

Macro Investment Strategy: REITs

Capital Builders Group

Fynn & Kris
12/02/24

Executive Summary



Strategy

Invest in REITs to take advantage of potential interest rate cuts while simultaneously hedging against inflation.



Performance

Expected metrics include robust dividend yields, diversified portfolio returns, and greater resilience to inflation compared to other equity investments.



Recommendation

Yes— We recommend investing \$40,000 in this strategy, targeting REITs with robust financial management



Strategy Design

Origin

Historically, REITs have performed well during periods of falling interest rates due to increased access to capital and enhanced valuation metrics. Simultaneously, their inflation-hedging characteristics, such as rental income growth and asset appreciation, make them a strategic choice in inflationary environments.

Goal

To capitalize on economic recovery trends by investing in high-performing REIT sectors that exhibit stability, growth potential, and consistent income, ensuring alignment with inflation-hedging and portfolio diversification objectives.

Outcome

Achieve above-market returns with reduced risk through strategic allocation in resilient REIT categories, outperforming inflation metrics and strengthening long-term portfolio stability.



Strategy Rationale

Historical context:

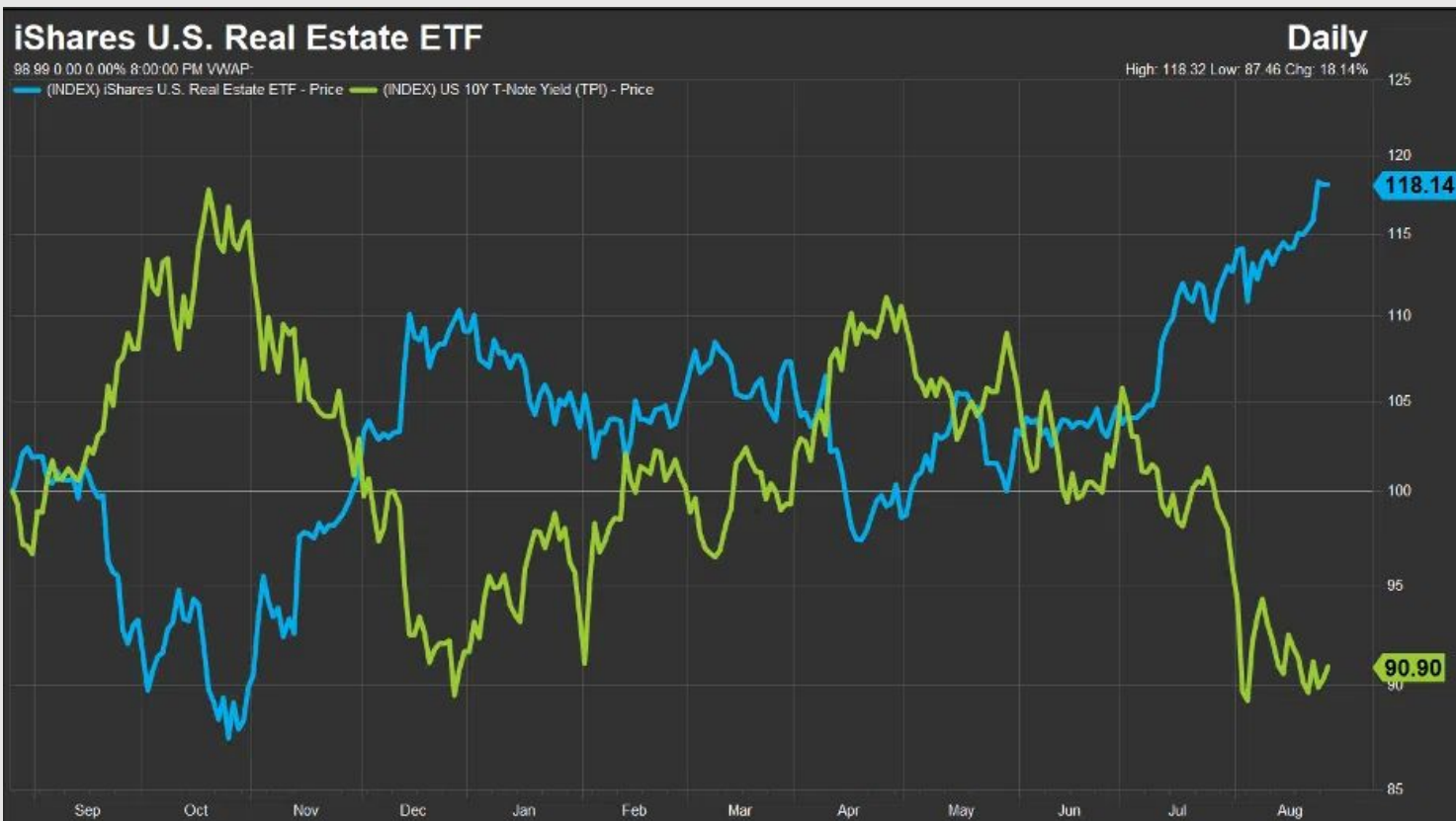
REITs benefit from lower interest rates, which reduce borrowing costs and enhance property valuations, leading to strong investor returns.

What is the trigger/indicator?

Optimistic forecast for rate cuts

When do you abandon this strategy?

Rate hikes are forecasted



Introduction to REITs



What are REITs?

REITs (Real Estate Investment Trusts) are companies that own, operate, or finance income-producing real estate properties.



How do REITs work?

REITs pool money from investors and use it to purchase, develop, and manage real estate properties, such as apartments, offices, hotels, and shopping centers.



Benefits of investing in REITs

REITs provide investors with the opportunity to invest in a diversified portfolio of real estate assets, offering potential income and capital appreciation.

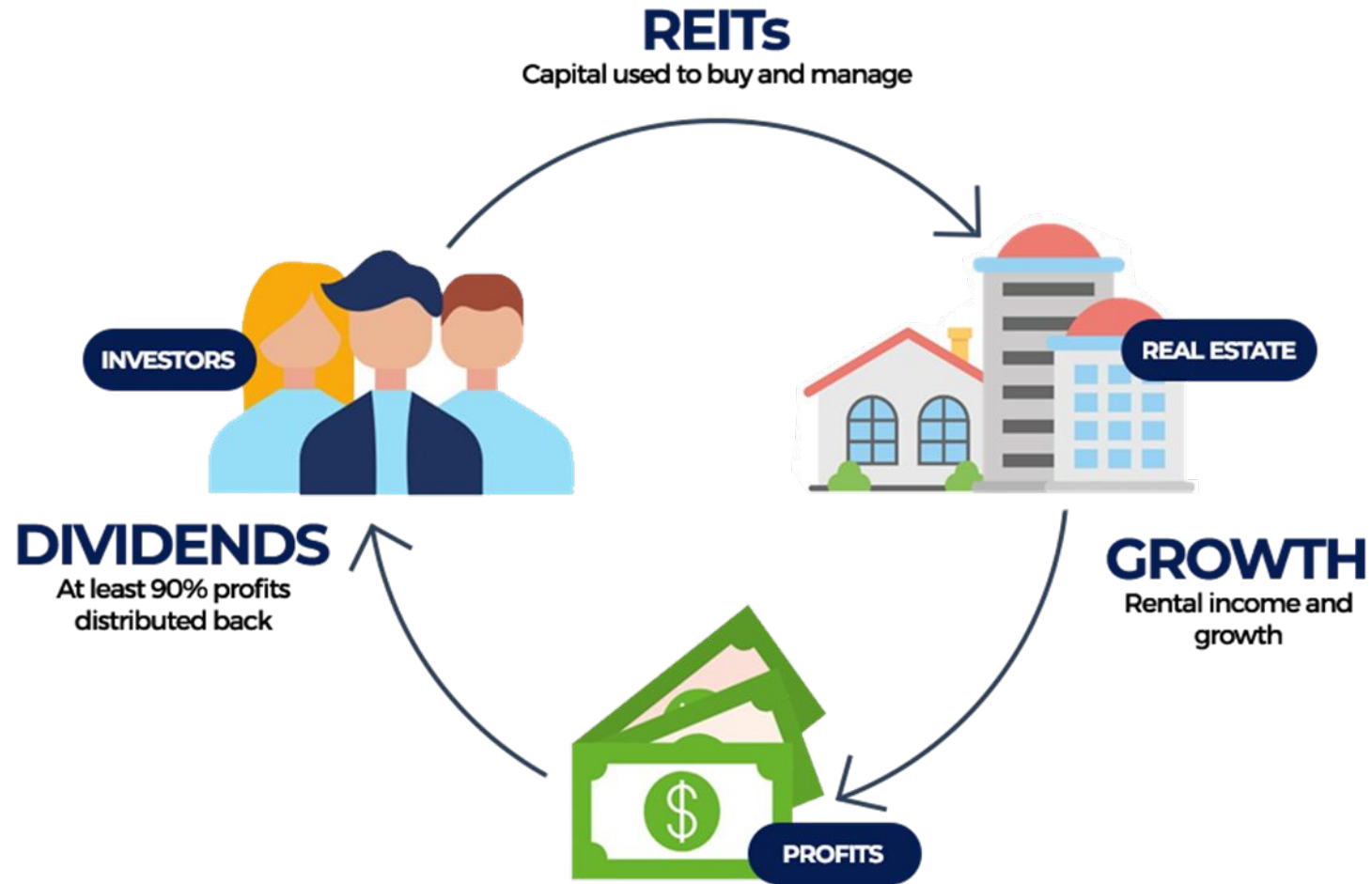


Types of REITs

There are different types of REITs, including Equity REITs, Mortgage REITs, and Hybrid REITs, each with its own investment focus and risk profile.



