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FEBRUARY 2022

Global REIT Approach to Real Estate Investing

Supporting Communities, Building Economies, and Increasing Investment Around the World

Prepared by Nareit
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As the worldwide representative voice for real estate investment trusts (REITs) and listed real estate with an interest in U.S. real estate and capital markets, Nareit has long advocated for REIT regimes around the world.

This study summarizes the dramatic growth of REITs around the world since their inception more than 60 years ago and the benefits of the REIT model for communities, economies, and investors. There are currently 41 countries and regions, accounting for 85% of global GDP with a combined population of nearly 5 billion people, that have enacted REIT legislation.

As the world becomes increasingly connected, and as nations seek to create, modernize, and maintain the built environment in which we live and work, we see REITs as an indispensable resource to efficiently channel capital to real estate in a manner that encourages market discipline and broadens real estate ownership.

We hope this study will be useful for REITs and real estate companies, investors, and, in particular, policymakers globally. Nareit looks forward to engaging in and supporting efforts to continue to grow and improve the REIT model globally. We encourage you to use the resources on REIT.com to learn more about REITs around the world and connect with Nareit to discuss how we can help support REIT development in your nation or region.

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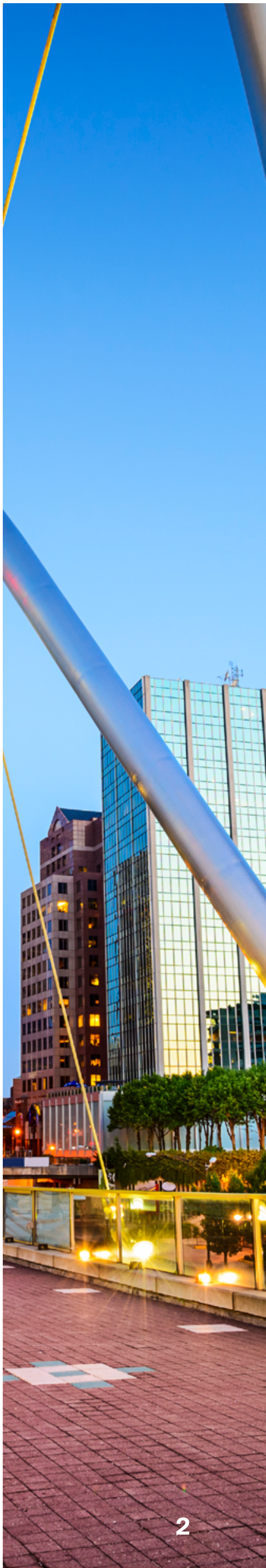
This document defines what a REIT is and provides background on the global adoption of REITs; explains the types of real estate that REITs own today; and shares the benefits of a REIT-based approach to real estate investing for communities, economies, and investors. Dollars referenced in this report are in U.S. dollars ($).

Nareit serves as the worldwide representative voice for REITs and real estate companies with an interest in U.S. real estate. Nareit's members are REITs and other real estate companies throughout the world that own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study, and service those businesses.



Introduction

Nations around the world have adopted real estate investment trusts (REITs) as part of their economic development strategies. REITs provide an investment opportunity, like a mutual fund, that makes it possible for everyday investors to benefit or enjoy returns from real estate and real estate-related projects by buying shares directly or accessing them through retirement or pension funds.

REITs are companies that own, operate, or finance income-producing real estate. REITs are often listed on stock exchanges like other public corporations.

Since REITs were first introduced in the United States (U.S.) in 1960, 41 countries and regions, with a total population of nearly 5 billion people and comprising 85% of global GDP, have authorized REITs. REITs have become a key part of commercial real estate investment around the world.

Today, there are 865 listed REITs operating around the globe. Since 1990, the equity market capitalization of listed REITs has grown from about $10 billion to more than $2.5 trillion at the end of 2021.

REITs help enhance communities by:

- Harnessing private resources to help people around the world use real estate to live, work, play, and interact with each other;
- Creating jobs, better infrastructure, and increased economic activity;
- Providing access to global investment capital; and,
- Encouraging broad-based domestic ownership of commercial real estate and critical infrastructure.

When REITs invest, the benefits can be seen and experienced far and wide by communities and the people in them.

The REIT approach to commercial real estate investment:

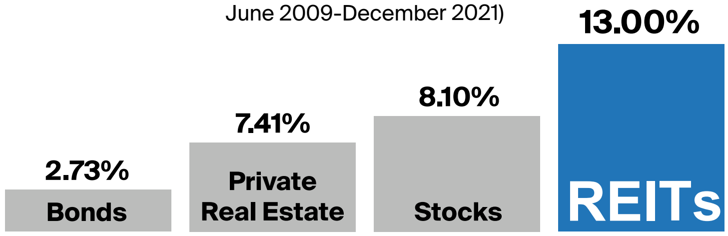
- Provides disciplined, market-based financing of real estate;
- Offers access to global and domestic sources of capital, reducing the cost of capital for developing real estate to house the changing economy (In 2021, REITs around the world raised more than $174 billion in equity and debt.);
- Encourages equity financing of real estate, increasing stability, and reducing the risk of real estate crises; and,
- Gives individual investors access to real estate investment to help build financial security, manage wealth, and save for retirement.

