How REITs Benefit Asset Allocations

Building more efficient portfolios, accessing alternative investment opportunities and enhancing private real estate holdings

Jason A. Yablon, Senior Vice President and U.S. Senior Portfolio Manager

- REITs have historically been effective diversifiers, delivering strong, low-correlated returns, attractive dividends and inflation-hedging characteristics.
- The listed REIT market is continuously evolving and expanding, providing access to a diverse global opportunity set led by new-economy property types.
- Integrating listed REITs with private real estate investments may provide benefits to implementation and return potential.
Executive Summary

Four Ways REITs May Improve Portfolio Potential

• **Total return:** Real estate securities have historically outperformed broad stocks and bonds over the long run, benefiting from stable business models typically focused on generating recurring revenue from leases.

• **Income:** REITs have a history of paying attractive dividends due to their cash flow business models and the requirement that they distribute nearly all taxable income to shareholders.

• **Diversification:** REITs historically appear to react differently to market conditions than other businesses and asset classes, potentially helping to smooth portfolio returns.

• **Inflation protection:** REITs are an investment in tangible assets with inherent inflation-hedging characteristics.

Access to Next-Gen Property Types in a Diverse Global Market

• **REITs are global:** Widespread adoption of REIT structures has led to substantial growth for global listed real estate, from a market capitalization of just over $300 billion in 2002 to $1.5 trillion in 2020.

• **Alternative sectors:** The REIT market, once dominated by offices and retail, is now led by property types such as cell towers, data centers, industrial logistics, health care and self storage facilities.

• **High alpha potential:** The diverse characteristics of REIT sectors and geographies offer the potential for skilled specialists to add meaningful value, demonstrated by the superior rate of outperformance among REIT managers compared with their generalist equity and fixed income counterparts.

A Liquid Complement to Private Real Estate

• **Access:** REITs offer distinct implementation benefits over private real estate, in our view, enabling geographically diversified portfolios and providing access to alternative property types that are not represented in most core private real estate funds.

• **Arbitrage:** The lead/lag relationship of listed and private real estate valuations can create opportunities to capitalize on dislocations in listed-market values.

• **Advantages of public markets:** REITs have access to both public and private capital, offer daily liquidity, and often have dominant sector-specific platforms that private funds with finite investment horizons cannot easily replicate.

On the cover: Many of today’s industrial warehouses are high-tech automated distribution centers, designed specifically to fulfill the growing need for e-commerce logistics.

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Four Ways REITs May Improve Portfolio Potential

Over the long run, REITs' return profile is driven primarily by the performance of their underlying property holdings, delivering key diversifying characteristics sought by real estate allocators, wrapped in a liquid security.

1. Strong Return Potential
REITs have historically delivered superior long-term returns relative to other asset classes, outperforming stocks and bonds over the past 20 years, both in the U.S. and globally (Exhibit 1). We believe there are strong fundamental reasons for real estate securities’ performance track record:

- REITs tend to have stable business models focused on acquiring and developing high-quality assets that produce a recurring stream of rental income tied to leases. Stable and growing cash flows have historically attracted long-term investment capital.
- Management teams will often seek to drive additional growth by continuously improving leasing and development operations, redeveloping assets to command higher rents and engaging in other potentially value-creating activities.
- A process of natural selection over decades has driven the adoption of best practices in corporate governance, investment strategy and alignment with shareholder interests.

2. High Current Income
REITs are known for paying attractive dividends due to their cash flow–oriented businesses and the fact that they are required to distribute nearly all taxable income. (For example, U.S. REITs must pay out at least 90% of their annual net income.) REITs also do not pay corporate taxes, allowing them to efficiently pass through income to shareholders, who in turn pay taxes based on their tax status. These characteristics have historically resulted in above-average dividend yields (Exhibit 2).

Dividends historically tend to be a more consistent source of returns than price appreciation, and reinvested dividends serve as a form of dollar-cost averaging—a dividend check buys more shares when prices are lower, and fewer shares when prices are higher. REITs also have a built-in dividend growth mechanism: in order to remain above the minimum distribution level required by law, companies must typically increase payouts as rents increase over time, historically resulting in steady dividend growth.
3. Diversifying Correlations

REITs have historically served as effective diversifiers, as they tend to react to market conditions differently than other asset classes and businesses, potentially helping to smooth portfolio returns. They share aspects of both stocks and bonds—responding to economic growth like equities, but with yields and lease-based cash flows that give them certain bond-like qualities. REITs are subject to real estate cycles based on supply and demand, with the added stability of commercial leases. They also tend to be more sensitive to credit conditions due to the capital-intensive nature of real estate.

