Wilshire Indexes

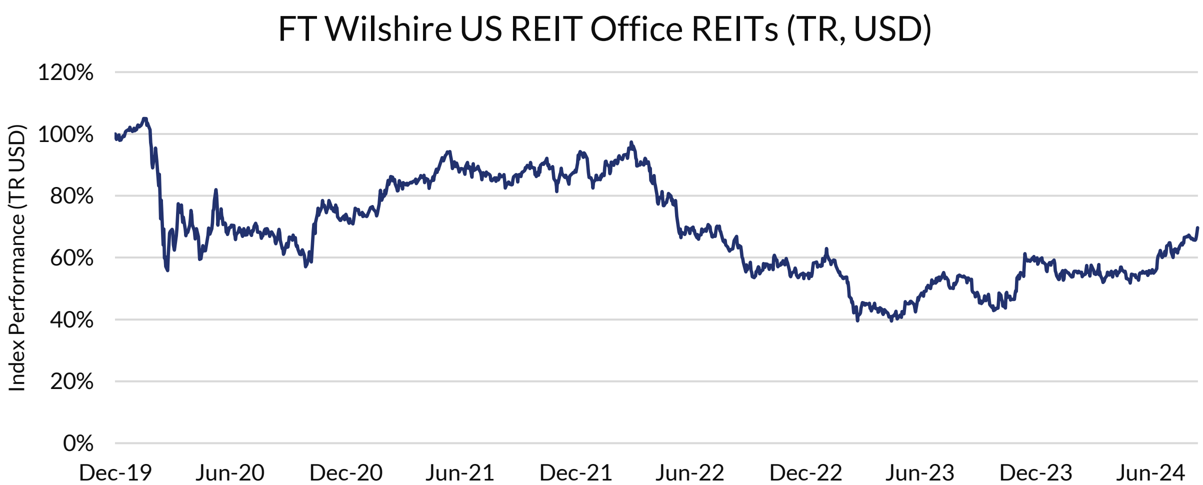
Capturing the changing dynamics of US real estate

OCTOBER 2024

US real estate equity investing has faced headwinds this decade

Increased borrowing costs and the shift to remote work from the COVID-19 pandemic led to a glut of empty offices. This resulted in traditional Real Estate Investment Trusts, most notably Office REITs, facing a very challenging environment.

The graph below shows the performance of the FT Wilshire US Office REITs Index since Covid-19.



Source: Wilshire Indexes, data as at August 31, 2024. Historical performance is not a reliable indicator of future performance. Index returns data prior to the launch of the index is back-tested and reflects hypothetical performance. Please see Legal Notices at the end of this document.

Global investors navigating these disruptive challenges must also consider the evolution of listed real estate to include modern assets that incorporate technology – specifically, the delivery of data and services related to digitalization and energy transition. The largest IPO to date in 2024 involved a REIT, the $4.4b offering of Lineage, a cold storage REIT rather than a traditional warehouse company -- highlighting the ever-more innovative uses of property and ways to invest in them.

In the last ten years there has been growth of new and opportunistic companies in the real estate industry. For example:

- In 2015, the Wilshire Indexes traditional REIT segment, which incorporated traditional residential, retail and Industrial REITs had a $469.6b market capitalization. Almost a decade later, 100 companies remain in the segment, worth $633.5b.
- In 2015, the market capitalization of the FT Wilshire Ex-Traditional REIT Index stood at $302.7b and today is around $825.3b.
- In 2015, the market capitalization of the FT Wilshire US Alternative REIT Index, which excludes not only traditional REITs but healthcare and self-storage REITs, had a $150.2b market capitalization. Today, it is $491.3b.

While the type of assets considered to be real estate has evolved, their key characteristics have remained constant -- offering diversification, stable and predictable cash flows supported by long-term contracts, and liquidity. However, having a clear understanding of the broad US real estate equity universe and evolving segments and sub-sectors is paramount to identifying and capturing the new themes driving US real estate equity performance.

