

# Real Estate vs. Stocks.

## Which is the better long term investment?

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<http://www.investorhome.com/the-case-for-reits.htm>

# Real Estate vs. Stocks.

## Which is the better long term investment?

Gary Karz, CFA

- Before COVID, for many years almost no higher risk investments were "cheap" and investors struggled to find investment options with ample yields.
- With the economy partially shut down, interest rates are at or near historic lows, but now many riskier long term investments are much cheaper and offer arguably better values, if you assume coronavirus eventually goes away and the economy recovers.
- This session will discuss opinions and data about the two major long-term ownership investments (Real Estate and Stocks) and which offers the best value and risk/return tradeoff.

**Which of the following do you think is the best  
long-term investment?**

**”stocks or mutual funds”**

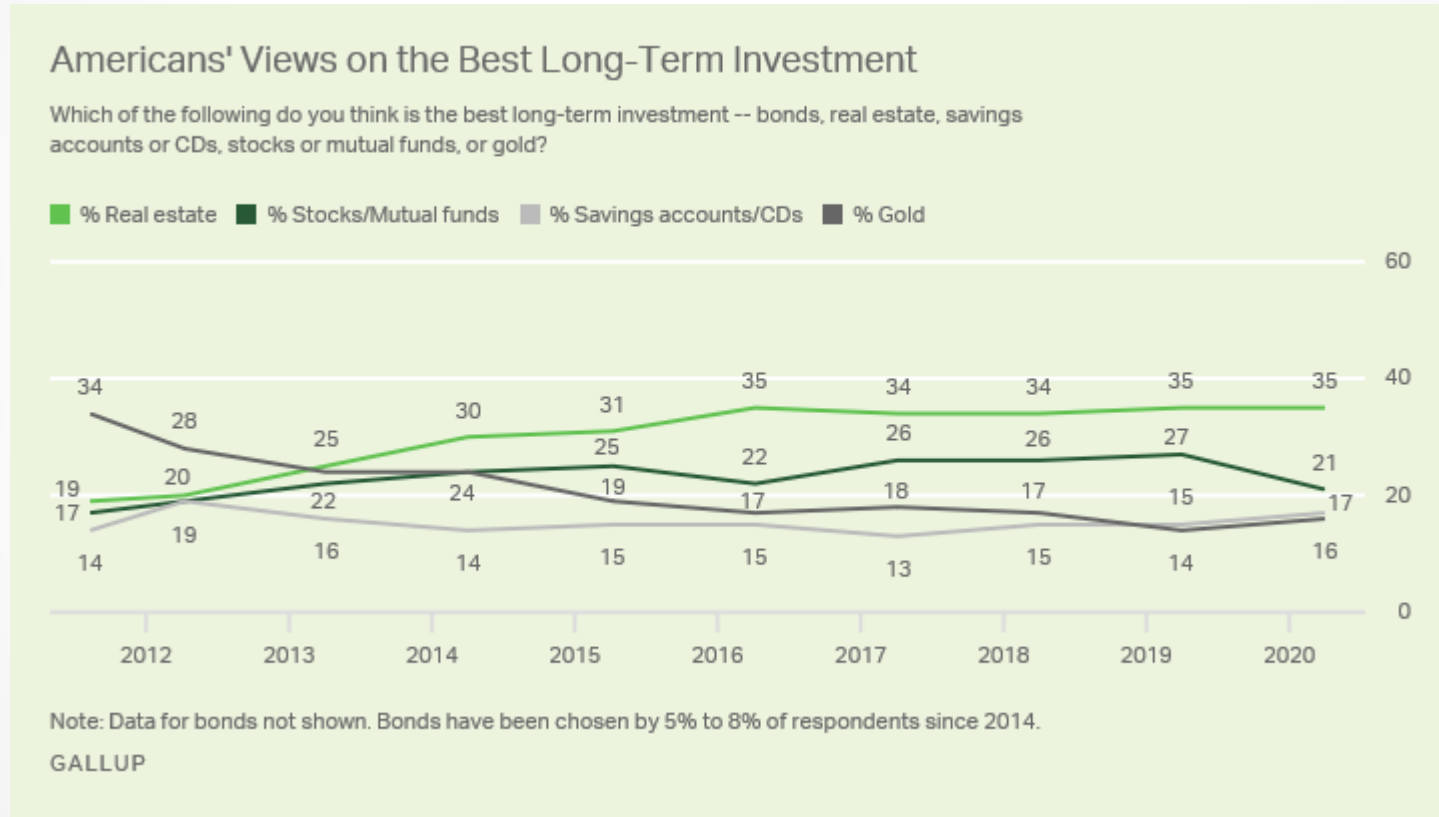