These distinct performance drivers have resulted in low long-term correlations with stocks and bonds. Since 1991, U.S. REITs have had a 0.57 correlation with the S&P 500 and a 0.21 correlation with U.S. bonds (Exhibit 3). Global REITs have also exhibited diversifying correlations, albeit to a more modest degree, due largely to higher correlations of Asia’s real estate market with both Asia and U.S. equities.

Over short periods, REITs may correlate more closely with the broader stock market, as seen during the global financial crisis and, more recently, in the COVID recession. Similarly, sudden changes in bond yields can have a meaningful influence on short-term REIT performance. However, such periods tend to be temporary. In the long run, REIT returns are driven primarily by the distinct cash flows and growth profiles of the underlying property markets and the added stability of leases, providing the potential diversification benefits of an allocation to real estate.

Exhibit 3: Differentiated Behavior

Though REITs may sometimes move closely with broad equities in the short run, long-term returns are primarily driven by the performance of the underlying real estate.
4. Inflation Protection
As an investment in real assets, real estate has inherent inflation-hedging qualities that we believe can help investors defend against erosion in buying power resulting from the rising cost of living. An inflationary environment can drive up the cost of land, materials and labor, raising the threshold for new development (constraining new supply) and enabling landlords to increase rents. Many commercial leases even have explicit inflation links, with rent escalators tied to a published inflation rate. As a result, REITs have historically benefited from unexpected increases in inflation, whereas inflation surprises have typically caused stocks and bonds to underperform (Exhibit 4). While global inflation has been subdued since the financial crisis, we believe the massive global monetary and fiscal response to COVID-19, as well as increasing protectionism and trade disruptions, suggests potential for upward inflation pressure ahead.

Exhibit 4: REITs Have a Positive Sensitivity to Unexpected Inflation
Inflation Beta, 1978–2020\(^{(a)}\)

<table>
<thead>
<tr>
<th></th>
<th>Treasuries</th>
<th>S&amp;P 500</th>
<th>Global REITs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Beta</td>
<td>-2.2</td>
<td>-0.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

On average, global REITs have outperformed their long-term inflation-adjusted average by 1.2% for every 1% that U.S. inflation exceeded the prior-year consensus estimate.

REITs Are an Allocation to Real Estate
As an asset class, real estate has long been viewed by institutional investors as an attractive way to improve potential risk-adjusted returns, with allocations typically ranging from 5% to 15%. By contrast, generalist equity managers tend to view real estate within the bounds of broad market benchmarks, where real estate has about a 3% weight. Considering the structural underweights to real estate among many generalist managers—a carryover from the days when real estate was just a subcategory within the financials sector—investors who rely solely on equity allocations for real estate exposure may be significantly under-allocated.

REITs’ long history of strong, low-correlated returns, attractive income and inflation-sensitive cash flows has, in our view, cemented their credentials as an effective vehicle for allocating to real estate. Moreover, we believe the case for REITs has grown stronger over the past decade with the emergence of new property types such as cell towers and data centers, along with the continuing expansion of the global listed real estate market.
How REITs Benefit Asset Allocations

Exhibit 5: Listed and Private Real Estate Correlation
Global REITs vs. Global Private Real Estate, by Holding Period (Lagged 1 Year)

Near-term divergence → Long-term convergence

Rolling 3 Year Rolling 1 Year Quarterly

0.19 0.61 0.81

While REITs often behave differently than private real estate in the short term, the connection becomes clearer over longer periods.

Exhibit 5: Listed and Private Real Estate Correlation
Global REITs vs. Global Private Real Estate, by Holding Period (Lagged 1 Year)


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Has the Pandemic Changed the Case for Allocation?

The short answer is no, in our view, but it may change how some real estate is utilized. At its core, real estate exists to support basic needs of individuals and businesses, providing shelter and facilitating commerce. These needs still exist, but may simply be housed in a different form or location, shifting the mix of usage.

