GUGGENHEIM

Innovative Solutions. **Enduring Values.**®

February 2020

REIT Industry Update

Commercial Real Estate Marches On

REITs had another solid year in 2019. Falling yields provided a healthy backdrop for REITs, which finished 2019 up 26.0 percent as the 10-year closed at 1.92 percent.[1] REITs continue to march on, up 1.50 percent thus far in 2020 and aided by the 10-year falling to 1.53 percent.[1] Meanwhile, private market valuations are holding firm, with Green Street Advisors' Commercial Property Price Index suggesting that values are up 3 percent over the past twelve months. Their data shows commercial property has fully recovered from the 2009 lows, now surpassing the 2007 peak levels by 35 percent.[2] Providing support for real estate valuations are capital markets that remain robust with multiple financing alternatives open. 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. Overall, property-level operating income is expected to grow at roughly a 3 percent annual pace. As a result of the positive fundamentals, REIT earnings should pace in the low-single digit range for 2020.[3] Dividend growth should parallel earnings growth, as current dividend payout ratios remain below historical norms.

Safety Amidst Global Tumult

REITs have traditionally been considered a safe haven in turbulent global markets. The recent bout of market volatility brought on by the coronavirus (nCov) has proved no different. As yields plummet and investors look for safety, REITs have outperformed other equities. Since the announcement of the first death from nCov, the 10-year has dropped over 30bps and REITs have outperformed the S&P by over 2 percent.[1] With its stable cash flows and higher dividend yields, REITs' defensive characteristics should continue to shine in adverse market conditions.

The Case for REITs

During the fourth quarter of 2019 equity REITs delivered a -0.76 percent total return compared to 9.06 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 1Bloomberg, 2.4.2020-REITs represented by the FTSE NAREIT Equity Index. **2** Green Street Advisors, Inc., Commercial Property Price Index, January 2020. **3** Citi Investment Research & Analysis, Weekly REIT and Lodging Strategy, January 31, 2020.

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.