Why REITs?

Five Reasons to Invest in Real Estate Through Public Markets

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Commercial real estate equity investment has long been recognized as a core asset class by large and small institutional investors, including pension and retirement funds. These investments can be efficiently accessed through listed real estate investment trusts (REITs) and property companies. REITs provide investors **attractive total returns and stable dividend income** through a **liquid real estate allocation** with transparency and moderate volatility, **low correlations** to the broader equity market, **stability** through cycles, and **easier access** to property sectors where the highest quality real estate is only available through REITs.

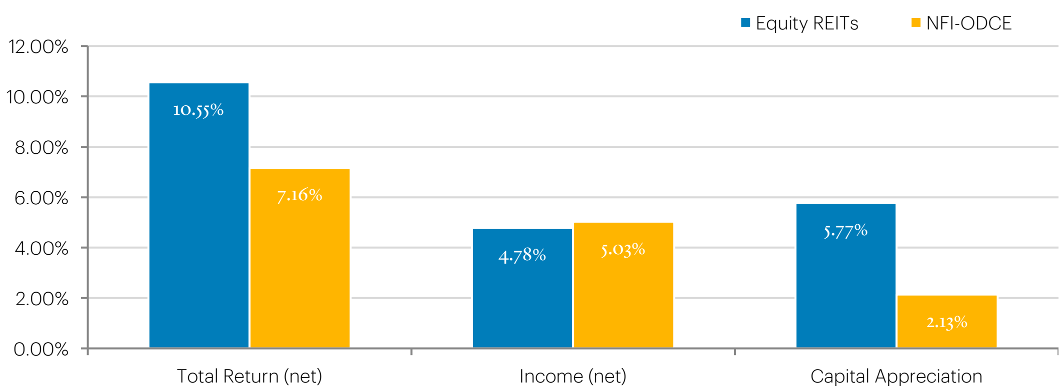
In examining the benefits of an allocation to REITs, we also look at common misperceptions investors may have of the asset class, one of which is that REITs are not real estate. We also examine how investors can efficiently access real estate through REITs.

REITs have generated higher total returns and capital appreciation than private core real estate investments

Delivering Attractive Total Returns and Stable Income

An allocation to REITs can play a positive role in an investor's portfolio, not least of which is providing an attractive total return. In comparing REITs against other forms of real estate investment, data has shown that REITs have generated higher total returns and capital appreciation than private core real estate investments, while delivering a comparable level of income. This shows that throughout various market cycles, REITs are able to still generate strong returns for an investor's portfolio. The chart below illustrates the components of net total return for REITs compared to core real estate investments over 25 years, corresponding roughly to the beginning of the modern REIT era. REITs are similar to core investments in that they have similar leverage, are broadly diversified, and pursue stable properties.

INCOME AND CAPITAL COMPONENTS OF NET TOTAL RETURN
Q4 1991 - Q4 2016



Sources: NAREIT® analysis of data from NCREIF ODCE Index (core funds) and FTSE NAREIT All Equity REITs Index (equity REITs). Expenses for equity REITs are estimated at 50 bps per year, distributed equally across all months. Expenses are attributed to income returns only, in accordance with ODCE. Assumes full reinvestment of net income.

Liquidity, Transparency, and Moderate Volatility

Transparency and liquidity lower the cost of capital for investors and lead to improved risk-adjusted returns

Liquidity is often a prominent benefit associated with REITs, as listed real estate allows investors access to this fundamental asset class without sacrificing liquidity in their portfolios. Listed REITs and property companies are often more transparent than most other forms of commercial real estate investment. Our experience has shown transparency, liquidity, and strong governance are positively associated with improved valuations and performance. Further, transparency and liquidity lower the cost of capital for investors, provide increased responsiveness to investment opportunities, lead to improved risk-adjusted returns, and allow for active monitoring by institutional investors, equity analysts, and capital sources.

Since the 80s, institutional investors have recognized real estate as a fundamental asset class for their portfolios. Real estate serves as a strong portfolio diversifier while providing moderate volatility and risk-adjusted returns. However, the myth that real estate is illiquid has led to the belief that REITs are not truly part of the real estate asset class. This has led to REITs being underutilized in investors' portfolios.

In 2016, CEM Benchmarking, an independent provider of benchmarking information for institutional investors, released a study that examined fund performance and capital allocations for more than 200 public and private pension funds over a 17-year period (1998-2014).