Investors in REITs receive returns that are highly correlated with other types of commercial real estate. REITs historically have provided investors all over the world with regular income streams, portfolio diversification, and long-term capital appreciation, largely attributable to long-term investment in, or financing of—professionally-managed real estate. Because they are often stock-market listed companies, REITs are easy to buy and sell and, unlike other forms of commercial real estate, are accessible to people across a greater range of income levels. REIT investors can easily construct real estate portfolios that are diversified across different types of properties and geography.

As the global population grows and urbanization accelerates, nations need to bring in new sources of capital to construct and maintain the built environment. REITs are an important tool that can provide access to local and global capital, provide market stability, and open up real estate ownership to a nation's broad population.

Outperformed International Stocks and Bonds

(compound annual growth rate, June 2009-December 2021)



Nareit analysis of monthly returns for FTSE EPRA Nareit Global REITs Extended Index June 2009-December 2021 via FTSE and Factset and MSCI EAFE and Bloomberg Barclays Global-Aggregate via Factset. Quarterly returns for NCREIF Global Real Estate Fund Index (GREFI) as of 2021:Q3.

Global REITs by the Numbers

Number of countries and regions with REITs	41
Total number of listed REITs globally	1989: 120 2021: 865
Equity market cap for listed REITs	1989: $11.7B 2021: $2.5T
Capital Raising	$174B (in 2021)

Nareit; Equity market capitalization and count for U.S. listed equity and mortgage REITs from FTSE Nareit All REITs Index; Equity market capitalization and count for companies listed as equity or mortgage REITs in S&P Global Capital IQ in in countries and regions with REITs; Global capital raising via Capital IQ Pro (as of 2021).

What is a REIT?

A REIT, or real estate investment trust, is a company that owns, operates, or finances income-producing real estate.

REITs help house national economies by providing much of the real estate where people live, work, shop, and spend their leisure time—from the houses and apartments in which they reside to the shopping centers they frequent to the offices where they work—and REITs enable today's digital economy and communication with real estate such as communications towers, data centers, and logistics facilities.

REITs generally possess the following four distinguishing characteristics:

- They are widely-held;
- They invest mostly in real estate, and/or earn most income from real estate assets;
- They distribute most of their income to shareholders; and,
- They are subject to a single level of taxation at the shareholder level, effected by either allowing the entity a deduction attributable to distributed dividends or exempting such income from taxation at the entity level.

Global REIT Adoption

The first authorization of a REIT structure took place in the U.S. in 1960, which created a way to make commercial real estate accessible to all Americans in the same way they had been able to invest in the stocks and bonds of many companies.

Over the course of the following 60-plus years, the U.S. REIT model has encouraged broad-based real estate investment. Today, 145 million Americans, or 44% of American households, have REIT investments.

REITs have also been established around the world to accomplish a similar goal of developing a way to make investment in diversified, income-producing real estate accessible to a variety of investors.

As the map on page 6 demonstrates, as of 2021, a total of 41 countries and regions have adopted REITs, including all of the G-7 countries. More than half of the Organisation for Economic Co-operation and Development (OECD) countries have REITs in place.

While the REIT approach to real estate investment has been refined and enhanced over the years, the original intent of inclusivity remains at the core of the REIT model.

The global REIT industry today includes companies engaged in real estate ownership or financing that support nearly all sectors of the economy.

REITs own, operate, and/or finance apartment buildings, data centers, health care facilities, logistics facilities, office buildings, rental housing, retail and shopping malls, self-storage centers, communications towers, timberlands, and many other types of properties.

