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WHY REITs CAN ESCAPE TRADE UNCERTAINTY

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REITs:
SAFE HAVEN AMID SHOCKS?

In our 2025 Global Outlook Report, we identified one of the year's defining challenges for investors: navigating an increasingly complex and volatile macroeconomic environment. Now, as we approach midyear, those concerns have not only materialized—they've intensified.

April served as a stark reminder of how quickly sentiment can shift. Following the U.S. administration's "Liberation Day" on April 2nd, market volatility surged to levels not seen since the height of the COVID-19 pandemic. Tariff-related uncertainty took center stage, and within just two trading sessions, the S&P 500 fell more than 11% (all stated returns in USD), pushing U.S. equities to the brink of bear market territory.

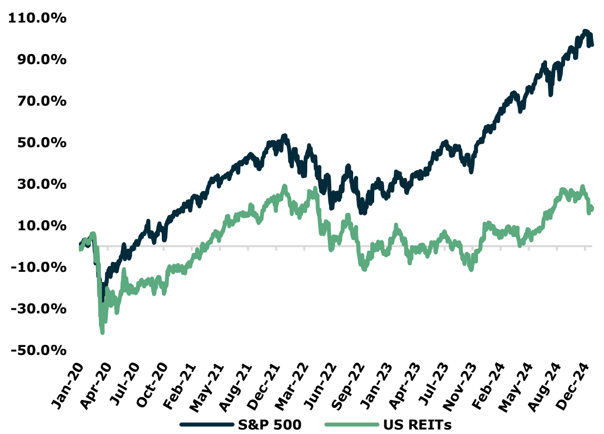
While a 90-day pause on reciprocal tariffs and de-escalating trade tensions with China has helped markets recover their April losses, investor anxiety remains elevated. Concerns about slowing global growth and a potential resurgence in inflation have reentered the conversation. Ultimately, the true impact of tariffs on GDP and inflation will depend on the duration and severity of these measures.

In this unsettled environment, Real Estate Investment Trusts (REITs) offer a compelling opportunity. We believe commercial real estate is emerging as a potential safe haven after facing several years of headwinds created by the COVID-19 pandemic and rapidly rising interest rates. REITs benefit from contractual cash flows, low direct exposure to trade policies, and attractive dividend yields—traits that are increasingly valued in a landscape where traditional equity sectors are more exposed to external shocks.

Recent REIT Performance and Opportunity

Over the past five calendar years, U.S. equities have significantly outpaced U.S. REITs, as shown in Figure 1. This performance gap is largely the result of a series of extraordinary macroeconomic challenges that disproportionately impacted the real estate sector. First, the COVID-19 pandemic caused widespread disruption across commercial real estate. Second, this was swiftly followed by one of the most aggressive interest rate hiking cycles in U.S. Federal Reserve history. Together, these two shocks—arguably consecutive "black swan" events—exerted acute and prolonged pressure on REIT valuations.

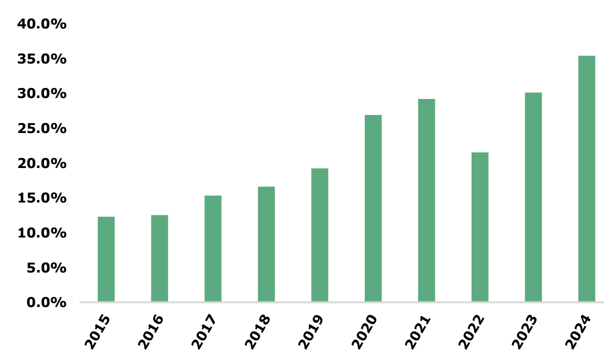
Figure 1.
U.S. REITs vs. S&P 500 – 5 YR



Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2020 – December 31st, 2024 in USD.

Compounding this underperformance has been the overwhelming dominance of the so-called "Magnificent Seven" (MAG 7) mega-cap tech stocks, which have increasingly distorted broader market returns. Over the past decade, these 7 companies have delivered a staggering combined return of 697.6%, outperforming the S&P 500 by 519.7% and expanded their market share in the S&P 500 Index from ~12% to over 35%, as illustrated in Figure 2 below.

