

# Real Estate and REITs in Pension Portfolios

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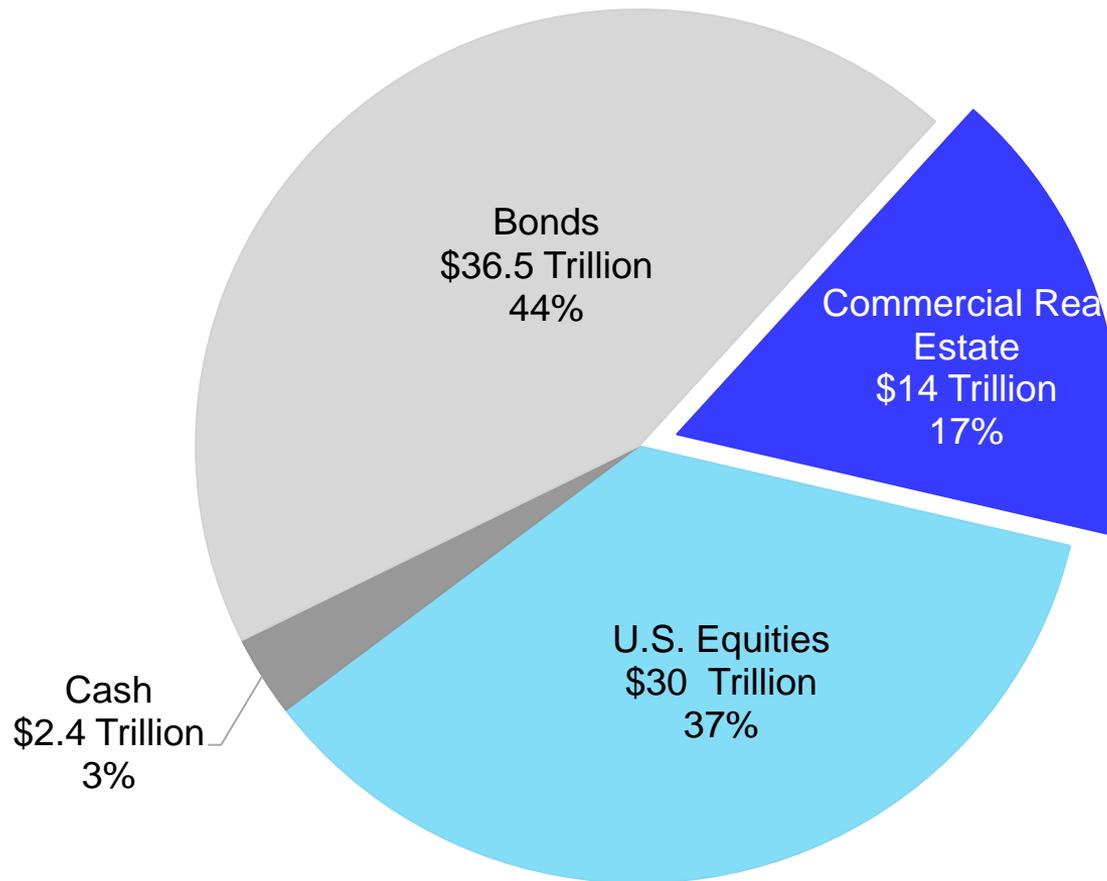
# Agenda

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



Sources: Stock and bond data from Board of Governors of the Federal Reserve, Financial Accounts of the United States, 2016Q4; commercial real estate market size data based on NAREIT analysis of CoStar property data and CoStar estimates of Commercial Real Estate Market Size, 2016Q4.

# 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.”*

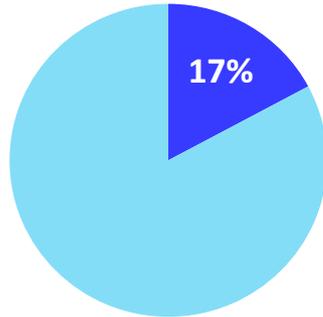
*– Burton G. Malkiel, PhD (Economist, Princeton), The Random Walk Guide to Investing*