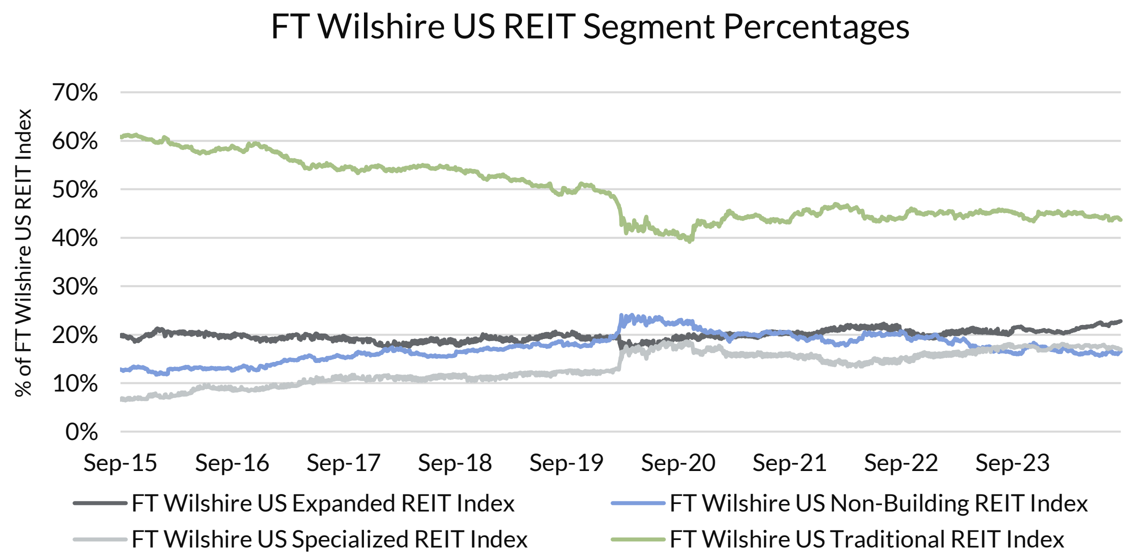
Transformation drives new thematic opportunities in US Real Estate investing

The acceleration and adoption of digital transformation over the last two decades has rapidly changed the dynamics of the global economy. This transformation has fueled the rise of new US real estate industry segments that are redefining the makeup of traditional industries -- and where a company truly fits.

At Wilshire Indexes we split real estate into five segments using the Global Assets Taxonomy System (GATS), a more modern industry classification system when compared to traditional classification systems:

- Traditional Property REITs are engaged in property ownership and leasing in mainstream residential, commercial and industrial fields.
- Expanded Property REITs are engaged in property ownership and leasing in less traditional fields such as non-apartment residential REITs, self-storage and medicine
- Specialized REITs are engaged in property ownership and leasing in specialized fields including data centers, laboratories and specialized industrial uses.
- Non-Building REITs are engaged in property ownership and leasing in unique areas beyond conventional REIT offerings, such as towers, timber and farmland.
- Ex-REIT Real Estate is comprised of non-REIT real estate companies.

The emergence and transformation of these segments can be seen in the shift in concentration away from traditional real estate over the past decade for the overall FT Wilshire US REIT Index.



