

February 2018

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 2017. Amidst the expectations of a rising rate environment, REITs finished up 5.22 percent as the 10 year closed at 2.41 percent by year-end. Thus far in 2018, REITs continue to lag, down 9.76 percent with the 10 year hitting 2.80 percent.¹ Meanwhile, private market valuations are holding firm, with Green Street Advisors' Commercial Property Price Index suggesting that values have stayed steady over the past twelve months. Their data shows commercial property having fully recovered from the 2009 lows, now surpassing the 2007 peak levels by 26 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 low supply are translating into solid pricing power for landlords and stable to rising market rents for most subsectors. Guggenheim believes overall property-level operating income is expected to grow at roughly 3 percent annual pace. As a result of the positive fundamentals, REIT earnings should pace in the mid-single digit range for 2018.³ Guggenheim believes dividend growth should parallel earnings growth, as current dividend payout ratios remain below historical norms.

Commercial Real Estate Looks Reasonably Priced to Bonds

When looking at the returns of alternative investments, real estate very often gets compared to fixed income securities—more specifically, BAA-rated (investment-grade) bonds.⁴ Over the long-run, commercial real estate sector returns have averaged roughly 1.50 percent above that of BAA yields⁵. Today, that metric stands at 1.75 percent, suggesting that commercial real estate values are reasonably priced in the current environment.

The Case for REITs

Through the fourth quarter of 2017 equity REITs delivered a 1.51 percent total return compared to 6.64 percent for the S&P 500[®] Index.¹ Guggenheim 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, February 6, 2018. ² Green Street Advisors, Inc., Commercial Property Price Index, February 6, 2018. 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. ³ Citi Investment Research & Analysis, Weekly REIT and Lodging Strategy, February 2, 2018. ⁴ Credit quality, as rated by Moody's, is an assessment of the credit worthiness of an issuer of a security. Ratings are measured using a scale that typically ranges from Aaa (highest) to C (lowest). Moody's judges obligations rated Baa to be medium-grade. ⁵ Green Street Advisors, Inc., Real Estate Securities Monthly, February 2018.

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 August 2017 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.

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.

This material is not intended as a recommendation or as investment advice of any kind. Such material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. All content has been provided for informational or educational purposes only and is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax, and/or legal professional regarding your specific situation.

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.

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC ("Guggenheim"). **Securities offered through Guggenheim Funds Distributors, LLC.** Guggenheim Funds Distributors, LLC is affiliated with Guggenheim Partners, LLC.

Member FINRA/SIPC REITUPDT-0218 #32405