



A Preferred View: REIT Preferred Market - 2019 Review and 2020 Perspective

Please find below a 2019 REIT preferred market year-in-review along with a look ahead to 2020:

2019 Looking Back

- Returns:** REIT preferreds have returned over 18% year-to-date through November. These out-sized returns were primarily due to the rebound from the Q4 2018 decline and a benign rate environment.
- Yields:** Yield levels remained between 6.4% and 6.7% throughout much of the year.
- Interest Rates:** 10-year U.S. Treasury rates remained historically low, ranging between 1.5% and 2.8%, keeping spread levels of REIT preferreds to the 10-year U.S. Treasury at around 450 bps. This is in-line with post-financial crisis historic averages.
- Credit:** Good credit fundamentals continued. Earnings results among most property types met expectations. Retail real estate under headline and business model risk.
- Volatility:** With a 1-year standard deviation of 5.9% through November, REIT preferred volatility remained close to the 20-year historical average.

2020 Looking Ahead

- Valuations:** Given our view on rates, absolute valuations appear reasonable, with a spread of over 450 bps to the 10-year U.S. Treasury at the end of November. Relative valuations also seem reasonable compared to other non-traditional fixed-income alternatives.
- Yields:** We expect cash flow and yield levels to remain consistent.
- Returns:** We expect total returns to be in the 5% - 7% range.
- Interest Rates:** Our view is that the interest rate environment will remain low and range bound.
- Volatility:** We anticipate the historical standard deviation of approximately 6% with the potential for short-term bouts of volatility.
- Tailwinds:**
- Competitive current yields
 - Low rate environment
 - Reasonable economy with little new supply of real estate
- Headwinds:**
- Global debt to GDP ratio is historic, which could contribute to a risk-off environment
 - Global rate uncertainty
 - Preferred issues getting called, coupled with a potential lack of new issuance