Some of these changes may be more transitory, reflecting current preferences, such as residents moving from multi-family apartments in dense cities to suburban single-family homes. Other trends may be more permanent: accelerated e-commerce adoption driving demand for industrial/logistics at the expense of retail; greater reliance on digital infrastructure benefiting data centers and cell towers; increasing acceptance of work from home affecting office utilization. As active managers, we can pivot around these changes, adjusting portfolio allocations based on secular trends and inflection points in the market.

5 Facts About REITs

1. Real estate investment trusts (REITs) are companies that acquire, develop and operate commercial and residential properties, generating revenues primarily from rents tied to leases.

2. REITs were established in the U.S. in 1960 and have since expanded globally as a tax-efficient structure for passing through income to shareholders.

3. REITs do not pay corporate income taxes, but are legally required to distribute nearly all taxable income to shareholders.

4. REITs make up 80% of the global listed real estate index. The remaining 20% of non-REIT companies include real estate developers, franchisers and other operating companies.(1)

5. Equity REITs (which are the focus of this report) represent equity ownership in real property. These are different from mortgage REITs, which provide real estate financing.

(1) At June 30, 2020.

Our convention is to refer to listed real estate securities collectively as the “REIT market,” understanding that this includes some non-REIT companies. See page 16 for index definitions.
Access to Next-Gen Property Types in a Diverse Global Market

The global listed REIT market has evolved substantially over the past 20 years, providing access to digital infrastructure and other alternative sectors, with active and evolving markets in every corner of the globe.

REITs Are Global

Real estate has seen a significant shift of capital from private investors to the public market in recent decades, growing from a market capitalization of just over $300 billion in 2002 to $1.5 trillion today (Exhibit 6). This growth has been driven in large part by the increasing adoption of the REIT structure as a viable and efficient way of investing in real estate, spurred by the success of the U.S. REIT model in the 1990s.

Today, 38 countries have REIT-like securities, and more are considering REIT legislation. REITs represent 80% of the FTSE EPRA Nareit Developed Index, with the remaining 20% consisting of real estate operating companies (REOCs), including residential and commercial developers, hotel franchises and other specialty companies.

Exhibit 6: Global REIT Adoption Has Been a Catalyst for Growth in Listed Real Estate

REITs are represented in 38 countries

- Listed REITs
- REIT Legislation in Progress

North America
- United States
- Canada
- Mexico
- Costa Rica
- Puerto Rico

South America
- Brazil
- Chile

Europe
- United Kingdom
- France
- Germany
- Spain
- Belgium
- Netherlands
- Finland
- Ireland
- Italy
- Greece
- Bulgaria
- Luxembourg
- Lithuania
- Hungary

Middle East & Africa
- South Africa
- United Arab Emirates
- Israel
- Turkey
- Pakistan
- Ghana
- Nigeria
- Saudi Arabia
- Bahrain
- Oman
- Qatar

Asia Pacific
- Hong Kong
- Japan
- Australia
- Singapore
- Thailand
- Malaysia
- New Zealand
- Taiwan
- South Korea
- Indonesia
- India
- Philippines
- Russia
- China

How REITs Benefit Asset Allocations

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Each region’s listed real estate market has evolved in a different way, resulting in meaningful structural differences.

United States

The U.S. REIT structure has evolved into the world’s most efficient real estate operating model, in our view.

A preponderance of strong corporate governance, transparency, sound business models and a history of effective use of capital has provided ample access to public equity and debt markets at a generally low cost of capital.

The size and scope of the U.S. market has allowed REITs to develop dominant sector-specific platforms, allowing them to focus their business strategy, simplify their investment story and strengthen their negotiating position with tenants.

Europe

Many European and U.K. REITs have adopted important reforms to improve corporate governance, business models and shareholder returns, including simplified sector strategies, less leverage, less development and a greater emphasis on cash flow and active asset management. This aligns with the increasing focus among both companies and investors on environmental, social and governance (ESG) policies.

Improvements in management and board incentives are driving better capital allocation discipline—an issue that has constrained external growth prospects in past years.

We believe these reforms should drive improved longer-term returns, potentially more in line with the U.S. REIT market.

Asia Pacific

Asia Pacific has been the fastest-growing real estate market over the past few years in terms of its market capitalization and number of new public companies.

Initially dominated by developers, the region now has a substantial landlord presence, with REITs accounting for a larger share of markets in Japan, Singapore and Australia—often favored by income-oriented investors for their steady dividend growth.