- 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

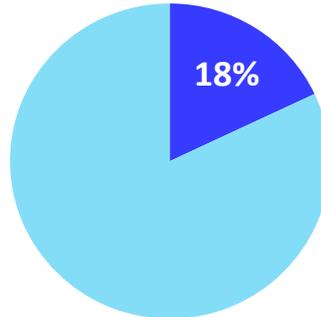
# Portfolio Allocations to Real Estate

Different researchers, methodologies and time periods

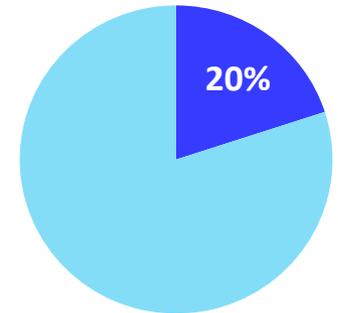
Wilshire Analysis  
Surplus Optimization  
1990-2015



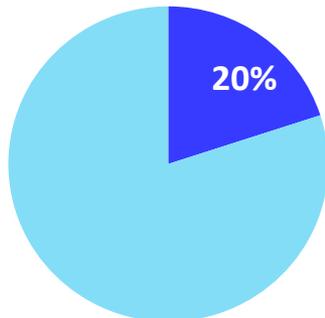
Wilshire Analysis  
Surplus Optimization  
1990-2012



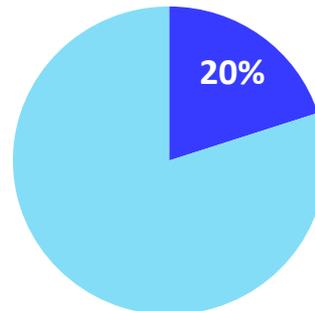
Morningstar Analysis  
Liability Relative Investing  
1990-2009



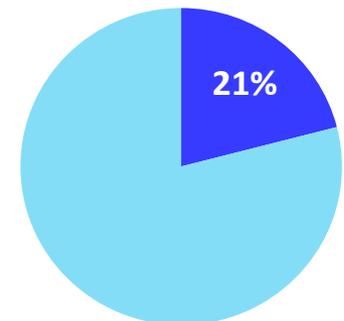
Morningstar Analysis  
Fat Tail Optimization  
1990-2009