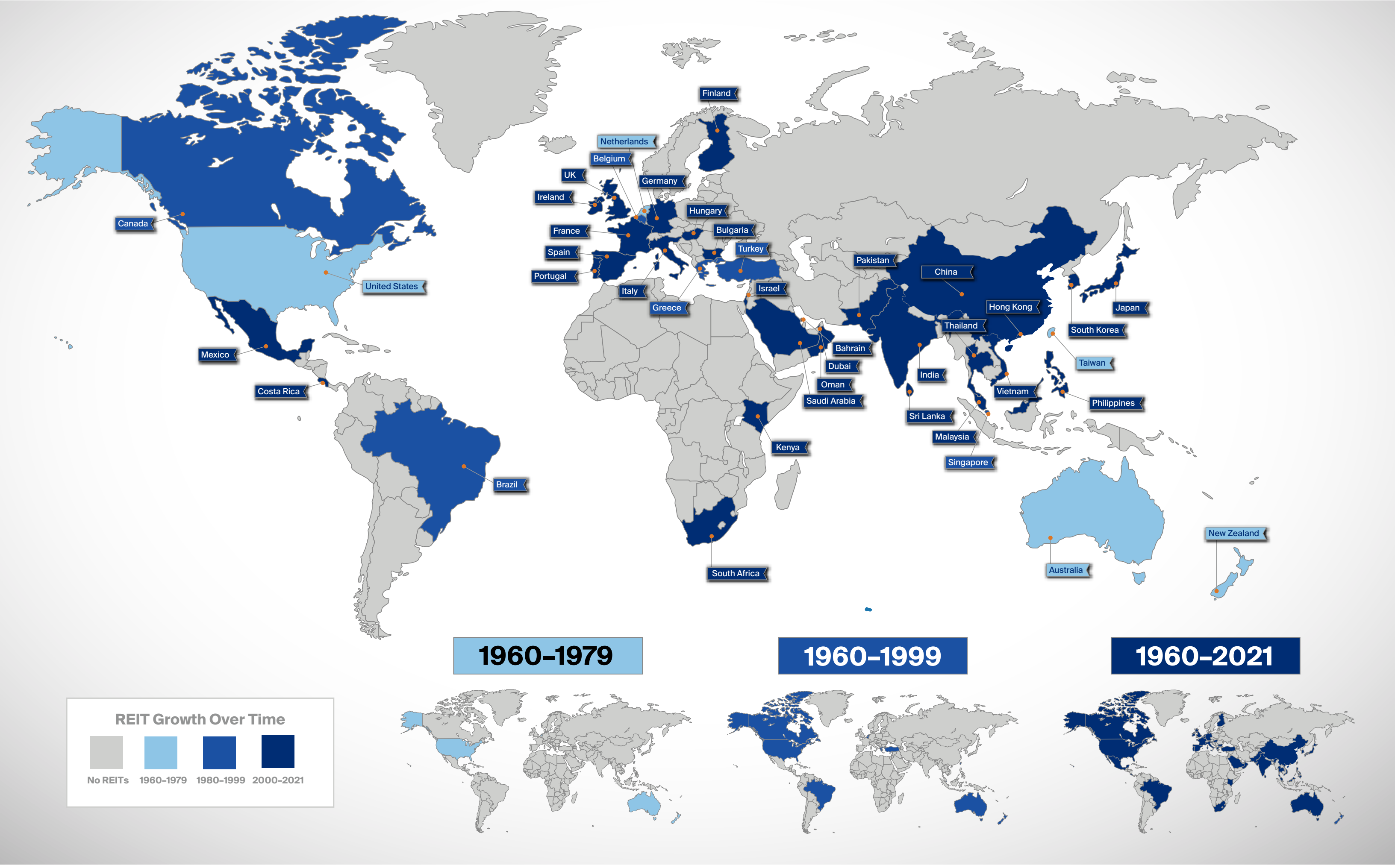
REITs AROUND THE WORLD

Countries and Regions with REITs

1960 United States
1969 Netherlands
1969 New Zealand
1969 Taiwan
1971 Australia
1993 Brazil
1993 Canada
1995 Belgium
1995 Turkey
1999 Greece
1999 Singapore
2000 Japan
2001 South Korea
2003 France
2003 Hong Kong
2005 Bulgaria
2005 Malaysia
2005 Thailand
2006 Dubai, UAE
2006 Israel
2007 Germany
2007 Italy
2007 United Kingdom
2008 Pakistan
2009 Costa Rica
2009 Finland
2009 Spain
2010 Mexico
2010 Philippines
2011 Hungary
2013 Ireland
2013 South Africa
2014 India
2014 Kenya
2015 Bahrain
2015 Vietnam
2016 Saudi Arabia
2018 Oman
2019 Portugal
2020 Sri Lanka
2021 China

REITs Around the World 60 years of growth

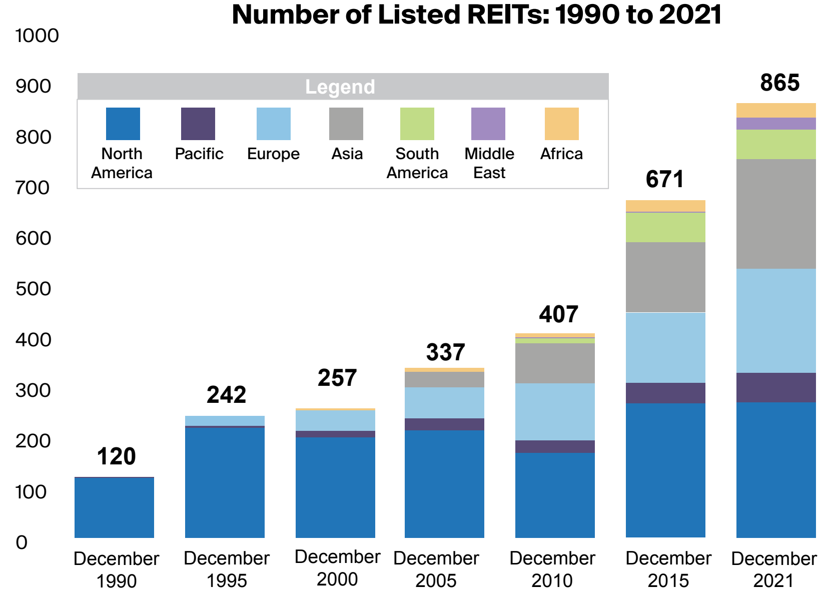
Countries and regions with REITs



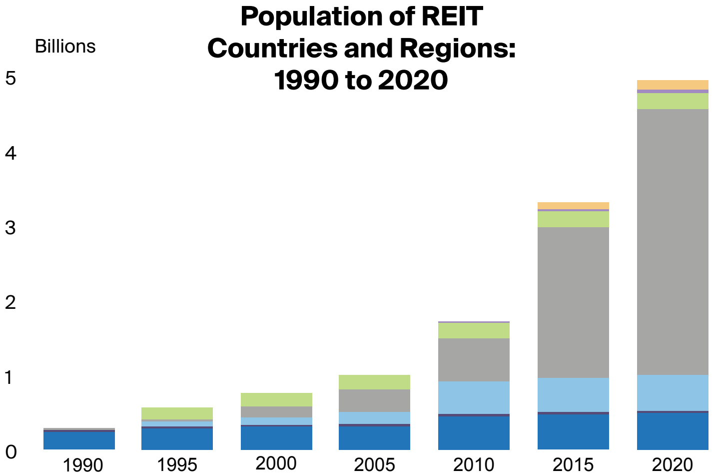
A total of 865 listed REITs with a combined equity market capitalization of approximately $2.5 trillion (as of December 2021) are in operation around the world. As the following charts show, REITs have grown dramatically in both number and equity market capitalization over the past 30 years going from 120 listed REITs in two countries to 865 listed REITs in 41 countries and regions.