Introduction to REITs



Introduction to REITs



What are REITs?

REITs (Real Estate Investment Trusts) are companies that own, operate, or finance income-producing real estate properties.



How do REITs work?

REITs pool money from investors and use it to purchase, develop, and manage real estate properties, such as apartments, offices, hotels, and shopping centers.



Benefits of investing in REITs

REITs provide investors with the opportunity to invest in a diversified portfolio of real estate assets, offering potential income and capital appreciation.



Types of REITs

There are different types of REITs, including Equity REITs, Mortgage REITs, and Hybrid REITs, each with its own investment focus and risk profile.



Ways to Invest in REITs



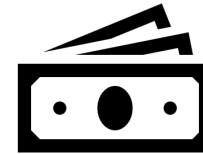
Publicly Traded REITs

Accessible on stock exchanges like equities



Non-Traded REITs

Available through brokers; higher yields but less liquidity



REIT Mutual Funds and ETFs

Diversified exposure through pooled funds



How does a company qualify as a REIT?

Invest at least 75% of its total assets in real estate

Derive at least 75% of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate

Pay at least 90% of its taxable income in the form of shareholder dividends each year

Have no more than 50% of its shares held by five or fewer individuals

Have a minimum of 100 shareholders

Be managed by a board of directors or trustees

Be an entity that is taxable as a corporation



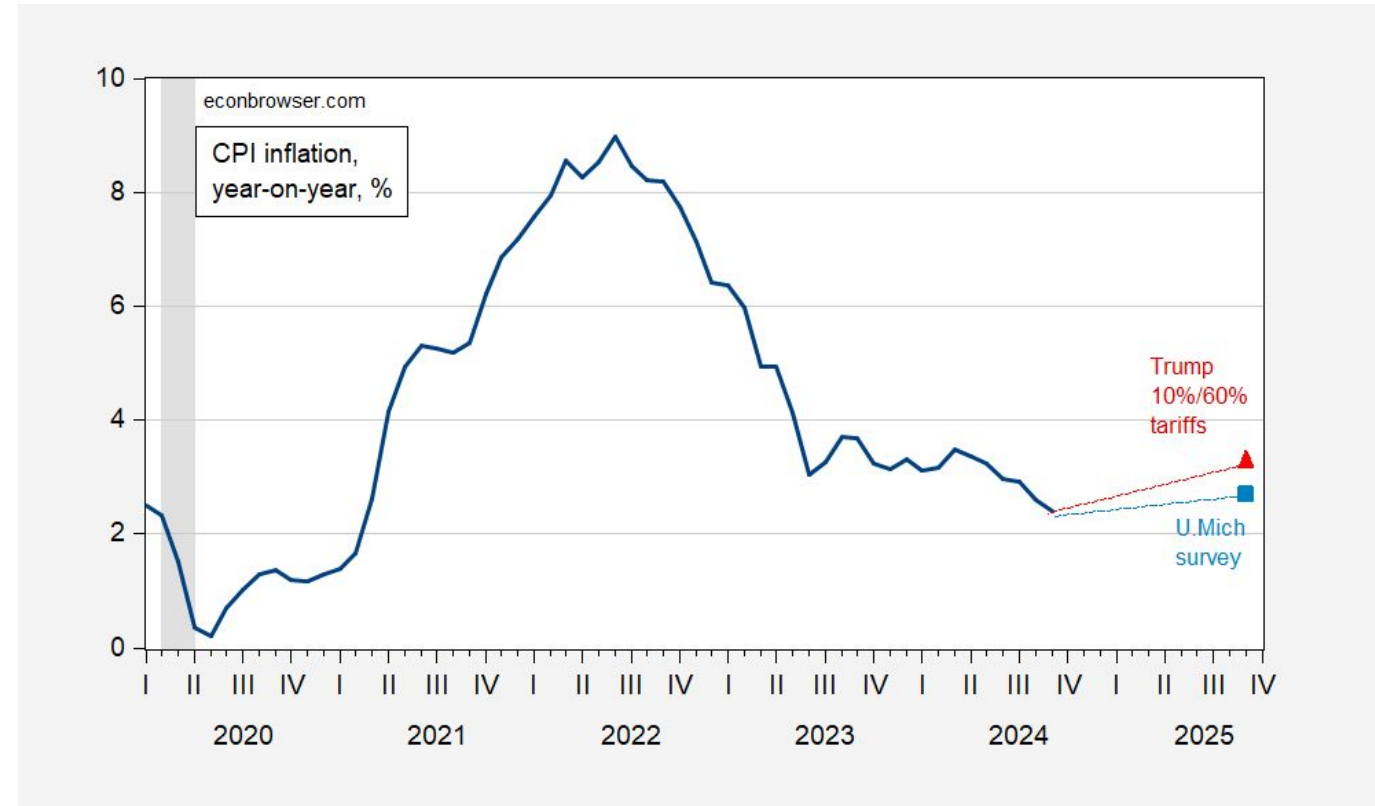
Inflation

Trump Tariffs

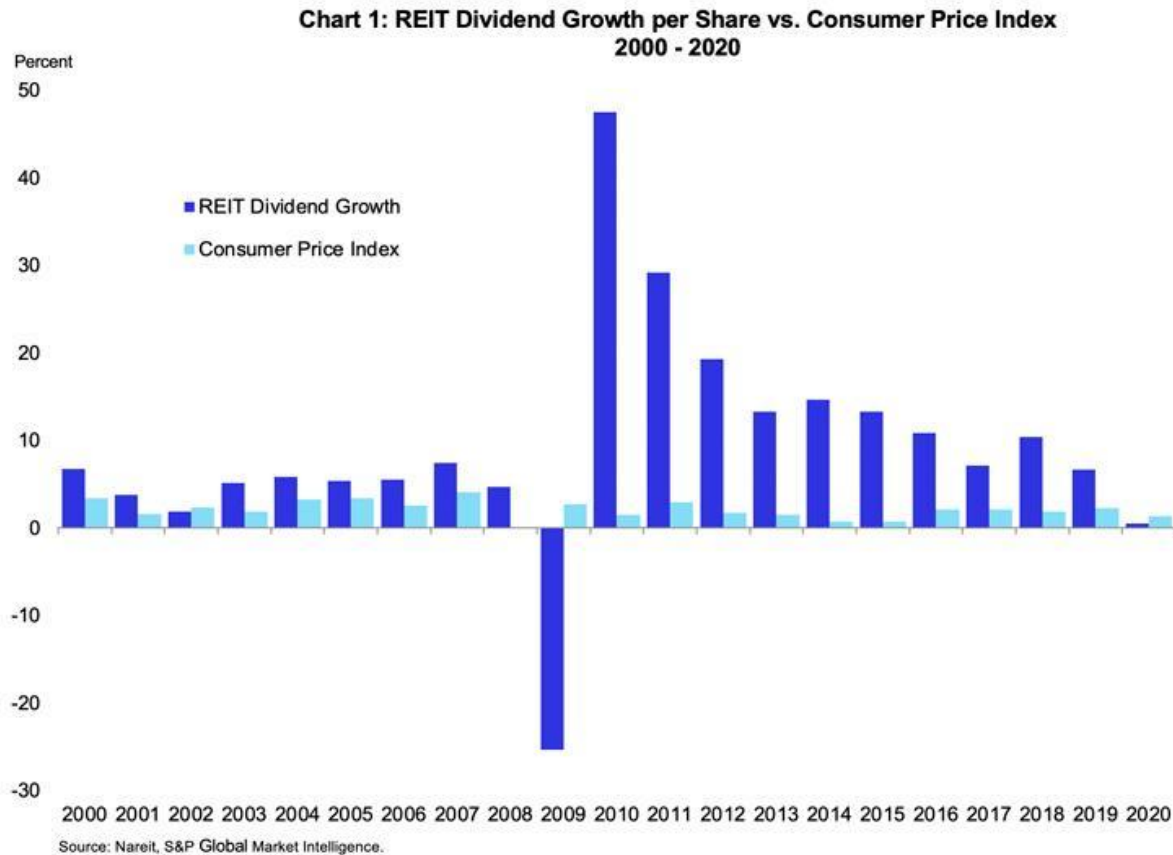
10% imports, 60% China, 25%
Canada/Mexico

1% increase in the effective tariff rate
would raise core PCE prices by 0.1%,
resulting in ~1% increase

“PCE” refers to the personal
consumption expenditures price
index, which is the preferred inflation
reading of the Fed



Inflation



In all but two of the last 20 years, REITs' dividend increases have outpaced CPI inflation.

