

2022-2023

# REIT Quick Facts

For financial professionals

**NEW for  
2022-2023**

- Performance Data: REITs and Inflation
- Updated Morningstar® Fact Sheets

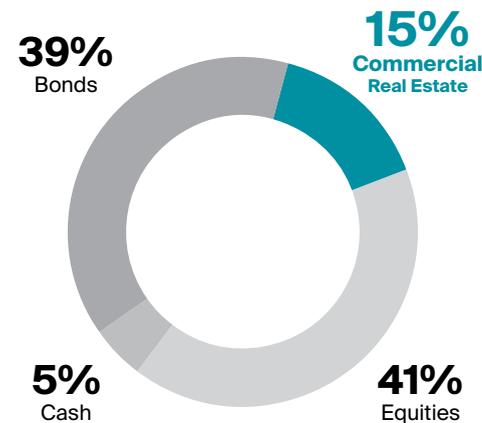
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# Are REITs underrepresented in your clients' portfolios?

If you are among the 83% of financial professionals who recommend the use of REITs<sup>1</sup>, you recognize that:

- 1 In addition to stocks, bonds and cash, commercial real estate is a fundamental asset class representing 15% of the U.S. investment market<sup>2</sup>
- 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 returns<sup>3</sup>

At 15%, commercial real estate is the **third largest asset class** in the U.S. investment market<sup>2</sup>



◀ 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 class<sup>2</sup>

## Liquidity

Bought and sold like other stocks, mutual funds and ETFs

## Diversification

Historic low correlation with other stocks and bonds<sup>4</sup>

## Dividends

Reliable income returns<sup>3</sup> 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, 2021 include:

**10.2%** 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

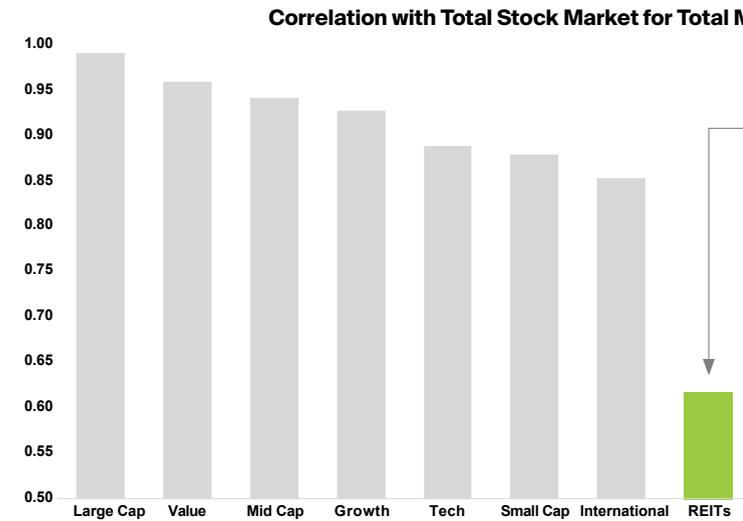
**2.6%** The dividend yield of the Index\* (which was more than double the S&P 500 dividend yield of 1.2%)

\*Key performance data for the FTSE Nareit All Equity REITs Index through 12/31/21. For the latest data, visit [reit.com/data-research](https://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.<sup>6</sup> 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."<sup>1</sup> 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.



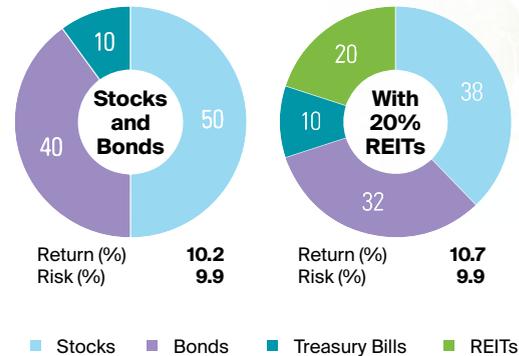
**The low correlation of REITs** with U.S. and global equity indexes has continued to provide meaningful diversification opportunities over a 25-year period.<sup>5</sup>

By contrast, employing size, style or international strategies has provided less diversification benefit.<sup>5</sup>

## 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 (1972-2021)<sup>6</sup>
- 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

# 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%.<sup>6</sup>
- 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%

