THE CASE FOR GOING GLOBAL WITH REAL ESTATE INVESTING

The cliché about real estate is that it's all about "location, location, location". However, over the last 20 years or so, investors have seen their opportunities to invest in locations both more numerous and further from home radically expand. Using a diversified portfolio of Real Estate Investment Trusts (REITs), a single investor can potentially access thousands of properties across roughly two dozen countries. While diversification is often touted as a potential benefit to any investment strategy on its own merits, here we consider the question as to whether US investors are well served by looking beyond domestic real estate in their portfolios.

Coming off nearly a decade of strong US stock and real estate market returns and economic recovery, as well as a significantly stronger US dollar over the last three years, it is unsurprising that US REITs[1] have outperformed international REITs[2] in absolute terms since 1990. However, due to the fact that US and international REITs are not perfectly correlated (less correlated historically than US[3] and international equities[4], in fact), there has been a significant diversification effect in owning a blended 50% US /50% international mix of global REITs[5] over that time period, which results in a better risk-adjusted return compared to a US-only real estate benchmark[1] (see Exhibit 1).

Exhibit 1: US, International, and Global REIT Risk and Return

Jan. 1, 1990–Dec. 31, 2016

	Annualized Return (%)	Annualized Standard (%)	Sharpe Ratio
US REITs[1]	9.94%	19.49%	0.356
International REITs[2]	6.87%	15.43%	0.251
Global REITs[5]	8.73%	15.73%	0.364

Source: Dow Jones, Standard & Poor's, Gerstein Fisher Research

To summarize what is shown in Exhibit 1, while the global REIT portfolio (over this specific long-term period) underperformed the US-only portfolio by roughly 1% annualized, it also had almost 4% lower volatility, and better overall risk-adjusted returns. Similarly, while the US-only basket of REITs did experience higher average returns, the higher volatility that strategy experienced resulted in meaningfully worse returns than a more diversified approach during the recent Global Financial Crisis (see Exhibit 2). While downside variation is only one measure of risk, it is a significant consideration for most investors.

Exhibit 2: US and Global REITs Worst 5-Year Return Periods

Jan. 1, 1990–Dec. 31, 2016

	Worst 5-Year Return (annualized)	Return Period
US REITs[1]	-9.44%	Apr. 2004–Apr. 2009
Global REITs[5]	-7.24%	Apr. 2004–Apr. 2009

Source: Dow Jones, Standard & Poor's, Gerstein Fisher Research

It is also important to note that many (although not all) investors already own significant US real estate exposure in the form of homes, apartments, or other property. Diversification in their liquid investment portfolios to include global REITs allows for exposure to other economies, business and interest rate environments, and currencies. In addition, global REITs (as of this writing) have broadly lower market capitalizations, "cheaper" valuations, and somewhat higher yields (see Exhibit 3). These differences in key valuation characteristics may also point to the possibility that the expected returns for investors from the smaller-cap and lower-valuation global REITs could be higher than those from US REITS alone.

Exhibit 3: US and Global REIT Indexes Key Characteristics Comparison

As of Feb. 28, 2017

	S&P US REIT Index	S&P Global REIT Index
Securities	157	416
Countries	1	24
P/E Ratio	29.64	20.34
P/B Ratio	2.39	1.73
Avg. Market Cap	$5.38 B	$3.29 B
Dividend Yield	3.90%	4.15%

Source: Standard & Poor's, Gerstein Fisher Research

Using a quantitative, factor-based approach to managing global REITs can offer additional benefits to investors. By looking beyond a fully passive, size-weighted index approach and incorporating strategic tilts towards profitability, price momentum, and lower leverage, it is possible to manage a portfolio that assumes targeted risks to potentially offer better long-term returns (see exhibit 4). In fact, decades of academic research on REITs has found evidence that certain investment factors do have the ability to explain the difference in average returns. For example, in 2003 a team of professors (Chui, Titman and Wei) found evidence of the tendency for REITs that have outperformed over the past 12 months to outperform lower-performing securities.

Conclusion

By going global with their real estate investments, individuals can access the expanded opportunity set associated with a greater number of REIT securities to include in their portfolios, as well as the additional diversification benefits associated with international investing. By managing global REITs within a factor-based framework, we can seek to maximize risk-adjusted returns in the asset class while maintaining a diversified, disciplined portfolio.

To learn more about Gerstein Fisher's Multi-Factor® Real Estate Securities strategy, click **here**.

Exhibit 4: Global REIT Risk and Return Comparison – Index vs. Multi-Factor Approach

May 1, 2013–Mar. 31, 2017 (Since Fund Inception)

	Annualized Return (%)	Standard Deviation (%)	Sharpe Ratio
FTSE EPRA/NAREIT Developed Net Return Index	2.57%	12.59%	0.08
Gerstein Fisher Multi-Factor Global Real Estate	4.67%	12.60%	0.25

Apr. 1, 2016–Mar. 31, 2017 (1-Year Trailing)

	Annualized Return (%)	Standard Deviation (%)	Sharpe Ratio
FTSE EPRA/NAREIT Developed Net Return Index	0.93%	10.78%	-0.05
Gerstein Fisher Multi-Factor Global Real Estate	2.89%	9.96%	0.14

Performance data quoted represent past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month may be obtained by calling 800-473-1155.
Total Annual Fund Operating Expense Ratio 1.01%
The Fund imposes a 1.00% redemption fee on shares redeemed within 60 days of purchase. Performance data do not reflect the redemption fee. If they had, returns would be reduced.
Sources: Morningstar, FTSE, Gerstein Fisher Research

[1] US REITs (unless otherwise specified) are measured using the Dow Jones US Select REIT Index. Index Definition: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

[2] International REITs (unless otherwise specified) are measured using the S&P Global (ex. US) REIT Index. Index Definition: A member of the S&P Global Property Index Series, the S&P Global REIT serves as a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets.

[3] US Equities (unless otherwise specified) are measured using the S&P 500 Index Index Definition: The S&P U.S. indices are designed to reflect the U.S. equity markets and, through the markets, the U.S. economy. The S&P 500 focuses on the large-cap sector of the market; however, since it includes a significant portion of the total value of the market, it also represents the market. Companies in the S&P 500 are considered leading companies in leading industries.

[4] International Equities (unless otherwise specified) are measured using the MSCI EAFE Index. Index Definition: The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

[5] Global REITs, unless otherwise specified, is a 50%/50% blended portfolio of the previously defined US and International REITs, rebalanced quarterly.

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

The Gerstein Fisher Multi-Factor® Real Estate Securities Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling 1-800-473-1155, or visiting www.gersteinfisherfunds.com. Read the prospectus carefully before investing.

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FTSE EPRA/NAREIT Developed Index: The index contains publicly quoted real estate companies that meet the EPRA rules in 21 countries throughout Europe, North America & Asia

Price/Book: Compares a stock's market value to its book value

Price/Earnings: Compares a stock's market value to its earnings

Dividend Yield: Dividend expressed as a percentage of a current share price.

Sharpe Ratio: A measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

Standard Deviation: A quantity calculated to indicate the extent of deviation for a group as a whole.

Correlation: A statistical measure of the degree to which the movements of two variables (stock/option/convertible prices or returns) are related.

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

Market capitalization is calculated by multiplying the number of a security's shares outstanding by its price per share. Mean market cap is calculated by taking the geometric mean of the market capitalizations of the securities in an index.

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITS worldwide. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs).

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