Our Agenda for Today

- Introduction to REITs
- Why Add REITs to your Portfolio
- Managing Risk
- Top REIT Players
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“The stock investor is neither right or wrong because others agreed or disagreed with him; he is right because his facts and analysis are right.”

Benjamin Graham, The Intelligent Investor
Introduction To REITs
Introduction to REITs

What are REITs?

- Real Estate Investment Trusts - A company that own or finances income producing real estate.

- REITs provide high dividend yields and long term capital appreciation.

- REITs diversify portfolios by creating exposure to large commercial real estate.

- Some REITs are traded publicly on exchanges and other Private REITs are not.

Types of REITs

- **Equity REITs** generate income through the collection of rent on, and from sales of the properties they own for the long-term.

- **Mortgage REITs** invest in mortgages or mortgage securities tied to commercial and/or residential properties.
Introduction to REITs

Rules that REITs Follow

- REITs differ from Corporations in a few distinct ways
  - REITs must acquire 75% of their income from collecting rent as well as maintain 75% of assets in Real Estate.
  - They also must pay out 90% of their taxable income in the form of dividends.
  - Because of their large payout requirements, they pay no corporate taxes.

Property Diversification

- There are 16 major sectors within the REIT market, each owning very specific types of Real Estate.
- Some of the categories could be lumped together, such as the types of retail, but separating them gives a clearer picture.
- In general, asset classes with longer lease periods, such as Triple Net, are less risky compared to shorter lease periods.
Introduction to REITs

What makes up the REIT market?

REIT Sector Breakdown

- Manufactured Housing
- Mortgage REITs
- Single Family Rentals
- Other
- Timber
- Shopping Centers
- Lodging/Hotel
- Self Storage
- Data Sector
- Triple Net
- Infrastructure
- Health Care
- Office/Industrial
- Mall
- Residential

Investment Performance by Property Sector and Subsector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Constituents</th>
<th>Total Return (%)</th>
<th>December 2017: YTD (%)</th>
<th>Dividend Yield (%)</th>
<th>Market Capitalization ($)</th>
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</thead>
<tbody>
<tr>
<td>FTSE NAREIT All Equity REITs</td>
<td>166</td>
<td>8.63</td>
<td>2.65</td>
<td>8.99</td>
<td>3.78</td>
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<td>Office</td>
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<td>Retail</td>
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<td>2.80</td>
<td>3.79</td>
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<td>Shopping Centers</td>
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<td>0.95</td>
<td>2.76</td>
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<td>Regional Malls</td>
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<td>3.68</td>
<td>3.81</td>
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<td>Free Standing</td>
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<td>-5.20</td>
<td>9.31</td>
<td>-7.13</td>
<td>4.76</td>
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<td>Residential</td>
<td>7</td>
<td>17.02</td>
<td>3.34</td>
<td>-8.05</td>
<td>5.02</td>
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<td>Manufactured Homes</td>
<td>20</td>
<td>4.54</td>
<td>0.29</td>
<td>9.18</td>
<td>8.25</td>
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<tr>
<td>Single Family Homes</td>
<td>20</td>
<td>14.15</td>
<td>2.62</td>
<td>25.34</td>
<td>3.24</td>
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<tr>
<td>Apartments</td>
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<td>2.65</td>
<td>2.80</td>
<td>16.05</td>
<td>1.13</td>
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<tr>
<td>Diversified</td>
<td>17</td>
<td>10.27</td>
<td>1.67</td>
<td>1.00</td>
<td>5.00</td>
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<td>Lodging/Resorts</td>
<td>17</td>
<td>24.34</td>
<td>2.11</td>
<td>6.32</td>
<td>4.54</td>
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<td>Health Care</td>
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<td>6.41</td>
<td>1.49</td>
<td>3.90</td>
<td>5.61</td>
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<td>Self Storage</td>
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<td>-8.14</td>
<td>4.09</td>
<td>3.42</td>
<td>3.80</td>
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<td>Timber</td>
<td>4</td>
<td>8.28</td>
<td>0.18</td>
<td>22.30</td>
<td>3.53</td>
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<td>Infrastructure</td>
<td>6</td>
<td>10.04</td>
<td>2.93</td>
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<td>2.39</td>
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<td>Data Centers</td>
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<td>26.41</td>
<td>-0.27</td>
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<td>Specialty</td>
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<td>19.95</td>
<td>1.60</td>
<td>16.55</td>
<td>5.90</td>
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<td>FTSE NAREIT Mortgage REITs</td>
<td>36</td>
<td>22.85</td>
<td>0.57</td>
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<td>9.88</td>
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<td>Home Financing</td>
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<td>25.87</td>
<td>0.46</td>
<td>19.62</td>
<td>10.69</td>
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<td>Commercial Financing</td>
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<td>14.33</td>
<td>0.99</td>
<td>8.56</td>
<td>7.43</td>
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</table>