The region has also become more diversified by sector. As in the U.S. and Europe, REITs have expanded into logistics, health care, data centers and hospitality.

Emerging Markets

Emerging Asia markets consist primarily of residential developers, with a few landlords focused on traditional sectors such as office and retail. Although REITs have existed for a while in some markets, adoption has increased recently, with REITs first launched in India in 2019 and the Philippines in 2020. China recently refined its REIT structure to better resemble other markets, although we expect continued evolution within the country.

The Middle East is also seeing increased REIT adoption, including in Saudi Arabia, Dubai, Bahrain, Oman and Qatar, although the legal framework for tax treatment is more uncertain in some jurisdictions.

Mexico, Brazil and South Africa are among the larger emerging listed property markets, represented by both landlords and developers.

Regional Characteristics

<table>
<thead>
<tr>
<th>Region</th>
<th>2002 (earliest available market cap data)</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$1,523</td>
<td>$1,523</td>
</tr>
<tr>
<td>EMEA</td>
<td>$788</td>
<td>$788</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$318</td>
<td>$318</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$168</td>
<td>$168</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$64</td>
<td>$64</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$86</td>
<td>$86</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$290</td>
<td>$290</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$445</td>
<td>$445</td>
</tr>
</tbody>
</table>

At June 30, 2020.
Source: FactSet, Cohen & Steers.
As represented by the FTSE EPRA Nareit Developed Index. See page 16 for index definitions and additional disclosures.
Exhibit 7: Today’s REIT Market Is Driven Largely by Alternative Property Types

U.S. REIT Sector Breakdown, 2000 vs. 2020

The past 20 years have seen increasing specialization within new property types, shifting the market’s composition away from offices, retail and apartments toward segments such as cell towers, data centers, health care and self storage.

### Traditional Sectors

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Apartment</td>
<td>10%</td>
<td>18%</td>
</tr>
<tr>
<td>Retail</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Office</td>
<td>7%</td>
<td>29%</td>
</tr>
</tbody>
</table>

### Alternative Sectors

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cell Tower</td>
<td>0%</td>
<td>21%</td>
</tr>
<tr>
<td>Data Center</td>
<td>0%</td>
<td>11%</td>
</tr>
<tr>
<td>Health Care</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Self Storage</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Alternative Housing</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Specialty</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Diversified</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Timber</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Hotel</td>
<td>2%</td>
<td>9%</td>
</tr>
</tbody>
</table>

### Alternative Sector Weight

- **2000:** 30%
- **2020:** 61%

### Key Growth Sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Drivers</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cell Tower</td>
<td>5G, HD video streaming, more connected devices</td>
<td>American Tower, Crown Castle, SBA Communications</td>
</tr>
<tr>
<td>Data Center</td>
<td>Cloud computing, working from home, IT outsourcing</td>
<td>Equinix, Digital Realty Trust, Keppel DC REIT, SUNeVision</td>
</tr>
<tr>
<td>Health Care</td>
<td>Life science research, patient care, assisted living, skilled nursing</td>
<td>Wellington, Alexandria, Aedifica, Assura Group, Parkway Life REIT, First REIT</td>
</tr>
<tr>
<td>Self Storage</td>
<td>Need for space to store belongings, small business inventory</td>
<td>Public Storage, Extra Space Storage, Big Yellow, Safestore, National Storage REIT</td>
</tr>
<tr>
<td>Alternative Housing</td>
<td>Single-family rental demand, age 55+ communities, student housing</td>
<td>Invitation Homes, Sun Communities, Equity Lifestyle Properties, Unite Group, Ingencia</td>
</tr>
<tr>
<td>Industrial</td>
<td>E-commerce logistics, last-mile delivery</td>
<td>Prologis, Duke Realty, Segro, LondonMetric, Goodman Group, Nippon Prologis, GLP J-REIT</td>
</tr>
</tbody>
</table>


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The Emergence of Alternative Property Investments

The listed REIT market is continuously evolving, expanding into new property types beyond the traditional sectors that dominated the market 20 years ago (and which still dominate core private real estate funds). In addition, enhancements to REIT rules are creating new opportunities. For example, health care REITs that own senior housing are now allowed to operate the properties with a third party, giving them a stake in the operating business.