Morningstar Analysis  
Mean Variance Optimization  
1990-2010

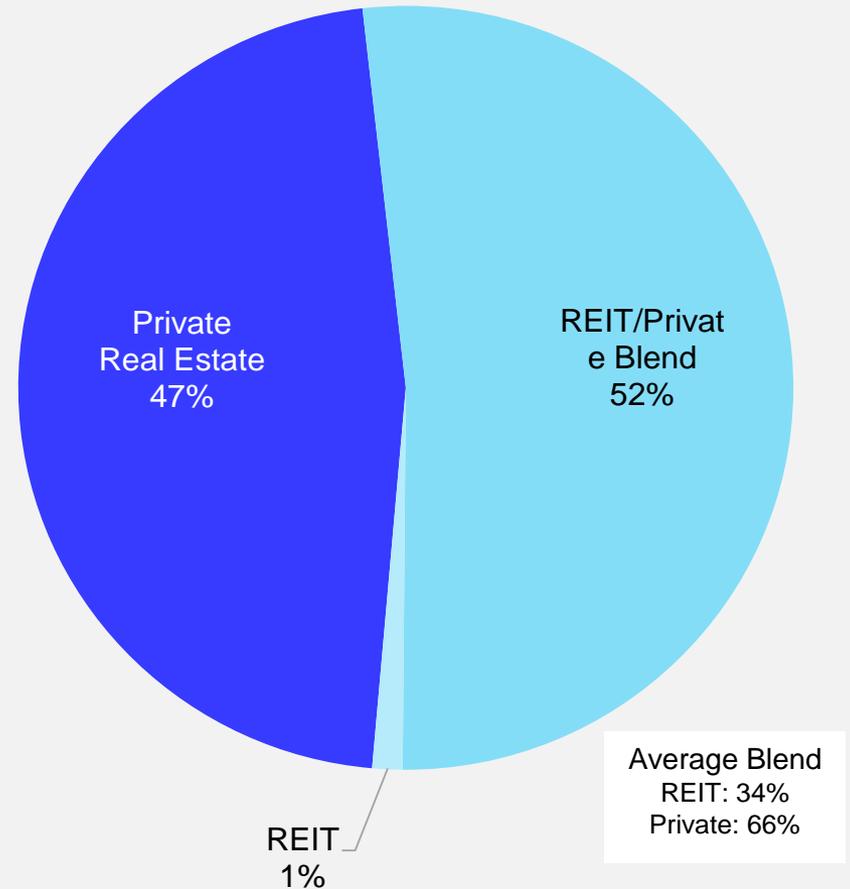


Morningstar Analysis  
Mean Variance Optimization  
1990-2007



# 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



# 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.

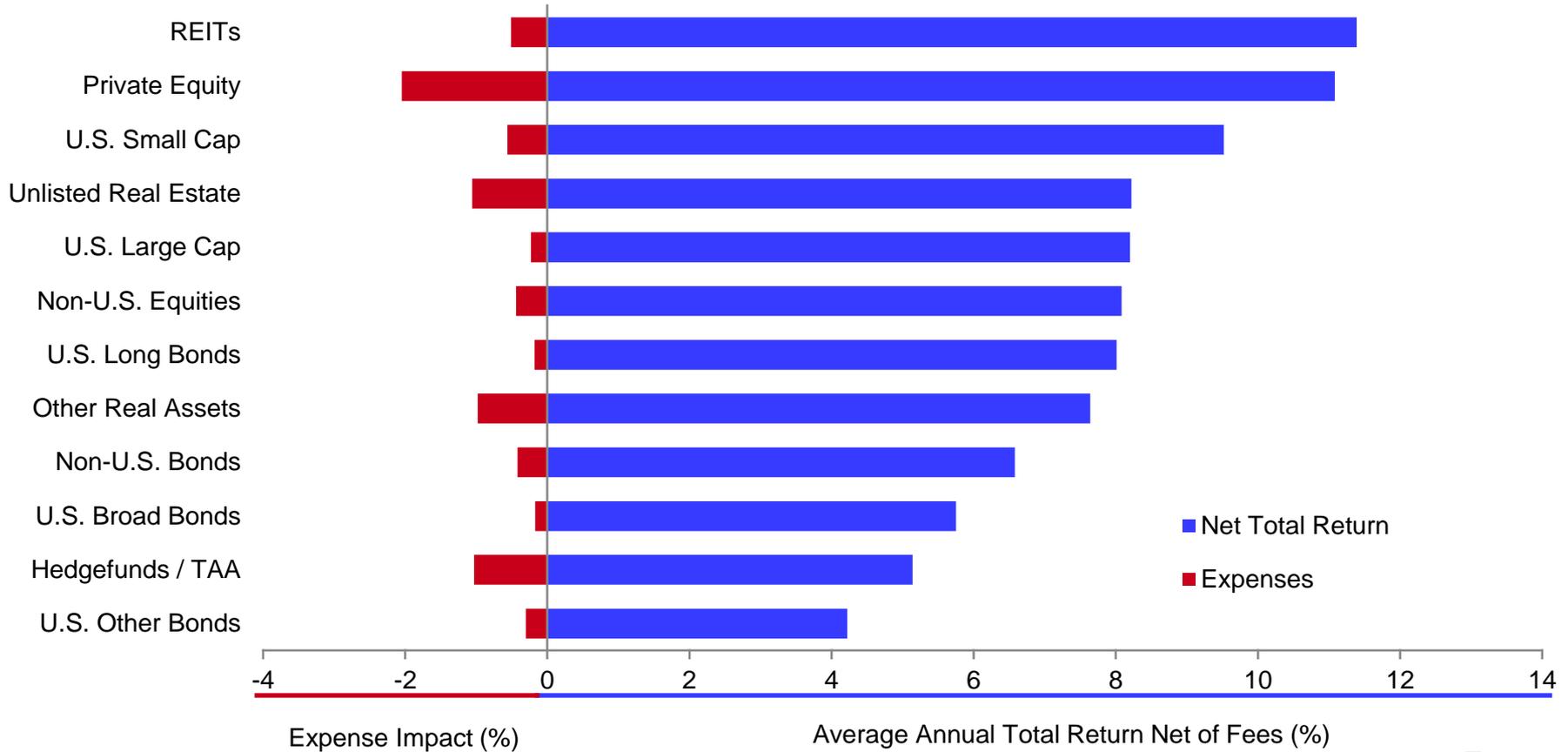
# REIT Ownership Provides Diversification

- 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)