Figure 2.
MAG 7 Market Share of S&P 500 – 10 YR



Source: Siblis Research & The Motley Fool, May 2025.

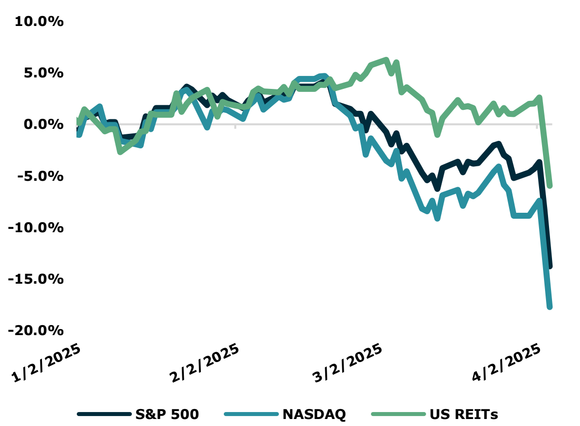
In our view, the increase in market share has introduced greater concentration risk into equity market dynamics. Notably, approximately 50% of MAG 7 revenue comes from international markets—compared to roughly 41% for the rest of the S&P 500—suggesting that these stocks carry greater exposure to global trade disruptions and tariffs[1].

In contrast to growth-oriented equities, REITs remain relatively insulated from the direct effects of trade policy.

Their stable, inflation-linked cash flows—anchored by long-term leases and domestic income streams—offer a defensive counterbalance to portfolios heavily exposed to cyclical sectors or global trade risks.

April 2025 underscored this defensive strength. On April 4th, as the VIX surged above 40 for the first time in nearly five years, equity markets experienced a sharp selloff. At this point of extreme volatility, the S&P 500 was down -13.8% year-to-date, while the Nasdaq had fallen -17.7%. In contrast, U.S. REITs posted a more modest decline of just -6.0%, as showcased in Figure 3.

Figure 3.
U.S. REITs vs. S&P 500 and Nasdaq - January to April 4th, 2025



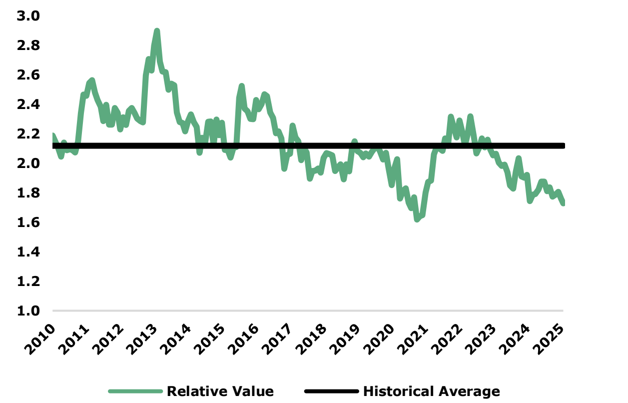
Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2025 – April 4th, 2025 in USD.

Even following the announcement of a 90-day pause on reciprocal tariffs, REITs continued to outperform on a relative basis. Year-to-date at the end of April, U.S. REITs closed the month down only -2.6%, compared to -5.3% for the S&P 500 and -7.5% for the Nasdaq[2]. This short but significant window illustrates how investors may rotate into REITs for relative safety amid market stress.

Attractive Relative Valuation

When looking outside the U.S., global REITs have outpaced global equities in 2025. As of the end of May, global REITs have delivered a 5.6% total return compared to 5.2% for global equities[3]. Despite this recent strong performance in 2025, global REITs continue to trade at a significant discount relative to global equities as depicted in Figure 4[4].

Figure 4.
Global REITs vs. Global Equities EV/EBITDA Ratio



Source: UBS, Datastream. Data as of April 24th, 2025.

We believe this valuation disconnect represents a compelling entry point for investors, especially if trade tensions persist and a sector rotation out of more cyclical asset classes into more defensive and trade-insulated sectors materializes. We believe that should macroeconomic volatility remain elevated, REITs' stable cash flows, lower trade exposure, and diversification benefits will be increasingly sought after by institutional allocators. In such an environment, REITs posses the potential to narrow the valuation gap with the broader market, offering both downside protection and relative outperformance.