The most notable change, however, has been the growth of “tech REITs.” Cell tower companies have existed for years, but many converted to the REIT structure during the 2010s, creating what is now the largest sector in the U.S. REIT market. Data center REITs have also grown with the demand for cloud computing and IT outsourcing. Even the traditional industrial sector has transformed into high-tech distribution centers for online retailers such as Amazon. These sectors have been instrumental during COVID in providing infrastructure for people to shop, work, learn, socialize and stream movies from the safety of home.

Together, alternative property types make up 61% of the U.S. REIT market (Exhibit 7) and 29% of the global REIT investment universe. We believe this has made the listed real estate market structurally less cyclical, driven more by secular trends such as the growth of e-commerce and the need for health care services and housing for aging populations.

Diverse Characteristics Create Opportunities for Active Managers

The diversity of REIT sectors often comes with a wide range of returns over any given period (Exhibit 8). For example, in the first half of 2020, during the COVID-induced downturn, data center REITs delivered positive returns and outperformed mall REITs by 71%.(1) Most enclosed malls had to shut down and many tenants stopped paying rents, whereas data center REITs benefited from the surge in internet traffic as businesses and consumers shifted activities online.

Exhibit 8: Performance Dispersion Creates Potential Alpha Opportunities

Listed Real Estate Total Returns by Calendar Year, in Local Currency


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(1) Returns quoted in local currencies.
Similar patterns played out globally. In Europe, Deutsche Wohnen, one of the largest landlords in Germany’s defensive residential market, outperformed Unibail-Rodamco-Westfield, Europe’s largest retail landlord, by 73% in the first half of 2020. And in Asia Pacific, Singapore data center owner Keppel DC REIT outperformed Australian retail owner Scentre Group by 65%.

**What causes performance dispersion?** These examples demonstrate the distinct economic factors that drive supply and demand for each property type. Some sectors are more impacted by cyclical factors such as job growth, consumer spending and trade, while others are tied more to secular themes such as the growth of e-commerce and aging populations. In addition, lease terms provide varying degrees of insulation from changes in the economy. Hotels reset room rates daily (essentially one-day leases), giving them little protection from economic downturns but also greater ability to capture upswings. At the other end of the spectrum, health care properties typically have 10-year leases, generally resulting in less cyclical cash flows.

Furthermore, at any given time, property markets in each country may offer varying levels of risk and reward potential due to differences in their property cycles, macroeconomic conditions and interest-rate policies. This tends to create a wide dispersion of returns among countries in any given year.

**Adding value through active management.** REIT specialists with the resources and experience to understand the market and position portfolios appropriately may enhance potential risk-adjusted returns. In fact, historical data show that REITs have been particularly well suited to active management. Over the past 10 years, 76% of REIT managers outperformed their benchmarks, compared with 44% of large-cap equity managers and 68% of fixed income managers (Exhibit 9). We attribute this success to the benefits of developing expertise in a narrow field of focus, as well as the equity market’s inherent inefficiencies in pricing changes to real estate fundamentals.

**Exhibit 9: Specialist REIT Managers Have Had Greater Success Beating the Market**

<table>
<thead>
<tr>
<th></th>
<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Securities</td>
<td>68%</td>
<td>67%</td>
<td>72%</td>
<td>76%</td>
</tr>
<tr>
<td>Large-Cap Equity</td>
<td>42%</td>
<td>51%</td>
<td>59%</td>
<td>68%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>36%</td>
<td>41%</td>
<td>42%</td>
<td>44%</td>
</tr>
</tbody>
</table>


Data includes current managers with performance records spanning the full period shown. Benchmarks for calculating relative performance and number of managers represented in each period: U.S. real estate: FTSE Nareit Equity REITs Index through 2/28/2019 and FTSE Nareit All Equity REITs Index thereafter (3Y: 66; 5Y: 61; 7Y: 58; 10Y: 54); global real estate: FTSE EPRA Nareit Developed Index (3Y: 90; 5Y: 83; 7Y: 66; 10Y: 54); U.S. large-cap equity: Russell 1000 Index (3Y: 1073; 5Y: 1010; 7Y: 959; 10Y: 843); global large-cap equity: MSCI World Index (3Y: 462; 5Y: 411; 7Y: 351; 10Y: 239); U.S. fixed income: Barclays Capital U.S. Aggregate Bond Index (3Y: 1702; 5Y: 1515; 7Y: 1501; 10Y: 1315); global fixed income: Barclays Capital Global Aggregate Bond Index (3Y: 610; 5Y: 530; 7Y: 438; 10Y: 296). See page 16 for index associations, definitions and additional disclosures.
REIT managers may use a variety of tools to reflect their market views in portfolios, including:

- Adjusting sector and country weights to capitalize on differences in property types and local economic conditions
- Using their research advantage to identify company-specific catalysts that may not be fully factored into valuations
- Positioning for long-term secular trends that have the potential to fundamentally transform real estate markets—both positively toward higher and better use, and negatively from obsolescence
- Investing outside the benchmark—for instance, investing in cell towers in global portfolios or in out-of-benchmark hotel and gaming companies in U.S. portfolios
- Building meaningful positions in small-cap securities that may offer greater upside potential
- Participating in special opportunities such as recapitalizations, private placements, initial public offerings (IPOs) or pre-IPO investments

These activities are not within the scope of passive index-tracking strategies—a notable disadvantage in recent years due to the inability of passive vehicles to get out of the way of the secular decline in retail.

**A Liquid Complement to Private Real Estate**

Allocating to listed real estate alongside private investments allows investors to access secular growth sectors, better diversify their real estate portfolios, capitalize on market dislocations and gain the benefits of public market liquidity and corporate governance standards.

**Access to Alternative Sectors**

Core private real estate funds that investors typically use for direct exposure to real estate tend to be heavily focused on traditional property types, often with substantial allocations to office and retail. Listed real estate may further diversify allocations with access to digital infrastructure and other specialized markets that are difficult to assemble in size in the private market. We believe these secular growth sectors are likely to be key drivers of real estate performance over the next decade.

**Dominant Sector-Specific Franchises**

Many REITs have developed industry-leading platforms focused on specific property types. This helps create operating efficiencies and competitive moats that are difficult to replicate in private funds with finite investment periods. REIT management teams may also seek to create additional shareholder value beyond the performance of their property holdings through strategic acquisitions and dispositions, as well as selective development and redevelopment activities.
Arbitrage Opportunities
Following market downturns, listed real estate may allow investors to take advantage of the lag in private real estate values to enhance long-term return potential. By investing incremental capital in listed markets (where markdowns may have already occurred), investors may be able to enter well-positioned companies at meaningful discounts to their intrinsic value (Exhibit 10).

Diversification of Markets, Sectors and Leases
REIT portfolios typically consist of 40–80 securities, potentially providing access to hundreds of markets, thousands of properties and hundreds of thousands of underlying leases. Listed REITs also offer global implementation advantages for investors seeking exposure to non-domestic property. This level of asset diversification would require substantial capital to replicate in the private market.

Efficient Capital Raising
REITs can generally raise capital faster (and often at a lower cost) than in the private market, with access to public and private sources of equity and debt capital and the ability to issue preferred equity and seek joint venture partners. This advantage tends to become particularly apparent in recessions, potentially allowing public companies to access capital to go on offense at a time when most private managers have more limited options.

Alignment of Performance Incentives
REIT management teams tend to have significant equity ownership stakes and receive performance-based incentive compensation tied to objectives such as earnings growth, shareholder returns and management of the firm’s risk profile. This aligns financial rewards with investor interests, providing incentive to create long-term shareholder value through effective capital allocation and strategic investments in the company’s platform.
Liquidity
Public real estate provides a high level of liquidity compared with the long lock-up periods and limited secondary markets for private real estate. Investors are typically able to deploy large amounts of capital in a matter of days without disturbing valuations, and can liquidate assets at will.

Oversight of Public Markets
The public format creates transparent accountability through oversight by a board of directors, by federal securities and stock exchange regulators, and—perhaps most importantly—by the guiding hand of public markets. Valuation multiples create a feedback loop, rewarding management decisions that will likely create value and penalizing decisions that may destroy value. A persistently low valuation multiple may eventually encourage changes in strategy or invite acquisitions to realize value for shareholders.

Long-Run Outperformance
In the U.S., which offers a long history of performance data for comparison, listed REITs have outperformed core private real estate funds since 1990 by nearly 300 basis points annually (Exhibit 11). REITs have achieved this return premium without requiring a lock-up and while generally employing relatively low-risk core real estate investment strategies focused on high-quality stabilized properties. REITs also typically employ modest leverage of 30–40%, similar to many core private real estate funds.

