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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.

The Winter 2017 issue features an article by Kurt F. Walten, Senior Vice President, Investment Affairs & Investor Education, at NAREIT.

National Association of Real Estate Investment Trusts®

REITs: Building Dividends and Diversification®

Is real estate a core asset class?

by Kurt F. Walten

On November 1, BlackRock®, the largest investment manager in the world, announced it would be adding a REIT-focused exchange-traded fund (ETF) to its lineup of iShares Core financial products. BlackRock's decision is further validation of the fact that -- along with stocks, bonds and cash – real estate is a fundamental asset class, and stock exchange-listed Equity REITs are an effective and liquid means of investing in this asset class.

(For a list of REIT mutual funds and ETFs, click here.)

The fundamental asset class proposition is based on specific, well-documented attributes of real estate investment, including:

- **A distinct economic cycle** relative to the cycle for most other equities and bonds due to supply inelasticity, which reduces the correlation of investment returns from real estate with the returns from other assets,
- **Competitive, long-term investment returns** that potentially provide high and growing income from rents plus moderate capital appreciation over time,
- **Potential inflation hedging attributes** due in part to the fact many leases are tied to inflation and that real asset values tend to increase in response to rising replacement costs.

It is already a widely accepted view in the investment community that commercial real estate is a core asset class with unique investment attributes and return drivers and that an investment in listed Equity REITs is an investment in real estate. As evidence of this, in the defined contribution market, where the growing use of

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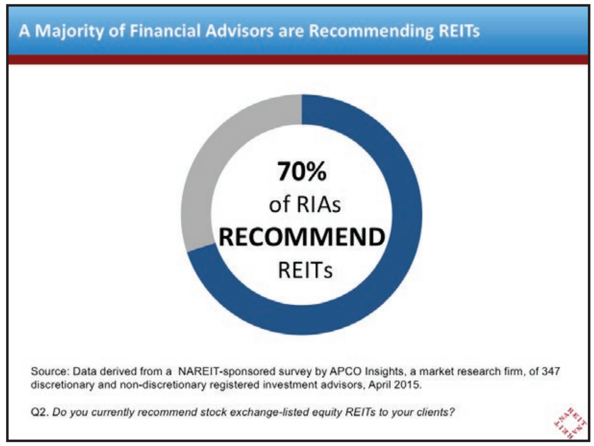
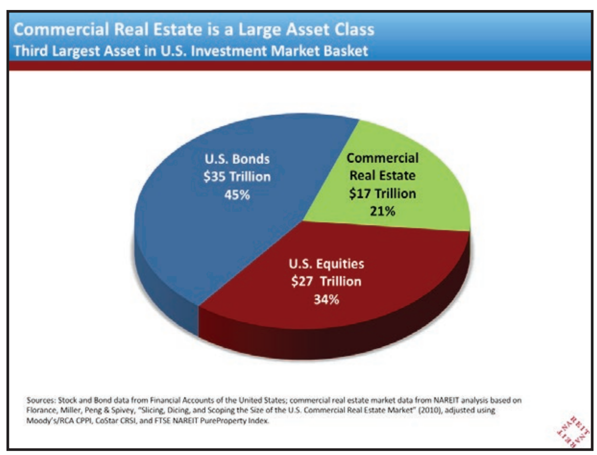
target-date funds remains the dominant investment-related trend, it is estimated that more than 90% of these products feature Equity REIT allocations. With respect to financial advisors, a NAREIT-sponsored survey conducted by market research firm APCO Insights in 2015, found that 70% of registered investment advisors recommend stock exchange-listed Equity REITs to their clients.



What is an appropriate listed Equity REIT portfolio allocation?

Listed Equity REITs have provided above average returns while exhibiting low, long-term correlations with other major asset classes. Many investors believe a reasonable portfolio allocation to Equity REITs is between 5% and 10%. However, there are two factors that suggest the potential role for Equity REITs in an optimally-diversified portfolio may be larger for certain investors.

First, commercial real estate is the third largest asset (21%) in the U.S. investment



market, after U.S. equities (34%) and U.S. bonds (45%). Modern portfolio theory argues that well-diversified investment portfolios should include meaningful allocations to all assets in the market basket, including real estate. It is important to note that, while listed REITs only represent an estimated 10%-20% of the above referenced 21% real estate asset figure, research by organizations such as Morningstar® Associates has found that the real estate market drives Equity REIT returns. For this reason, it is argued that listed Equity REITs and property companies may be used as a liquid and transparent proxy for gaining access to the entire commercial real estate market, which represents about one fifth of the investable

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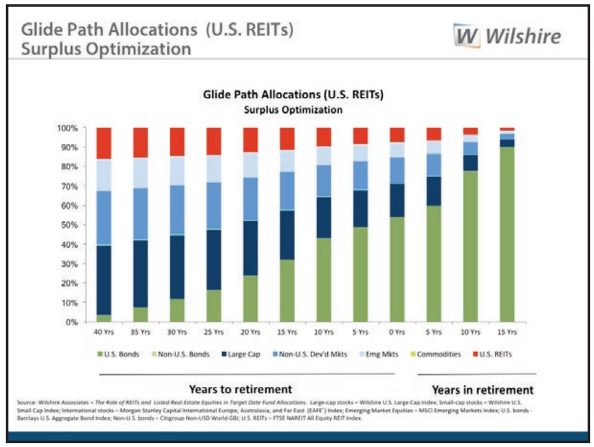
universe in the U.S. It should be noted that listed real estate securities may also be used to invest in the global commercial real estate market.

Second, multiple studies from organizations such as Morningstar and Wilshire



Associates have shown that the optimal allocation to listed Equity REITs for certain investors may be between 5% and 20%. For example, Wilshire Associates found that the optimal allocation to listed U.S. Equity REITs in a retirement savings portfolio would begin at 16.2% for an investor with a 40-year investment horizon, gradually decline along with other equities as the investment horizon shortens, ultimately to 8.1% for an investor at retirement. Not surprisingly, the maximum REIT allocation identified in these and other research studies were comparable to the proportion real estate represents within the U.S. investable universe. It should be noted that optimal portfolio allocations to global listed Equity REITs and real estate companies were found to be similar.

Much like the action by S&P Dow Jones Indices and MSCI to elevate real estate to a headline sector under the Global Industry Classification Standard (GICS®) in late August, BlackRock's new REIT ETF represents more than a key milestone in the maturation of the real estate industry. It is a sign of the growing consensus about the wisdom and durability of the REIT approach to real estate investment.

Kurt Walten is Senior Vice President, Investment Affairs & Investor Education for NAREIT, the National Association of Real Estate Investment Trusts. Mr. Walten directs efforts to educate organizations comprising this community on the role of real estate investment through REITs in long-term, retirement savings portfolios. Many of the most influential plan sponsors, investment managers and consultants within the institutional investment marketplace rely on information from NAREIT's internal research team and independent research partners for data to assist them in their analysis of this fundamental asset class.

Before joining NAREIT, Mr. Walten spent seventeen years at ICMA-RC, a retirement plan provider in Washington DC, where he held a number of positions. His last position there was Vice President, Marketing, where he was responsible for managing ICMA-RC's strategic plan and directing the marketing efforts associated with the organization's 401 qualified plan, 457 deferred compensation plan, Individual Retirement Account (IRA) and Retirement Health Savings programs. He was also responsible for directing the legislative affairs function for ICMA-RC. Mr. Walten received a bachelor's degree from Dickinson College in Carlisle, PA and a master's degree in business administration from Marymount University in Arlington, VA. Mr. Walten resides in Arlington, VA with his wife and three sons.