Lessons from History: REITs During Prior Trade and Market Shocks

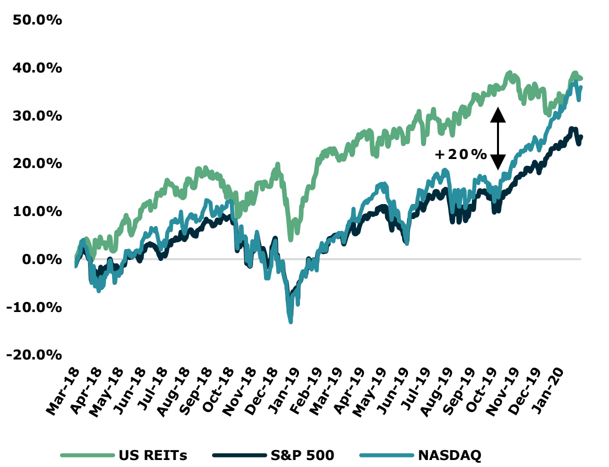
Periods of market volatility and geopolitical disruption often prompt investors to reassess their portfolio allocations. In the current environment, REITs are once again proving to be a compelling defensive asset class. Historically, REITs have demonstrated resilience—and even outperformance—during certain periods of economic, trade policy and market stress. From the U.S.–China trade war of 2018–2020 to the dot-com bust of the early 2000s, REITs weathered the turbulence better than many traditional equities, thanks to their stable cash flows, domestic focus, and defensive characteristics. These historical precedents offer a valuable perspective on the role REITs can play in portfolios today.

The 2018-2020 U.S.-China Tariff Cycle

The first Trump administration marked a turning point in global trade policy. Beginning in March 2018, the U.S.–China tariff conflict escalated steadily until the Phase One Trade Deal was signed in January 2020. Despite this prolonged period of trade tension and heightened market volatility, REITs outperformed.

As displayed in Figure 5 below, from March 2018 to January 2020, U.S. REITs posted a cumulative return of 37.8%, exceeding both the S&P 500 and the Nasdaq (25.6% and 36.0% respectively). U.S. REITs managed to achieve this while maintaining a lower annualized volatility of 14.2% compared to 14.5% for the S&P 500 and 19.6% for the Nasdaq.

Figure 5.
U.S. REITs vs. S&P 500 and Nasdaq - March 2018 to January 2020



Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from March 1st, 2018 – January 30th, 2020 in USD.

At one point during this period (October 3rd, 2019), the gap in performance between U.S. REITs and the Nasdaq was 22.2% and 24.9% for the S&P 500 as indicated on the chart. We believe REIT income streams being contractual in nature, often with built-in inflation escalators, creates stability in earnings and dividends, even as external shocks ripple through the broader economy.

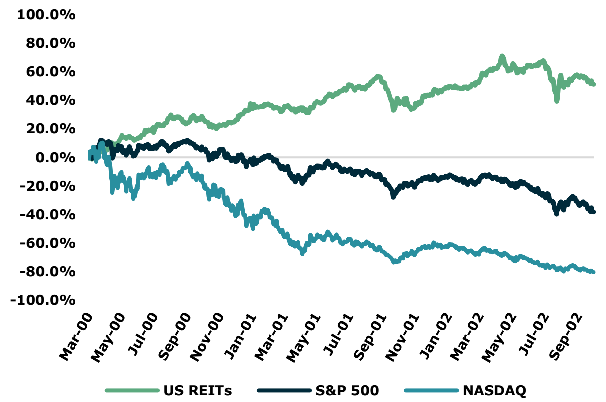
A Dot-Com Parallel Worth Revisiting

Today's market backdrop—characterized by elevated valuations, tech sector dominance, and rising volatility—bears some resemblance to conditions leading into the early 2000s dot-com collapse. While this is not a forecast of a repeat event, recent price action underscores just how quickly valuation-sensitive sectors can correct.

During the dot-com bubble unwind (March 2000 to September 2002), U.S. REITs returned 51.1%, while the S&P 500 fell -38.3% and the Nasdaq collapsed -80.5% (Figure 6). This dramatic divergence highlights the enduring value of real assets in periods of extreme market dislocation.

REITs may yet again serve as a portfolio stabilizer, offering downside protection, income, and exposure to real assets.

Figure 6.
U.S. REITs vs. S&P 500 and Nasdaq - March 2000 to September 2002

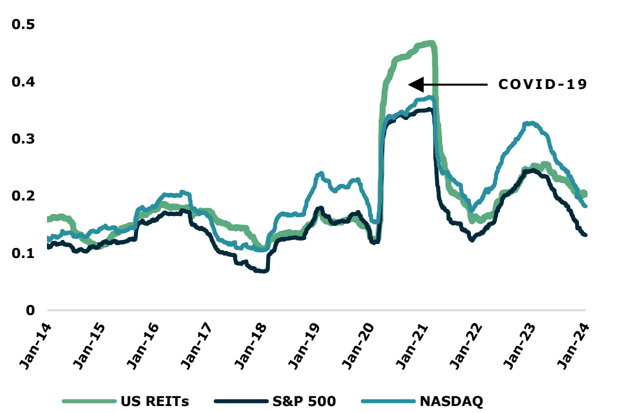


Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from March 1st, 2000 – September 30th, 2002 in USD.

REIT Volatility in Context

From January 2014 to January 2019, U.S. REITs exhibited an average annualized volatility of 15.1%, roughly in line with the S&P 500 at 13.4% and the Nasdaq at 17.0%[5]. However, over the subsequent five-year period from January 2019 to January 2024, that volatility jumped to 26.8%, surpassing both the S&P 500 at 21.5% and even the Nasdaq at 26.1%[6].

Figure 7.
U.S. REITs 12-Month Rolling Volatility vs. S&P 500 and Nasdaq - January 2014 to January 2024



Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2014 – January 2nd, 2024.

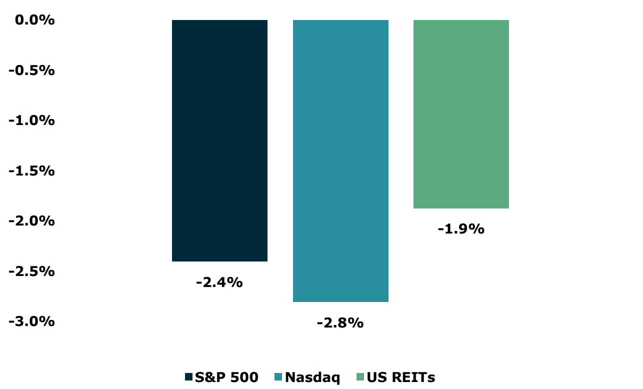
As Figure 7 illustrates above, at the start of the COVID-19 pandemic, an outsized gap in relative volatility between U.S. REITs and the broader U.S. equity market emerged and then persisted for a prolonged period before beginning to normalize. This spike reflects the disproportionate sensitivity of REITs to the COVID shock relative to the broader U.S. equity market.

Early Signs of Volatility Shift for REITs in 2025

So far in 2025, there are encouraging signs that the relative volatility of REITs may be improving. As of the end of May, U.S. REITs posted an annualized volatility of 22.9%, notably lower than the S&P 500 at 26.4% and the Nasdaq at 32.7%[7]. This reversion has been particularly evident on high-volatility trading days.

When examining downside risk on high-volatility trading days, REITs have delivered stronger relative performance in 2025. On days when the VIX exceeded 20 and the market declined, U.S. REITs have outperformed, declining 50 basis points less on average than the S&P 500 and 90 basis points less than the Nasdaq, as exhibited in Figure 8 below.

Figure 8.
U.S. REITs vs. S&P 500 and Nasdaq Average Negative Daily Return when VIX > 20 – January to April 30th, 2025



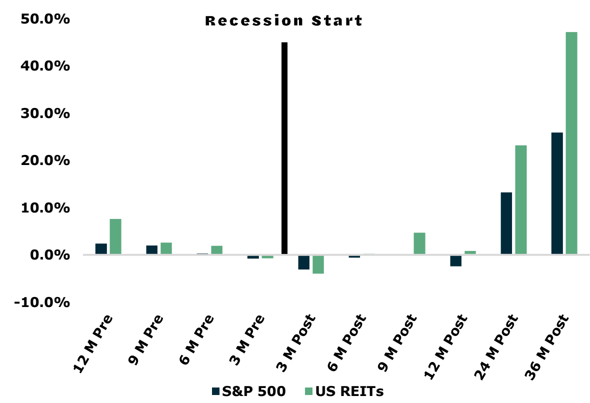
Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2025 – April 30th, 2025 in USD. VIX 30-year average daily value of 20 is referenced to represent higher than average volatility.