Exhibit 11: REITs Have Delivered a Return Premium to Core Private Real Estate
Growth of $10,000 and Annualized Return Since 1990

Data quoted represents past performance, which is no guarantee of future results. The chart above is for illustrative purposes only and does not reflect information about any fund or other account managed or serviced by Cohen & Steers. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. See page 16 for index associations definitions and additional disclosures.
Investing with Cohen & Steers

Cohen & Steers has been helping investors around the world access opportunities in real estate securities for more than 30 years. Established in 1986, we were the first investment manager dedicated to real estate securities. Today, we remain one of the largest investors in the asset class. We continue to actively engage the REIT community on behalf of investors, leveraging a perspective gained over multiple real estate cycles to generate consistent value for our clients.

As a global investment manager, our real estate strategies cover a wide range of markets, allowing investors to benefit from one of the largest and most experienced real estate securities investment teams in the industry. This scale also allows us to partner with clients to implement custom listed real estate strategies tailored to meet specific allocation objectives.

### Cohen & Steers Real Estate Securities Strategies

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### Investment Vehicles

- Institutional separate accounts
- U.S. open-end mutual funds
- U.S. closed-end funds
- Luxembourg-domiciled funds (SICAV)
- Collective investment trusts
- Separately managed accounts

Key Takeaways

1. **Enhancing portfolios**: REITs offer the potential to improve risk-adjusted performance, with a long history of strong total returns, attractive dividend income, low correlations to other asset classes and the inflation-hedging characteristics of real assets.

2. **Accessing secular growth themes**: Today’s REIT market features an increasing diversity of opportunities, including new property types that provide infrastructure for the accelerating digital economy.

3. **Complementing private real estate**: REITs offer implementation advantages, including the ability to gain global exposure to dominant real estate platforms, capitalize on market dislocations, and access sectors not typically represented in core private real estate funds.
About the Author

Jason A. Yablon, Senior Vice President, is a senior portfolio manager for U.S. real estate securities portfolios, with 19 years of experience. Prior to joining Cohen & Steers in 2004, Jason was a sell-side analyst at Morgan Stanley for four years, focusing most recently on apartment and health care REITs. He has a BA from the University of Pennsylvania and is based in New York.

Index Definitions

An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisions have limitations as volatility and other characteristics may differ from a particular investment.

Global bonds: Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment grade fixed-rate debt markets.

Global private real estate: The Global Real Estate Fund Index – Core (GREFI Core) is an index showing the performance of core non-listed real estate funds on a global scale and is created by leading non-profit association of investors in non-listed real estate, including ANREV (Asia), INREV (Europe) and NCREIF (U.S.).

Global REITs: The FTSE EPRA Nareit Developed Index is a capitalization-weighted, time-weighted index of companies domiciled in developed markets that derive more than half their revenue from property-related activities. Exhibit 4: Global REITs represented by the FTSE Nareit Equity REITs Index through 12/31/1989 and FTSE EPRA Nareit Developed Index thereafter.

Global stocks: The MSCI World Index (net) is a free-float-adjusted index that measures performance of large- and mid-capitalization companies representing developed market countries.

Global REITs: The FTSE EPRA Nareit Developed Index is a capitalization-weighted, time-weighted index of companies domiciled in developed markets that derive more than half their revenue from property-related activities. Exhibit 4: Global REITs represented by the FTSE Nareit Equity REITs Index through 12/31/1989 and FTSE EPRA Nareit Developed Index thereafter.

Global private real estate: The NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, time-weighted index of 36 private real estate funds pursuing a core investment strategy focused predominantly on U.S. assets.

U.S. REITs: The FTSE Nareit All Equity REITs Index is a capitalization-weighted, time-weighted index of publicly traded U.S. REITs that invest predominantly in the equity ownership of real estate.

Global bonds: Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment grade fixed-rate debt markets.

U.S. REITs: The FTSE EPRA Nareit Developed Index is a capitalization-weighted, time-weighted index of companies domiciled in developed markets that derive more than half their revenue from property-related activities. Exhibit 4: Global REITs represented by the FTSE Nareit Equity REITs Index through 12/31/1989 and FTSE EPRA Nareit Developed Index thereafter.

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