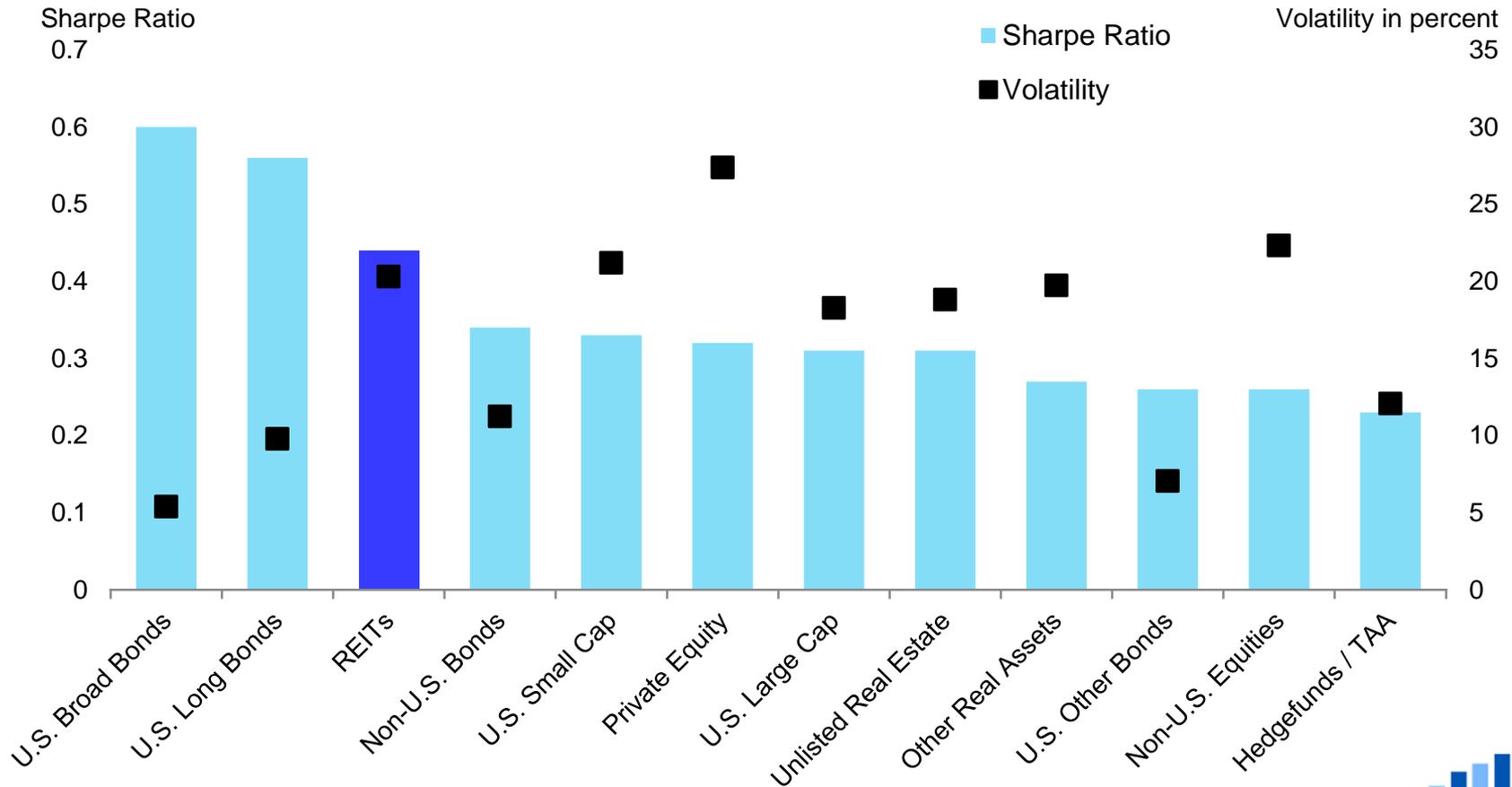
# CEM Benchmarking: REITs Outperformed Other Major Asset Classes: 1998 to 2015

Annual Net Total Return and Expense by Asset Class  
(1998 – 2015)