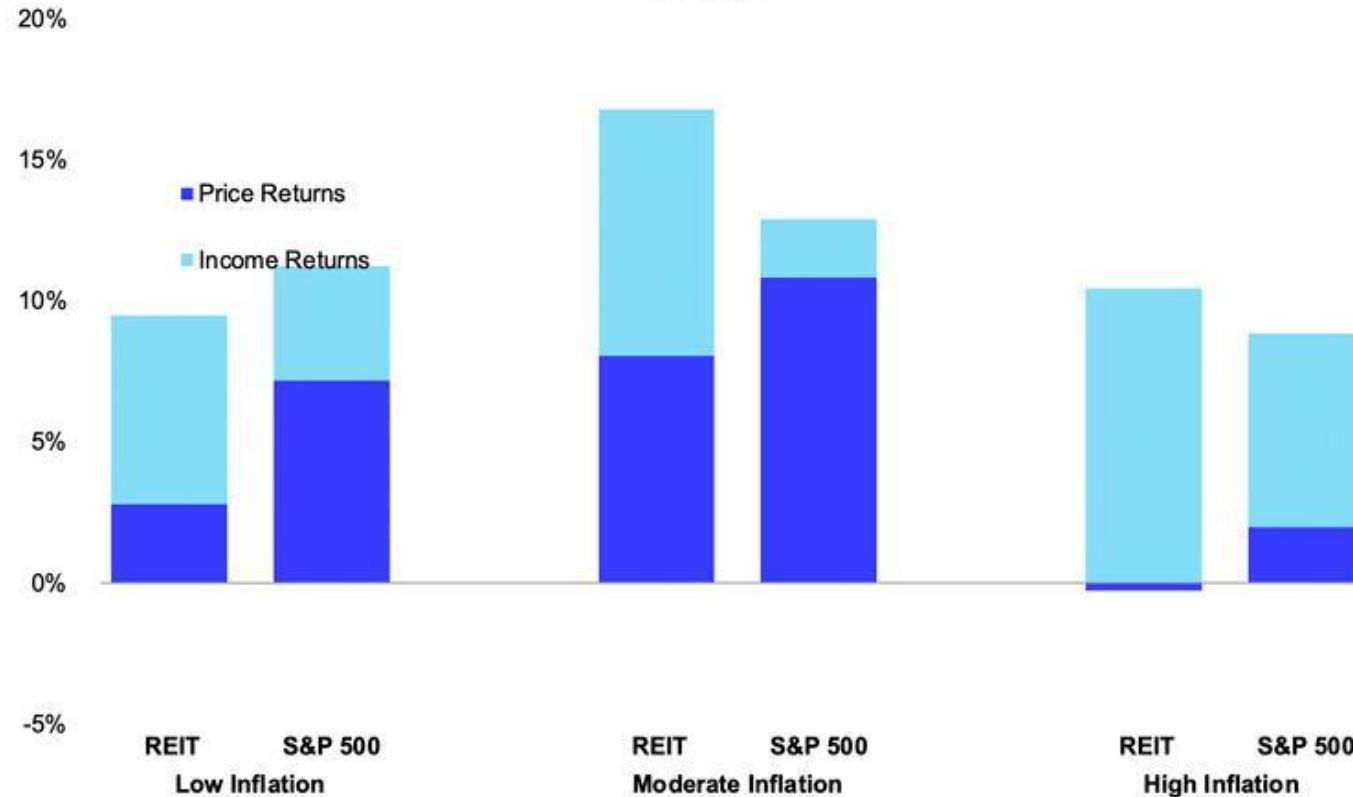
Average annual growth for dividends per share 9.4% (or 8.4% compounded) compared to only 2.1% (2.0% compounded) for consumer prices.

In 2021, REITs outperformed the S&P 500 by 12.6%.



Inflation

Chart 3: REIT Returns Compared to S&P 500 Returns During Different Inflation Periods



Note: Low inflation includes the years where inflation was 2.5% or lower, moderate inflation is between 2.5% and 6.9% (one standard deviation over the average), and high inflation is for years with inflation of 6.9% and higher.

Source: Nareit analysis of prices for the FTSE Nareit All Equity REIT Index and S&P 500 Index; 1972-2020; inflation measured for all items, all urban consumers.



Healthy Balance Sheets

Among total debt, the majority was unsecured at 79.2% and 90.8% of total debt was fixed rate.

Leverage ratios were low with debt-to-market assets at 34.1%.

Weighted average term to maturity of REIT debt was 6.4 years.

Weighted average interest rate on total debt was 4.1%.

REITs After Rate Cuts

REIT Total Returns & U.S. 10 Year Treasury

Dec. 31, 2021 – Aug. 31, 2024



Source: Nareit, FTSE Russell, FactSet Research Systems.

Nareit.

