February 2022

REIT Industry Update

Commercial Real Estate Recovery

REITs had a difficult 2020, as pandemic-related concerns weighed heavily on real estate amidst the economic shutdowns. 2021 has shown the rebound, as the commercial real estate recovery from COVID-19 difficulties buoyed stocks up 39 percent with the 10-Year Treasury ending at 1.51 percent.[1] Similarly, private market valuations also recovered, with Green Street Advisors' Commercial Property Price Index suggesting that values are up 24 percent over the past twelve months. Their data shows commercial property has recovered from the recent 2019 trough, now surpassing the 2007 peak levels by 55 percent.[2] Providing support for real estate valuations are capital markets that remain open, particularly in debt markets for quality real estate. Growth in real estate demand has been sufficient to stabilize occupancy levels in the mid-90 percent range.[3] In a post-vaccine environment, landlords are beginning to focus more on pricing as demand begins to stabilize.

Inflation Worries and REITs

Inflation is starting to pop up everywhere, from rents to restaurant menus. Through a confluence of factors, including labor scarcity and supply chain bottlenecks, inflation has proven to be more stubborn than initially thought. As the Federal Reserve struggles to stay on top of it, rates rose quickly in January 2022 as rate expectations and the pace of hikes shot up meaningfully.

Amidst that backdrop, REITs were impacted, bringing one of the core tenets of commercial investing into focus. How does real estate fare in inflationary, and therefore rising rate, environments? The basics of real estate investing holds, whereby landlords increase rents to keep up with rising prices. However, what is additive this time around is the recovery yet to come in many asset classes. Hotels and senior housing facilities have years to catch up to 2019 levels. Office workers remain in limbo, but the eventual return to office should positively thaw tenant decisions while improving ancillary revenues such as parking. Even apartments, which fared relatively fine through the pandemic, should benefit from multiple drivers, such as expiring pricing restrictions and eviction moratoriums. REITs are well positioned to prove out their standing once again as a core holding to hedge against inflation.

1 Bloomberg 12.31.2021–REITs are represented by the FTSE NAREIT Equity Index. **2** Green Street Advisors, Inc., *Commercial Property Price Index*, January 2022. **3** Citi Investment Research & Analysis, *Weekly REIT and Lodging Strategy*, January 28, 2022.

The Case for REITs

During the fourth quarter of 2021 equity REITs delivered a 16 percent total return compared to 11 percent for the S&P 500 index.[1] Guggenheim Investments LLC feels public real estate offers several benefits for an individual investor's portfolio that are particularly relevant in today's environment:

- REITs may provide attractive current income with the potential for future dividend growth as underlying property cash flows grow over time.
- Real estate provides inflation hedging characteristics as underlying rents, property cash flows, and replacement costs have historically adjusted with inflation over the long run.
- REITs historically offer low correlation with other stocks and bonds.

For information on investment products offering REIT market exposure, please contact your financial advisor or visit GuggenheimInvestments.com.

Index Definitions (Each index is unmanaged and it is not possible to invest directly in any index.) **FTSE NAREIT Equity REIT Index** is a free float-adjusted index of REITs that own, manage, and lease investment-grade commercial real-estate. **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. **Green Street Commercial Property Price Index** ("CPPI") is a time series of unleveraged U.S. commercial property values. CPPI captures the prices at which commercial real estate transactions are currently being negotiated and contracted.

Risk Considerations Past performance does not guarantee future results. These illustrations are not representative of any Guggenheim Investments product. There are risks associated with investing, including the entire loss of principal you invest. In general, equity securities will fall due to general market and economic conditions, perceptions regarding the industries, or factors relating to specific companies. Focusing on an industry/sector may present more risks than investing in securities that are more broadly diversified over numerous industries and sectors of the economy. Investments in REITs entail risks. REITs may concentrate their investments in specific geographic areas or in specific property types, such as hotels, shopping malls, residential complexes and office buildings. The value of the REIT and the ability of the REIT to distribute income may be adversely affected by several factors, including: rising interest rates; changes in the national, state and local economic climate and real estate conditions; perceptions of prospective tenants about the safety, convenience and attractiveness of the properties; the ability of the owner to provide adequate management, maintenance and insurance; the cost of complying with the Americans with Disabilities Act; increased competition from new properties; the impact of present or future environmental legislation and compliance with environmental laws; changes in real estate taxes and other operating expenses; adverse changes in governmental rules and fiscal policies; adverse changes in zoning laws; declines in the value of real estate; the downturn in the subprime mortgage lending market in the United States; and other factors beyond the control of the issuer of the REIT.