

Nareit[®] HR forum

Research & Investor Outreach

Sept. 16-17, 2019

Real estate
working for you[®]

The REIT Story

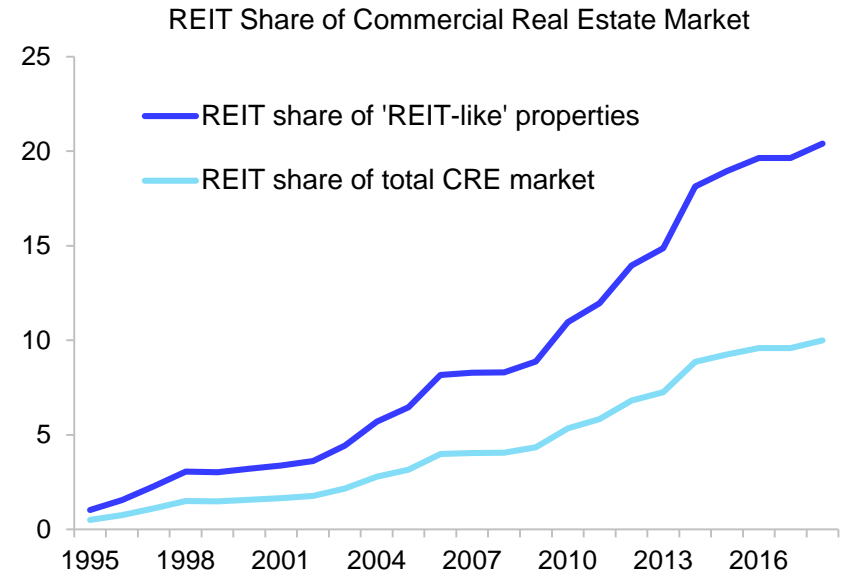
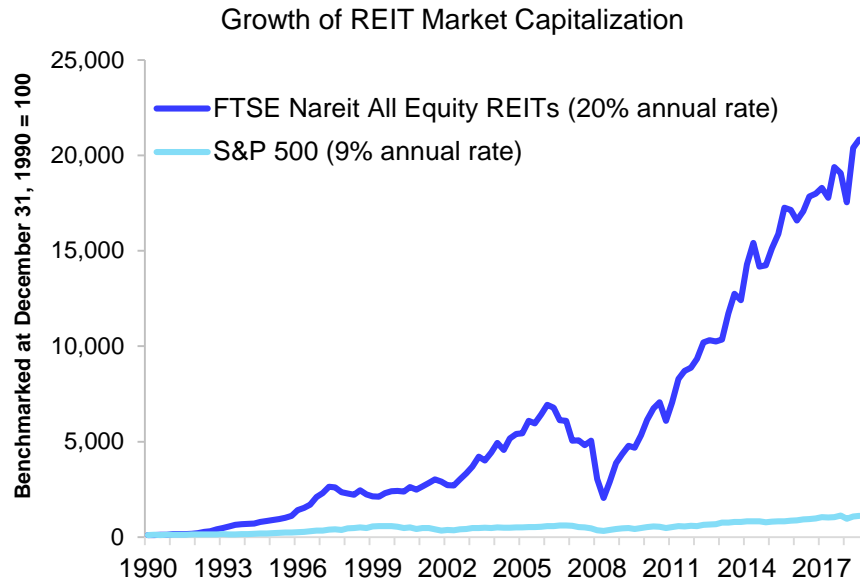
Real estate working for you

- REITs were authorized by Congress in 1960 to democratize real estate investment – to provide investors of all sizes access to competitive investment returns, portfolio diversification, and strong dividends
- A REIT, or Real Estate Investment Trust, is a real estate company that owns or finances income-producing real estate
- REITs help house the U.S. economy by providing much of the real estate where we live, work, shop, and spend our leisure time



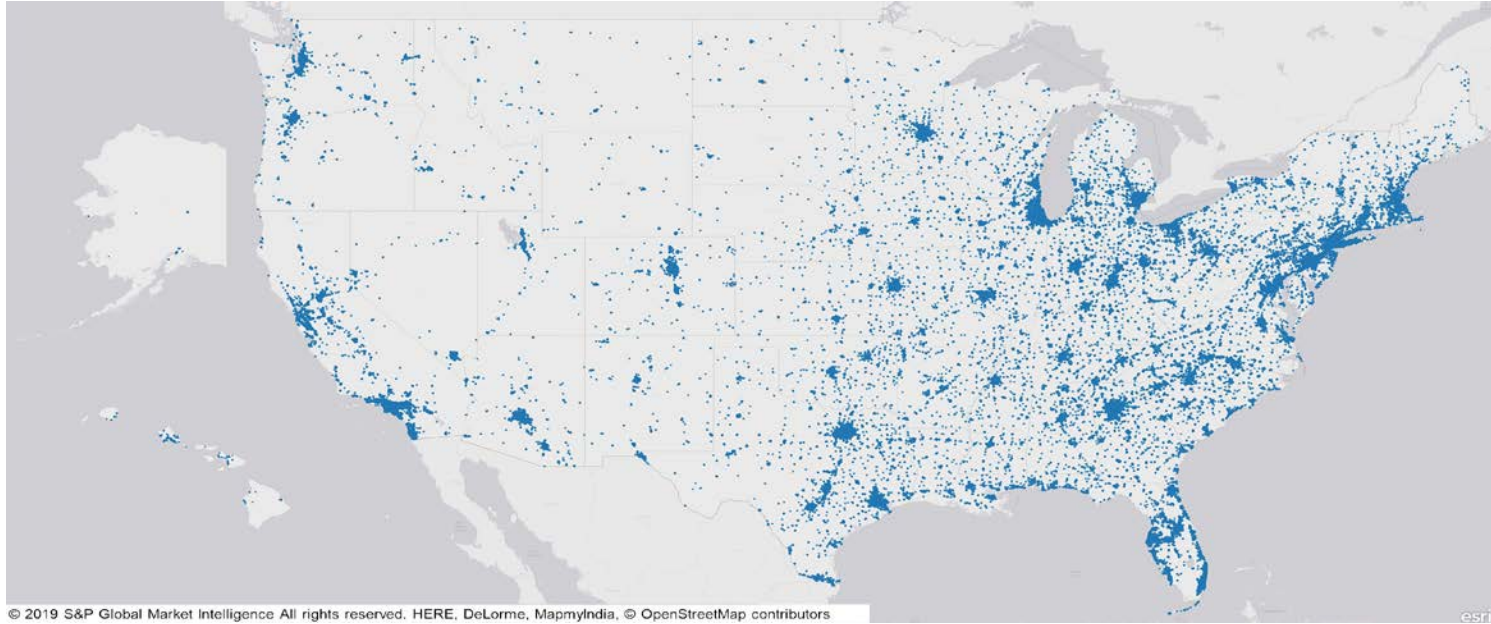
Growth of REITs

REITs have grown in market capitalization and share of commercial real estate



REIT Ownership Provides Diversification

520,000+ U.S structures with a gross asset value of \$1.6 trillion.