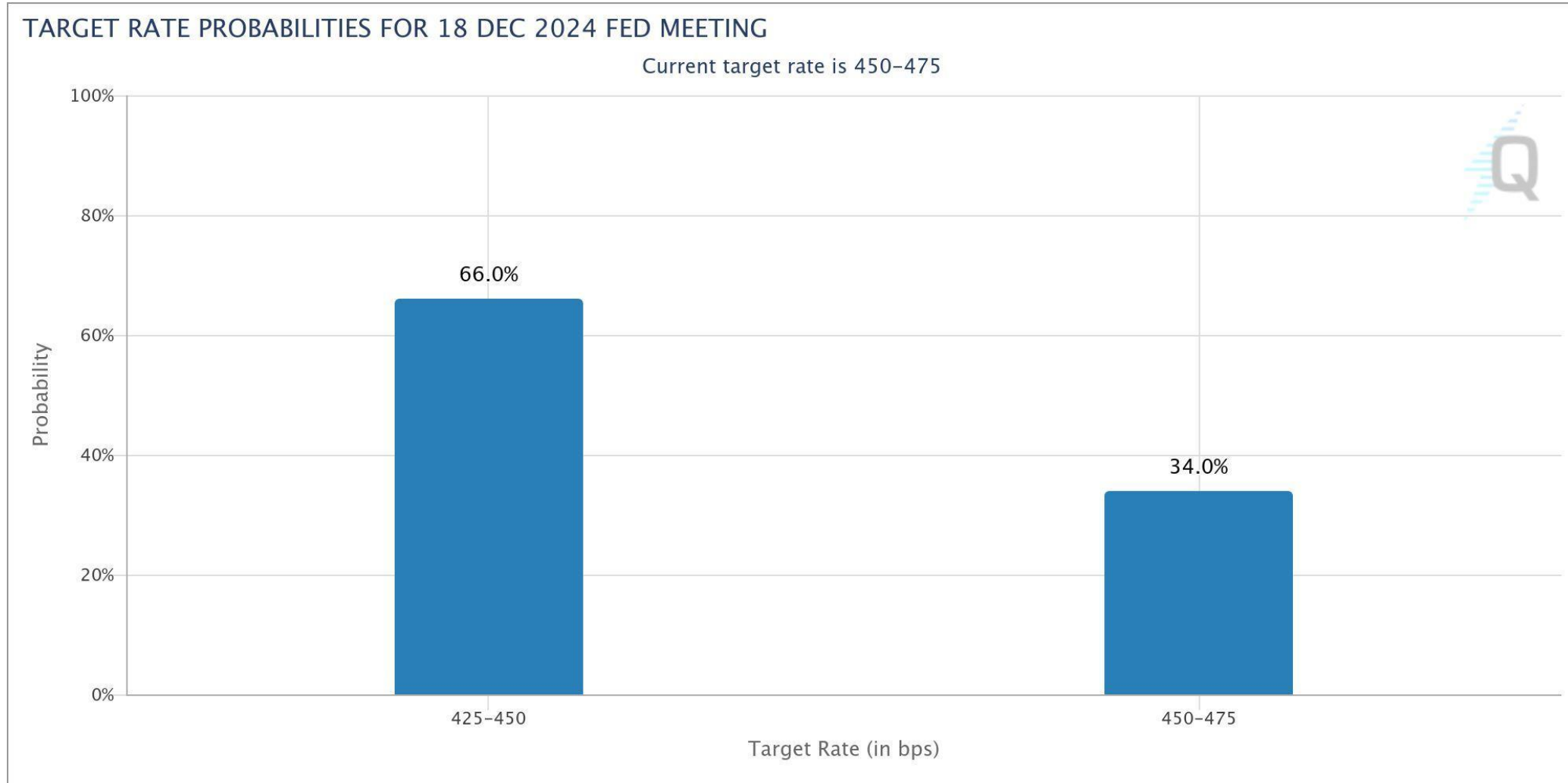


Fed Rate Projections

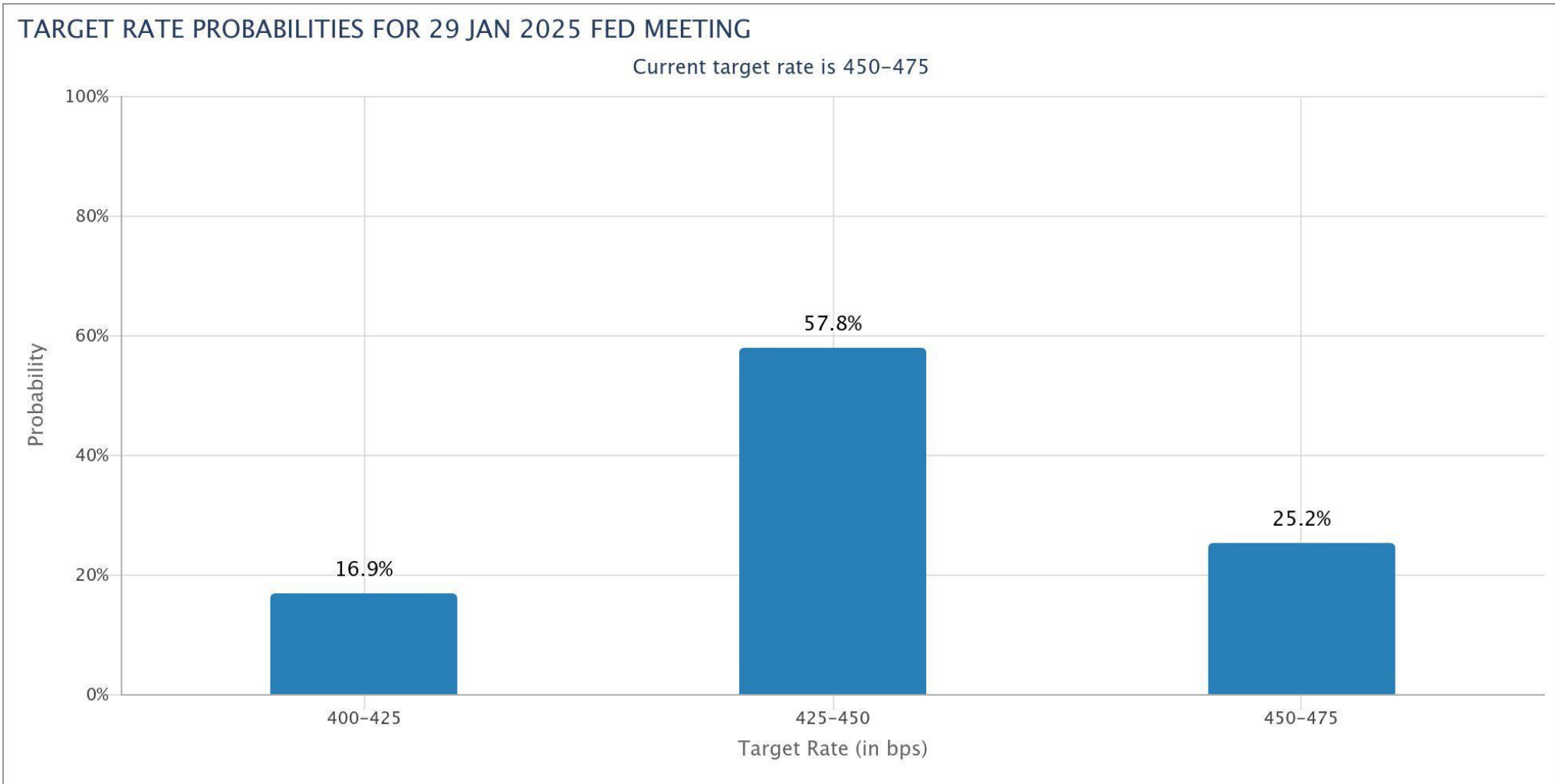
	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
12/18/2024			0.0%	0.0%	0.0%	0.0%	66.0%	34.0%
1/29/2025	0.0%	0.0%	0.0%	0.0%	0.0%	16.9%	57.8%	25.2%
3/19/2025	0.0%	0.0%	0.0%	0.0%	9.5%	39.8%	39.6%	11.1%
5/7/2025	0.0%	0.0%	0.0%	2.8%	18.5%	39.8%	31.1%	7.8%
6/18/2025	0.0%	0.0%	1.3%	10.0%	28.2%	35.8%	20.5%	4.3%
7/30/2025	0.0%	0.3%	3.4%	14.5%	30.1%	32.0%	16.5%	3.2%
9/17/2025	0.1%	1.3%	6.8%	19.2%	30.7%	27.3%	12.4%	2.2%
10/29/2025	0.4%	2.6%	9.7%	21.9%	29.9%	23.8%	10.0%	1.7%
12/10/2025	0.8%	4.0%	12.2%	23.6%	28.6%	21.0%	8.3%	1.4%



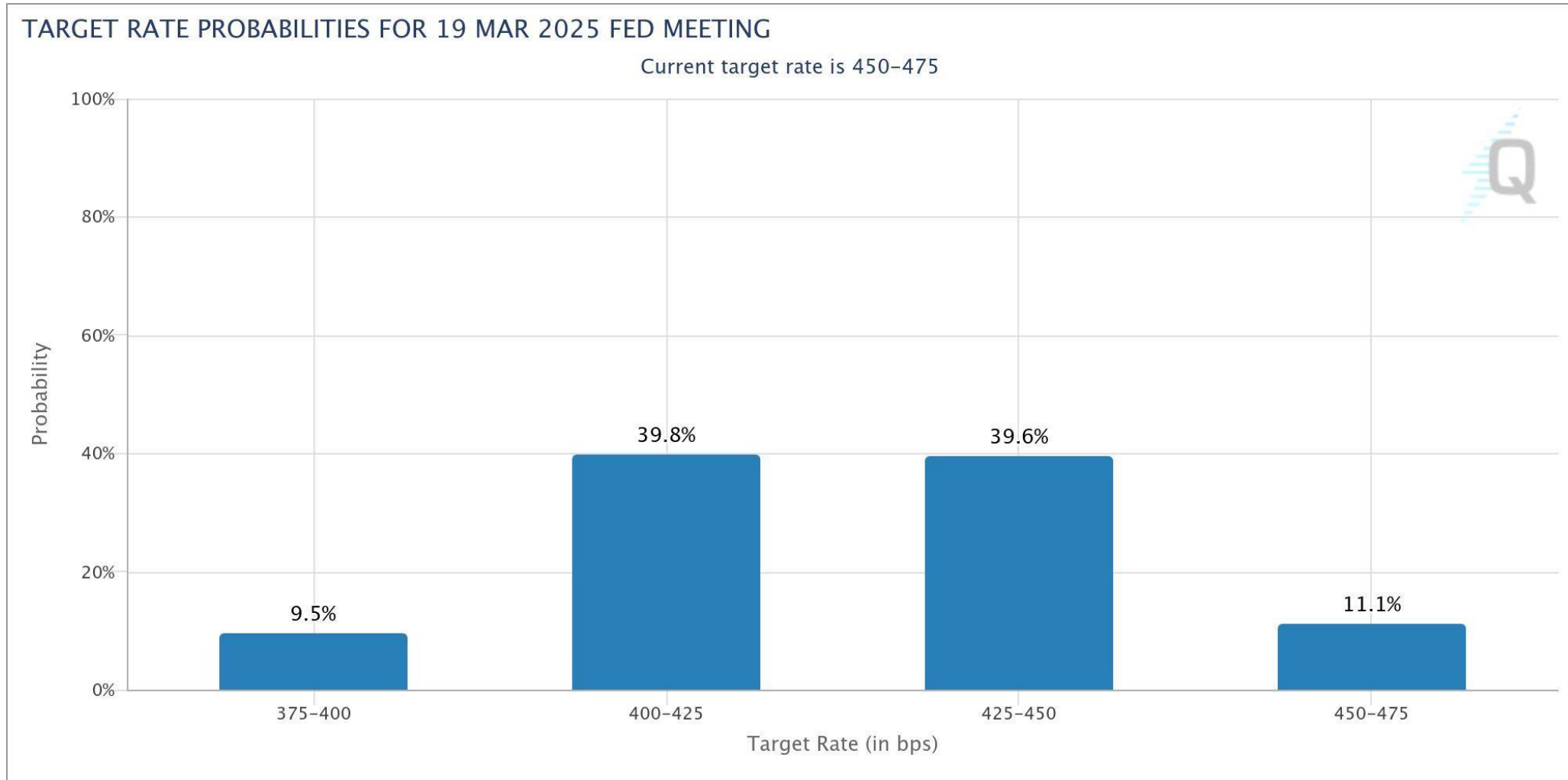
Fed Rate Projections



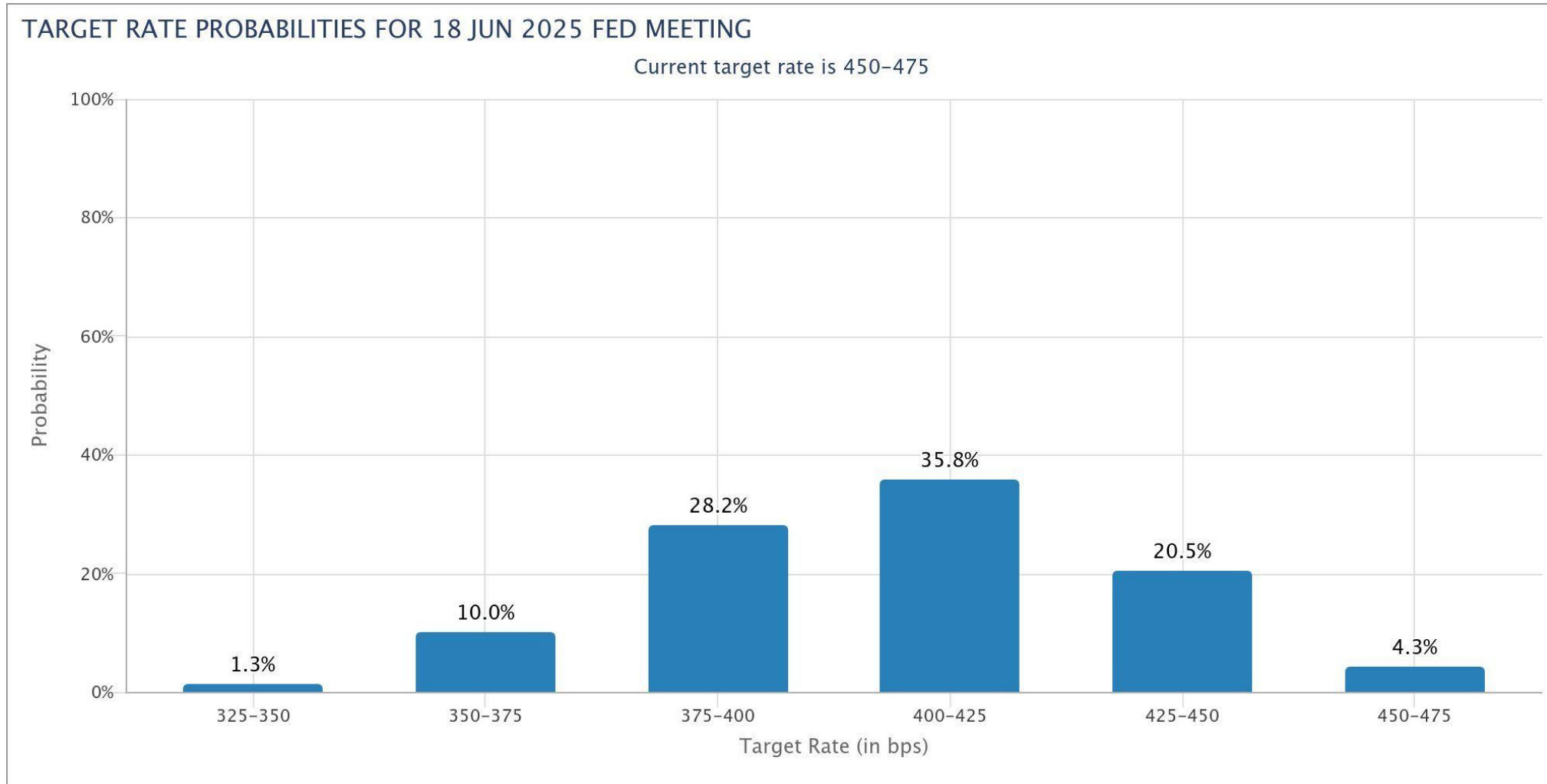
Fed Rate Projections



Fed Rate Projections



Fed Rate Projections



Flowchart

Most Profitable (25%):

Fed will continue to cut rates every meeting through 2025

Most Likely (70%):

Fed will cut rates for the next 1-2 meetings. Then slow for the remainder of 2025

Least Profitable (5%):

Inflation jumps in Q1 2025, Fed hikes rates

Fed Meeting Predicted Outcomes

Dec 18th 2024

Rate Cuts (66%):

10 Year Treasury Rate
Decrease

Interest Rates for CRE
Drop

BUY

No Rate Adjustments
(34%):

HOLD

Rate Hikes (0%):

10 Year Treasury Rate
Increase

Interest Rates for CRE
Rise

SELL



REIT Portfolio



VICI™

Healthpeak® | DOC LISTED NYSE

Ticker	Industry	Market Cap	EV	P/E	Profit Margin	Debt to Equity	Beta	Dividend	1 Year Return	Trading price	Target Price	Delta
O	Retail	51.04B	76.93B	55.13	17.31%	68.94%	1	5.46%	13.75%	57.89	64.36	11.2%
PSA	Industrial	61.53B	74.17B	36.10	36.30%	97.57%	.69	3.45%	41.23%	348.05	345.78	-0.6%
VICI	Diversified	34.38B	51.67B	12.08	73.90%	66.55%	.96	5.31%	17.95%	32.61	35.73	9.6%
DOC	Healthcare	15.56B	24.09B	44.88	12.13%	96.59%	1.12	5.46%	37.30%	21.99	25.62	16.5%
REIT PORTFOLIO		40.63	56.72	37.05	34.91%	82.41%	0.94	4.92%	27.56%	115.14	117.87	9.18%



REIT #1 – Realty Income Corp (O)

Realty Income is often referred to as “The Monthly Dividend Company” due to its commitment to paying monthly dividends. As of May 2024, it has increased its dividend for 107 consecutive quarters since its NYSE listing in 1994, marking the 647th consecutive monthly dividend payment in its 55-year history.

Investment Focus: Realty Income specializes in single-tenant, freestanding commercial properties under long-term net lease agreements.

Operational Strategy: The company employs a net lease structure, where tenants are responsible for property expenses such as taxes, insurance, and maintenance, providing Realty Income with stable and predictable cash flows.

Ticker	Industry	Market Cap	EV	P/E	Profit Margin	Debt to Equity	Beta	Dividend	1 Year Return	Trading price	Target Price	Delta
O	Retail	51.04B	76.93B	55.13	17.31%	68.94%	1	5.46%	13.75%	57.89	64.36	11.2%
PSA	Industrial	61.53B	74.17B	36.10	36.30%	97.57%	.69	3.45%	41.23%	348.05	345.78	-0.6%
VICI	Diversified	34.38B	51.67B	12.08	73.90%	66.55%	.96	5.31%	17.95%	32.61	35.73	9.6%
DOC	Healthcare	15.56B	24.09B	44.88	12.13%	96.59%	1.12	5.46%	37.30%	21.99	25.62	16.5%
REIT PORTFOLIO		40.63	56.72	37.05	34.91%	82.41%	0.94	4.92%	27.56%	115.14	117.87	9.18%



REIT #2 – Public Storage (PSA)

The self-storage industry has demonstrated resilience during economic downturns, maintaining stable occupancy rates and consistent cash flows. This stability is attributed to the ongoing demand for storage solutions, even in challenging economic conditions.

Investment Focus: Public Storage is the largest owner and operator of self-storage facilities globally, with thousands of locations across the United States and Europe.

Operational Strategy: The company focuses on acquiring, developing, and managing self-storage properties, leveraging economies of scale to maintain high occupancy rates and operational efficiency.

Ticker	Industry	Market Cap	EV	P/E	Profit Margin	Debt to Equity	Beta	Dividend	1 Year Return	Trading price	Target Price	Delta
O	Retail	51.04B	76.93B	55.13	17.31%	68.94%	1	5.46%	13.75%	57.89	64.36	11.2%
PSA	Industrial	61.53B	74.17B	36.10	36.30%	97.57%	.69	3.45%	41.23%	348.05	345.78	-0.6%
VICI	Diversified	34.38B	51.67B	12.08	73.90%	66.55%	.96	5.31%	17.95%	32.61	35.73	9.6%
DOC	Healthcare	15.56B	24.09B	44.88	12.13%	96.59%	1.12	5.46%	37.30%	21.99	25.62	16.5%
REIT PORTFOLIO		40.63	56.72	37.05	34.91%	82.41%	0.94	4.92%	27.56%	115.14	117.87	9.18%



REIT #3 – VICI Properties, Inc (VICI)

VICI Properties emerged from the bankruptcy of Caesars Entertainment in 2017 and has since become a major player in the gaming and hospitality real estate sector. It owns iconic properties such as Caesars Palace Las Vegas, MGM Grand, and the Venetian Resort Las Vegas.

Investment Focus: VICI Properties is a leading experiential REIT specializing in gaming, hospitality, and entertainment destinations.

Operational Strategy: VICI operates under triple-net lease agreements, where tenants are responsible for property expenses, ensuring stable rental income. The company has demonstrated growth through strategic acquisitions and tenant diversification.

Ticker	Industry	Market Cap	EV	P/E	Profit Margin	Debt to Equity	Beta	Dividend	1 Year Return	Trading price	Target Price	Delta
O	Retail	51.04B	76.93B	55.13	17.31%	68.94%	1	5.46%	13.75%	57.89	64.36	11.2%
PSA	Industrial	61.53B	74.17B	36.10	36.30%	97.57%	.69	3.45%	41.23%	348.05	345.78	-0.6%
VICI	Diversified	34.38B	51.67B	12.08	73.90%	66.55%	.96	5.31%	17.95%	32.61	35.73	9.6%
DOC	Healthcare	15.56B	24.09B	44.88	12.13%	96.59%	1.12	5.46%	37.30%	21.99	25.62	16.5%
REIT PORTFOLIO		40.63	56.72	37.05	34.91%	82.41%	0.94	4.92%	27.56%	115.14	117.87	9.18%



REIT #4 – HealthPeak Properties, Inc (DOC)

In March 2024, Physicians Realty Trust merged with Healthpeak Properties, creating a leading real estate platform dedicated to healthcare discovery and delivery.

