April 2016

REIT Industry Update

Commercial Real Estate Continues to Perform Well

REITs have performed relatively well thus far in 2016, once again outperforming the S&P. Despite a rocky start to the year, REITs are sitting up 5 percent.[1] While the December 2015 Fed rate hike triggered fears about a hawkish environment for REITs going into 2016, the Fed softened their tone considerably amidst a sluggish global economy. The 10 year Treasury troughed at 1.66 percent[1] in February and remain low. Meanwhile, private market valuation trends remain robust, with Green Street Advisors' Commercial Property Price Index suggesting that values have increased 8 percent over the past twelve months.[2] Their data shows commercial property having fully recovered from the 2009 lows, now surpassing the 2007 peak levels by 23 percent.[2] Providing support for real estate valuations are capital markets that remain robust with multiple financing alternatives open. Despite the tepid economic recovery, growth in real estate demand has been sufficient to stabilize occupancy levels in the mid-90 percent range.[3] Steady gains in leasing amidst near-historic lows in supply are translating into increased pricing power for landlords and rising market rents for most subsectors. Overall property-level operating income is expected to increase, and as a result of the positive fundamentals, REIT earnings should pace in the mid-single digit range for 2016.[3] Dividend growth should parallel earnings growth, as current dividend payout ratios remain below historical norms.

Public Equity Markets Reopening

The equity market rebound from the February lows has meant that REITs are now back trading above their private market values. Hence, companies are finding it attractive to issue shares at these levels, tapping the equity market for acquisitions, deleveraging (First Industrial, Spirit Realty), and providing liquidity for sponsors to exit (STOR Capital). There is also a sizable IPO in the queue (MGM Growth Properties, $1Bn IPO). Despite ongoing concerns about the broader economy, REITs are finding plentiful capital to play both offense and defense.

The Case for REITs

Through the first quarter of 2016 equity REITs delivered a 6.18 percent total return compared to 1.35 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.
- REIT earnings should be relatively resilient during economic downturns as a large portion of rental revenues are derived from contractual lease obligations.

1 Bloomberg, March 31, 2016. 2 Green Street Advisors, Inc., "Commercial Property Price Index, April 6, 2016. 3 Citi Investment Research & Analysis, "Weekly REIT and Lodging Strategy", April 08, 2016.

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.) **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. **MSCI US REIT Index** is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities.