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New Morningstar Research Finds That REITs Provide Significant Investment Return Premium Compared with Private Equity Real Estate Funds

Analysis argues that pension funds and other institutional investors would benefit from larger allocations to REITs than they typically have today

Washington, D.C., October 4, 2011 – NAREIT, the National Association of Real Estate Investment Trusts®, announced the findings of a new Morningstar research study that shows publicly traded REITs have provided a significant investment return premium compared to private equity real estate funds over a range of holding periods, including over the last full real estate cycle.

According to the analysis, which is based on 20+ years of actual performance data, publicly traded REITs have outperformed core, value-added, and opportunistic private equity real estate funds over the long term, have experienced stronger bull markets, and have recovered faster from downturns. In addition to the noteworthy performance comparison, the research also highlights the public market attributes of REITs which benefit an investment portfolio – increased liquidity, transparency, and lower fees and expenses on average.

For the 20+ year period 1989-2009, REITs delivered compound annual net total returns of 9.3 percent compared to 4.4 percent for private equity core funds, 3.7 percent for value-added funds and 6.1 percent for opportunistic funds; during the same period, publicly traded REIT fees and expenses averaged one-half to one-fourth of the fees and expenses charged by private equity real estate funds. And over the course of the last full real estate cycle, REITs produced a cumulative net total return of 801 percent, or 13.4 percent on an annualized basis, higher than the performance of core funds (272 percent, or 7.6 percent annualized), value added funds (320 percent, or 8.5 percent annualized) and opportunistic funds (617 percent, or 12.0 percent annualized).

As of September 30, 2010, REITs also operated with less leverage than value-added and opportunistic funds. As the Morningstar report noted, higher leverage can mean more volatility that isn't compensated by higher returns. Core funds had the lowest leverage, but also the lowest returns over the full real estate cycle.

These findings, as the Morningstar study noted, support the case for pension funds and other institutional investors having larger allocations to publicly traded equity REITs in their real estate portfolios than they typically do today. According to the IREI / Kingsley Associates "Tax-Exempt Real Estate Investment 2011" survey of public pension funds and other institutions, these investors plan to commit 92.6 percent of their real estate allocations this year to private forms of debt and equity, including 72.67 percent to private equity real estate funds, but only 7.4 percent to publicly traded REITs.

The full Morningstar research report, entitled **"Commercial Real Estate Investment: REITs and Private Equity Real Estate Funds,"** along with a corresponding media fact sheet can be found at: http://www.reit.com/allocate.

Steven A. Wechsler, President and CEO of NAREIT, said, "The Morningstar research underscores the strength of the REIT business model in delivering sustainable returns and the need to have a well balanced allocation between REITs and private equity in real estate portfolios. This is increasingly important as public pension funds and other institutional investors seek to both increase portfolio returns and reduce portfolio risk."

NAREIT's Real Estate Portfolio Optimizer, which can be found at http://www.reit.com/InstitutionalInvestors/Optimize.aspx, enables investors to compare the returns, volatility and Sharpe ratios (risk-adjusted returns) of real estate portfolios with various combinations of REITs and private equity core, value-added and opportunity funds. It calculates the actual portfolio performance on the basis of more than 176,000 possible combinations of these portfolio allocations.