DUFF & PHELPS
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## Why Global Real Estate Now?

Real Estate Securities, i.e. REITs and their international equivalents, provide investors with exposure to commercial real estate assets via publicly traded securities. Created in the United States more than 50 years ago, REITs came of age in the 1990s and have proliferated around the developed world since then as higher quality assets and management teams migrated from private to publicly listed real estate and more real estate owner/operators sought public listings. As a result, global real estate securities now provide investors with an intriguing conduit to look beyond the inherent home bias in their portfolios.

### *Defensive Diversification and Lower Correlation*

Global real estate securities have a history of providing diversification to traditional balanced stock and bond portfolios, with lower correlations and betas relative to broad equity markets. A key part of the value proposition of global real estate securities is their defensive characteristics. By investing in high-quality owner/operators of commercial real estate, investors can enjoy the potential benefits of predictable and stable cash flows backed by long-term leases and stable income generation. We regard these as evergreen characteristics of global real estate securities, but we also want to highlight why now is a compelling time for investors to focus more closely on this space.

### *Strong Fundamentals*

We expect low but positive global economic expansion, combined with positive supply/demand dynamics, to support favorable occupancy rates and rental growth trends for global real estate owner/operators. This, in turn, suggests continued cash flow and distribution growth. We take comfort from the fact that debt levels and new construction supply currently sit at normalized levels across most property sectors and regions. The increased discipline imposed by the capital markets today is more apt to provoke a negative response and signal to both management and its cost of capital if either debt levels or new construction supply risk for its development pipeline, markets and property sector become excessive. Global real estate is a clear beneficiary of the increased transparency and discipline, allowing an extension of real estate cycles in markets and property sectors much more so than in the past.

### *Robust M&A Activity*

As we have noted previously, global real estate securities are currently enjoying a tailwind from hundreds of billions of dollars of private equity real estate capital which has been committed but not deployed. As these sponsors look for attractive deals to deploy investor capital, they have repeatedly been lured to the public arena, where valuations are often more compelling than deals priced higher than may be justified in the private space.

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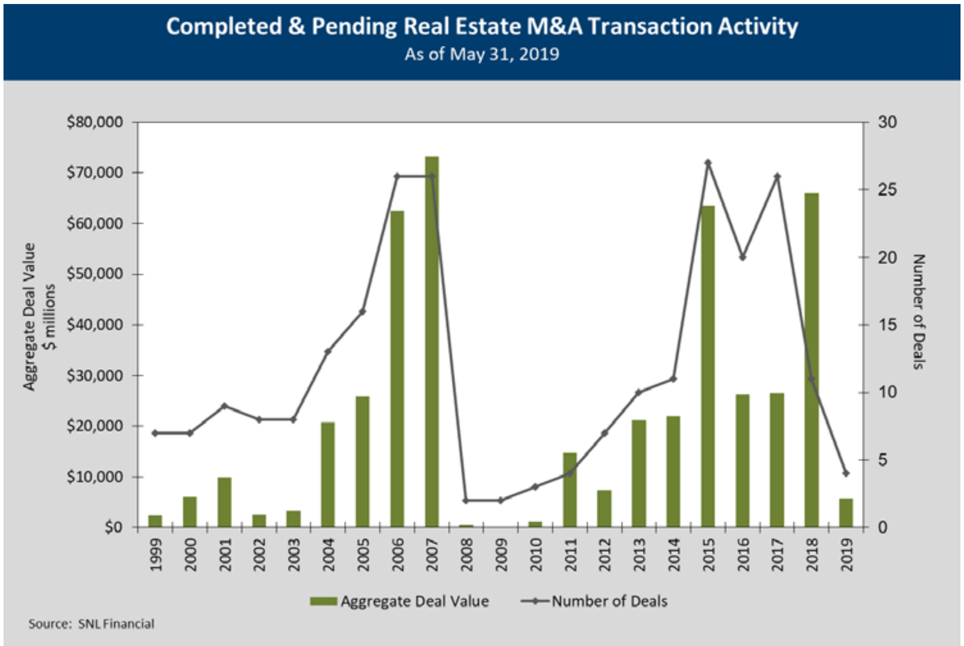


Examples of this phenomenon include 2018's €2bn acquisition of Spanish office/apartment/hotel REIT Hispania by Blackstone and Brookfield Property Partners' $15bn acquisition of mall operator GGP. Earlier this quarter, Ireland's Green REIT announced that it has put itself up for sale to maximize value to shareholders, another clear effort to capitalize on the trend of capital flowing into the public REIT space.