**real estate**

**savings accounts or CDs**

**bonds**

**gold**

# Which of the following do you think is the best long-term investment? (Gallup Annual Poll - April)

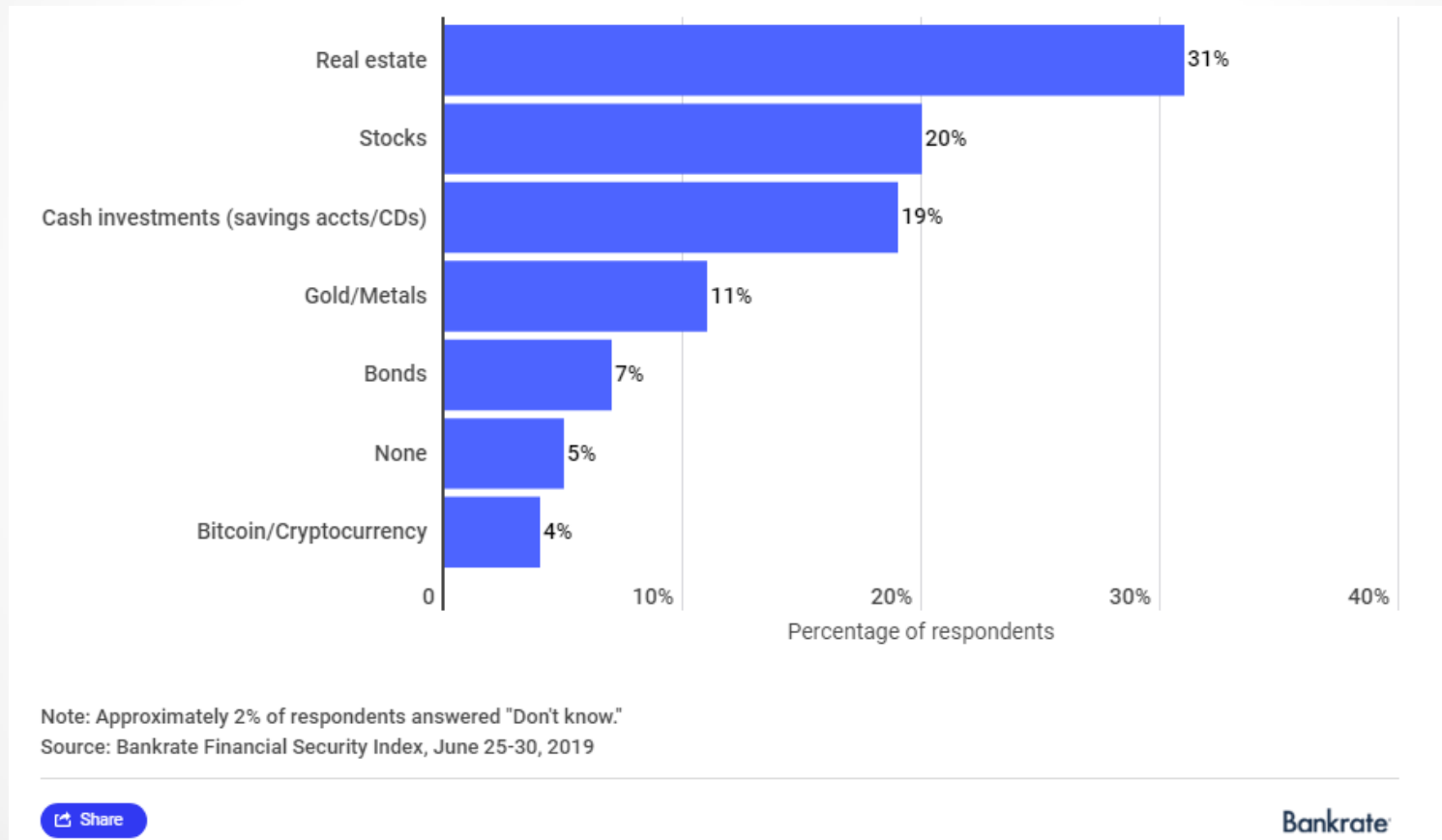


• <https://news.gallup.com/poll/309233/stock-investments-lose-luster-covid-sell-off.aspx>

**For money you wouldn't need for more than 10 years, which ONE of the following do you think would be the best way to invest it?**

- Real estate**
- Stocks**
- Bonds**
- Cash Investments**
- Gold/Metals**
- Bitcoin/cryptocurrencies**

# For money you wouldn't need for more than 10 years, which ONE of the following do you think would be the best way to invest it? (Bankrate Annual Poll – July)



- <https://www.bankrate.com/investing/financial-security-july-2019/>

## Opinions about the best long-term investment (1 of 2)

- The results of these surveys can be very sensitive to the specific language, for instance, Gallup noted in another 2018 survey had only 19% choosing real estate first (54% stocks/mutual funds) when the language stated to exclude the respondents primary home from the real estate category.

