1Q.2021 ╱ Opinion

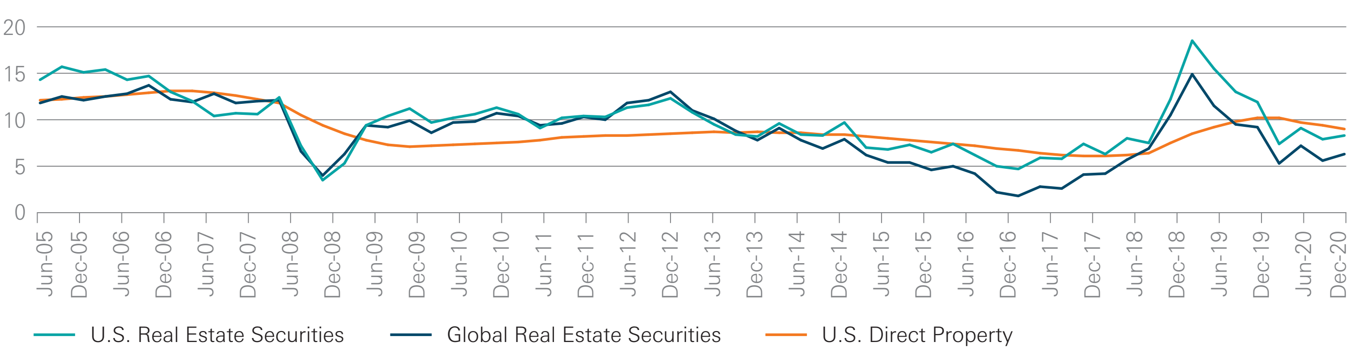
An evolving REIT universe may offer diversification for real estate investors

How REITs may complement direct property investing in a rapidly evolving landscape

Real estate investing: public and private

Real estate as an asset class may offer investors many benefits, including diversification beyond traditional equities and fixed income, attractive growth prospects, and a strong income profile over the long-term. These characteristics, along with a wide range of arbitrage opportunities and strong historical returns, warrant consideration for an allocation to real estate in a well-diversified portfolio. Investors considering an allocation to real estate generally have two main options: direct property (private) or listed real estate (public) investing. The listed real estate market (i.e."REITs") is comprised primarily of publicly-traded equities that own/operate income-producing commercial real estate. REITs can provide a suitable liquid complement to private real estate. In addition to structural advantages, REITs also offer investors access to a broader array of specialty property, which may provide additional tactical opportunities over the course of a market cycle. Importantly, listed real estate securities have historically behaved like direct real estate over the long term. This is not surprising given that real estate securities reflect underlying real estate businesses, pricing, and fundamentals. Below, we observe 10-year rolling returns of three widely used private real estate and public real estate benchmarks, a testament that REITs can be an equally effective vehicle through which investors can allocate to real estate.

10 YEAR ROLLING RETURNS (12/31/05–12/31/20)

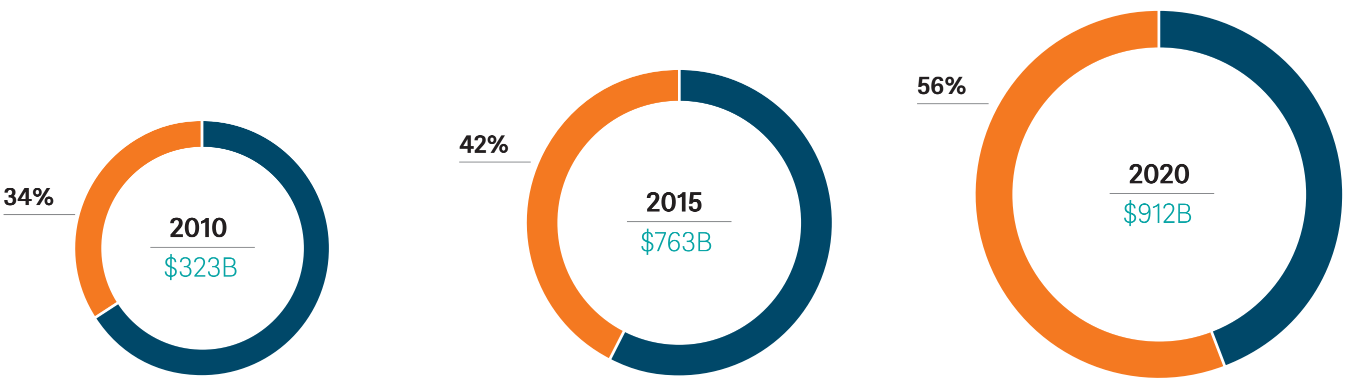


U.S. Real Estate Securities = MSCI U.S. REIT Index, Global Real Estate Securities = FTSE EPRA//NAREIT Developed Index, U.S. Private Real Estate Securities = NCREIF Property Index. For illustrative purposes only. **Past performance is not indicative of future results.**
Sources: Bloomberg and DWS. As of December 31, 2020.