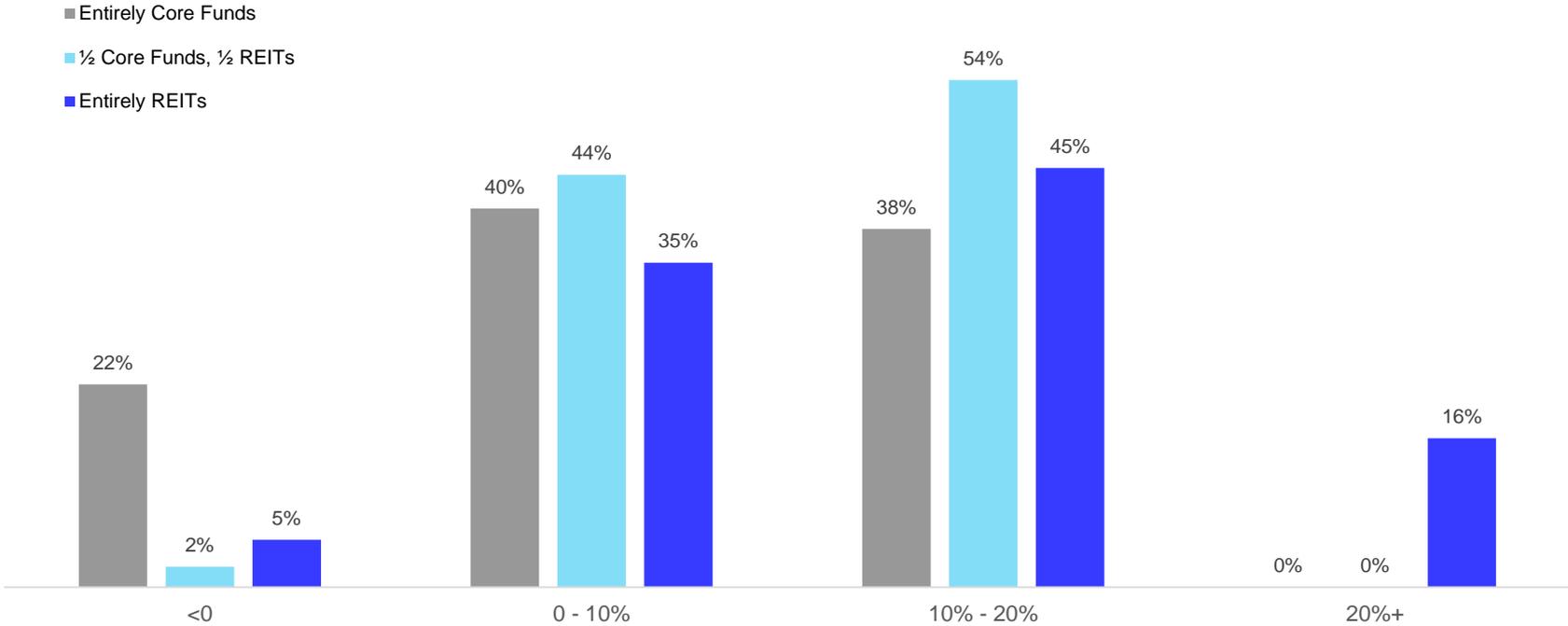
# CEM Benchmarking: REITs Delivered Superior Risk Adjusted Returns

Volatility and Risk Adjusted Returns by Asset Class (1998 - 2015)



# REITs and Core Real Estate Funds are Complementary

Distribution of Five-Year Average Annual Net Total Returns



- 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

# Global Expansion of the REIT Model

Increasing Investment Opportunity

## G7 Countries

Canada  1993	France  2003
Germany  2007	Italy  2007
Japan  2000	United Kingdom  2007
United States  1960	

Australia  1971	Bahrain  2015	Belgium  1995	Brazil  1993	Bulgaria  2005	Costa Rica  2009
Dubai  2006	Finland  2009	Greece  1999	Hong Kong  2003	Hungary  2011	India  2014
Ireland  2013	Israel  2006	Kenya  2014	Malaysia  2005	Mexico  2010	Netherlands  1969
New Zealand  1969	Pakistan  2008	Philippines  2010	Saudi Arabia  2016	Singapore  1999	South Africa  2013
South Korea  2001	Spain  2009	Taiwan  1969	Thailand  2005	Turkey  1995	Vietnam  2015

## Countries Considering REITs

Cambodia 	China 
Indonesia 	Malta 
Nigeria 	Poland 
Sweden 	Tanzania 

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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# Contact

**If you have any questions, please contact the team**

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