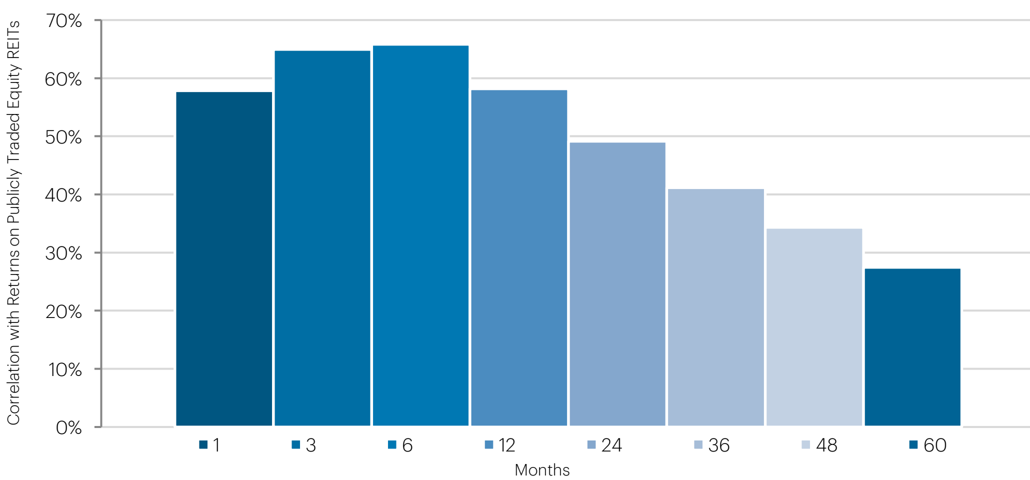
The study was sponsored by NAREIT and the results showed just how similarly listed and private real estate behave. To truly compare private real estate and REITs, we have to assign them similar liquidity structures. The study worked to standardize illiquid asset returns with those of liquid assets to effectively compare their performance. Once standardized, the results showed that the true volatility of Unlisted Real Estate was 19.03% on an annualized basis over the study period, comparable to volatility of 20.74% for Listed Equity REITs. As the study noted, the similarity in volatilities is not surprising given that listed equity REITs and unlisted real estate have the same underlying assets; they're simply accessed differently by investors.

While it is tempting to think of REITs as equities, at their core, REITs are real estate

Correlations with Private Real Estate vs. Equities

While it is tempting to think of REITs as equities, data shows that over the long term, they behave quite differently. At their core, REITs are real estate. In the chart below, we see that declining REIT-stock correlation over increasing investment horizons indicates that asset returns increasingly differ as spillover (mispricing) effects are corrected. Declining correlation as errors are corrected is a sign that underlying return drivers are fundamentally different—that is, REITs and non-REIT stocks represent different asset classes.

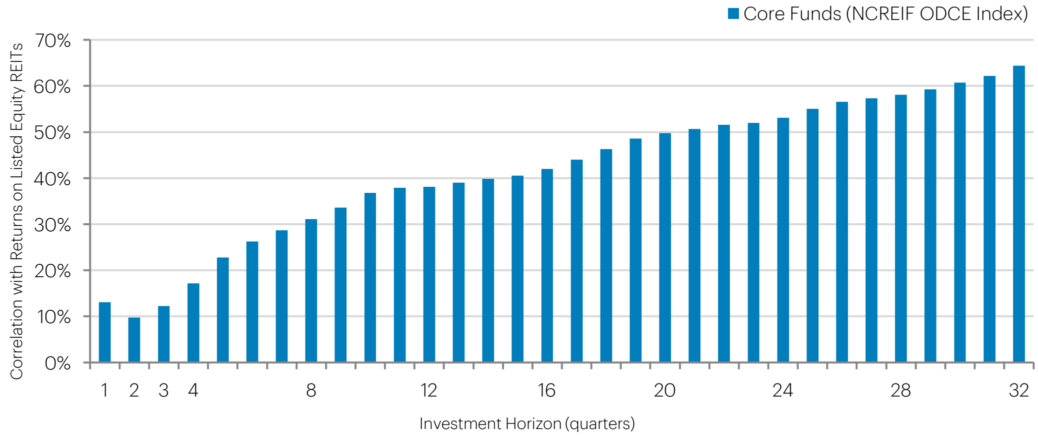
CORRELATIONS BETWEEN REITS AND RUSSELL 3000 US TOTAL MARKET INDEX



Source: NAREIT® analysis of monthly returns data for January 1990 through December 2016 from Interactive Data Pricing and Reference Data accessed through FactSet.

However, when we examine the correlations between REITs and private real estate in the chart below, we see that they behave similarly. The correlations over one-quarter investment horizons reflect spillover in REIT returns, and appraisal error as well as illiquidity in private real estate. This is reflective of the daily liquidity that REITs provide as well as the four to five quarter lag in measuring returns of private real estate. However, as we look over the longer term, we see the correlations increase as REIT mispricing and appraisal errors are corrected.