In particular, Asia has had strong uptake of REITs, growing from 31 REITs in six countries and regions in 2005 to 216 REITs in 11 countries and regions in 2021. The Middle East also has demonstrated meaningful growth since 2015 with the addition of REITs in Saudi Arabia and Oman.

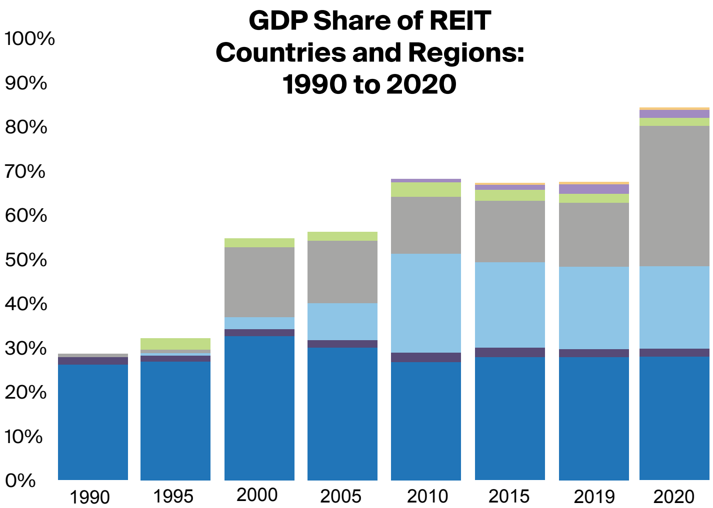
Number of Listed REITs: 1990 to 2021



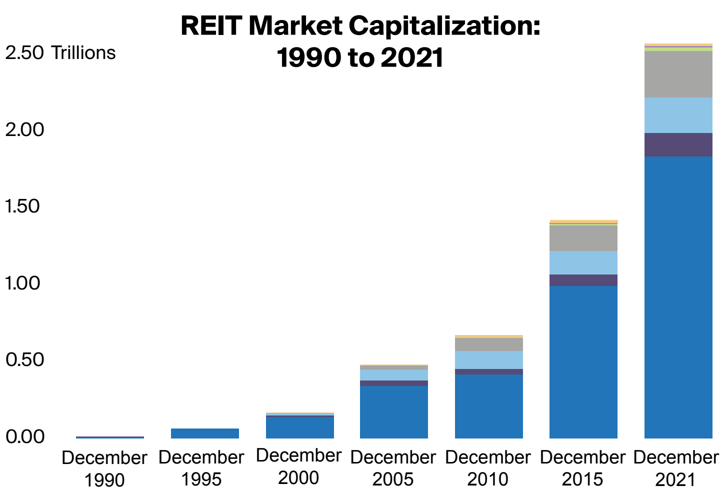
Source: Count of U.S. listed equity and mortgage REITs from FTSE Nareit All REITs Index and companies listed as equity or mortgage REITs in S&P Global Capital IQ in REIT countries and regions.



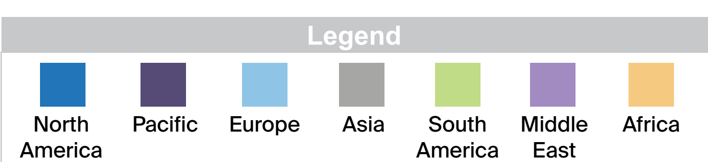
Source: World Bank, World Development Indicators. Taiwan population via United Nations, Department of Economic and Social Affairs, Population Division (2020).



Source: World Bank, World Development Indicators. Taiwan GDP estimated from International Monetary Fund, International Financial Statistics and Federal Reserve Economic Data.



Source: Equity market capitalization for U.S. listed equity and mortgage REITs from FTSE Nareit All REITs Index, equity market capitalization for companies listed as equity or mortgage REITs in S&P Global Capital IQ in REIT countries and regions.



Market capitalization for REITs has increased steadily around the world with the largest growth in North America from $8.7 billion in 1990 to $1.8 trillion in 2021. This growth is a testament to the success and durability of the REIT approach.

As the REIT model has spread globally, current countries and regions with REITs represent 85% of 2020 global GDP, increasing from 28% of global GDP in 1990. The GDP of REIT countries and regions has increased from $6.5 billion to almost $72 trillion in this time frame.

In 1990, REIT countries and regions had just a 6% share of global population, and currently, they account for 64% of the world's 2020 population. Asia has driven the growth in population for REIT countries and regions, most notably with the adoption of REITs in India in 2014 and China in 2021.

The decades-long evolution of REITs has yielded a number of common features that point to a successful REIT regime:

- Flexibility of property type eligibility – REITs have been innovators and early adopters in owning and operating the commercial real estate that houses the modern economy.
- Flexibility in management – Allow internal or external management; avoid limits on leverage and ownership restrictions on how REITs operate.
- Flexibility in structure – Allow listed, non-listed, public, and private REITs. These are all tools REITs use.
- Flexibility in property transfers – Allow properties to enter REITs without incurring a taxable event.
- Simplicity – Permit flexible and simple structures (rather than requiring multi-tier structures).