Telecommunications Towers (95,000)

Industrial (7,000)

Timberland (17 M acres)

Data Centers (300)

Retail and Restaurants (24,900)

Multifamily (3,700)

Single Family Rental (149,000)

Health Care (8,800)

Office (2,800)

Self-storage (5,800)

Outdoor Advertising (219,000)

Hotels (2,500)

Investor Outreach Program

Objectives and key targets

- Communicate REIT investment attributes to institutional investors, investment managers including target-date-fund manufacturers, investment consultants, financial advisors and individual investors.
- Promote understanding and acceptance of real estate investment through REITs.
- Increase the allocation of assets invested in REITs.

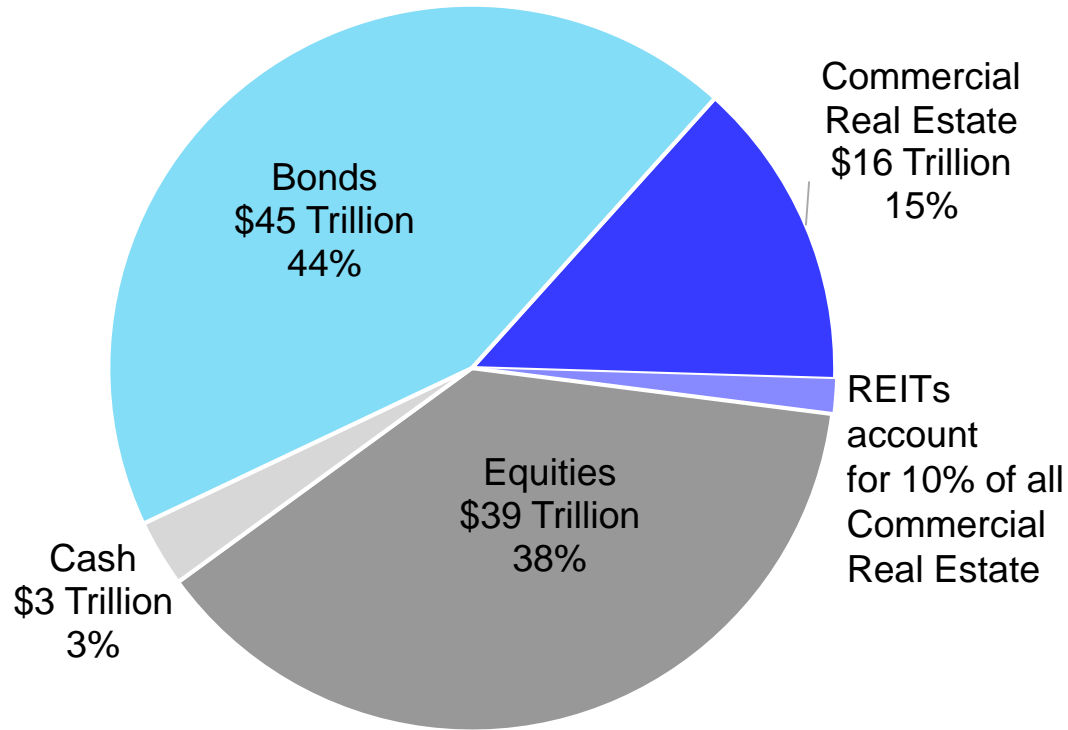
Nareit's Investor Outreach Message

Research-based findings

- Commercial real estate is a fundamental asset class along with stocks, bonds, and cash
- Diversified investment portfolios should generally include an allocation to commercial real estate of between 5%-15%
- REITs provide a low-cost, liquid, and transparent means of investing in the entire commercial real estate asset class

Commercial Real Estate

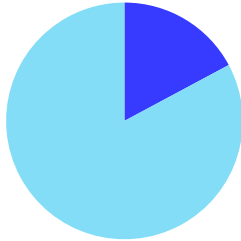
Third largest asset in U.S. investment market basket



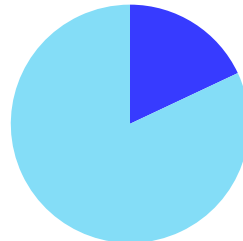
Portfolio Allocations to Real Estate

Different researchers, methodologies, and time periods

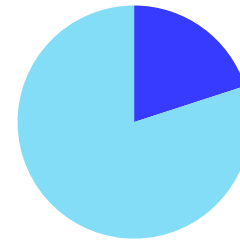
Wilshire Analysis
Surplus Optimization
1990-2018



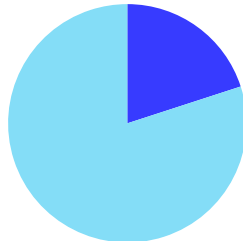
Wilshire Analysis
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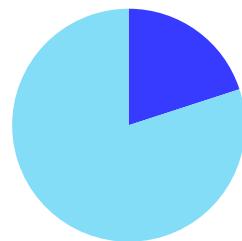
Morningstar Analysis
Liability Relative Investing
1990-2009



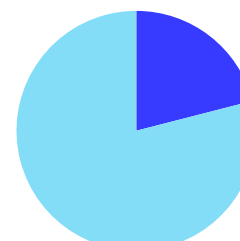
Morningstar Analysis
Fat Tail Optimization
1990-2009



