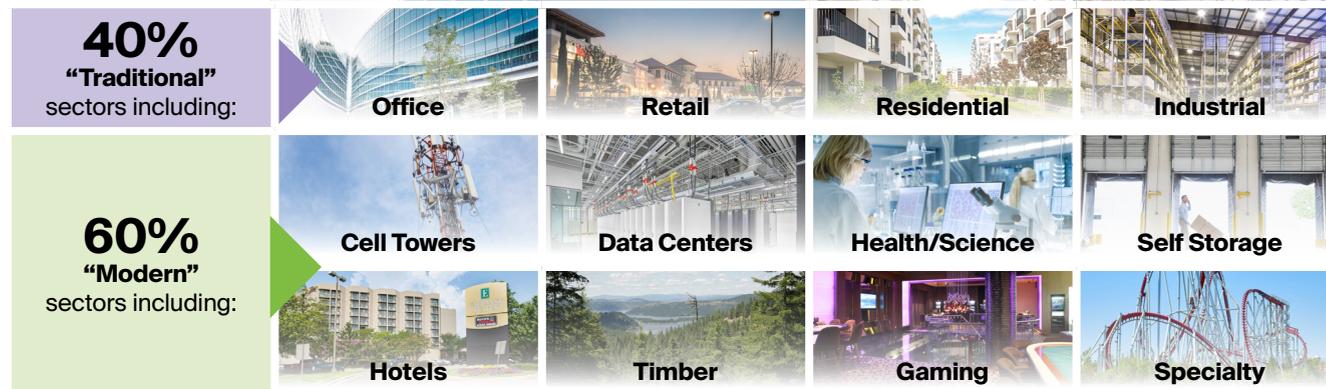
◀ REITs and Diversification

Achieving diversification through both traditional and modern property sectors

Over the past two decades, our work, shopping, and leisure activities have become increasingly connected to the digital world. As the economy has changed, the real estate that houses the economy has also evolved.

REITs are helping investors keep pace – with an effective, low cost and liquid way to invest in commercial real estate that not only captures essential traditional property sectors but also evolving sectors driven by the modern economy.

In fact, the share of the FTSE Nareit All Equity REIT index outside of the four “traditional” REIT property types is now at 60%⁷



REITs can help with other real estate diversification goals too – from a geographic footprint that can span more than 40 countries to REITs reporting best-in-class corporate responsibility profiles. [Learn more](#)

◀ Modern Property Sectors

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.

5%
to
15%

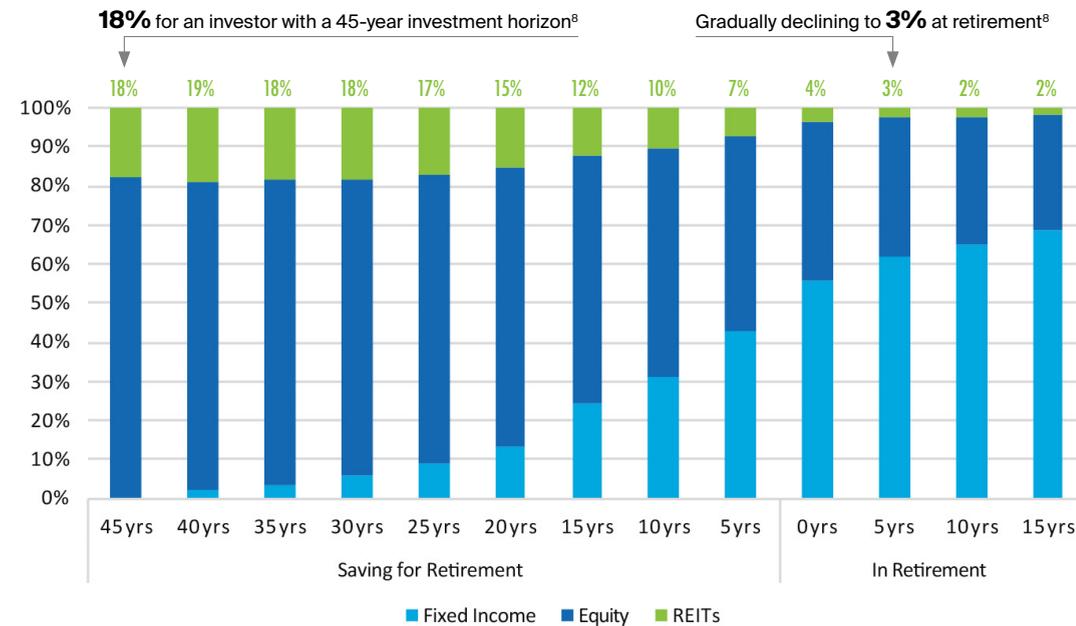
◀ [Leading Perspectives](#)



