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. 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 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. Their data shows commercial property having fully recovered from the 2009 lows, now surpassing the 2007 peak levels by 23 percent. 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. 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. 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. 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.

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

The real estate market and economic commentary represents the opinion and views of Guggenheim Partners, LLC based on current market conditions as of April 2016 and is subject to change without notice. Accordingly, no representation or warranty is made to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose. The views expressed in this presentation are the views of Guggenheim Partners, LLC and are subject to change based on market and other conditions. The opinions expressed may differ from those of other entities affiliated with Guggenheim Partners, LLC that use different investment philosophies. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

**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.

**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.

Consider the investment objectives, risks, charges, and ongoing expenses of any investment product carefully before investing. The prospectus contains this and other relevant information. Please read the prospectus carefully before investing. Obtain a prospectus for investment products distributed by Guggenheim Funds Distributors, LLC at GuggenheimFunds.com or call 800 345 7999 and for investment products distributed by Guggenheim Distributors, LLC at GuggenheimInvestments.com or call 800 820 0888.

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC (“GP”), which includes Security Investors, LLC (“SI”) and Guggenheim Funds Investment Advisors, LLC (“GFA”), the investment advisers to the referenced funds. Guggenheim Funds Distributors, LLC is affiliated with GP, SI and GFA.

Member FINRA/SIPC REITUPDT-0416 #22302