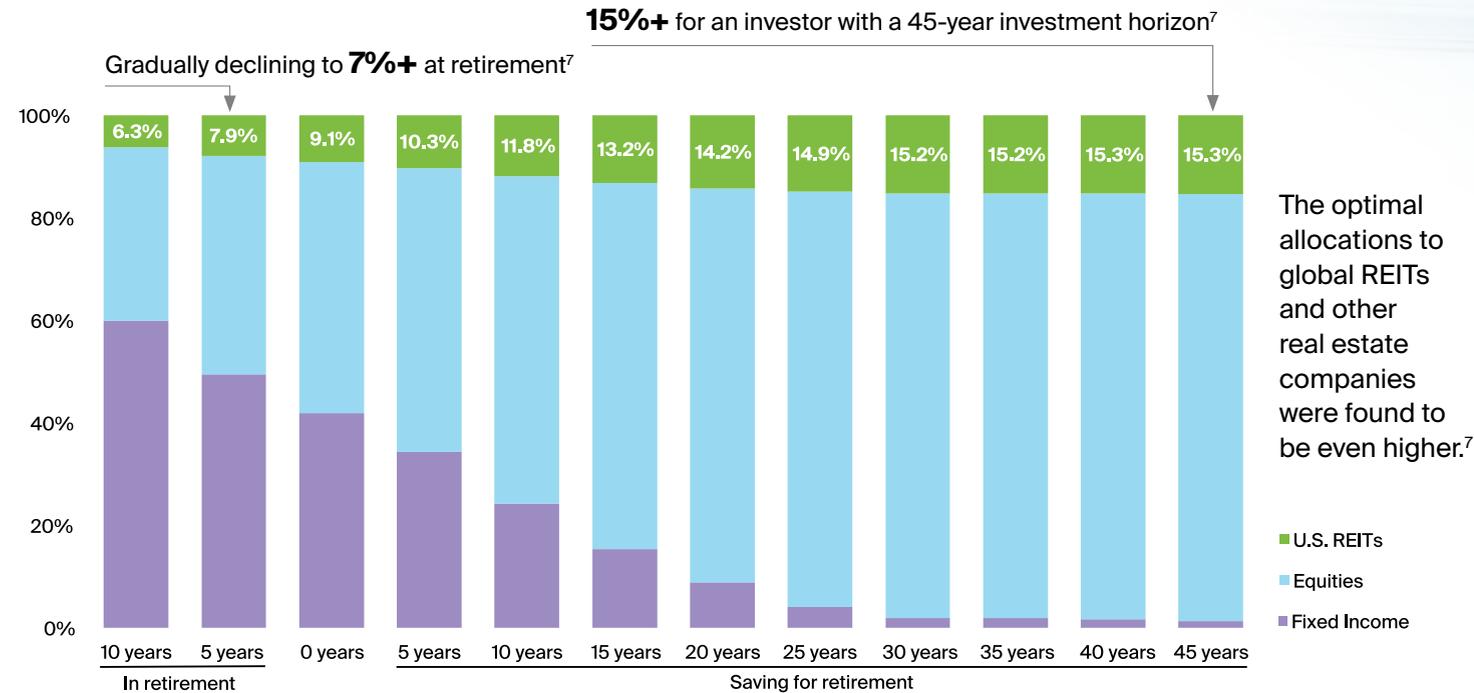
◀ [Leading Perspectives](#)



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.<sup>1</sup>

# How do lifestages affect the optimal REIT allocation?

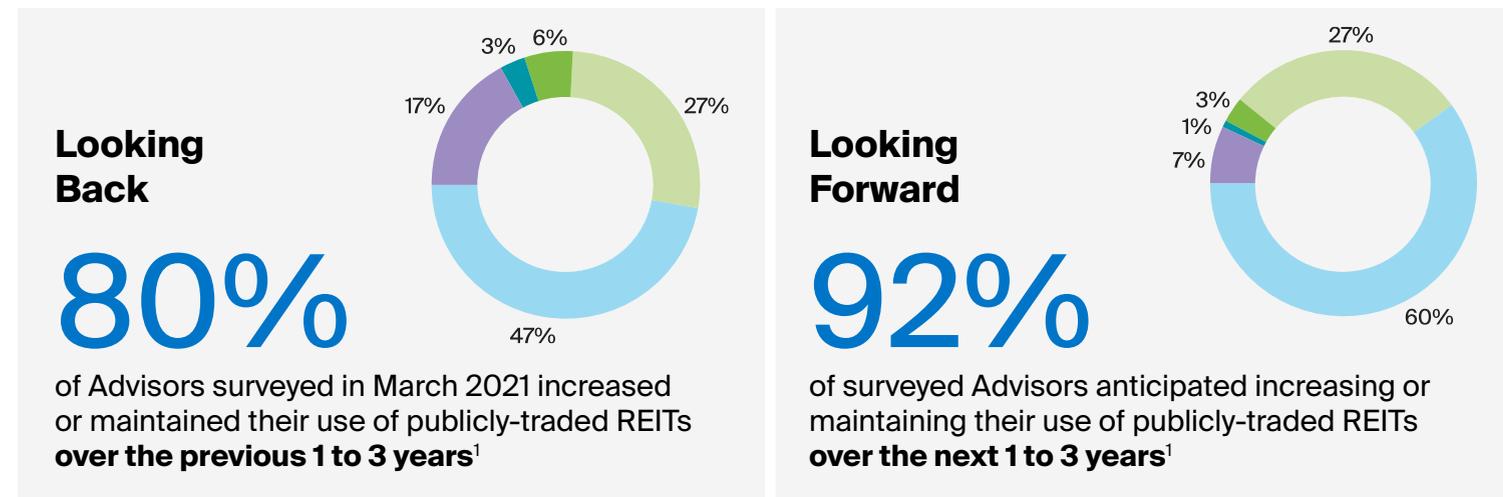
As this Wilshire Funds Management Glide Path Model shows, an optimal allocation for certain investors could start at 15%+ for an investor with a 45-year investment horizon, gradually declining to 7%+ at retirement and 6%+ after 10 years in retirement.<sup>7</sup>



← 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.



■ 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](#)



# REITs have historically outperformed the broader stock market during periods of high inflation

For example:

From 1972 through 2021  
when inflation was  
7.0% and higher<sup>8</sup>

The average total stock market return was:

**13.4%**  
REITs

**7.7%**  
S&P 500

**Higher income returns** generate this outperformance when rents adjust upwards as new leases are signed and REITs increase dividends to pay out the higher income.

In addition, Equity REITs own buildings — a real asset — whose value has tended to rise with increases in the price level. This has helped to:

- **protect** REIT investors against inflation; and
- **generate** price gains in stock valuations.

[Learn more](#)

◀ [REITs and Inflation](#)

# Looking closer at REIT performance

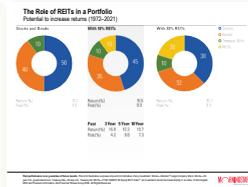
Here's what these Morningstar® Fact Sheets reveal about past REIT performance for the 50-year period ending December 31, 2021 (the longest period for which data are available):

## Largest Increase



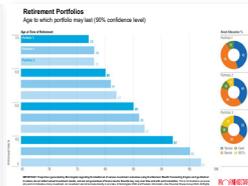
Compared to bonds, T-Bills and other stocks, REITs provided the **largest increase** in wealth over 50 years. [Details](#)

## Increased Returns



Adding REITs to a hypothetical portfolio **increased returns with no increase in risk.** [Details](#)

## Extended Lifespan

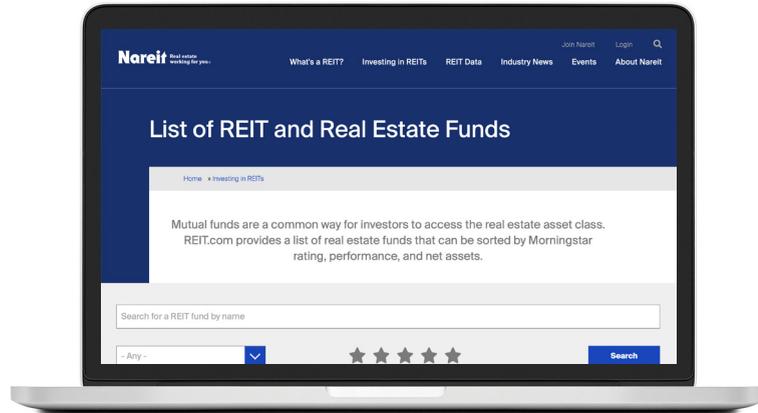


Adding REITs to a hypothetical portfolio **reduced the risk of outliving assets** for retirees. [Details](#)

[Click here to view, download or print the Fact Sheets](#)

[Morningstar® Fact Sheets](#)

# Learn more and 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](https://reit.com/investing/reit-funds)
- ▶ **ACCESS** performance details on individual REITs: [reit.com/investing/reit-directory](https://reit.com/investing/reit-directory)

◀ [Searchable Database](#)

# How REITs work

Watch our educational videos explaining the basics of the REIT approach to real estate investment.

## Learn more at

Visit now for easy access to:

- Printable Morningstar Fact Sheets
- Featured Research
- Articles and Publications
- List of REIT Funds
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- REIT FAQs and more

[◀ Additional Resources](#)

[Morningstar® Fact Sheets](#) | [Market Commentary](#)

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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, 2021:Q4; commercial real estate market size data based on Nareit analysis of CoStar property data and CoStar estimates of Commercial Real Estate Market Size, 2021:Q4.
3. Source: Nareit sponsored study by Wilshire Funds Management – Income Oriented Portfolios – Challenges and Solutions, October 2016
4. Source: CEM Benchmarking, 2020, available at <https://www.reit.com/data-research/research/updated-cem-benchmarking-study-highlights-reit-performance>
5. Source: Nareit, FactSet. Data as of December 2021. 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: Nareit sponsored study by Wilshire Funds Management, 2020 – The Role of REITs and Listed Real Estate Equities in Target Date Fund Allocations. Large-cap stocks – Wilshire U.S. Large Cap Index; Small-cap stocks – Wilshire U.S. Small Cap Index; International stocks – MSCI EAFE Index; Emerging Market Equities – MSCI Emerging Markets Index; U.S. bonds - Barclays U.S. Aggregate Bond Index; Non-U.S. bonds – Citigroup Non-USD World GBI; U.S. REITs – FTSE Nareit All Equity REIT Index.
8. Nareit analysis of prices for the FTSE Nareit All Equity REIT Index and S&P 500 Index; 1972-2021; inflation measured for all items, all urban consumers.

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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