Resilience in Recessions

While recession forecasts have softened following the 90-day pause on reciprocal tariffs, many economists still view the risk of a U.S. downturn as elevated compared to pre- "Liberation Day" expectations. In this context, it can be useful for investors to evaluate the historical performance of different equity asset classes during times of economic downturn when making capital allocation decisions.

U.S. REITs have consistently demonstrated resilience before, during and after recessions, often outperforming the broader equity market across these cycles. Figure 9 visualizes the performance of U.S. REITs and the broader U.S. equity market across various monthly intervals before (pre) and after (post) the onset of a recession, with the start of a recession denoted by the bolded black vertical line.

Figure 9.
U.S. REITs vs. S&P 500 Average Cumulative Return Before and After Recession Begins



Source: Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index in USD. Data includes last seven recessions since 1973 as defined by National Bureau of Economic Research.

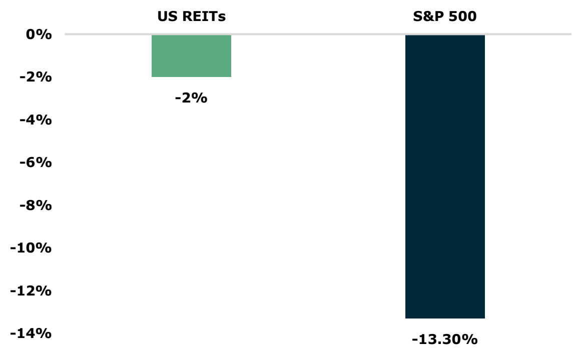
U.S. REITs outperformed U.S. equities in all but one pre-recession interval and one post-recession onset interval, reinforcing the view that REITs can serve as a capital preservation tool during economic stress. While past performance is not indicative of future results, the consistency of this trend suggests that if a trade-induced recession were to materialize, REITs offer a compelling value proposition.

Cash Flow Stability Amid Uncertainty

We believe one of the most compelling attributes of REITs in today's uncertain environment is their strong track record of cash flow stability. REITs typically benefit from long-term leases (1–10 years), which provide predictable income streams during economic disruptions. Defensive property types such as triple net lease REITs often operate on 10–15-year lease terms, with tenants responsible for covering taxes, insurance, and maintenance costs. This structure not only reduces operational risk but also minimizes sensitivity to inflation and economic swings.

Since the year 2000, the standard deviation of U.S. REIT earnings growth has been just 5.6%, compared to 15.0% for the S&P 500[8]. While higher earnings volatility can be advantageous during periods of economic expansion for traditional equities, REITs' reduced earnings volatility becomes particularly valuable during downturns, offering consistency when other income streams falter. As depicted in Figure 10, the decline in U.S. REIT earnings growth during the COVID-19 pandemic in 2020 was materially smaller than the S&P 500.

Figure 10.
U.S. REITs vs. S&P 500 Change in Earnings Growth in 2020



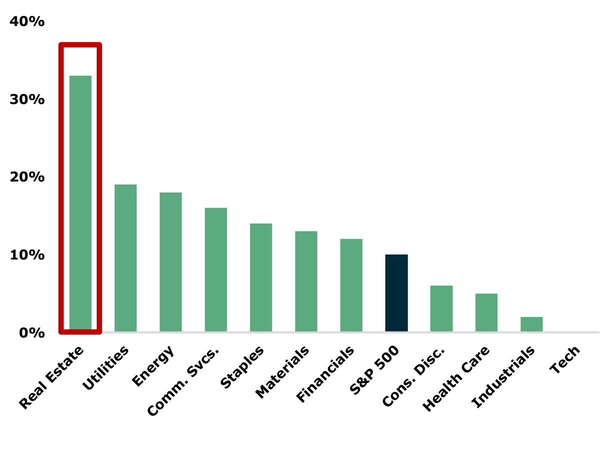
Source: J.P. Morgan Research, April 2025.

Attractive Dividend Yields

REITs have consistently offered higher dividend yields than most other equity sectors because of the regulatory requirement to distribute the majority of their taxable income as dividends. In today's market landscape, this steady income stream adds significant value for investors seeking reliable returns.

As highlighted in Figure 11, the real estate sector leads the S&P 500 in the proportion of companies with dividend yields above the 10-year U.S. Treasury yield. We believe this positions REIT dividends as a particularly attractive component of total return, especially in markets where capital appreciation may be constrained.

Figure 11.
Percentage of Stocks with Dividend Yield Higher Than 10 YR U.S. Treasury



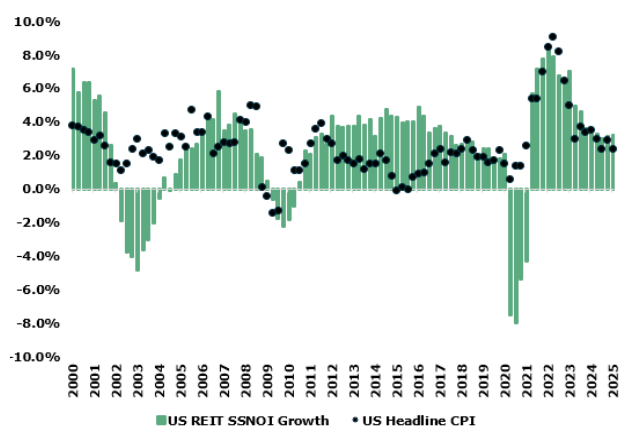
Source: FactSet BofA US Equity & Quant Strategy, BofA Global Research, data as of Q1 2025.

Moreover, many REITs are also recognized as "Dividend Aristocrats", demonstrating decades of consistent dividend growth. For example, Essex Property Trust, an apartment REIT, has raised its annual dividend for 31 consecutive years[9]. National Retail Properties, a triple net lease REIT, has extended its streak of raising dividends to 35 years[10]. Most notably, Federal Realty Trust, focused on owning shopping centers, holds the record with 57 consecutive years of dividend growth[11]. These long-standing histories highlight the reliability and durability of REIT income streams, even during challenging economic cycles.

Inflation Protection

Given the renewed concerns about rising inflation stemming from tariff related price increases, it is prudent to re-examine how REITs have historically performed in inflationary environments. As noted in our 2025 Outlook Report, REITs are uniquely positioned to weather such conditions due to their ability to pass through cost increases via contractual rent escalations. Historically, U.S. REITs have consistently grown their same-store net operating income (SSNOI) at rates that match or exceed inflation, due to lease structures that include CPI-linked rent increases or shorter lease durations that allow for frequent repricing. These attributes reinforce REITs' role as a natural inflation hedge, as illustrated in Figure 12 below.

Figure 12.
U.S. REIT SSNOI Growth vs. Inflation

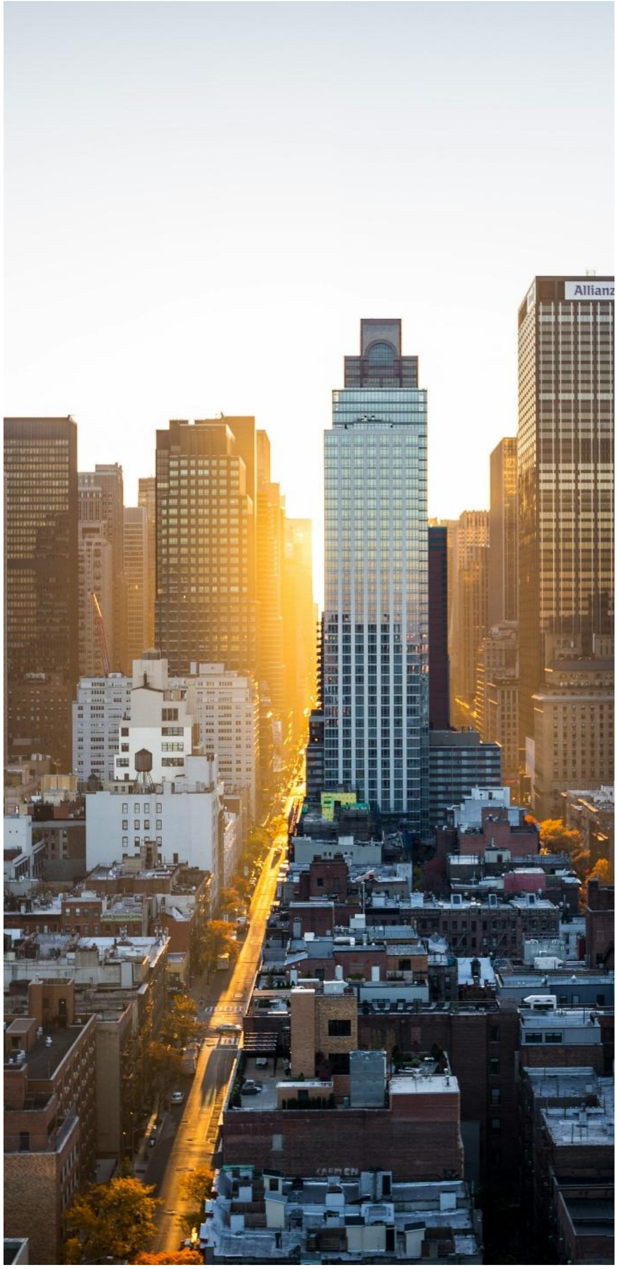


Source: NAREIT Q1 2025 T-Tracker. U.S. Headline CPI, Bloomberg LP.

Specific Sector Growth

The effects of macroeconomic volatility are not uniform across all subsectors. In this backdrop, active investment management serves as a critical value driver, enabling portfolios to be dynamically positioned to both navigate macroeconomic uncertainty and capitalize on evolving, sector-specific opportunities.

Seasoned real estate investors can tactically deploy capital into property types supported by long-term structural growth trends that are relatively insulated from trade policy risks. For instance, the senior housing sector in Canada and the U.S. continues to benefit from demographic momentum tied to an aging population and limited supply, while cell tower REITs are fueled by the exponential growth in mobile data consumption and digital infrastructure demand. These and other real estate sub-sectors are largely unaffected by tariffs, making them especially attractive in the current environment. We believe sector selection can be a positive contributor to performance, giving active managers the ability to identify and overweight property types that are poised to outperform.



RECAP

At Hazelview Investments, we believe REITs are uniquely positioned to deliver strong relative performance in today's uncertain macro and geopolitical environment. With rising tariff pressures, elevated volatility, and renewed inflation concerns, investors are seeking stability—and REITs offer it through long-term contractual cash flows, attractive dividends, and limited exposure to global trade flows. History has shown that REITs can outperform during periods of economic disruption, and recent market dynamics continue to underscore their defensive value. As valuations remain compelling and sector fundamentals strengthen, we see meaningful opportunity for active managers to add value by focusing on resilient, income-generating subsectors that are insulated from trade shocks and supported by long-term structural trends. In our view, REITs remain a timely and essential component of a well-diversified portfolio.

SOURCES AND DISCLAIMER

1. Bloomberg LP, Apollo Chief Economist, April 2025.
2. Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2025 – April 30th, 2025 in USD.
3. Bloomberg LP. Global REITs represented by FTSE EPRA NAREIT Developed Total Return Index. Global Equities represented by the MSCI World Index Timeframe from January 2nd, 2025 – May 30th, 2025 in USD.
4. UBS, Datastream. Data as of April 24th, 2025. Real estate data is based on UBS country pricing metric database (market cap weighted average of factor model constituents). It is based on PE for all the regions except for US REITs. For US REITs it is P/FFO. Global Equities represented by MSCI World index.
5. Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2014 – January 2nd, 2019.
6. Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2019 – January 2nd, 2024.
7. Bloomberg LP. U.S. REITs represented by U.S. Regional Index of FTSE EPRA NAREIT Developed Total Return Index. Timeframe from January 2nd, 2025 – May 30th, 2025 in USD.
8. FactSet, Raymond James Research, data as of December 31st, 2024.
9. Essex Property Trust Q1 2025 Earnings Release.
10. NNN REIT Q1 2025 Earnings Release.
11. Federal Realty Trust Q1 2025 Investor Presentation.

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