Morningstar Analysis
Mean Variance Optimization
1990-2010



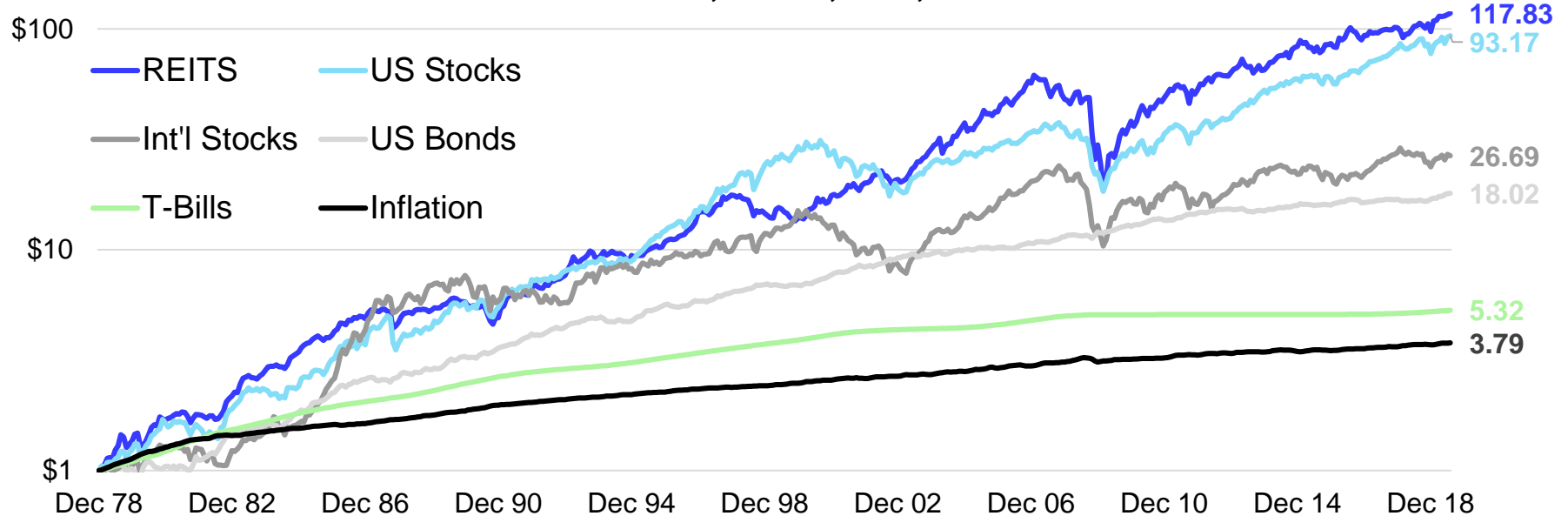
Morningstar Analysis
Mean Variance Optimization
1990-2007



Performance

REITs have outperformed other major asset groups over time

Total Returns: Stocks, Bonds, Bills, REITs & Inflation



- REIT average annual total returns since Dec. 31, 1978: 12.5%
- REIT average annual total returns since Dec. 31, 1990 (the “modern REIT era”): 11.7%

Performance

REITs Have Outperformed Leading U.S. Benchmarks over Extended Historical Periods

	1- year	3- year	5- year	10-year	15-year	20-year	25-year	30-year	35-year	40-year
FTSE Nareit All Equity REITs	15.57	7.82	9.39	14.08	9.23	11.22	10.72	10.55	11.16	11.72
FTSE EPRA/Nareit Developed	9.10	5.44	5.89	9.84	7.72	9.08	8.29	N/A	N/A	N/A
Russell 1000 (Large-Cap Stocks)	1.31	12.24	9.60	13.35	9.09	6.49	9.64	9.66	10.99	11.38
Russell 2000 (Small-Cap Stocks)	-3.26	5.91	1.89	5.00	5.27	3.63	4.53	4.47	8.35	8.36
Bloomberg Barclays US Aggregate Bond	10.17	3.09	3.35	3.91	4.26	5.10	5.53	6.07	7.11	7.40

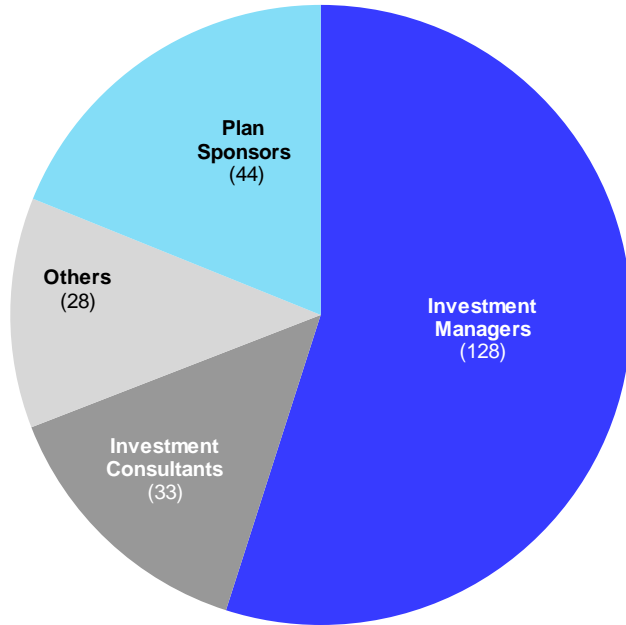
Investor Outreach Program

Key targets, messages and challenges

Target	Defined Benefit					Defined Contribution			IRA/Individual				Global		
Channels	Sponsors (Staff)	Sponsors (Trustees)	Consultants	Media	Generalist Funds	Investment Mangers/ TDFs	Consultants	Generalist Funds	FA / RIA	Investment Mangers / TDFs	Media	Generalist Funds	Sponsors	Consultants	Generalist Funds
Message	<ul style="list-style-type: none"> REITs are preferable substitutes for direct RE. 					<ul style="list-style-type: none"> All portfolios need real estate exposure. REITs are the natural product for DC plans. 			<ul style="list-style-type: none"> All portfolios need real estate exposure. REITs are the natural product for DC plans. 				<ul style="list-style-type: none"> REITs are preferable substitutes for direct RE. 		
Challenge	<ul style="list-style-type: none"> DB plan managers and consultants have built-in bias against REITs. 					<ul style="list-style-type: none"> Product manufacturers are risk averse/stay with the herd. 			<ul style="list-style-type: none"> REITs are widely accepted, but allocations tend to be too low. 				<ul style="list-style-type: none"> Plan managers and consultants have built-in bias against listed RE. Home bias. 		

Investor Outreach Program

Nareit Investor Outreach Meetings: Q1 2019
233 meetings representing \$1.25 trillion of assets under management or advisement