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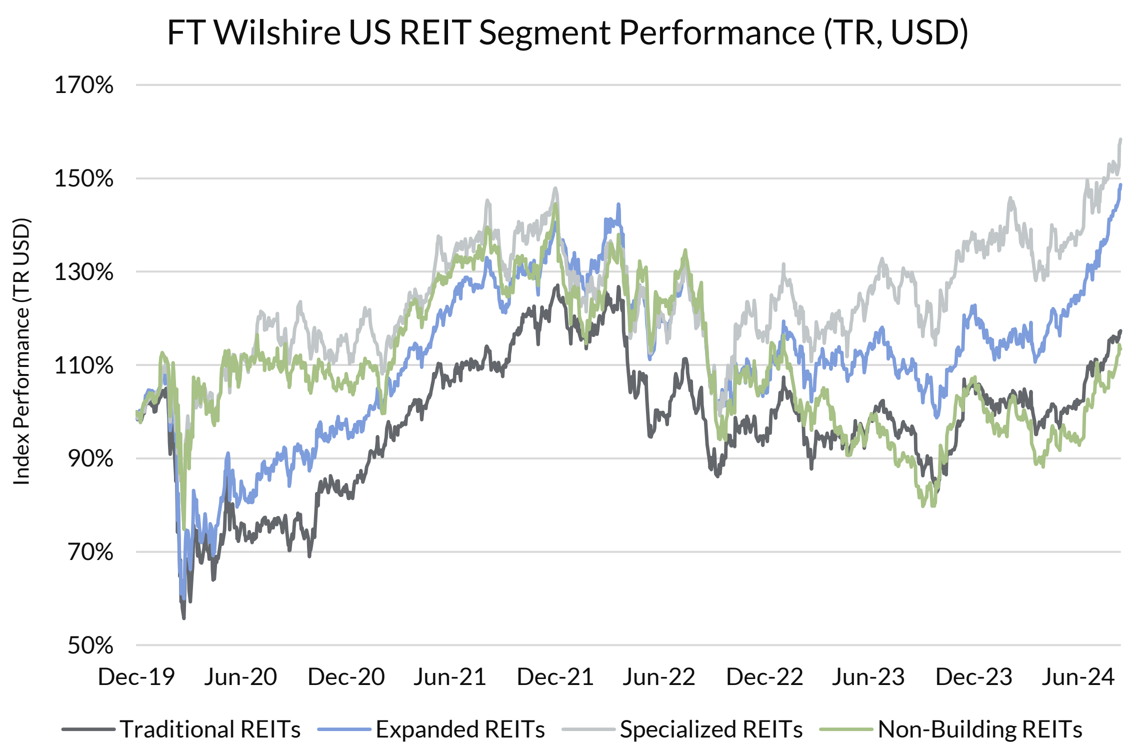
Looking at the performance of these new segments we see, post Covid-19, the data center-heavy FT Wilshire US Specialized REIT segments have shown higher returns than their counterparts.



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Keeping pace with changing industries

With the growing need to identify new opportunities in the US real estate equity investment landscape , there is a greater emphasis on capturing, classifying and segmenting these new technologies and companies.

The Global Asset Taxonomy System (GATS) is designed to reflect the modern global economy. Prioritizing the utility of a company enables the straightforward incorporation and alignment of new technologies within the overall structure.

Through the application of detailed GATS filtering to companies we avoid the "catch all" of legacy approaches. An example is Iron Mountain, a data retention REIT, which is classified in GATS as Diversified Digital and Information Services REITs. Legacy systems classify it as a "Specialty REIT" placing it alongside such disparate companies as Outfront Media (Digital Advertising) and Gladstone Land Corp. (Farmland). GATS therefore avoids potential unintended performance attribution of other classification systems.

To further empower investors, we avoid using broad healthcare definitions and instead classify companies into three themes:

601040	Health Care REITs	60104010	Medical Offices and Laboratories REITs
		60104015	Care Facilities REITs
		60104020	Outpatient Medical REITs

These delineations provide investors with exposure to the underlying themes driving US real estate. The building blocks of the FT Wilshire US Real Estate Index Series allow for both broad and thematic investment opportunities, keeping pace with the evolution of the industry.

A new market standard for US real estate indexes

The FT Wilshire US Real Estate Index Series is a comprehensive offering of investable opportunities within the US real estate equity universe based on the flagship FT Wilshire 5000 Index.

The series employs five segments to create groupings of companies occupying similar tranches of investable opportunity -- providing both broad indexes to gain general exposure to real estate and focused indexes for investors interested in a more granular subset of the investable real estate opportunity.

Learn more about the FT Wilshire US Real Estate Series at wilshireindexes.com/products/ft-wilshire-real-estate-index-series

Contact Us

wilshire.indexes@wilshire.com

About Wilshire Indexes

Wilshire Indexes provides institutional investors, asset managers and retail intermediaries with a global benchmark platform that offers global coverage of the markets through the leading FT Wilshire Index Series.

To learn more about FT Wilshire Real Estate Indexes, visit **wilshireindexes.com/products/ft-wilshire-real-estate-index-series**

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