Source: FTSE NAREIT.
REITs vs Other Asset Classes

- REITs have posted the highest returns from 1998-2015, and had far less expenses than classes like Hedge Funds.
- REITs also out-perform all other forms of real estate investment such as unlisted real estate.
- REITs are less inclined to spend excess cash on projects that have low likelihood of performing well. Corporations often do this in order to have less taxable income, and inadvertently hurt shareholders.
REITs vs Other Asset Classes

Average Volatility of all Asset Classes

REITs Just the Right Amount of Volatility

- REITs have a higher volatility than other fixed income allowing for higher returns.

- They also have the highest Sharpe ratio behind fixed income proving they have the strongest risk return profile.

- When compared to Unlisted Real Estate, REITs have a very similar risk profile, yet they return far more for the minute increase in risk.
# Introduction to REITs

## YTD Sector Returns

### 2017 YTD Returns

<table>
<thead>
<tr>
<th>Sector</th>
<th>All REITs</th>
<th>All Equity REITs</th>
<th>S&amp;P 500</th>
<th>Russell 2000</th>
<th>NASDAQ Composite</th>
<th>Dow Jones Industrial Average</th>
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</thead>
<tbody>
<tr>
<td>1-Year</td>
<td>8.79</td>
<td>8.23</td>
<td>23.63</td>
<td>27.85</td>
<td>31.13</td>
<td>32.07</td>
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<td>3-Year</td>
<td>7.21</td>
<td>7.11</td>
<td>10.77</td>
<td>10.12</td>
<td>14.6</td>
<td>13.18</td>
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<tr>
<td>5-Year</td>
<td>9.9</td>
<td>10.05</td>
<td>15.18</td>
<td>14.49</td>
<td>19.17</td>
<td>15.12</td>
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<tr>
<td>10-Year</td>
<td>6.01</td>
<td>5.95</td>
<td>7.51</td>
<td>7.63</td>
<td>10.14</td>
<td>8.15</td>
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<tr>
<td>15-Year</td>
<td>10.85</td>
<td>11.35</td>
<td>9.6</td>
<td>11.19</td>
<td>11.41</td>
<td>9.8</td>
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<tr>
<td>20-Year</td>
<td>8.74</td>
<td>9.23</td>
<td>7.31</td>
<td>7.82</td>
<td>7.47</td>
<td>8.37</td>
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<tr>
<td>30-Year</td>
<td>9.88</td>
<td>10.92</td>
<td>10.5</td>
<td>10.45</td>
<td>10.65</td>
<td>8.55</td>
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<tr>
<td>40-Year</td>
<td>11.04</td>
<td>12.63</td>
<td>11.82</td>
<td>11.17</td>
<td>8.74</td>
<td>8.55</td>
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<tr>
<td>1972 - 2017</td>
<td>9.7</td>
<td>11.84</td>
<td>10.54</td>
<td>9.66</td>
<td>7.39</td>
<td></td>
</tr>
</tbody>
</table>
Why Add REITs To Your Portfolio?

- Liquidity
- Diversification
- Transparency
- Dividends
- Performance
Why Add REITs to your Portfolio?

Stock exchange-listed REITs provide the easiest and most efficient way for all investors to invest in real estate.