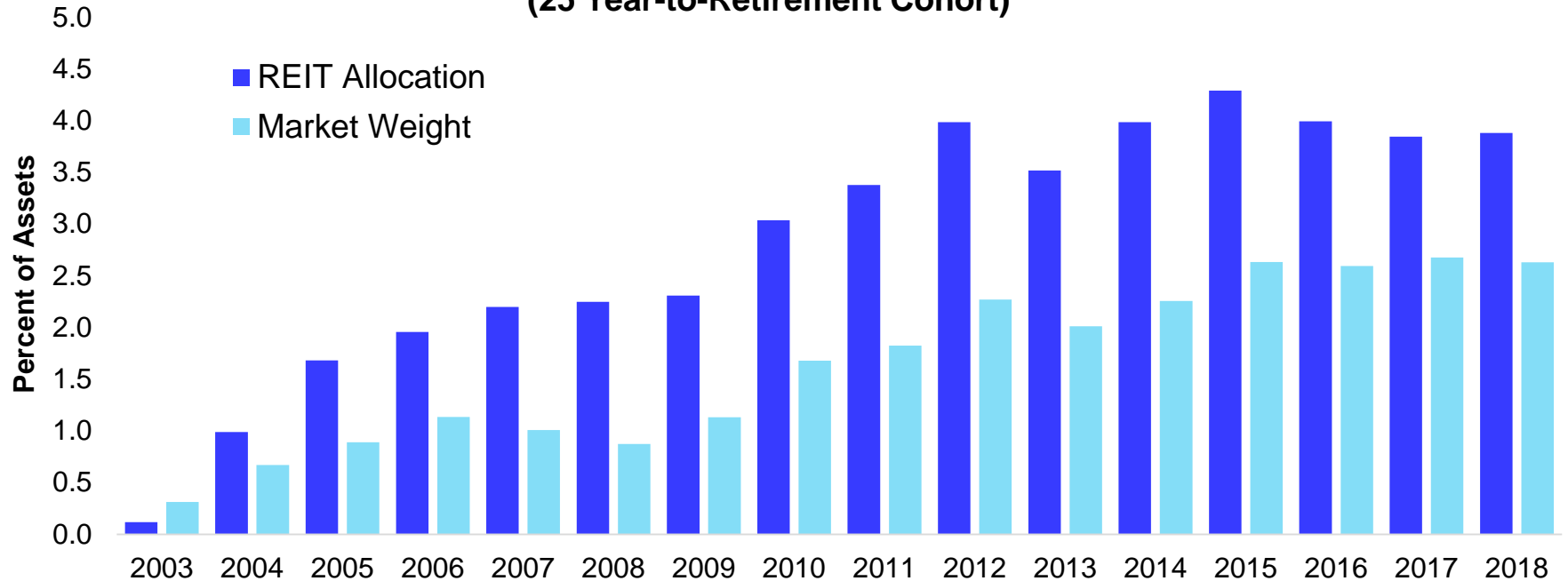
Notable meetings have included:

- Four of the five largest investment managers by AUM, including Blackrock, Vanguard and Fidelity.
- Four of the five largest TDF managers by AUM, including Vanguard and Fidelity.
- Large U.S. pensions, including CalPERS and CalSTRS.
- Global pensions and sovereign wealth funds including the Abu Dhabi Investment Authority and Canadian Public Pension Investment Board.

Defined Contribution Plans

REITs are the dominant form of real estate exposure in DC plans

TDF Actual and Market REIT Allocations: 2018
(25 Year-to-Retirement Cohort)



Defined Contribution Plans

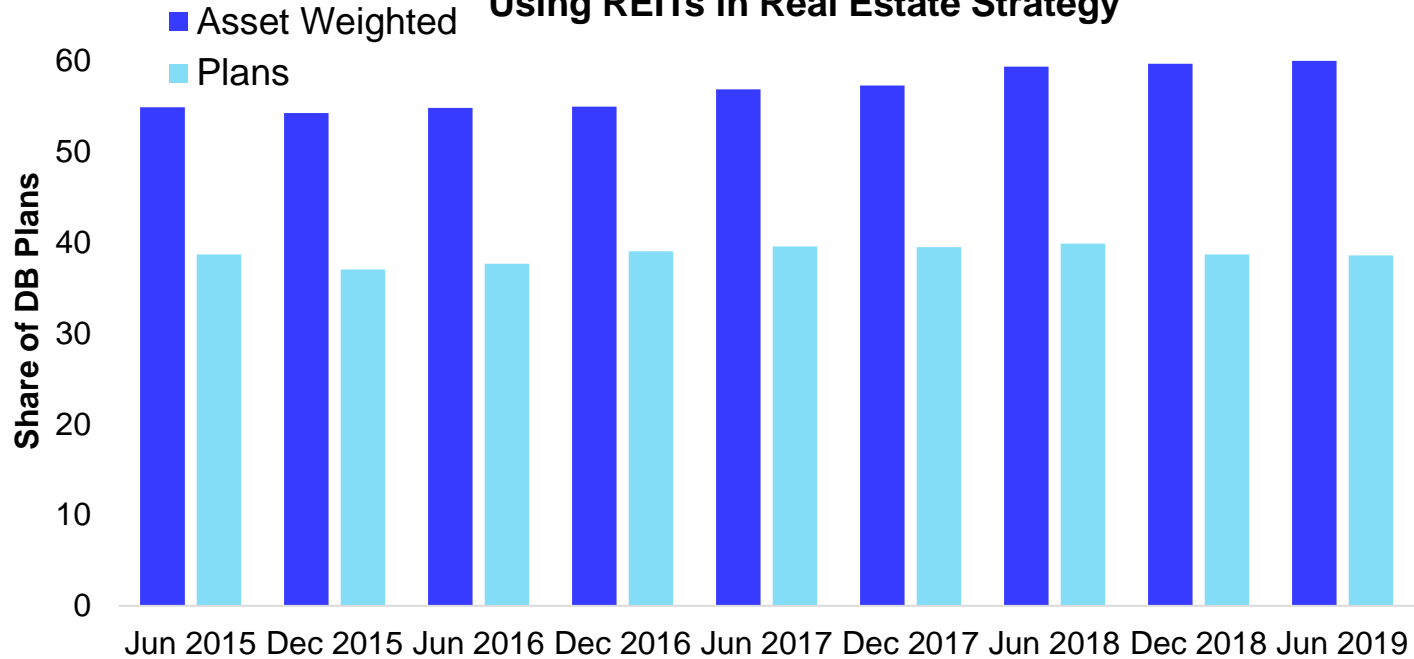
TDFs with the largest REIT allocations

Major Target-Date Fund Providers

Organization	Maximum REIT Allocation (In percent)
BlackRock	19.12
AXA (1290 Retirement)	10.54
MFS	8.17
Prudential	8.07
Schwab	8.03
JP Morgan	7.80
Great-West	7.62
MassMutual	7.54
Transamerica	7.16
Wells Fargo	7.09
Goldman Sachs	6.17

Defined Benefit Plans

Share of Defined Benefit Plans with Real Estate
Using REITs in Real Estate Strategy

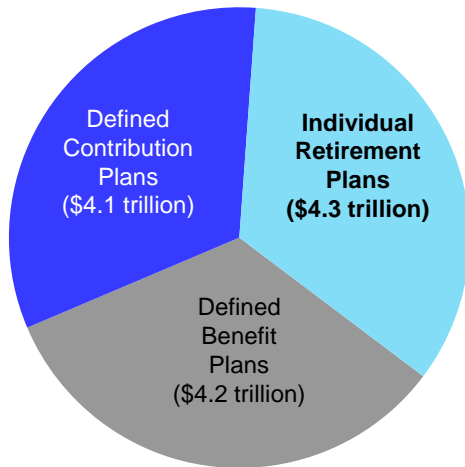


- REIT share of RE assets of DB and E&F plans using a blended public/ private strategy is estimated to be 27percent.
- REIT share of overall RE allocations is estimated to be 18 percent.