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 Morningstar Glide Path Model shows, an optimal allocation for certain investors could start at 18% for an investor with a 45-year investment horizon, gradually declining to 3% at retirement and 2% after 15 years in retirement.⁸

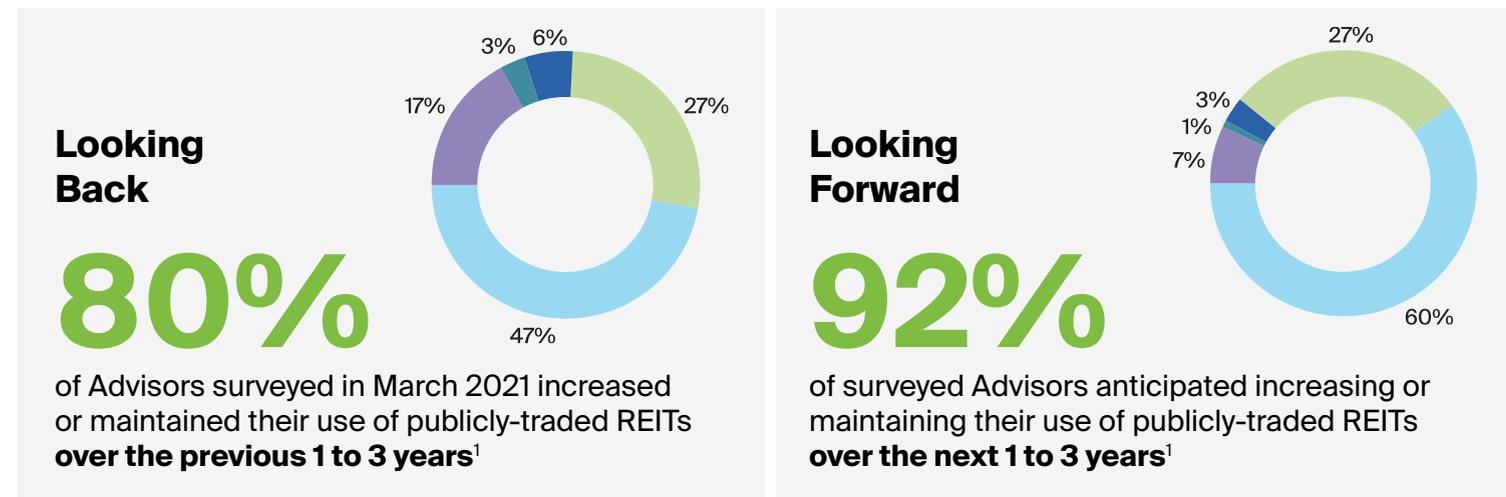


The optimal allocations to global REITs and other real estate companies were found to be even higher.

◀ The Role of Lifestages

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 the inclusion of REITs within a diversified portfolio.



◀ [REIT Utilization](#)

■ Increase significantly ■ Increase somewhat ■ Stay the same ■ Decrease somewhat ■ Decrease significantly

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](#)



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Looking closer at REIT performance

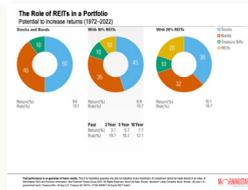
Here's what these Morningstar® Fact Sheets reveal about past REIT performance for the 51-year period ending December 31, 2022 (the longest period for which data are available):

Largest Increase



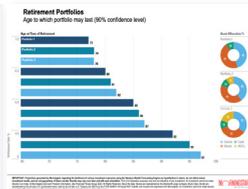
Compared to bonds, T-Bills and other stocks, REITs provided the **largest increase** in wealth over 51 years. [Details](#)

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](#)

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
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1. Source: Nareit sponsored REIT Utilization Study of 349 financial advisors by Chatham Partners, LLC, March 2021
2. Sources: Stock and bond data from Board of Governors of the Federal Reserve, Financial Accounts of the United States, 2022:Q4; commercial real estate market size data based on Nareit analysis of CoStar property data and CoStar estimates of commercial real estate market size.
3. Source: Nareit sponsored study by Wilshire Funds Management – Income Oriented Portfolios – Challenges and Solutions, October 2016
4. Source: CEM Benchmarking, 2022, available at <https://www.reit.com/data-research/research/updated-cem-benchmarking-study-highlights-reit-performance>
5. Source: Nareit, FactSet. Data as of December 2022. 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.
7. Source: FTSE Nareit All Equity REIT Index, April 2023
8. Source: Nareit sponsored study by Morningstar, 2023

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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