A: Liquidity
- An economical and efficient way to own income-producing real estate
- A way to eliminate illiquidity risk
- An effective way to make tactical adjustments in a real estate portfolio
- A way to achieve diversification

B: Diversification

C: Transparency

D: Dividends

E: Performance

Average Daily Dollar Trading Volume
FTSE Nareit All REITs
Why Add REITs to your Portfolio?

REITs Historically:

- Provide Low Correlation with Broader Market and Other Assets
- Increase Return/Reduce Risk
- Complete Asset Allocation
- Adding REITs to a portfolio can reduce total portfolio volatility given its low correlation with other assets
- This effect is amplified in cases of balanced portfolios with a higher exposure to equities

Funds From Operations

All Listed U.S. Equity REITs
Why Add REITs to your Portfolio?

A: Liquidity

B: Diversification

C: Transparency

D: Dividends

E: Performance

- Listed REIT reporting and disclosure is governed by the U.S. Securities & Exchange Commission, Generally Accepted Accounting Principles, and the various stock exchanges on which their shares trade.

- Like other publicly registered companies, REITs must disclose financial information to investors and report on material business developments and risks on a timely basis.

- REITs also report Funds from Operations (FFO) as a supplemental earnings measure in their financial statements. FFO is considered by many to be the most reliable metric to value property-owning real estate companies, and provides a good indication of the dividend-paying capacity of REITs. (see my book)
Why Add REITs to your Portfolio?

**Outperformance:**
- In down markets:
  - Dividends can provide support when markets are down
  - High dividend payers tend to outperform in down markets

**Inflation:**
- Inflation can eat away at the value of your portfolio
- Dividends have historically outperformed inflation, helping to protect your purchasing power

REIT Dividends Historically Have Provided:
- Wealth Accumulation
- Reliable Income Returns
- Reduced Portfolio Volatility
- Inflation Protection
- REITs are designed to pay dividends to its shareholders
- U.S. REITs must distribute at least 90% of their annual taxable net income to maintain their REIT status
- REITs have offered higher dividend yields than equities with similar risk profiles.

Dividends Paid
All Listed U.S. Equity REITs
Why Add REITs to your Portfolio?

REITs Provide:

- An economical and efficient way to own income-producing real estate
- An effective way to make tactical adjustments in a real estate portfolio
- Adding US Equity REITs can increase the total return of the portfolio
- According to a NAREIT research, since 1972 the US Equity REITs Sector has outperformed most popular US indices

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**A: Liquidity**

**B: Diversification**

**C: Transparency**

**D: Dividends**

**E: Performance**
Managing Risk
Occupancy Rates
Since 2009 occupancy rates for most all property sectors have improved and are now higher than rates prior to the last recession.

Development Pipeline
REITs are actively developing new properties; however, the capital markets are more disciplined whereby REITs are managing risk without overbuilding.
Managing Risk
Lowering Cost of Capital

Debt to Total Assets
Since 2009 REITs have significantly reduced leverage and today the average Debt to Total Asset ratio is under 35%.

Weighted Average Interest Rate on Total Debt
Since 2009 REITs have reduced their overall cost of capital, and the average interest rate on debt today is around 4%.
Managing Risk
Catalysts to the REIT Market

Tax Reform

Keep in mind, REITs are differentiated from most stocks because REITs must payout at least 90% of their taxable income in the form of dividends (most payout 100%). Accordingly, REITs do not pay taxes at the corporate level, instead investors pay them at the individual level.

However, under the new tax ruling (now in conference), Republicans are proposing to lower the top tax rate on the income that REITs and other business pass through entities generate to shareholders from 39.6% (highest bracket) to 25% (Senate proposing 29.6%).

REIT dividends could be worth 20% more

Creation of GICS Real Estate

Last October, the REIT industry experienced a watershed event when Standard & Poors created a new Global Industry Classification Standard (GICS) sector called Real Estate. Publicly traded equity REITs have been removed from Financials, where they have been classified since their creation in 1960, and have begun trading as their own S&P Sector.

REIT Milestones:

1960: President Eisenhower signs the REIT Act into law
1965: First REIT is listed on the New York Stock Exchange
1969: REITs go global (as of today, 31 countries have enacted REIT legislation, with another 10 underway)
1986: The Tax Reform Act makes the U.S. REIT structure more compelling for both companies and investors
1991: The modern REIT era begins with the IPO of Kimco Realty
2001: First REIT is added to the S&P 500
2016: Real estate becomes the 11th GICS sector
Rising interest rates put upward pressure on cap rates, lowering NAV; however, the good outweighs the bad.