IRAs and Financial Advisors

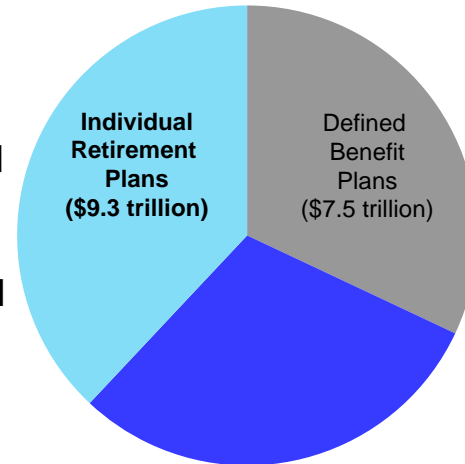
IRAs: the fastest growing market

Total Retirement Assets as of Q4:2008
(\$12.6 trillion)



The IRA segment of the market has more than doubled in size and increased from 33% to 38% of total retirement assets in 10 years

Total Retirement Assets as of Q2:2018
(\$24.6 trillion)



- The IRA and DC markets now represent 70% of the total retirement assets in the U.S.

Financial Advisor Outreach

Direct marketing campaigns will reach over 50,000 financial advisors in 2019

Direct marketing campaigns to financial advisors utilize the following educational materials and publications:

- **REIT Quick Facts Guide Print and Email Campaigns** - this high-impact, direct mail brochure was distributed via mail and email to 25,000 financial advisors in May 2019
- **Advisor Access REIT Newsletter** – the newsletter is distributed via email to approximately 100,000 retail financial advisors in the U.S. on a quarterly basis. The newsletter generates, on average, 25,000 views per year

Nareit 2019-2020 **REIT Quick Facts** For financial professionals

Embracing the role of REITs

Looking Closer

Why real estate?

Why REITs?

What is an appropriate REIT allocation?

How do Resilience affect the optimal allocation?

Advisor Access Compelling Investment Ideas for Advisors

The REIT Newsletter for Advisors Spring 2019

In Partnership with **Nareit**

Real estate working for you

RESOURCES

- What's a REIT?
- Investing in REITs
- REIT Data
- Industry News
- Nareit Events
- About Nareit
- Join Nareit
- Advocacy
- Sustainability
- Dividends Through Diversity
- Blog

A Late-Cycle REIT Defense
In a challenging market, real estate may help investors protect the downside.
by Thomas Bohjalian, Cohen & Steers

It's probably been a while since a lot of investors have given REITs a second thought, with tech stocks and other high-growth sectors dominating the market's attention. In fact, REITs have spent the last several years out of favor, with a strong economy benefiting their property values and cash flows, but not so much their share prices.

That began to change at the end of 2018, as the prospect of slowing global growth and tighter liquidity battered financial markets. In Q4'18, U.S. REITs defended much better than broad equities, with just half the drawdown of the S&P 500. Real estate securities in Europe and Asia were also resilient, and REITs continued to outperform through the first two months of 2019.

While there have been other brief periods of relative strength for REITs in recent years, the current one looks a lot more like the beginning of a broader shift in market leadership, as the U.S. economy transitions from mid- to late cycle. Historically, such periods have been a great time to own REITs.

In late-cycle periods—which we define, for this purpose, as a broad deceleration in Conference Board economic indicators—REITs have outperformed the S&P 500 by more than 7% on average since the start of the modern REIT era in 1991. In recessions, the margins of outperformance have historically been even wider.

While REITs are not immune to changes in the business cycle, several likely reasons exist for their outperformance in late-cycle environments:

1. **Predictable, lease-based revenues:** In tough times, you can always opt off upgrading your smartphone or buying a new car. But if you're an office tenant with a ten-year lease, you're contractually obligated to pay your landlord regardless

Investor Outreach Program

Global Strategy

- Middle East
 - Nareit and the European Public Real Estate Association (EPRA) recently visited the United Arab Emirates.
 - Met with several institutional investors, including two of the four largest sovereign wealth funds (SWF) and the largest pension fund in the country.
 - Participated in the Bloomberg Invest Abu Dhabi 2019 Conference, an event that brought together over 200 of the leading UAE and global asset managers.
 - Planning a 2020 trip to the region including the Kuwait and Qatar SWFs.
- Asia
 - Nareit is planning two visits to Asia in 2019.
 - In July, Nareit will participate in the China Wealth Forum 2019 in Qingdao, China; participate in a conference and conduct investor outreach meetings in Shenzhen, China; and meet with GIC and other investors in Singapore.
 - In December, Nareit will visit Beijing, China to co-sponsor a conference with Asset Management Association of China.
- Europe
 - This Fall, for the 8th consecutive year, Nareit and EPRA will jointly conduct a week of investor outreach meetings in Europe.
 - Meetings with major pension and sovereign funds, insurers, investment consulting firms and asset managers are scheduled in London, the Netherlands, Norway, Switzerland, and Sweden.