The evolution of listed real estate markets

REITs have experienced tremendous growth, particularly in the U.S. Today, in the U.S. alone, there are more than 150 REITs with a market capitalization of roughly $912 billion. This compares to just 50 U.S. REITs with a market capitalization of $500 million in the mid-1970s and reflects an impressive growth trajectory. Globally, listed real estate market capitalization has grown to over $1.5 trillion. Demand for liquidity, yield, and diversification has supported the equitization of real estate, along with the appeal of reduced asset management and trading costs. Over the last 10 years, along with this unprecedented growth, we have witnessed a meaningful shift away from traditional REIT property types and towards non-traditional exposure within the listed real estate securities market (as defined below). Many of these non-traditional sectors are now widely recognized by market participants. Non-traditional sectors now account for a sizable portion of many listed real estate securities benchmarks, affording active managers a wider opportunity set from which they can potentially generate alpha on behalf of clients.

U.S. REIT MARKET EVOLUTION—COMPOSITION AND SIZE (12/31/10–12/31/20)



Traditional
Apartments, Industrial, Office, Retail

Non-Traditional
Data Centers, Specialty, Storage, Healthcare, Hotels, Other Residential

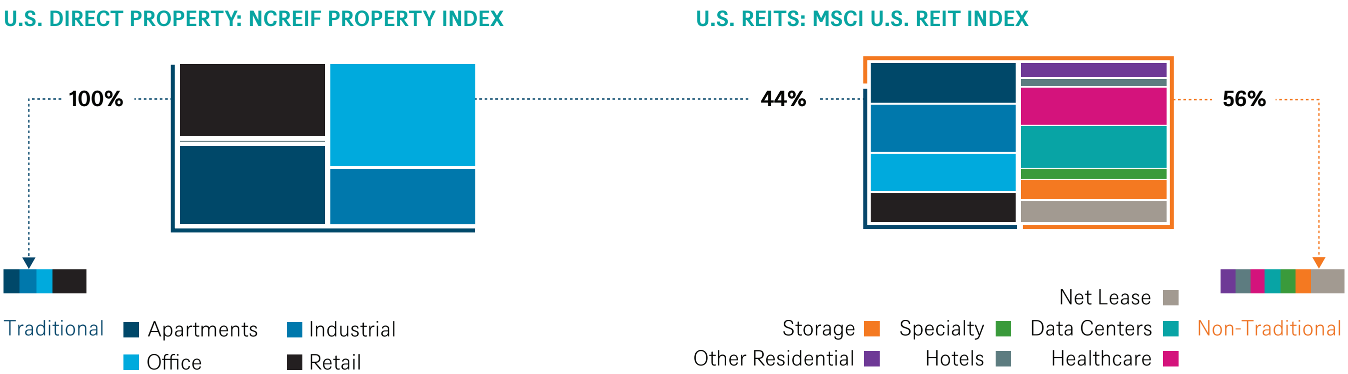
U.S. Real Estate Securities = MSCI U.S. REIT Index. For illustrative purposes only. **Past performance is not indicative of future results.** Sources: Factset, MSCI, and DWS. As of December 31, 2020. Figures centered in orange represent market capitalization as of June month-end of each year shown.

Capturing a wider opportunity set with listed real estate

Listed real estate offers investors efficient deployment of capital to a variety of non-traditional real estate while avoiding increased concentration of risk, as seen in opportunistic or value-add funds in the private market, which generally have highly concentrated portfolios.

This diverse set of non-traditional real estate sectors has not only emerged, but has become widely accepted by market participants as real estate. Importantly, over the last ten years, these non-traditional sectors have driven much of the growth in listed real estate markets.

The below figure highlights differences in composition between private versus listed real estate benchmarks in the U.S., differentiating between traditional property types and newer, non-traditional types. Listed real estate may offer complementary exposure, helping today's real estate investors keep pace with an evolving asset class.



For illustrative purposes only. Figures rounded to the nearest percentage. Note that the NCREIF Property Index contains an immaterial amount (0.50%) of Hotels exposure, which is categorized as non-traditional. Sources: Factset, MSCI, FTSE, and DWS. As of December 31, 2020.

Important information

Definitions

Alpha – Alpha is a measure of the active return on an investment. An investment's alpha is the excess return relative to the beta-adjusted market return.

FTSE EPRA//NAREIT Developed Index – A benchmark designed to track the performance of listed real estate companies and REITs worldwide.

NCREIF Property Index – A composite total return benchmark for private commercial real estate properties held for investment purposes.

MSCI U.S. REIT Index – A free float-adjusted market capitalization index that consists of large and mid cap U.S. equity REITs.

REIT – A Real Estate Investment Trust (REIT) is a company that owns, and in most cases, operates income-producing real estate. REITs sell like a stock on the major exchanges and invest in real estate directly, either through properties or mortgages.

Diversification does not assure a profit or protect against loss in a declining market.

There are special risks associated with an investment in real estate, including REITs. These risks include credit risk, interest rate fluctuations and the impact of varied economic conditions.

The opinions and forecasts expressed herein are as of December 2020, are subject to change and may not come to pass.

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries such as DWS Distributors, Inc. which offers investment products or DWS Investment Management Americas, Inc. and RREEF America L.L.C. which offer advisory services.

DWS Distributors, Inc.
222 South Riverside Plaza Chicago, IL 60606-5808
www.dws.com rep@dws.com
Tel (800) 621-1148