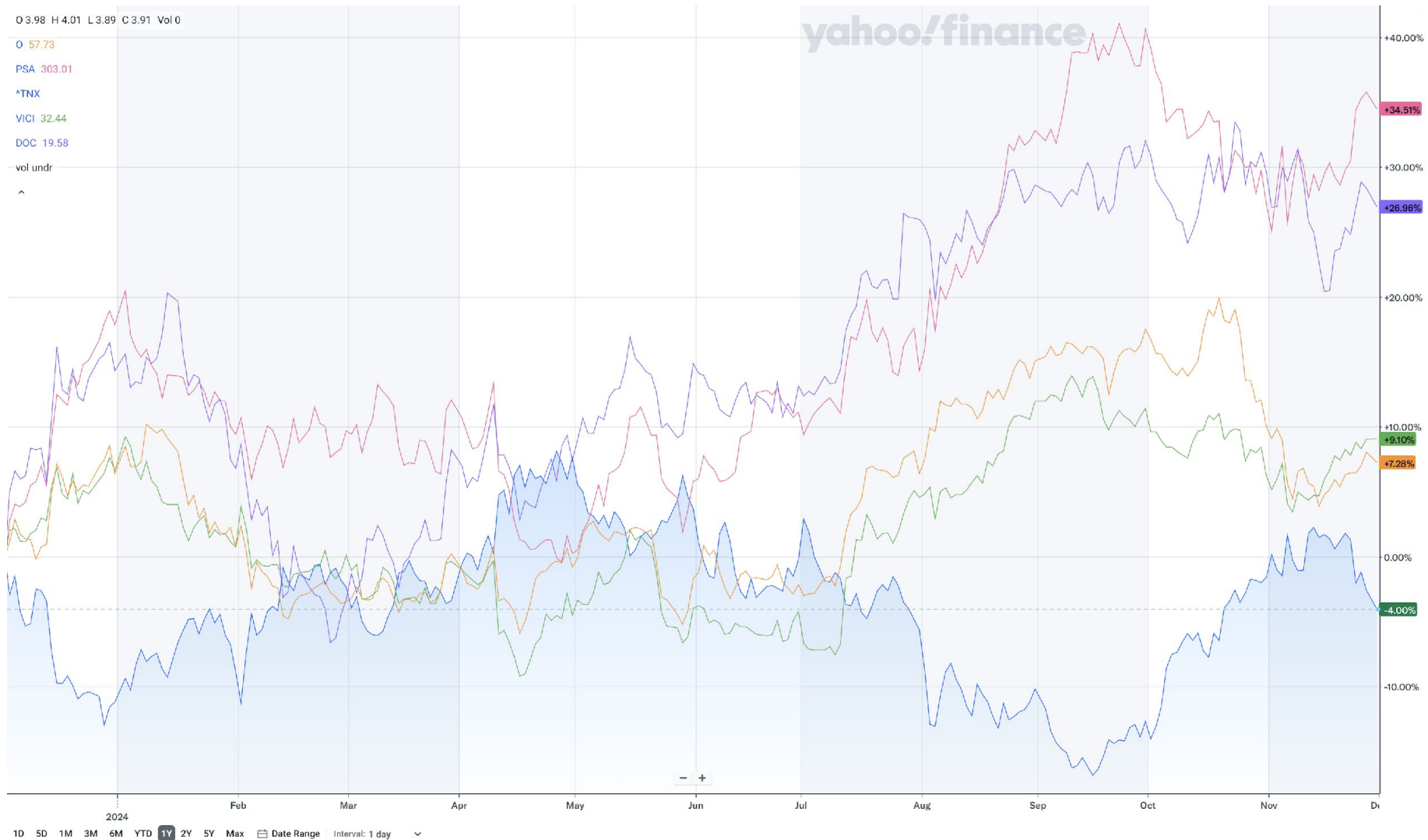
Investment Focus: Physicians Realty Trust focuses on healthcare properties, primarily medical office buildings leased to healthcare providers.

Operational Strategy: The company invests in high-quality healthcare facilities, aiming to provide stable and growing rental income through long-term leases with healthcare systems and physician groups.

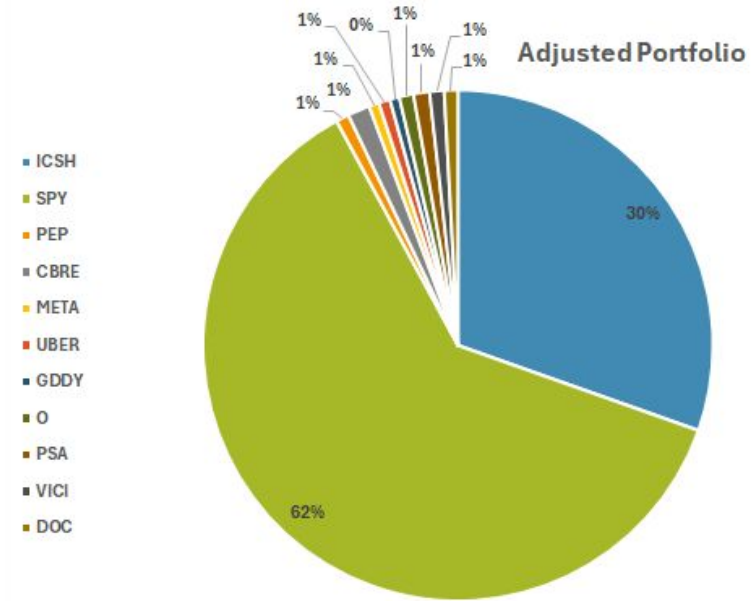
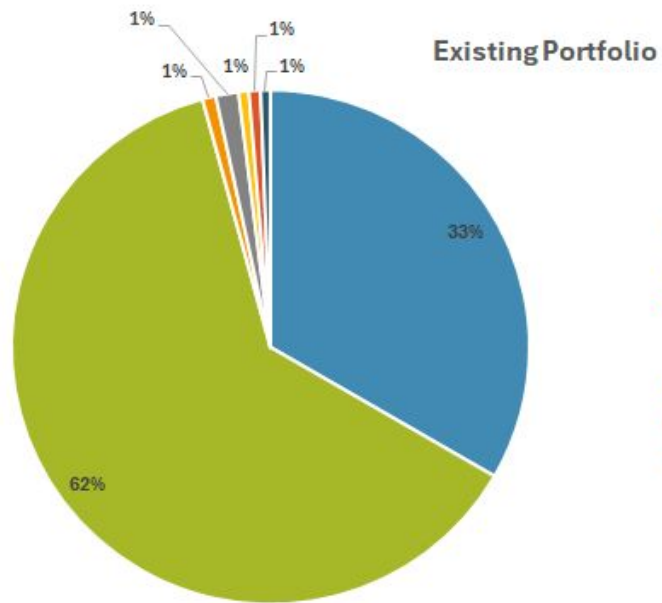
Ticker	Industry	Market Cap	EV	P/E	Profit Margin	Debt to Equity	Beta	Dividend	1 Year Return	Trading price	Target Price	Delta
O	Retail	51.04B	76.93B	55.13	17.31%	68.94%	1	5.46%	13.75%	57.89	64.36	11.2%
PSA	Industrial	61.53B	74.17B	36.10	36.30%	97.57%	.69	3.45%	41.23%	348.05	345.78	-0.6%
VICI	Diversified	34.38B	51.67B	12.08	73.90%	66.55%	.96	5.31%	17.95%	32.61	35.73	9.6%
DOC	Healthcare	15.56B	24.09B	44.88	12.13%	96.59%	1.12	5.46%	37.30%	21.99	25.62	16.5%
REIT PORTFOLIO		40.63	56.72	37.05	34.91%	82.41%	0.94	4.92%	27.56%	115.14	117.87	9.18%



REIT Portfolio (Last 1yr vs 10yr Treasury)



Effect on the Portfolio



<u>Portfolio</u>	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing	17.42%	6.28%	0.66	2.10	0.36%	-0.38
REITs	18.64%	17.65%	0.94	0.82	3.05%	0.00
Adjusted	18.11%	6.93%	0.69	2.0	0.45%	-0.38



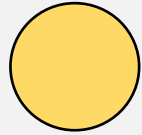
Summary & Recommendation

Strategy Merits



- **Performance**

REITs perform well during rate cuts and out-pace inflation



- **Risk**

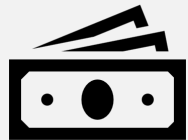
Uncertainty in long-term rate cuts and inflation



- **Effect on Portfolio**

Boost in return, keeping all metrics within fund parameters

Action Plan



- **Recommendation: Yes**

SELL: \$40k SPY

BUY: \$40k REIT Portfolio, distributed evenly among the 4



Appendix



Sources

- e.g., Research from AQR Capital Management
- e.g., Data used and backtesting performed using Bloomberg EQBT function



Key Terms



****IF REQUIRED****

- Use the Below Slides as required for your Presentation



Key Terms

Performance Metrics

- **Alpha (α):** Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.
- **Sharpe Ratio:** Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.
- **Sortino Ratio:** Similar to Sharpe, but only considers downside risk, ignoring positive volatility.
- **Information Ratio:** Measures returns above a benchmark relative to the tracking error.
- **Treynor Ratio:** Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap:** Total value of a company's shares (Share Price \times Total Shares Outstanding).
- **P/E Ratio:** Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.
- **Rebalance:** Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

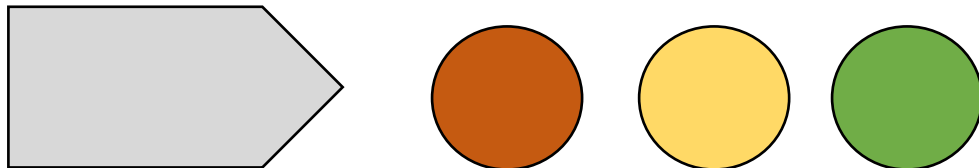
Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.
- **Idiosyncratic Risk:** Risk unique to a specific asset, not due to market movements (e.g., company-specific events).
- **Systematic Risk:** Market-wide risk that affects all securities (e.g., interest rate changes).
- **Standard Deviation (σ):** Measures volatility by showing how much returns deviate from the average.
- **Max Drawdown:** The maximum observed loss from peak to trough during a specific period.
- **SML (Small Minus Large):** Measures the excess return of small-cap stocks over large-cap stocks.
- **HMB (High Minus Low):** Measures the excess return of high book-to-market stocks over low book-to-market stocks.