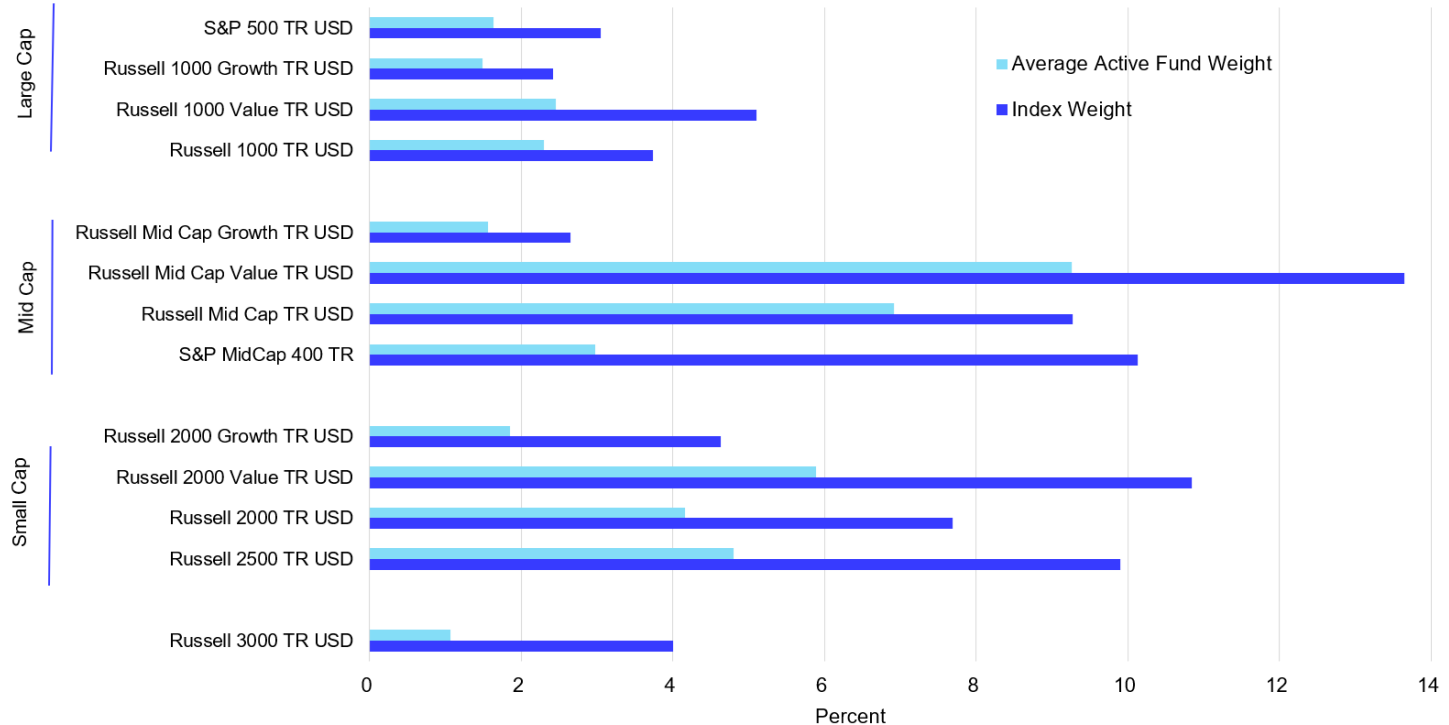


Generalist Investors

Generalist Results

Generalist investors systematically underweight REITs

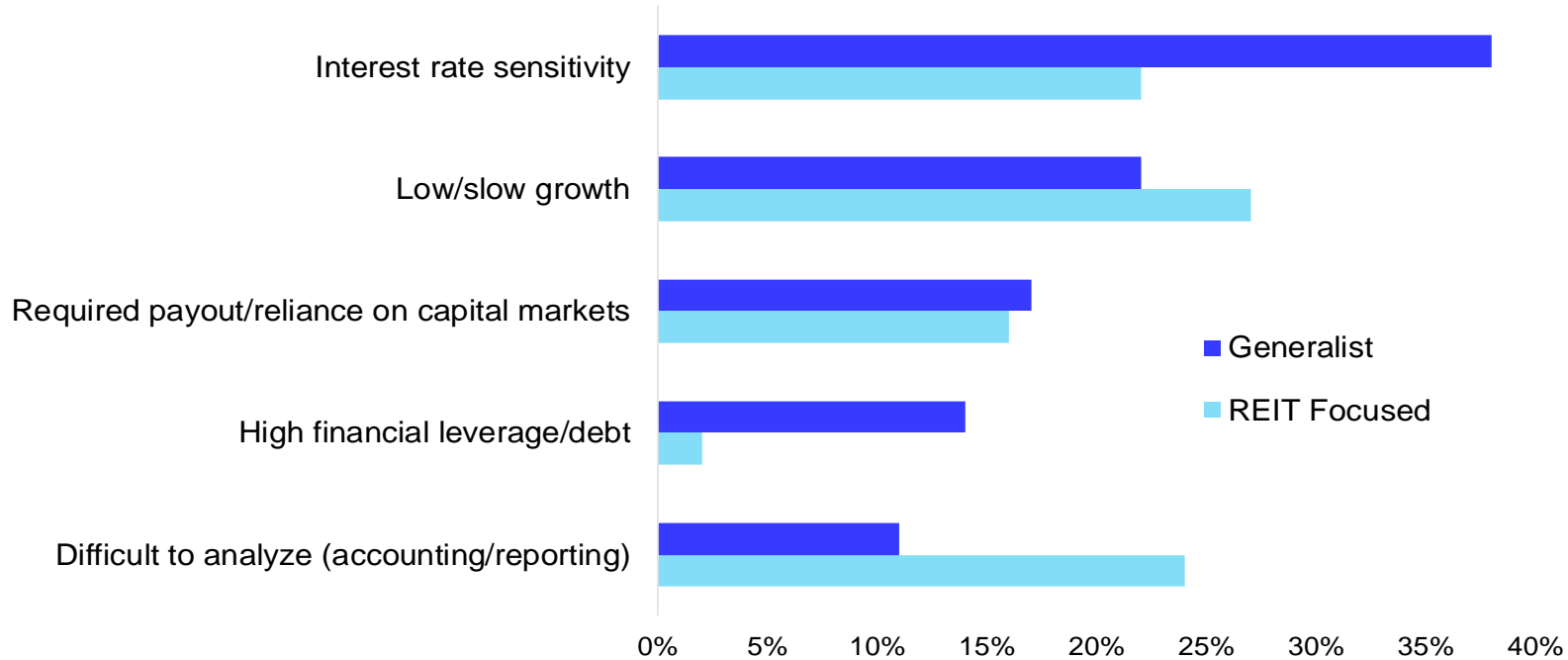
Comparison of Index Weights and Generalist Active Mutual Fund Real Estate Allocations: June 2019



Generalist Results

Efforts to extend the REIT investment footprint face considerable challenges

What Detracts Most from the Investment Appeal of REITs
Relative to Other Industries





Sponsored Research

Sponsored Research: CEM Benchmarking

Asset allocation and fund performance of U.S. pension funds

Nareit Research

December 2018

2018 CEM Benchmarking Study Highlights REIT Performance

19-year study reveals allocations, returns, volatility and risk-adjusted performance of 12 asset classes

Highlights

- REITs had the second highest average annual return of the 12 asset classes covered
- REITs had relatively low correlation with equities.
- REITs had the highest non-fixed income risk adjusted return.
- REITs outperformed all styles of unlisted real estate real estate.

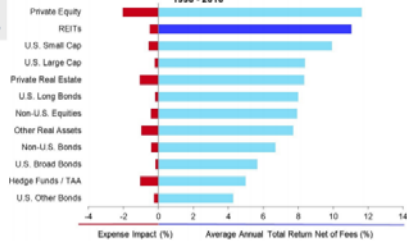
Introduction

CEM Benchmarking's 2018 study, sponsored by Nareit, provides a comprehensive look at realized investment performance across asset classes over a 19-year period (1999-2016) using a unique dataset covering over 200 public and private sector pensions with nearly \$3.5 trillion in combined assets under management. One of the unique benefits of the CEM dataset is that it provides the actual realized performance of the assets chosen

by plan managers and trustees.