Benefits of REITs: Communities

Commercial real estate is a critical part of the economy and plays a significant role in communities.

Through the diverse array of properties they own, finance, and operate, REITs help provide the essential real estate that support neighborhoods, enable the digital economy, power community essential services, and build the infrastructure of tomorrow, while creating jobs and economic activity along the way.

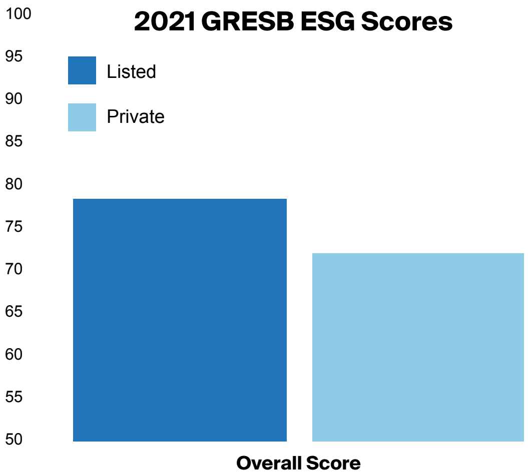
Economic Growth, Job Creation, and Training

Globally, REITs are responsible for significant tax revenue generated both at the shareholder level where taxes are imposed and with respect to other aspects of their business, including employment taxes, VAT, and property taxes.

REIT economic activity supports employment and economic growth through the people they employ directly as well as the goods and services they purchase from others, the structures they develop and build and purchase from others, and the dividends and interest they pay out to investors.

REITs employ analysts, property managers, sustainability managers, and human resources professionals, among others. REITs that operate their own buildings may also directly employ roles such as maintenance, custodial services, food services, and others. For example, in the U.S. in 2020, REITs supported an estimated 2.9 million full-time equivalent jobs, with REITs employing 308,000 full-time equivalent employees directly.

In addition to supporting job creation, many REITs have initiated social programs that focus on job training and career development within their respective sectors to help their customers build talent pipelines, while reinforcing career pathways and creating economic opportunity in the communities where they operate.



Source: GRESB, 2021 equally-weighted scores based on data submitted by companies.

Environmental Stewardship, Social Responsibility, and Good Governance (ESG)

REITs and their stakeholders are increasingly recognizing the importance of ESG efforts. REITs and listed real estate outperformed privately owned and operated real estate in the 2021 GRESB ESG scores. Listed real estate edged out private real estate in all three ESG categories and by six points overall as shown in the chart above. REITs understand that they contribute to and affect meaningful change in their communities, regions, and countries through the ESG activities they undertake and the metrics they establish, report, and achieve.

Environmental Stewardship

Environmental stewardship has long been a focus area for the REIT industry, with investments in energy-saving and waste-mitigating technology, sustainable building materials, and responsible environmental management processes prioritized by a large portion of the industry. In recent years, many REITs began tracking the impact of these environmental efforts, and have found significant cost savings, solid tenant and community engagement, strong executive and board commitment, and effective risk management to be some of the lasting, value-added benefits.

Social Responsibility

As developers, owners, and operators of the built spaces which the full range of communities and societies use every day, the REIT industry has increasingly been focused on its social responsibility practices. There have been a variety of impactful and innovative partnerships and programs introduced that address customer needs, engage employees, and promote community well-being. Yet, there is much more work to be done, both in terms of effective, transparent reporting and community engagement, especially with respect to advancing diversity, equity, and inclusion in the REIT and real estate investment industry.

Good Governance

REITs have a long history of good governance practices. In many global REIT regimes, by law, REITs must distribute most of their taxable income. Because there is limited opportunity to retain earnings, management is more likely to be efficient with available funds, shareholders have greater control over earnings, and management objectives align with shareholder interests.

Public REITs, unlike private real estate investments, can only raise additional capital in the public capital markets by disclosing financial information to investors and reporting on material business developments and risks, allowing investors to analyze and value REIT stocks independently. This scrutiny provides a measure of protection and more than one barometer of any REIT's financial condition. In addition, being subject to a particular country's or region's securities laws typically requires regular disclosures to the public, including quarterly and yearly financial reports.

Benefits of REITs: Economies

Early Movers in Enabling the Changing Economy

REITs have been real estate innovators for decades. One of the most important innovations was creating an effective alignment of interests between REIT managers and investors through permanent capital, dividend payouts, and a corporate governance structure.

REITs have also consistently been early movers in bringing institutional capital into new and emerging areas of real estate. Some of the innovative sectors REITs spearheaded have included self-storage, health care, hotels and lodging, billboards, and timber.

With technology at the forefront of many innovations within the economy, REITs have led the way in housing the digital economy in data centers, communications towers, and industrial and logistics facilities.

REITs are continuing to innovate by embracing emerging property types like life science and laboratory space, cold storage, single family rentals, casinos and gaming, and others.

Access to Capital Leads to Capital Markets Stability

Accessing global capital markets – REITs provide a channel to access global capital.

