

April 2017

REIT Industry Update

Commercial Real Estate Hits a Pause

After years of REIT outperformance relative to the S&P 500® Index, REITs took a breather in 2016. Amidst a rising rate environment, REITs finished up 8.79 percent¹ as the 10-year climbed to 2.44 percent² by year-end. Thus far in 2017, REITs are up 2.13 percent.³ Meanwhile, private market valuations are holding firm, with Green Street Advisors' Commercial Property Price Index suggesting that values have increased 2 percent over the past 12 months.⁴ Their data shows commercial property having recovered from the 2009 lows, currently surpassing the 2007 peak levels by 26 percent.⁴ Providing support for real estate valuations are capital markets that remain robust with multiple financing alternatives available. Despite the tepid economic recovery, growth in real estate demand has been sufficient to stabilize occupancy levels historically, on average, in the mid-90 percent range.⁵ Steady gains in leasing amidst low supply are translating into increased pricing power for landlords and stable to rising market rents for most subsectors. Overall property-level operating income is expected to grow at roughly 3 percent annual pace.⁵ As a result of the positive fundamentals, REIT earnings should pace in the mid-single digit range for 2017.⁵ Guggenheim believes dividend growth should parallel earnings growth, as current dividend payout ratios remain below historical norms.

Nontraditional REITs Taking Growth Leadership

Commercial real estate has traditionally been defined by sectors such as office, retail, industrial and apartments. It wasn't long ago that niche sectors such as healthcare REITs were small and below the radar. Today, the healthcare sector comprises approximately 12.8 percent⁶ of the REIT Index. Data centers, a small 2-company sector for some time, has likewise grown quickly to represent 7.2 percent⁶ of the Index and has been one of the best performing REIT sectors of late. Another new sector holding promise is the single family rental sector, which has also performed very well. These nontraditional REITs continue to demonstrate the growing and diversified nature of REITs, supporting a broad segment of the economy.

1-3, 7 Bloomberg, 4.7.2017.

4 Green Street Advisors, Inc., "Commercial Property Price Index," 4.7.2017. **Past performance does not guarantee future results.** Index performance is presented for illustrative purposes only and is not meant to represent any particular fund. Returns do not reflect any management fees, transaction costs or expenses. The index is unmanaged and not available for direct investment.

5 Citi Investment Research & Analysis, "Weekly REIT and Lodging Strategy," 4.7.2017.

6 Bloomberg, 4.6.2017.

The Case for REITs

Through the first quarter of 2017 equity REITs delivered a 1.16 percent total return compared to 6.07 percent for the S&P 500 Index.⁷ Guggenheim Investments 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.

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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.

Read a prospectus and summary prospectus (if available) carefully before investing. It contains the investment objective, risks, charges, expenses, and the other information, which should be considered carefully before investing. To obtain a prospectus and summary prospectus visit GuggenheimInvestments.com or call 800 820 0888.

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