

Volatility: A Leading Indicator for Global REITs Upside?

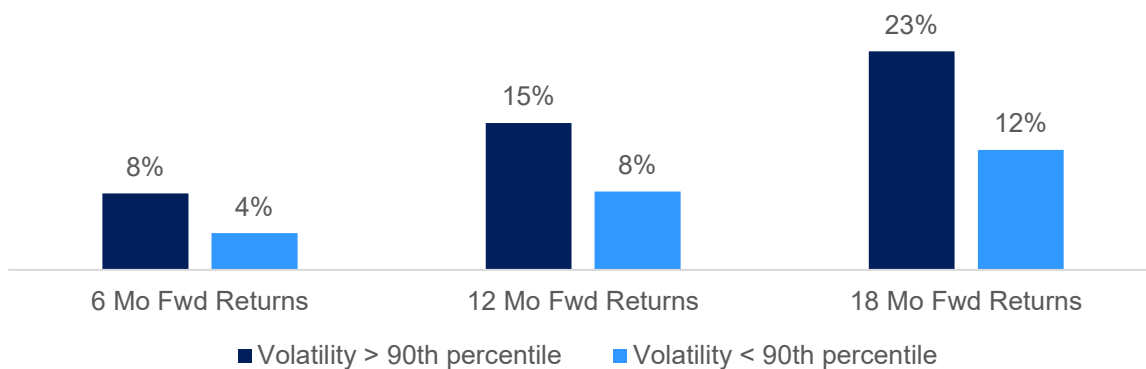
By: **Uma Moriarity, CFA**
Senior Investment Strategist and Global ESG Lead

Markets have been functioning under rising risks – geopolitical tensions, trade wars, actual wars, historic monetary policy changes – among others – making for a very foggy crystal ball. A series of weaker U.S. economic data reports culminating in a concerning July jobs report that showed a 20bps acceleration in the unemployment rate, combined with the unwinding of the Yen carry trade triggered by the Bank of Japan’s interest rate policy change, were enough to remind the market of the risks looming. The resulting spike in volatility across the broad equity market last month was felt by global REITs as well, and to a lesser degree, U.S. REITs. Historically, such points in time have proven to be compelling buying opportunities for REIT investors.

Impact of Market Disruption on REITs Through Cycles

We analyzed volatility in the global REIT market¹ going back to 1990 by calculating the standard deviation of daily returns over the trailing ten trading days, resulting in over 9000 rolling 10-day periods. We identified periods of elevated volatility as those in which volatility was above the 90th percentile of all historical periods, resulting in nearly 900 of these periods, including early August. Historically, periods when volatility breaches the 90th percentile are generally followed by strong returns over the proceeding 6-, 12-, and 18- month periods. In fact, we found the returns following these high-volatility periods meaningfully outpaced returns following periods where volatility is not as high (Figure 1).

Figure 1: Average global REIT total returns in the 6-, 12-, and 18-months following periods of high volatility versus lower volatility

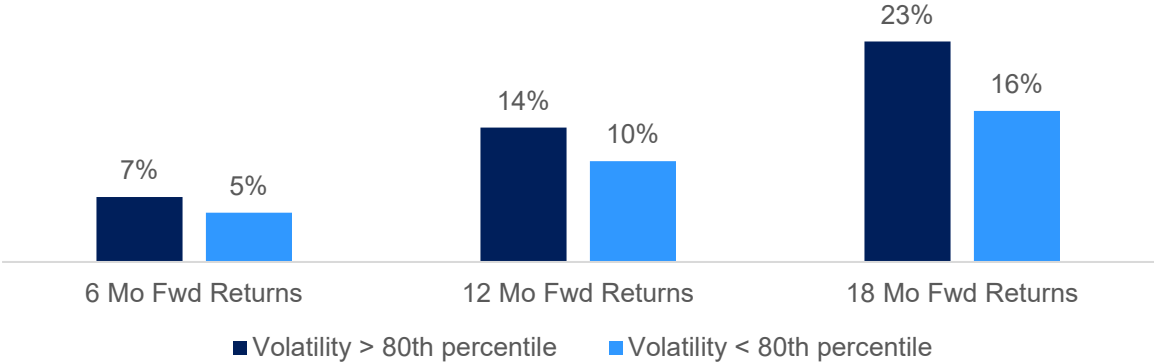


Source: Bloomberg, CenterSquare, as of 8/19/24.

¹ FTSE EPRA Nareit Developed Total Return Index, in USD.

The U.S. REIT market², slightly more insulated from the Japanese Yen, demonstrated a spike in volatility in early August, but not nearly to the same extent as global REITs. In the U.S., the same trailing ten trading day volatility analysis showed a level of volatility that breached the 80th percentile in August. Here, we analyzed returns following periods when volatility breached the 80th percentile and found a similar pattern. Those periods are generally followed by strong returns over the 6-, 12-, and 18- months that outpaced returns after periods where volatility is not as high (Figure 2).

Figure 2: Average U.S. REIT total returns in the 6-, 12-, and 18-months following periods of high volatility versus lower volatility



Source: Bloomberg, CenterSquare, as of 8/19/24.

While volatility is unsettling to many investors, our analysis shows that highly volatile periods have historically been an opportunity and positive indicator for global and U.S. REIT returns following such periods. Despite the uncertainty in the market caused by the convergence of many risks, we believe the outlook for REITs is compelling as monetary policy eases globally, with the U.S. Federal Reserve’s first interest rate cut of this cycle widely anticipated in September.

² FTSE NAREIT Equity REIT Total Return Index.

About the Author



Uma Moriarity, CFA
Senior Investment Strategist and Global ESG Lead

Uma Moriarity is the Senior Investment Strategist and Global ESG Lead for CenterSquare Investment Management LLC. She focuses on investment strategy and leads thought leadership across the Firm’s public and private real estate platforms. She is part of the listed real estate investment team and serves on CenterSquare’s Private Real Estate Debt Investment Committee. Uma leads the Firm’s Environmental, Social, and Governance (ESG) strategy to incorporate ESG into the decision-making and management of listed and private real estate investments to create long-term value, reduce risk, and generate superior risk-adjusted investment returns. Prior to joining CenterSquare, she spent three years in corporate strategy and planning at ExxonMobil in Houston.

Uma graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a B.S. in Finance with a minor in International Business, B.S. in Accounting, and Master of Accountancy. She is a CFA charterholder and member of the CFA Institute, and a LEED Green Associate. She currently serves on the Board of Directors for Green Building United, the Penn State Smeal Sustainability Advisory Board, and the FTSE EPRA Nareit Americas Regional Advisory Committee.

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For more information, please contact:

CenterSquare Investment Management, LLC
Eight Tower Bridge, 161 Washington Street, Seventh Floor, Conshohocken, PA 19428

contactus@centersquare.com
www.centersquare.com

