



# Market Coverage

## Sector Overview – Real Estate

### Real Estate Sector Overview

#### *I. Background*

- Sector Definition:
  - i. The buying, selling, and development of property and buildings.
  - ii. Provides services to residential, commercial, and industrial customers.
  - iii. Includes mortgage companies, property management companies, real estate developers, and REITs.
- Sector Size:
  - i. As of June 21, 2024, the Real Estate Sector is the **smallest sector** in the economy:
    - 1. With just \$1.46 trillion in public market capitalization.
    - 2. Representing 1.98% of the total market.
- Sector Composition:
  - i. Residential RE; Industrial RE; Mixed Use RE; Specialty RE; Real Estate Management; Real Estate Development

#### *II. Players in the Sector*

##### Market Capitalizations as of June 21, 2024

- American Tower Corp (NYSE: AMT) // Market Capitalization ~\$89 Billion

- Medical Properties Trust Inc (NYSE: MPW) // Market Capitalization ~\$2 Billion
- National Retail Properties Inc (NYSE: NNN) // Market Capitalization ~\$7 Billion
- Public Storage (NYSE: PSA) // Market Capitalization ~\$50 Billion
- WellTower Inc (NYSE: WELL) // Market Capitalization ~\$60 Billion

### *III. Sector Performance*

- Return:
  - i. The sector has retracted 4.2% throughout 2024 (year-to-date), based on the performance of the ETF SPDR Fund XLRE.
  - ii. Relative to the SPY, the Real Estate Sector has underperformed the general market by 20.1%, YTD 2024.

### *IV. Additional Notes*

- The Real Estate Sector is highly sensitive to interest rate changes because interest rates affect the cost of borrowing.
  - i. Real estate is largely bought on credit through an instrument known as a mortgage, therefore the cost of borrowing can either make mortgages more or less expensive.
  - ii. The average rate for a 30-year mortgage went from record lows at 2.65% in January 2021 to 7.2% in August 2023.
    1. The sagging real estate market in 2024 is largely due to stagnant interest rates, as most American buyers were anticipating multiple interest rate cuts that never happened.
  - iii. In addition to the residential real estate market – commercial real estate also suffered recently from rising interest rates, compounded by new trends of hybrid working environments.
- Invention of the Real Estate Investment Trust (REIT) in the 1960s
  - i. The sector has received a lot of traction from retail and institutional investors, alike, after the invention of REIT.

- ii. REITs allow investors to have exposure to a highly diversified real estate portfolio without:
  - 1. High upfront costs
  - 2. High maintenance costs
  - 3. Active management responsibilities
- iii. REITs also provide investors with a steady income stream through their recurring dividends (given the specific pay-out / tax rules of REITs).
- The Real Estate Sector was established in 2016.

*The Warren Fox Group does not provide investment advice or legal advice. The information provided above should be used solely for educational purposes.*

*The material in this document reflects performance based on adjusted close prices for June 21, 2024.*

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