CORRELATIONS BETWEEN PUBLIC AND PRIVATE REAL ESTATE RETURNS INCREASE WITH THE INVESTMENT HORIZON



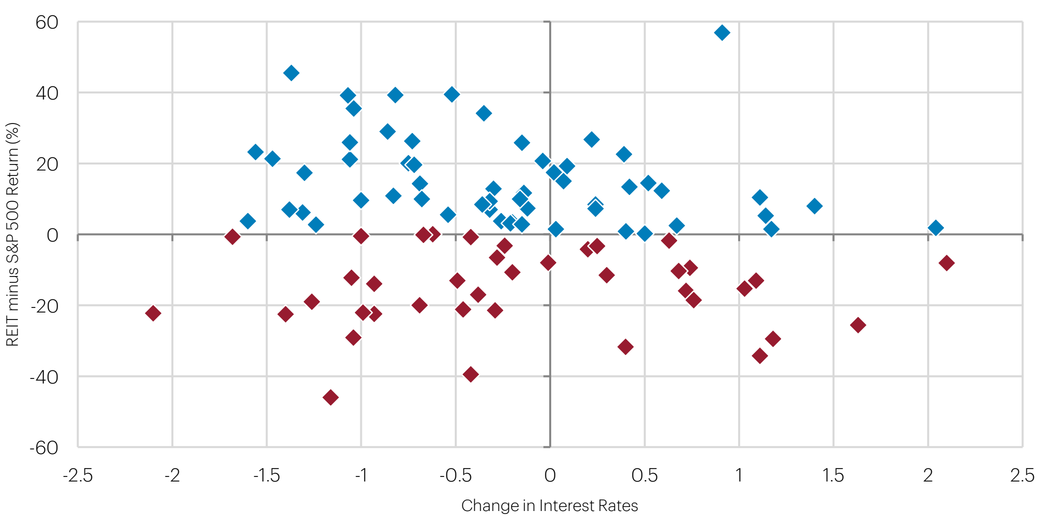
Source: NAREIT® analysis of data from FTSE NAREIT All Equity REITs Index and NCREIF Open-End Diversified Core Equity (ODCE) Fund Index, 1978Q1-2016Q4.

Stability Through Cycles

With interest rates on the forefront of investors' minds, it's important to examine how REITs behave against a variety of interest rates scenarios. Many people think that interest rates are negatively correlated with REIT pricing. History has shown that interest rates typically increase due to improving macroeconomic conditions. In line with those improving conditions, REITs have typically exhibited strong property fundamentals during periods of rising interest rates. As illustrated in the chart below comparing REIT performance relative to the S&P 500 with changes in interest rates, it is clear there is no discernible relationship over time between returns and changes in interest rates.

REITS have typically exhibited strong returns during periods of rising interest rates

REITS VERSUS S&P 500 AND RATE CHANGES: 1992-2016
COMPARING 12-MONTH ALL EQUITY REIT AND S&P TOTAL RETURN AND CHANGE IN 10-YEAR TREASURY



Source: NAREIT® analysis. NAREIT All Equity REIT and S&P 500 total returns indices via FactSet, GDP and 10 Year Treasury Constant Maturity Rate s via FRED. Quarterly intervals of 12 month rolling returns, rate changes and GDP growth.

Opportunity to Diversify

Investors looking to diversify their portfolio by geography or sector through direct real estate investments typically need to contribute to a variety of private funds. While this may be an option for some real estate investors, REITS are often a more efficient and immediate way to achieve a diverse real estate portfolio.

An allocation to REITs allows an investor to pursue investments in a variety of sectors with concentrations in major cities across the globe. According to NAREIT data, in the US alone, REITs span across 14 property sectors and can give investors access to properties in every state throughout the US.

REITs are often a more efficient and immediate way to achieve a diverse real estate portfolio

REITs also allow investors to expand their portfolios globally. Through REITs, investors can pursue a variety of markets and assets around the world that would be difficult to access through direct real estate investment. Access to prime global real estate markets and the highest quality assets within them has traditionally been targeted through direct investment in individual properties or through participation in a private commingled fund. To create a truly diversified, high-quality portfolio of such holdings through direct investment is close to impossible, as these prime properties in prime markets around the globe are thinly traded, if they are traded at all. But an investor can access these prime markets and own prime assets by utilizing publicly listed real estate securities.

REITs Present a Unique Opportunity

We believe that an allocation to REITs can play a positive role in multi-asset portfolios. An allocation to REITs provides exposure to high-quality assets in major markets in a listed liquid format. These high-quality assets can be difficult to access via direct real estate. In addition, REITs provide diversity across property types. Further, REITs can generate competitive risk-adjusted total returns as well as attractive yield combined with appreciation. An allocation to REITs can act as a complement to a private real estate strategy or allow an investor to access a diversified portfolio without having to commit to multiple private real estate investments. Investors benefit from managers well-versed in both public and private real estate, as they have the focus and expertise necessary to effectively assemble and manage REIT portfolios. Noting the commonalities between REITs and private real estate, we believe REITS should perform between bonds and equities, as REITs have the bond component of income and upside of the equities.

An an allocation to REITs can act as a complement to a private real estate strategy

The creation of the new Real Estate sector in GICS makes the statement that real estate is a distinct asset class within the universe of equity securities and will increase the visibility of real estate investment. This distinction and visibility should empower investors, their advisors, and investment managers to allocate to listed real estate equities, including listed equity REITs, in well-constructed, diversified portfolios.