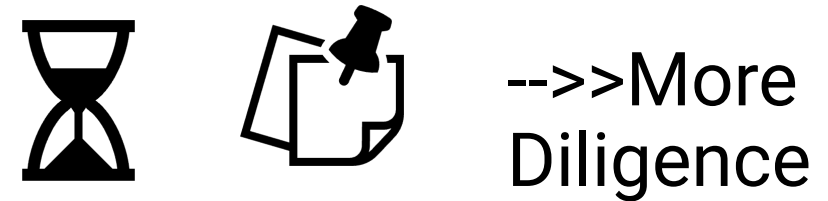


Template Tools

- Font used -> Roboto
- Logos
- Shapes
- Icons



- Recommendation Icons



Name of Strategy

Team Name

Team Members

Date *[mm/dd/yy]*

[insert relevant image as background]

Recommended Action Plan - Purchases

Name	Ticker	P/E Ratio	Trading Volume (\$M)	Market Cap (\$M)	Share Price	# of Shares	Allocation Total



Sell Proposal – Performance Comparison (1:2)

	SPY	[New strategy name]	[comparable strategy 2]	[+ comparables as needed]
Date Adopted	N/A			
Industry Focus	N/A			
% of Overall Fund				
Sharpe				
σ				
β				
CAGR				



Sell Proposal – Performance Comparison (2:2)

*Performance
comparison graph,
including SPY
benchmark*



Sell Proposal – Strategy Correlations

Correlation	[New strategy name]	[comparable strategy 2]	[+ comparables as needed]
[New strategy name]	1		
[comparable strategy 2]		1	
[+ comparables as needed]			1

[summarize how correlations support sell recommendation here]



Sell Proposal – Summary

- Briefly describe how comparable strategies were selected [e.g. why consider selling these existing strategies to execute new strategy]
 - Include ratios or other news/statistics to support
- Summarize results and recommendation



Backtesting Parameters

Screening Criteria

Parameter	Description	Stock Universe
[Market Cap*]	e.g., > \$10B	5,000 stocks
[Sector]	e.g., Healthcare & Tech	1,000 stocks
[Trade Volume]	e.g., Avg. monthly > 30M	500 stocks
[P/E Ratio*]	e.g., > 30	120 stocks
[Revenue]	e.g., QoQ growth > 50%	50 stocks
[Sentiment]	e.g., 2+ analyst upgrades	16 stocks



Backtesting Structure

Sub-Criteria

Criterion	Description
[# of Positions]	e.g., Hold Top 10
[Top 10 Factor]	e.g., Revenue growth
[Testing Period]	e.g., 10-year
[Rebalance Freq.*]	e.g., Quarterly
[Weighting Scheme*]	e.g., Equal-weighted



Backtesting Results – Stock Characteristics

<u>10-Year Analysis</u>	Market Cap	P/E Ratio	Trade Vol (Mo.)	PPS
Mean				
Min				
25%				
Median				
75%				
Max				

[include summary of table above if relevant]

[include visual if relevant]



Backtesting Results – Stock Characteristics

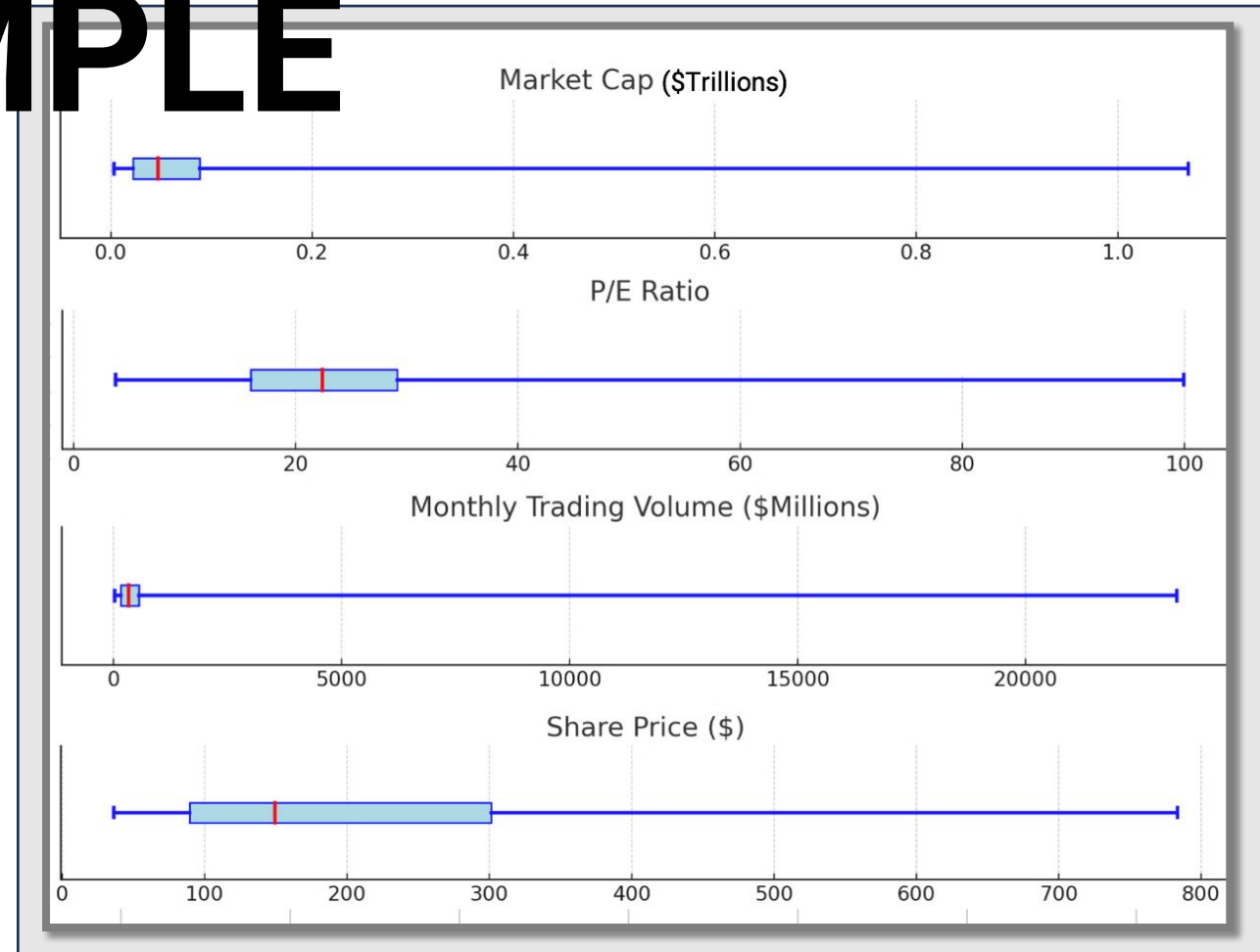
EXAMPLE

<u>10-Year Analysis</u>	Market Cap	P/E Ratio	Trade Volume (Mo.)	P/E
Mean	67,674	24.4	483.9	209.63
Min	3,140	3.8	19.3	36.28
25%	22,125	15.9	147.4	89.66
Median	46,755	22.4	323.9	149.62
75%	88,135	29.1	551.1	301.36
Max	1,070,000	99.8	23,311.1	783.26

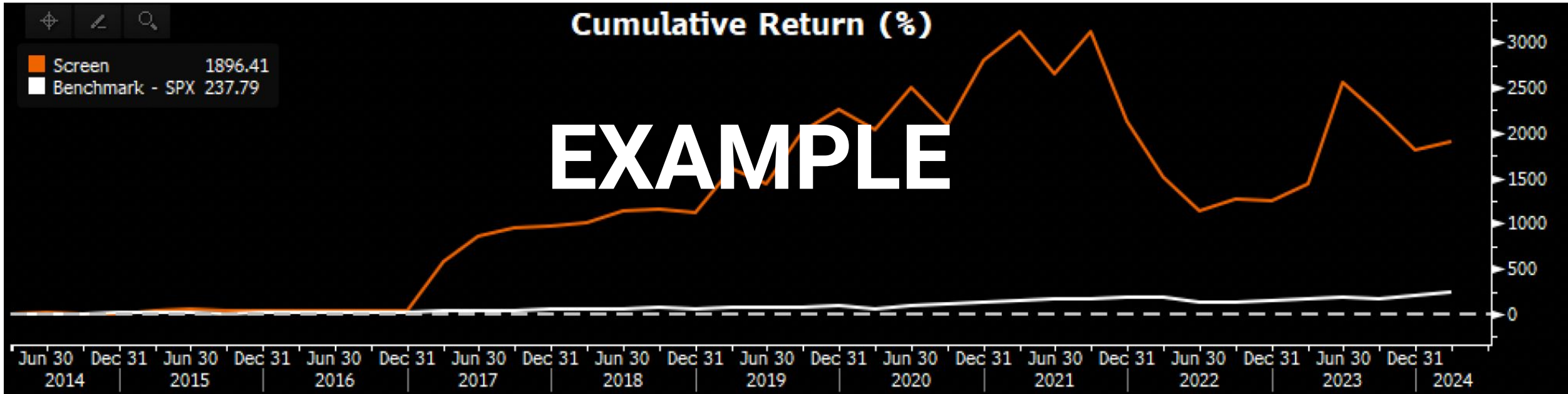
*Mkt Cap – \$ in millions

*Trading volume - \$ in millions

[include summary of table above if relevant]



