

The REIT Newsletter for Advisors • Spring 2016

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As an investment advisor, you have been subscribed to the REIT newsletter so that you and your clients can stay abreast of this powerful income-generating sector. Published quarterly, the REIT Newsletter will include valuable information about REITs that you cannot get anywhere else.

The National Association of Real Estate Investment Trusts (NAREIT[®]) is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets.

Our premier issue features an in-depth interview with Michael Grupe, Executive Vice President for Research & Investor Outreach at the National Association of Real Estate Investment Trusts (NAREIT).



National Association of Real Estate Investment Trusts[®]
REITs: Building Dividends and Diversification[®]

New developments impacting the stock exchange-listed Equity REIT market this fall may have many clients calling their advisors with questions about REIT-based real estate investment. Changes in how the Global Industry Classification Standard (GICS[®]), developed and managed by S&P Dow Jones Indices and MSCI, classifies listed REITs and other listed real estate companies will affect the benchmarks used in ETFs and other investment products. One result of the classification change is likely to be more investor attention focused on REITs and, over time, more investment flowing into listed real estate stocks.

Advisor Access: *What is GICS?*



Michael Grupe: GICS is an acronym for the Global Industry Classification Standard, created by MSCI and S&P Dow Jones Indices in 1999. GICS is a four-tiered, hierarchical classification system for listed equities worldwide. It currently includes ten headline industry sectors that represent the major sectors of the economy. As a widely accepted global standard, GICS provides a coherent and consistent structure for investors, analysts and economists to organize and analyze investment performance and economic activity, as well as to develop investment policies, products and research.

AA: *What's going on with GICS and real estate?*

MG: S&P Dow Jones Indices and MSCI have decided to reclassify and elevate stock-exchange listed equity REITs and other listed real estate companies from under the Financials Sector to a new 11th headline Real Estate Sector. The change will be effective after the close of business on Wednesday, August 31, 2016, and is the

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first new headline Sector since GICS was created. At the same time, the Real Estate Investment Trusts Industry will be renamed Equity Real Estate Investment Trusts (Equity REITs) and will include all Equity REITs. Mortgage real estate investment trusts will remain in the Financials Sector under a newly created Industry and Sub-Industry called Mortgage REITs.

The change will be implemented in S&P Dow Jones indices on September 16, 2016 as part of their annual index rebalancing.

Learn more about how the new GICS Real Estate Sector will impact REIT investment: (<https://www.reit.com/investing/investor-resources/gics-classification-real-estate>)

AA: How many publicly traded equities within the new GICS Real Estate Sector will be REITs?

MG: According to S&P Dow Jones Indices and MSCI, a list of securities affected by the announced changes will be made available to GICS Direct clients no later than July 1, 2016. So, the exact makeup of the new Real Estate Sector is not yet clear. However, the new Real Estate Sector will include companies classified in two new Industry classifications: Equity REITs and Real Estate Management & Development companies. At December 31, 2015, 91 companies in the S&P Composite 1500 Index were classified as Equity REITs, and just four companies were classified as Real Estate Management & Development. Based on year-end 2015 equity market caps, Equity REITs would represent 97 percent of the equity market capitalization of the combined two groups.

AA: Why are real estate companies being reclassified?

MG: S&P Dow Jones Indices and MSCI announced that the reclassification of Real Estate to the Sector level “recognizes its growing position in today’s global economy as well as [highlights] the progressive nature of the GICS structure.” According to Remy Briand, Managing Director and Global Head Equity Research at MSCI, “Feedback from the annual GICS structural review confirmed that Real Estate is now viewed as a distinct asset class and is increasingly being incorporated separately into the strategic asset allocation of asset owners.” And from David Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices: “Real Estate is an important and growing part of major economies throughout the world. To reflect this and support good financial analysis, GICS is introducing an eleventh sector for Real Estate and redefining Financials to exclude Real Estate.”

AA: How large is the U.S. REIT industry?

MG: Over the past 25 years, the total equity market cap of stock exchange-listed U.S. REITs has grown from \$9 billion to nearly \$1 trillion, more than 90 percent of which represents Equity REITs. Including listed REITs, non-listed REITs and private REITs, the U.S. REIT industry owns approximately \$3 trillion of gross assets, with listed Equity REITs alone owning approximately \$1.4 trillion of the total. Today, there are approximately 200 listed Equity REITs.

The total economic contribution of U.S. REITs in 2014 was an estimated 1.8 million full-time equivalent jobs and \$107.5 billion of labor income.

See what others are saying about the new GICS sector and REIT investment: (<https://www.reit.com/investing/investor-resources/gics-classification-real-estate>)

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AA: What are the implications of this new Sector classification for investment advisors and their clients?

MG: The creation of the new Real Estate Sector will increase the visibility of real estate as a distinct asset class and encourage investors, their advisors and managers to more actively consider real estate – especially listed Equity REITs – when developing investment policies and portfolio allocations. The new Real Estate headline sector also will likely lead to the creation of new investment products, such as active and passive mutual funds and exchange traded funds. Advisors and managers will have more real estate fund options to recommend to their clients, likely facilitating positive capital flows into listed real estate equities over time.

AA: What are some additional implications of the new Real Estate Sector classification?

MG: It may increase and diversify the ownership of real estate equities. It also may lower day-to-day trading volatility of REITs as well as correlations with other asset classes, thereby further enhancing the potential diversification benefits already provided by listed Equity REITs. Additionally, with a larger and more diverse investor base, the reclassification may help further moderate the severity of real estate market cycles in the broader economy.

AA: Thank you, Michael.

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