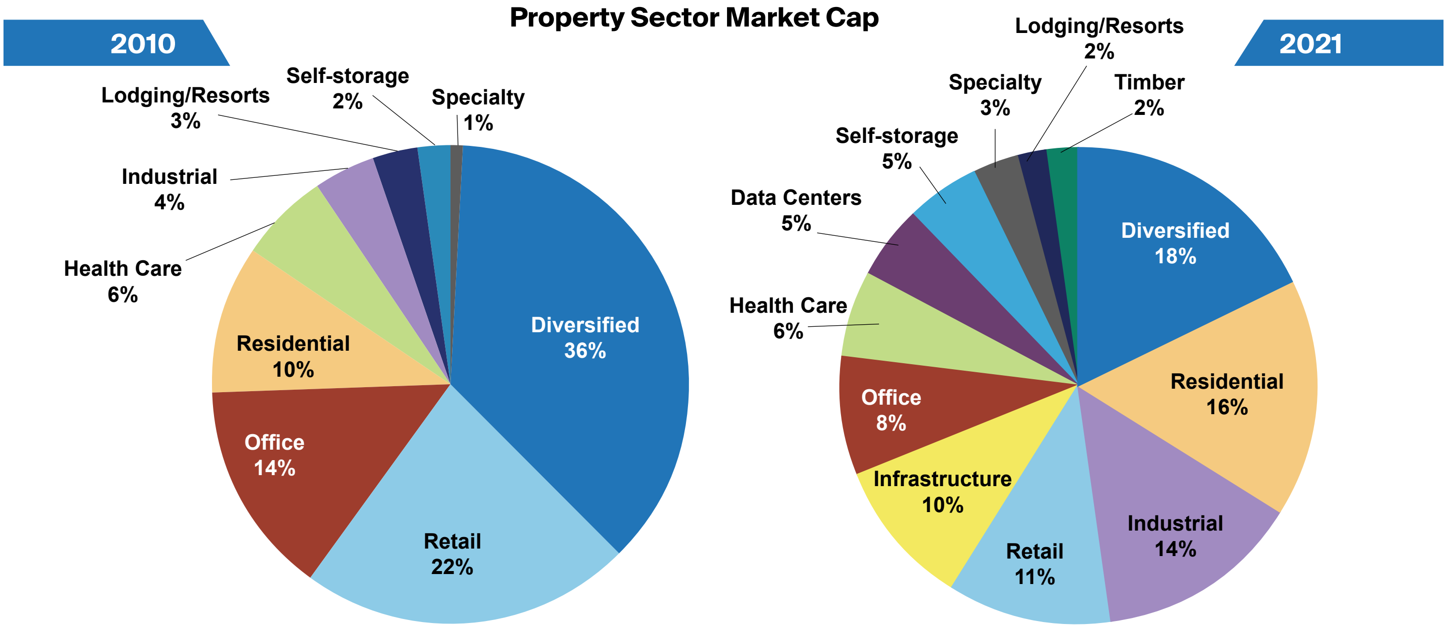
Increasing efficiency and liquidity in the local real estate market – REITs provide integration between real estate and capital markets, contributing to more efficient capital allocation.

Increasing transparency to promote stability in the local real estate market – REITs are an effective way to increase market transparency and provide market-based pricing signals to help govern real estate development more effectively. REITs can also promote financial stability. Research makes the case that REITs helped limit a property price bubble in commercial real estate in the run up to the Great Financial Crisis.[1]

Promoting securitization – Asset securitization provides businesses with an additional channel for financing and can effectively move credit risk off bank balance sheets. REITs are a reliable and transparent method for securitizing assets, providing funding to property owners, and diversifying investment opportunities for all investors, while simultaneously reducing systemic risk.

Reducing the dependency of the real estate sector on shadow banking – REITs provide equity financing, and many trade on securities exchanges and must disclose financial performance information, thereby increasing transparency and management accountability.

Providing broad accessibility to the benefits of real estate investment – REIT-based real estate investment will provide all local investors, including small investors, access to the long-term benefits of investing in real estate for building wealth and financial security. Pensions, endowments, and other institutional investors around the world increasingly use REITs as part of their real estate allocation.



Note: Industrial includes industrial and industrial/office mixed. Source: FTSE EPRA/Nareit Global equity market capitalization by property sector as of Dec. 31, 2010 and FTSE EPRA/Nareit Global Extended Index equity market capitalization of property sectors as of Dec. 31, 2021.

These charts show the change in market capitalization of various real estate sectors between 2010 and 2021.

As a result of the evolving economy over the past 10 years, there have been dramatic changes in the composition of REIT equity market capitalization. REITs have been on the forefront of owning and operating the real estate that houses the digital economy.

- In 2010, industrial REITs accounted for just 4% of total equity REIT market cap, communications towers had not been introduced into the index series, and data centers were not broken out into a stand-alone sector.
- In 2021, the infrastructure, data center, and industrial sectors accounted for 30% of equity REIT market cap.

Infrastructure REITs own communications towers and fiber that house the equipment to transmit voice and data messages and allow information to flow among devices around the world.

Data Center REITs own facilities that house the servers that help link data communications, store data, and maintain the internet.

Industrial REITs own the logistics facilities that play a crucial role in e-commerce and cold storage. Temperature-controlled facilities maintain the quality of products, including electronics, frozen and fresh perishable grocery items, and medical supplies ahead of delivery.

Benefits of REITs: Investors

Commercial real estate is a fundamental asset class, and REITs are a low cost, effective, and liquid means of investing in real estate. REIT investment helps to build diversified portfolios that cover the entire breadth of investment markets, and commercial real estate has historically brought unique attributes to a portfolio, including:

- A distinct economic cycle relative to most other stocks and bonds;
- Potential inflation protection; and,
- Reliable income returns.