The study compares gross and net average annual total returns as well as correlations and volatilities for 12 asset classes with appropriate adjustments for reporting lags associated with illiquid asset classes (unlisted real estate and private equity). The 2018 study also compares the performance of different styles of unlisted real estate including internally managed, core, value added/opportunistic and fund of

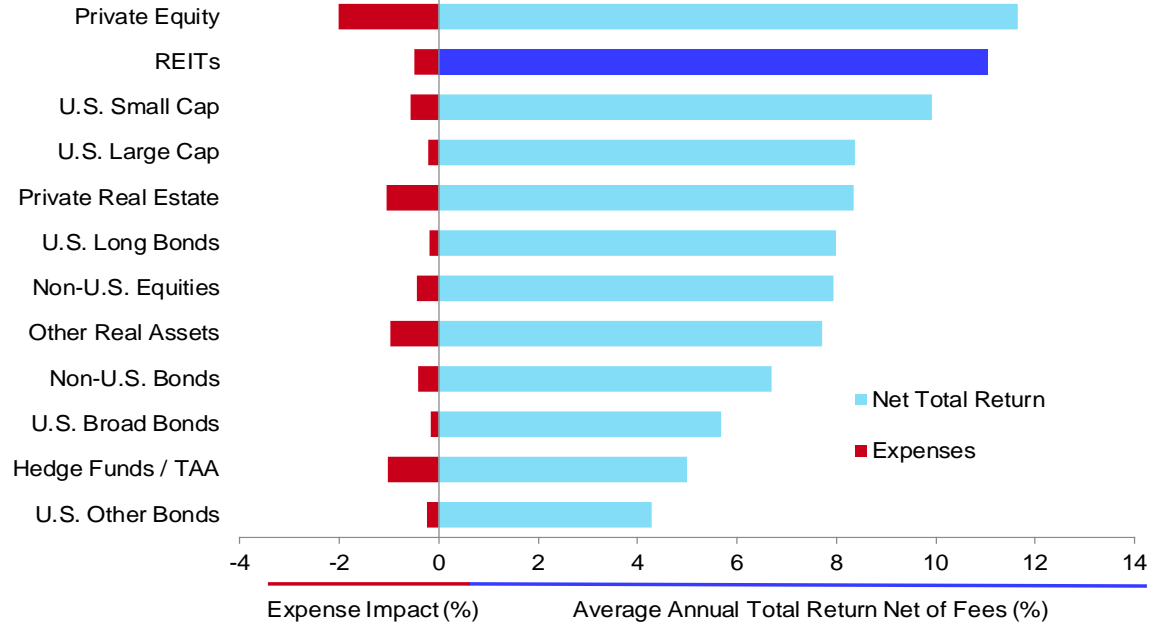
Figure 1
Annual Net Total Return and Expense by Asset Class
for U.S. Defined Benefit Pension Funds
1998 - 2016



Source: CEM Benchmarking, 2018

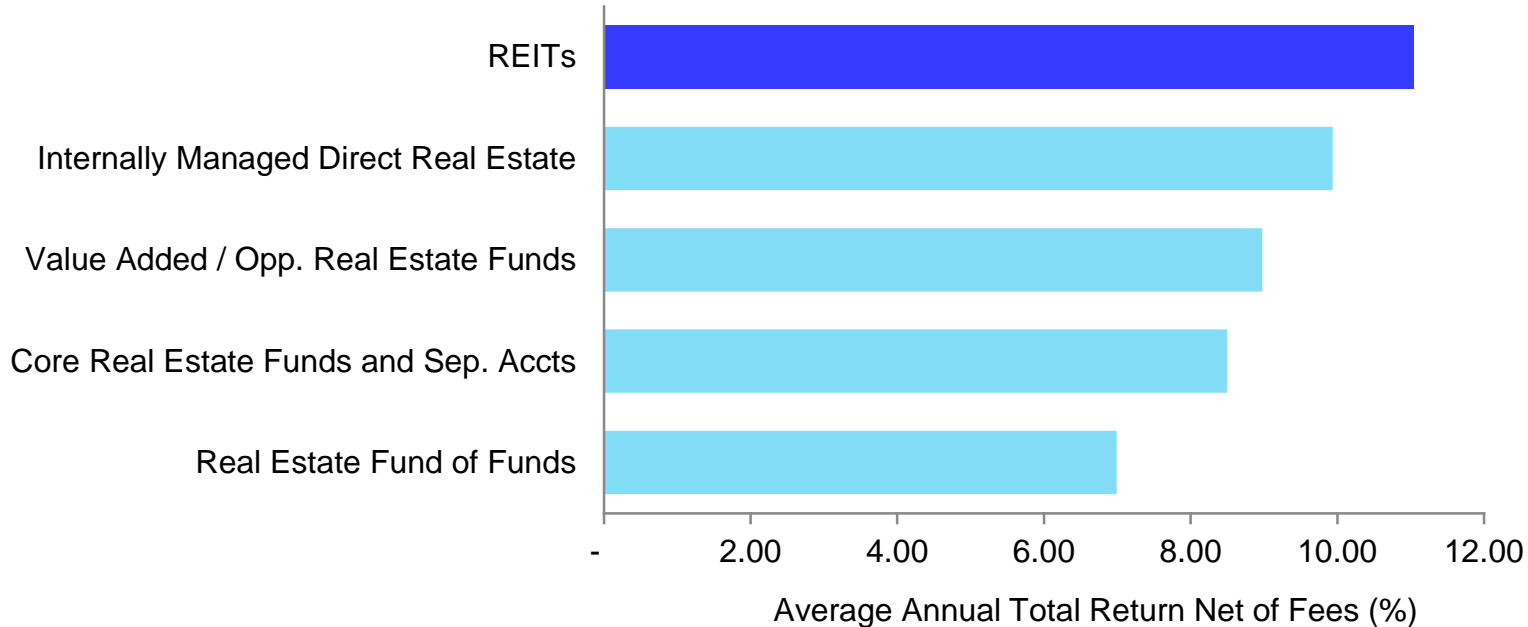
Nareit Real estate benchmarking for you.