Rising rates also means the FED is confident in the economy’s ability to continue expansion. This expansion increases base rents and overall occupancy, outweighing the effect of higher cap rates.

Since the late 1990s rates have been pushed up 16 times and REIT values increased in 12 of those periods. Note: in the graph above we see Cap rates and Interest rated diverging and converging regularly, showing that their perceived correlation is not found historically often.
Top REIT Players
Top REIT Players

HCP

HCP Inc. (NYSE:HCP)

FastGraph Charts Here
Top REIT Players

CyrusOne (CONE)
Top REIT Players
Digital Realty Trust (DLR)
Top REIT Players
Realty Income (O)

Realty Income Corporation (NYSE: O)

- **Earnings Data**
  - **Price**: $33.30 USD
  - **P/E Ratio**: 18.0
  - **Dividend Yield**: 4.0%

- **FFO Growth Rate**
  - **2016**: 4.0%
  - **2017**: 3.0%
  - **2018**: 3.0%
  - **2019**: 3.0%

- **Price History**
  - **2016 High**: $72.30
  - **2016 Low**: $50.47
  - **2017 High**: $63.60
  - **2017 Low**: $52.80
  - **2018 High**: $57.06
  - **2018 Low**: $47.20
  - **2019 High**: N/A
  - **2019 Low**: N/A

- **Growth Trends**
  - **FFO Growth**
    - **2016**: 2.88
    - **2017**: 2.82
    - **2018**: 3.18E
    - **2019**: 3.27E
  - **Dividends Growth**
    - **2016**: 2.40
    - **2017**: 2.54
    - **2018**: 2.64
    - **2019**: 2.72

- **Historical Graph**
  - clickable links for more details

- **Risk Factors**
  - Industry Class
  - Retail REITs
  - Market Cap: 18,260B
  - S&P Credit Rating: BBB+
  - Dividend History
  - United States
  - Common Stock
  - Stock Split: (1)

- **Additional Resources**
  - www.fastgraphs.com

Historical Graph - Copyright © 2018, F.A.S.T. Graphs™, All Rights Reserved
Top REIT Players
Federal Realty Investment Trust (FRT)
Top REIT Players

Public Storage (PSA)
Top REIT Players
STAG Industrial (STAG)

STAG Industrial Inc. (NYSE: STAG)

FAST FACTS
- 05/11/2018
- Price: 26.64 USD
- Common Stock
- P/FFO: 15.4
- Div Yld: 6.2%
- Color Coded
- Recession
- Dividends Declared
- Dividends
- Normal P/FFO Ratio: 14.5
- FFO Growth Rate: 6.1%
- GDD...FFFO: 15.0

Sub-Industry Class: Industrial REITs
- Market Cap: 2.508 B
- 45% Debt/Cap
- NYSE
- United States
- Common Stock
- Stock Splits (0)

Tip: To toggle lines on the graph click corresponding legend item

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Top REIT Players
Washington Prime (W.P. Glimcher) (WPG)
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The Intelligent REIT Investor

The Intelligent REIT Investor is the definitive guide to real estate investment trusts, providing a clear, concise resource for individual investors, financial planners, and analysts—anyone who prioritizes dividend income and risk management as major components to wealth-building.

#1 on Seeking Alpha

Brad is the #1 analyst on Seeking Alpha and the Editor of the Forbes Real Estate Investor newsletter. He has a following of over 40,000 on Seeking Alpha.

Forbes Newsletter

The Forbes Real Estate Investor is a monthly REIT publication covering all areas of the REIT universe. In it Brad gives subscribers access to the latest REIT news as well as his model portfolios and REIT current valuations.

iREITInvestor.com

Brad Thomas leverages his background as a real estate developer and advisor to national retailers to bring practical, real-time insights to Premium Content subscribers.
“In the short run the market is a voting machine, but in the long run it is a weighing machine.”

-Benjamin Graham