The Relationship Between Rising Interest Rates And Equity REITs

10-Yr. Treasury Yields & FTSE NAREIT All Equity REITs Index (FNER) Total Returns

Year	10-Yr. T-Note (Year-End Yield)	Y-O-Y Change (Basis Points)	REIT Total Returns (FNER)
2000	5.11%	-133	26.37%
2001	5.05%	-6	13.93%
2002	3.82%	-123	3.82%
2003	4.25%	43	37.13%
2004	4.22%	-3	31.58%
2005	4.39%	17	12.16%
2006	4.70%	31	35.06%
2007	4.03%	-67	-15.69%
2008	2.21%	-182	-37.73%
2009	3.84%	163	27.99%
2010	3.30%	-54	27.95%
2011	1.88%	-142	8.28%
2012	1.76%	-12	19.70%
2013	3.03%	127	2.86%
2014	2.17%	-86	28.03%
2015	2.27%	10	2.83%
2016	2.45%	18	8.63%
2017	2.41%	-4	8.67%

Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. With the exception of 2007 and 2008 (financial crisis), the annual total returns posted by the FTSE NAREIT All Equity REITs Index (index) have been positive, even in those years in which interest rates have risen (highlighted in red).
2. From 12/31/99-12/29/17, the index generated an average annual total return of 11.65% (not shown in table), according to Bloomberg. Year-to-date through 2/7/18, however, the index is down 8.86% on a total return basis.
3. The primary catalyst for the sell-off in equity REITs this year has been rising interest rates. The yield on the benchmark 10-year Treasury note (T-note) has increased 43 basis points, from 2.41% on 12/29/17 to 2.84% on 2/7/18 (not shown in table). That is a notable move in a relatively short period of time.
4. Historically, REIT prices have tended to decline as interest rates begin their ascent, but then recover over time provided the cause of the increase in rates is stronger economic activity. We believe that is the case underway early in 2018.
5. Since 1994, there have been seven instances, including 5/21/13-8/19/13, where fears of rising interest rates caused REITs to decline by an average of around 12%, according to Jonathan Litt, founder and CEO of LandandBuildings, a registered investment advisor specializing in publically traded real estate and real estate related securities. The sell-off from 5/21/13 through 8/19/13 reached 18.65%, as measured by the FTSE NAREIT All Equity REITs Index. In the six occurrences prior to 2013, average index returns subsequent to the declines over the next 30 days, 90 days and 12 months were 6.8%, 9.2%, and 28.7%, respectively. The rationale for the strong rebound in returns is linked to the inflation hedge characteristics real estate has traditionally offered.
6. Investors should note that one of the drivers of tax reform, passed into law on 12/22/17, was to cut the federal corporate tax rate from 35% to 21%. The hope is that the lower tax rate might translate into higher U.S. economic growth. For those investors potentially considering equity REITs now that they are cheaper relative to the start of 2018, the premise for owning them is that REIT landlords could be in a position to increase their rents when leases come up for renewal. If so, that could potentially lead to higher dividend payments to REIT investors.