Real Estate and REITs in Pension Portfolios

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Agenda
Let’s get started

1. Why should pension funds invest in commercial real estate
2. Who is investing in real estate and how are they doing it?
3. Overview of key REIT investment and operating characteristics
4. Implications for pension investment portfolios
Real Estate is the Third Largest Asset in the U.S. Investment Market Basket

Real Estate in the Institutional Portfolio

- Real estate investment has long been recognized as a core asset class by large and small institutional investors, including pension and retirement funds.

  “Basically, there are only four types of investment categories that you need to consider: Cash, Bonds, Common Stocks and Real Estate.”
  – Burton G. Malkiel, PhD (Economist, Princeton), The Random Walk Guide to Investing

- Real estate investment provides a unique combination of attributes:
  - Hybrid investment returns with elements of both stocks and bonds
  - Investment grade real property assets provide a measure of inflation hedging
  - Real estate cycle does not coincide with the overall economic cycle
  - Moderate correlation with other assets over time provides potential diversification
Note: Allocations to any asset class will depend on the optimization methodology employed, the time period covered by the analysis, the assets included in the opportunity set, and the expected return assumptions.
Pension, Foundation & Endowment Real Estate

- More than 50% of all real estate investors, on an asset weighted basis, invest through REITs.
- The majority invest through a blend of REITs and private real estate.
- The average allocation to REITs within blended real estate portfolios is 34%.

Real Estate Investment through Listed REITs

- REITs are *real estate* equities
- REITs have delivered competitive long-term performance
- REITs have provided portfolio diversification
- REITs are a complement to private investment in the real estate portfolio
- REITs are an efficient way to gain global real estate exposure

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U.S. REIT Industry Key Facts

2m
U.S. REITs contributed the equivalent of an estimated 2 million full-time jobs to the economy in 2016, generating $118.6 billion of labor income.

1.8m
mREITs help finance 1.8 million homes in the U.S.

70m
An estimated 70 million Americans own REITs through their retirement savings and other investment funds.

$52.8b
REITs invested $52.8 billion in new construction and routine capital expenditures to maintain existing property in 2016.

$3t
It is estimated that all REITs own approximately $3 trillion in gross assets. Publicly traded equity REITs account for $2 trillion.

200k
REITs own nearly 200,000 properties across the U.S.
REIT Ownership Provides Diversification

- 200,000+ U.S structures with a gross asset value over $1.5 trillion.
- Including:
  - Retail (19,000)
  - Residential (3,700)
  - Office (3,100)
  - Industrial (5,400)
  - Health Care (7,000)
  - Self-storage (4,800)
  - Hotels (2,000)
  - Data Centers (260)
  - Single Family Rental (135,000)
  - Cell Towers (95,000)
  - Timberland (17m acres)
CEM Benchmarking: REITs Outperformed Other Major Asset Classes: 1998 to 2015


- REITs
- Private Equity
- U.S. Small Cap
- Unlisted Real Estate
- U.S. Large Cap
- Non-U.S. Equities
- U.S. Long Bonds
- Other Real Assets
- Non-U.S. Bonds
- U.S. Broad Bonds
- Hedgefunds / TAA
- U.S. Other Bonds

Source: CEM Benchmarking, 2017
CEM Benchmarking: REITs Delivered Superior Risk Adjusted Returns


Source: CEM Benchmarking, 2017
REITs and Core Real Estate Funds are Complementary

- REITs and core private equity real estate funds have similar, but not identical, long-term investment characteristics creating diversification within the asset class when combined.

- This diversification creates the opportunity for the blended portfolio to earn higher returns while reducing the potential for negative or low returns.

Note: Based on quarterly net total returns of FTSE Nareit All Equity REITs Index and NCREIF Open-End Diversified Core Equity (ODCE) Funds Index, 1978Q1-2017Q2. Source: Nareit analysis of data from NCREIF and FTSE Nareit All Equity REITs Index.
Global Expansion of the REIT Model

Increasing Investment Opportunity

G7 Countries

- Canada: 1971
- France: 1995
- Germany: 1993
- Italy: 2006
- Japan: 2000
- United Kingdom: 2011
- United States: 2014

Countries Considering REITs

- Cambodia: 2009
- China: 2013
- Indonesia: 2016
- Malta: 1999
- Nigeria: 2016
- Poland: 2000
- Sweden: 2016
- Tanzania: 2000

Source: Nareit®

Date indicates adoption year of REIT rules.
REITs House the U.S. Economy

- Historically have persistently outperformed other forms of commercial real estate investment while offering liquidity, transparency and comparatively low costs

- Provide access to the types of real estate and to the markets where you want to own

- Are owned by more than one-half of all pension, endowment and foundation funds investing in commercial real estate

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