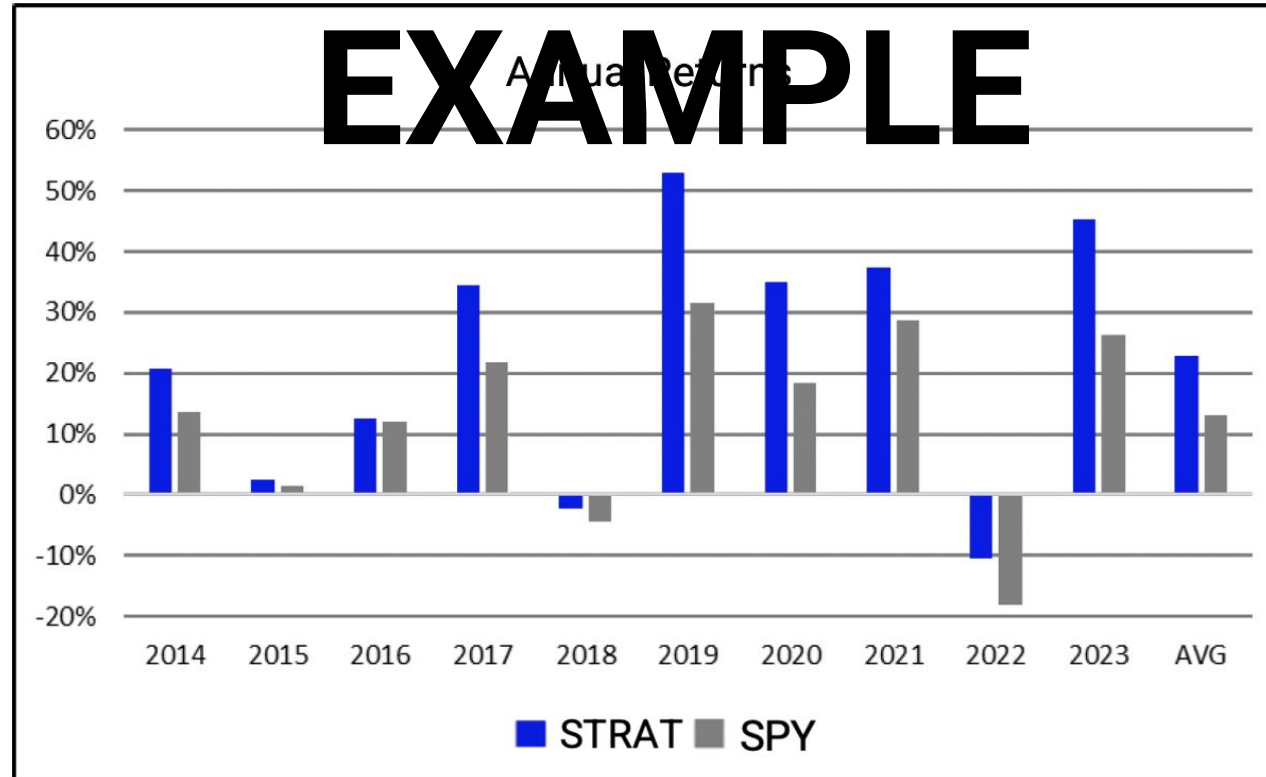
Backtesting Results – Performance



<u>Period</u>	Return	α^*	β^*	σ^*	Max DD*	Sharpe*	Treynor*	Idio. Risk*	Info Ratio*
1yr									
1yr SPY									
10yr									
10yr SPY									



Backtesting Results – Performance

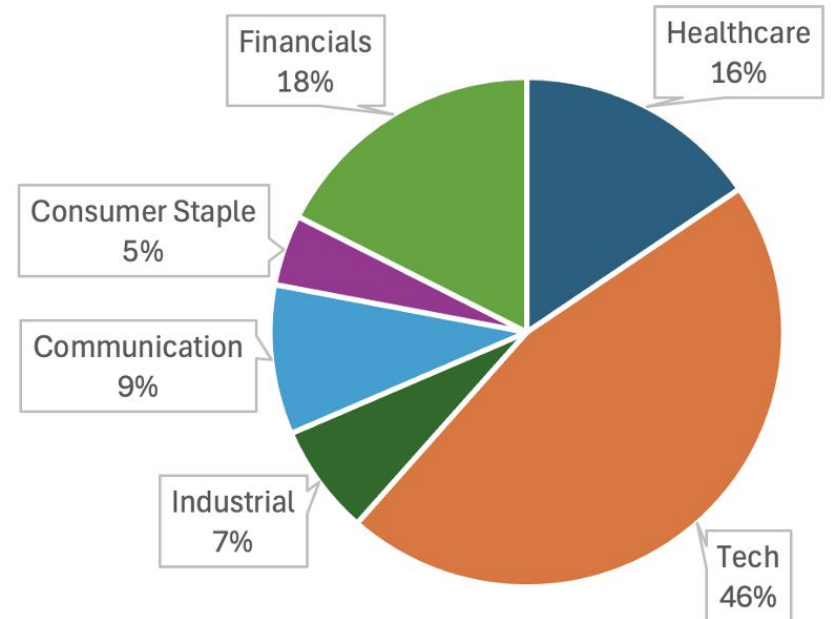
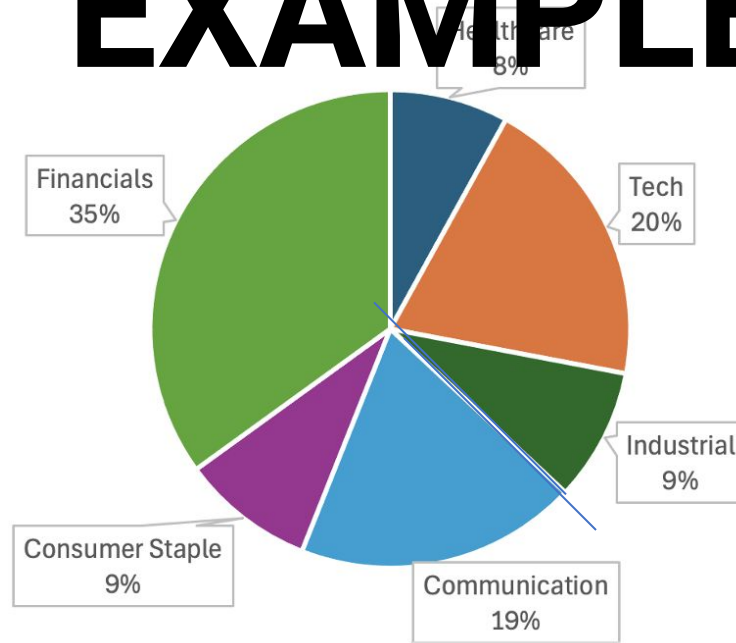
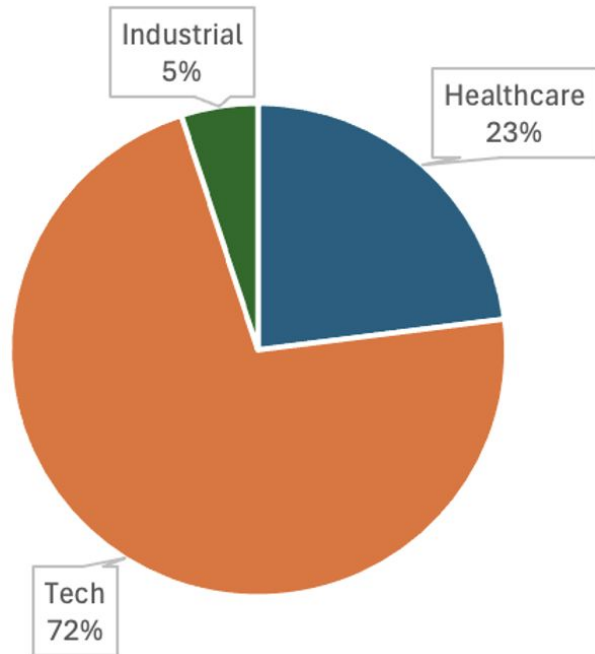


<u>Year</u>	2014	2015	2016	2017	2018	2019	2020	2021	2023	2024	Avg
STRAT											
SPY											



Effect on the Portfolio

EXAMPLE



<u>Portfolio</u>	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Target						
Existing						
Adjusted						