REITs historically have delivered competitive total returns based on high, steady dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

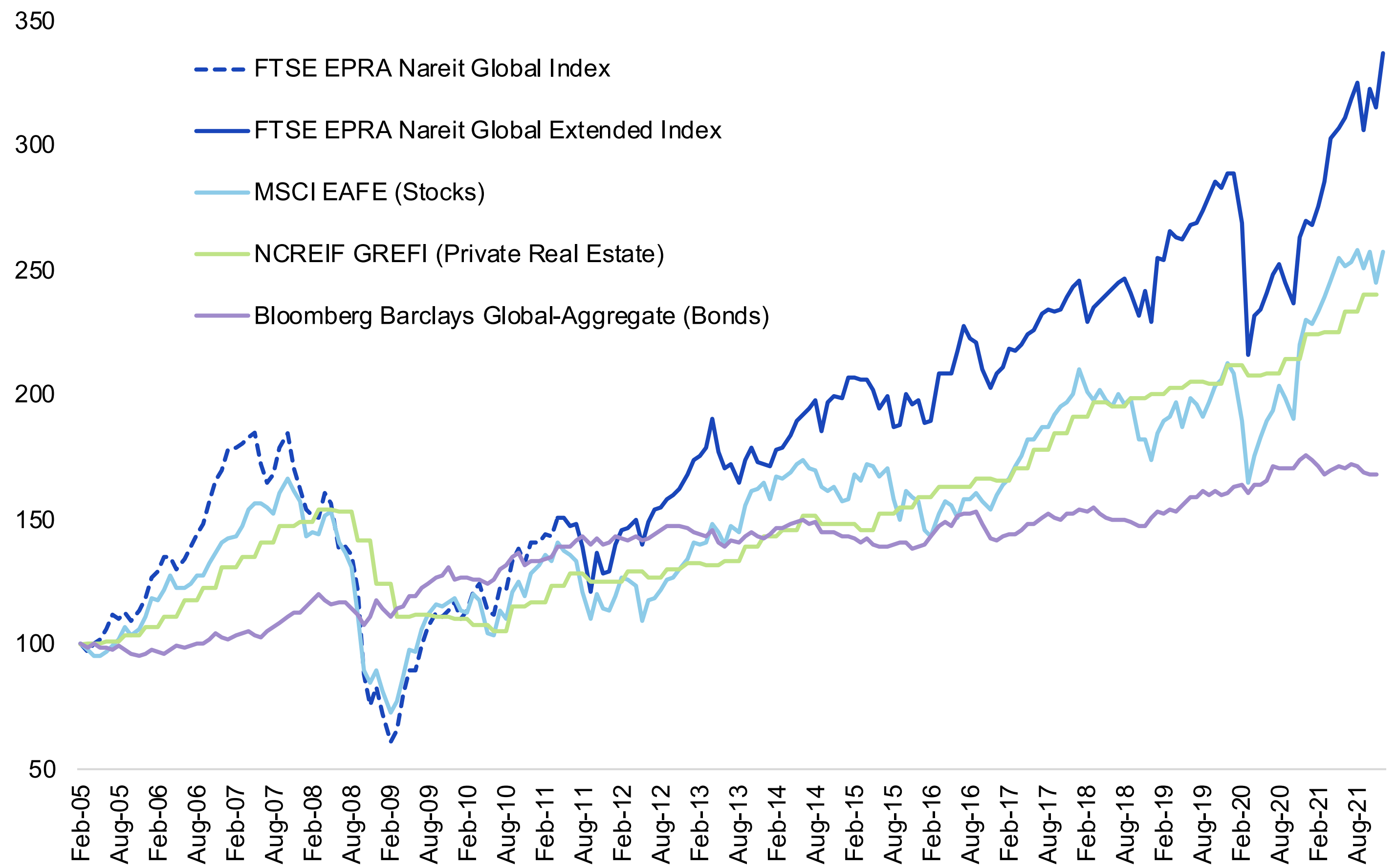
The growth in size and importance of real estate, primarily equity REITs, resulted in a new real estate sector classification by S&P Dow Jones Indices and MSCI in their Global Industry Classification Standard (GICS®) in 2016. Similarly, in 2019, FTSE Russell added the real estate sector within its Industry Classification Benchmark (ICB®). With these classifications, investors, managers, and advisors are encouraged to more actively consider real estate—especially REITs—when developing investment policies and portfolios.

Characteristics of REIT-Based Real Estate Investment

The REIT approach to real estate investing provides investors with a straightforward and transparent means to access the real estate asset class.

Performance — The real estate market is the primary driver of REIT returns; therefore, REITs may be used as a liquid proxy for gaining access to the entire commercial real estate asset class.

Total Returns: Stocks, Bonds, and Private and Public Real Estate



Source: Nareit analysis of monthly returns for FTSE EPRA Nareit Global Index February 2005-April 2011 and FTSE EPRA Nareit Global Extended Index May 2011-December 2021 via FTSE and Factset and MSCI EAFE and Bloomberg Barclays Global-Aggregate via Factset. Quarterly returns for NCREIF Global Real Estate Fund Index (GREFI) until 2021:Q3.

As the chart shows, over the long term, global listed real estate, including REITs, has generally outperformed both global stocks and global bonds. The compound annual growth rate in returns from February 2005 to December 2021 is 6.9% for the FTSE EPRA/Nareit Global Index, compared with 5.8% for the broader global stock market (represented by MSCI EAFE), 5.4% for private real estate (NCREIF's Global Real Estate Index through September 2021), and 3.1% for global bonds (Bloomberg Barclays Global-Aggregate bond index).