## *Beyond the Cycle*

Regardless of one's view on the staying power of the current business cycle, there are secular trends which positively impact the global real estate securities market for the long term. The growth of e-commerce and the online economy has fueled rapid growth in demand for industrial properties focused on warehousing and logistics. A related theme is the growth of cloud computing and the "internet of things" which must be accommodated via specialized data centers. These growth themes reflect the change in the infrastructure which supports our daily lives, and will continue to support demand for specialized real estate space for decades to come.

As stakeholders vie for competitive positioning to take advantage of e-commerce, we saw industrial REIT Prologis acquire key competitor DCT Industrial for $8.5bn in 2018, and Blackstone just announced a deal to acquire $18.7bn of U.S. logistics properties from GLP of Singapore.

## *ESG Leadership*

Today, listed global real estate companies provide the ESG leadership sought by investors globally, well ahead of what is offered in the lagging, predominately third party managed and often commingled, private real estate market. Whether it is through on-going efforts to increase sourcing of renewable power while decreasing energy usage among numerous positive environmental steps, championing advances on a social basis both internally within companies and their boards as well as externally in their communities, or via governance leadership recognized by third parties such as ISS, listed global real estate provides true leadership in ESG. We at Duff & Phelps are helping members of the listed global real estate community continue their ESG advances, just as we have each year since we founded our listed real estate business in 1995.

## *A Pillar for Your Portfolio*

Looking forward, we expect global real estate securities to enjoy a continued positive trend in cash flow and dividend growth. Variations across the global economic growth picture, the wide spectrum of management, financial, and asset quality, as well as the disparate level of familiarity and securities research around the globe make a strong case for active management in global listed real estate.

Consider making the Duff & Phelps Global Real Estate Securities Strategy a key pillar of your portfolio construction. Across market cycles, the Fund has built a record of managing downside, lowering correlations, and generating income backed by contractual, lease-based cash flows.

## *About the Authors:*

**Geoffrey Dybas, CFA**
**Senior Portfolio Manager**

Geoffrey P. Dybas, Executive Managing Director, heads the Duff & Phelps' Global Real Estate Securities team. He is Senior Portfolio Manager and co-founder of all dedicated REIT strategies managed by Duff & Phelps, including the Virtus Duff & Phelps Real Estate Securities Fund; the Virtus Duff & Phelps International Real Estate Securities Fund; the Virtus Duff & Phelps Global Real Estate Securities Fund; the Virtus Duff & Phelps Real Estate Securities Series, a series of the Virtus Variable Insurance Trust; the REIT portfolio within the DNP Select Income Fund Inc., a closed-end fund; and separate institutional accounts. He joined Duff & Phelps in 1995. Mr. Dybas was a corporate banker for Bank One and began his investment career in 1989. He holds a BS degree, cum laude, from Marquette University and an MBA from the Kellogg School of Management at North western University.

**Frank Haggerty Jr., CFA**
**Portfolio Manager**

Frank J. Haggerty serves as Portfolio Manager for all dedicated Global Real Estate Securities managed by Duff & Phelps, including the Virtus Duff & Phelps Real Estate Securities Fund; the Virtus Duff & Phelps International Real Estate Securities Fund; the Virtus Duff & Phelps Global Real Estate Securities Fund; the Virtus Duff & Phelps Real Estate Securities Series, a series of the Virtus Variable Insurance Trust; the REIT portfolio within the DNP Select Income Fund Inc., a closed-end fund; and separate institutional accounts. Mr. Haggerty joined Duff & Phelps in 2005 after having served as a REIT portfolio manager and senior analyst for ABN AMRO Asset Management. He began his investment career in 1996. He holds a BS from Illinois State University and an MBA from the Kellstadt Graduate School of Management at DePaul University.