Annual Net Total Return and Expense by Asset Class for U.S. Defined Benefit Pension Funds 1998 - 2016



CEM Benchmarking: REITs Outperform All Other Real Estate Styles

Annual Net Total Return for Real Estate and Alternatives
1998 - 2016



Sponsored Research: Wilshire Associates

Asset allocation and fund performance of U.S. pension funds

Nareit Research May 2019

REITs Critical to Retirement Portfolios

Study shows including Real Estate Investment Trusts (REITs) in portfolios boosts returns and reduces risks for retirement savers.

Highlights

- The inclusion of REITs in a retirement portfolio boosts returns and reduces risks.
- REITs play a critical role in improving investment returns and reducing risk in TDFs.
- A portfolio including REITs can significantly boost retirement savings.

Key Results

millions of Americans will depend upon their investment performance.

REITs Important Across the TDF Lifecycle

The figure below summarizes the optimal allocation of U.S. REITs in a retirement portfolio for workers with different retirement horizons.

- REIT allocations range from nearly 14% of the portfolio for a young worker with 40 years to retirement to nearly 8% for an investor near retirement age.

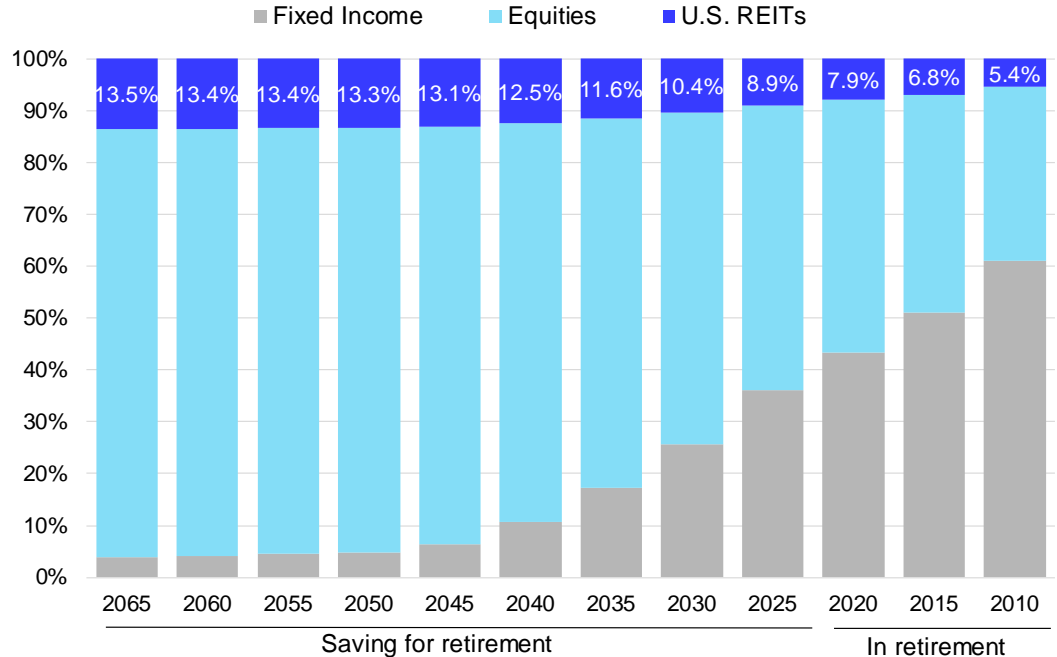
Chart 1: Target Date Fund Glide Path Allocations

Year	Fixed Income	Equities	U.S. REITs
2065	~3%	~82%	13.5%
2060	~4%	~81%	13.4%
2055	~5%	~80%	13.4%
2050	~6%	~79%	13.3%
2045	~8%	~77%	13.1%
2040	~11%	~74%	12.5%
2035	~18%	~68%	11.6%
2030	~25%	~63%	10.4%
2025	~36%	~51%	8.9%
2020	~43%	~44%	7.9%
2015	~50%	~38%	6.8%
2010	~60%	~32%	5.4%

Source: Wilshire Funds Management, 2019. U.S. REITs with surplus optimization methodology.

Source: Wilshire Funds Management, 2019. **Nareit** Real estate working for you.

Target Date Fund Glide Path Allocations



Sponsored Research: EY Economic Contributions

REITs – Building Communities

Nareit Research

February 2019

2.3 Million Jobs Supported By REITs

Study estimates the current economic contribution of all US Real Estate Investment Trusts (REITs) in the United States.

Highlights

- The economic contribution of REITs in 2017 was 2.3 million FTE jobs.
- REITs directly employed 265,000 FTE employees.
- REITs invested \$65.5 billion in capital expenditures to maintain and upgrade existing properties and construction.

Key Results

EY was commissioned by the Nareit to estimate the current economic contribution of all REITs (including public listed, public non-listed, and private REITs) in the U.S. Today, REITs in the United States own approximately \$3 trillion of gross real estate assets and public REIT portfolios included more than 500,000 properties at year-end 2017.

The total economic contribution of U.S. REITs in 2017 was 2.3 million full-time equivalent (FTE) jobs and \$140.4 billion of labor income.

REITs also paid nearly \$19 billion in prop-

erty taxes in 2017.

REIT Economic Contributions

The figure below summarizes the REIT contributions to U.S. employment activity.

- REIT operations supported 866,000 FTE jobs and \$53 billion in labor income.
- Capital expenditures and new construction supported over one million FTE jobs and \$62.1 billion in labor income.
- Dividends distributed and interest payments to investors supported 445,000 jobs and \$25.4 billion in labor income.

Total Economic Contribution of REIT Activities in 2017 (Billions of Dollars and Thousands of Full-Time Equivalent Jobs)

REIT Activity	Direct	Indirect and Induced	Total
Operations			
Labor Income	\$15.2	\$37.7	\$53.0
Employment	265	601	866
Dividends and Interest Payments			
Labor Income	\$0.0	\$25.4	\$25.4
Employment	0	445	445
Construction and Capital Expenditures			
Labor Income	\$29.5	\$32.6	\$62.1
Employment	488	520	1,008
Total			
Labor Income	\$44.7	\$95.7	\$140.4
Employment	752	1,566	2,319

Source: EY, Economic contribution of REITs in the United States 2018. Figures may not sum due to rounding.

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REIT Investment Attributes

Asset Class Access	Investing in REITs is investing in real estate
Diversification	Low correlation with other stocks and bonds
Performance	Strong relative long-term performance in multi-asset portfolios
Dividends	Reliable income returns
Inflation Protection	Both price appreciation and income generally respond to inflation
Liquidity	Bought and sold like other stocks, mutual funds, and ETFs
Market Access	Active/passive and domestic/global funds, direct investment/separate accounts, and ETFs are available
Simplicity	Compared with alternatives, REIT investing is straightforward and transparent
Cost	Average investment cost is around 50 bps

Contact

If you have any questions, please contact the team

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