Within global real estate, REITs have outperformed other listed real estate companies. From June 2009, average annual growth for the FTSE EPRA/Nareit Global REITs Extended Index is 13.0% during that same period.

As of Dec. 31, 2021, the FTSE EPRA/ Nareit Global Extended Index, the broadest index of global stock exchange-listed REITs and property companies in both developed and emerging countries and regions, included 537 constituents with a combined float-adjusted equity market capitalization of $2.6 trillion. REITs represented 83% of that market capitalization.

Diversification — REITs have had low correlation with other stocks and bonds,[2] with FTSE EPRA/Nareit Global REITs Extended Index having a 0.79 correlation with MSCI EAFE.[3]

Over the past few decades, assets have become increasingly correlated. Fortunately, REITs provide access to meaningful diversification opportunities.

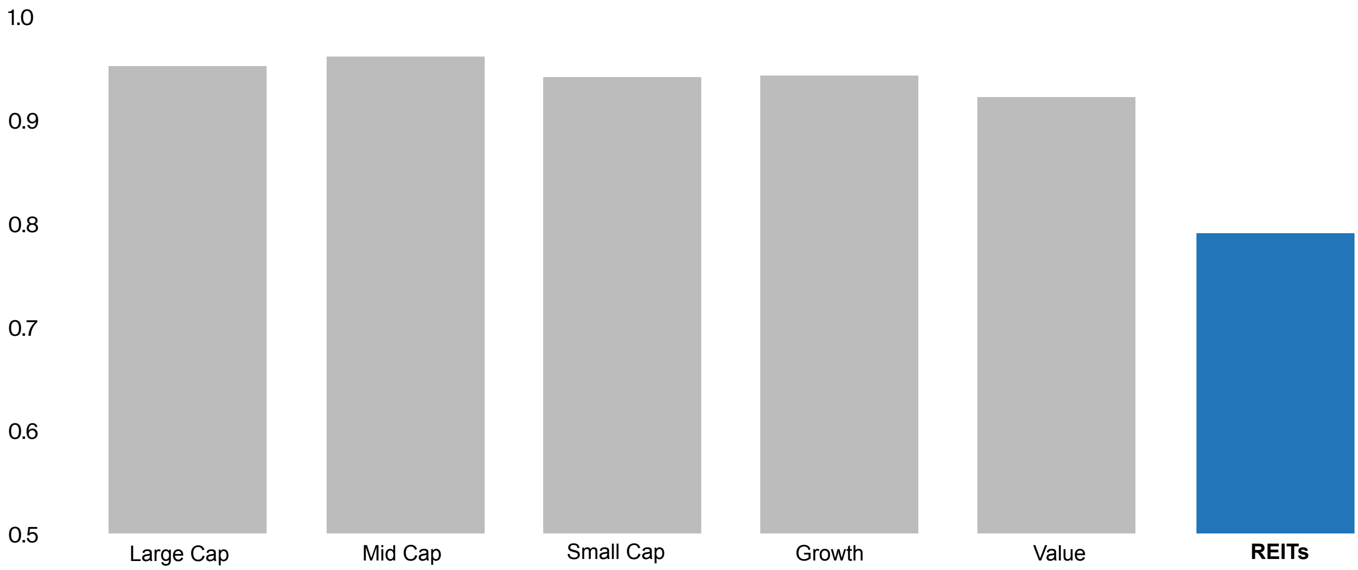
The chart on page 14 illustrates the low correlation REITs have had with the broad stock market.

Liquidity — REITs are bought and sold like other stocks, mutual funds, and ETFs.

Dividends — REITs have provided reliable income returns.[4] The dividend yield for the FTSE EPRA/Nareit Global REITs Index for Dec. 31, 2021 was 3.15 versus 2.51 for MSCI EAFE.

Inflation Protection — Due in part to the fact that many leases are tied to inflation and that real estate values have tended to increase in response to rising replacement costs, REITs have provided natural protection against inflation, and their dividends delivered a reliable stream of income even during inflationary periods.

Correlation with Global Total Stock Market Total Monthly Returns



Source: Monthly total returns for MSCI EAFE Indexes and FTSE EPRA/Nareit Global REITs Extended Index from June 2009 to December 2021.

Conclusion

The REIT approach to real estate investing supports communities, builds economies, and increases investment around the world. REIT investors can construct real estate portfolios that are diversified across different types of properties and geography.

REITs help promote development and investment in commercial real estate and infrastructure; provide access to global investment capital; and encourage broad-based domestic ownership of commercial real estate.

For data cited in this report unless otherwise noted, or to access additional REIT news, research, market trends, or analysis, visit

REIT.com

All information unless otherwise cited is from REIT.com

1 Packer, F., T.J. Riddiough, and Shek. "Securitization and the Supply Cycle: Evidence from the REIT Market." The Journal of Portfolio Management, Special Real Estate Issue 2013, pp. 134-143.

2 CEM Benchmarking 2020 available at www.reit.com/data-research/research/updated-cem-benchmarking-study-highlights-reit-performance.

3 Source: Nareit analysis of monthly returns from FTSE EPRA Nareit Global REITs Index July 31, 2009 to Dec. 31, 2021 via FTSE and Factset and MSCI EAFE via Factset.

4 Nareit sponsored study by Wilshire Funds Management – Income Oriented Portfolios – Challenges and Solutions, October 2016.