<https://news.gallup.com/poll/236984/investors-stock-funds-best-long-term-investment.aspx>

- Bankrate in 2018, the stock market was #1 with 32%

<https://www.bankrate.com/investing/financial-security-july-2018/>

- 14% chose gold as the best investment in 2019 (Gallup) down from 34% in 2011

## Opinions about the best long-term investment (1 of 2)

- Survey results also varied substantially in the wake of the global financial crisis. From 2008 and 2010, Americans were as likely to choose savings accounts or CDs as the best long-term investment as they were to name stocks or real estate, and when Gallup added gold as an option in 2011, it topped the list for several years before fading recently.



**In recent years surveys find investors think real estate is the best long term investment,**

**but**

- 1) survey results vary in the long run (stocks and gold have been #1 in the last decade), and**
- 2) if you specify RE does not include homes, that may not be true.**

**What does the data show?**

# What does the data show?

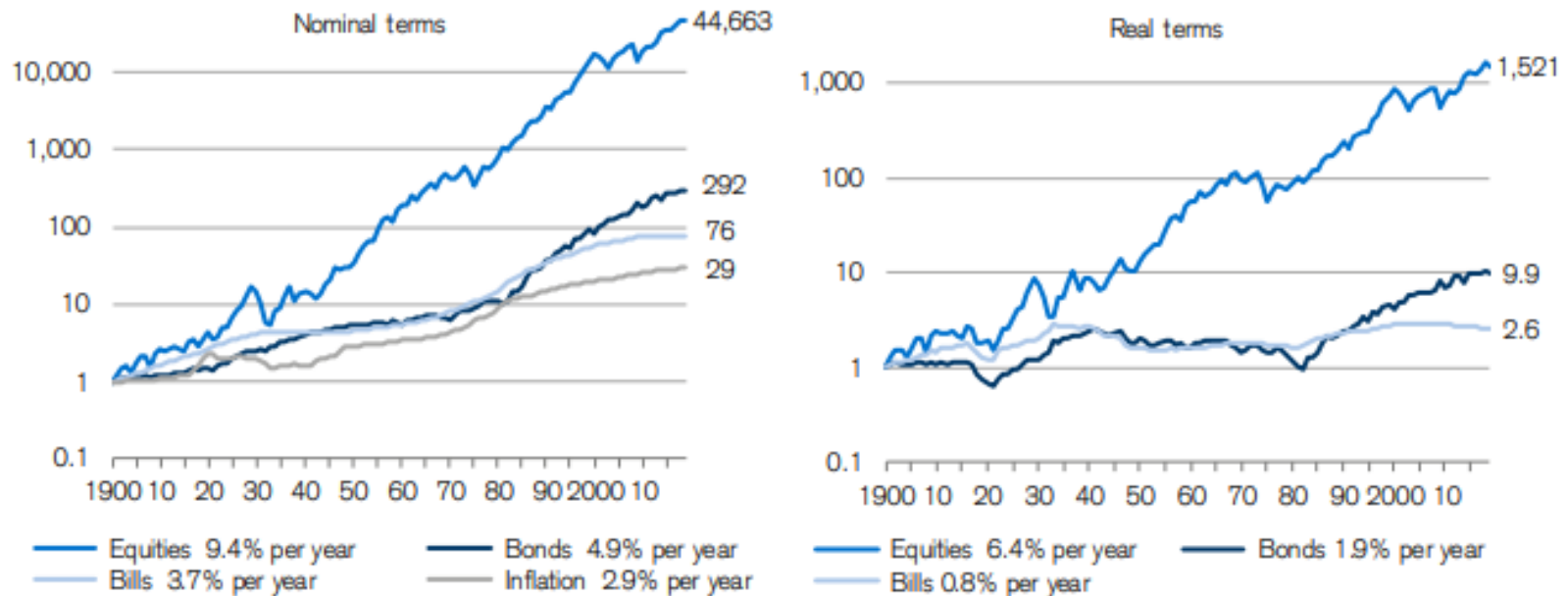
## Stocks

- In 1963 Lawrence Fisher and James Lorie at the Center for Research in Security Prices (CRSP) calculated US stock returns (with dividends, etc.) from 1926 outperformed savings accounts, mortgage loans, and bonds.
- Jeremy Siegel (*Stocks For The Long Run*) goes back as far as 1802 and in other countries there is data from prior centuries.
- Elroy Dimson, Paul Marsh, and Mike Staunton initially documented the performance of 19 countries over more than 100 years in their book *Triumph of the Optimists*. They update their data annually via Credit Suisse.

# What does the data show?

- Elroy Dimson, Paul Marsh, and Mike Staunton via Credit Suisse.  
<https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/csri-summary-edition-credit-suisse-global-investment-returns-yearbook-2019.pdf>

**Figure 12: Cumulative returns on US asset classes in nominal terms (left) and real terms (right), 1900–2018**



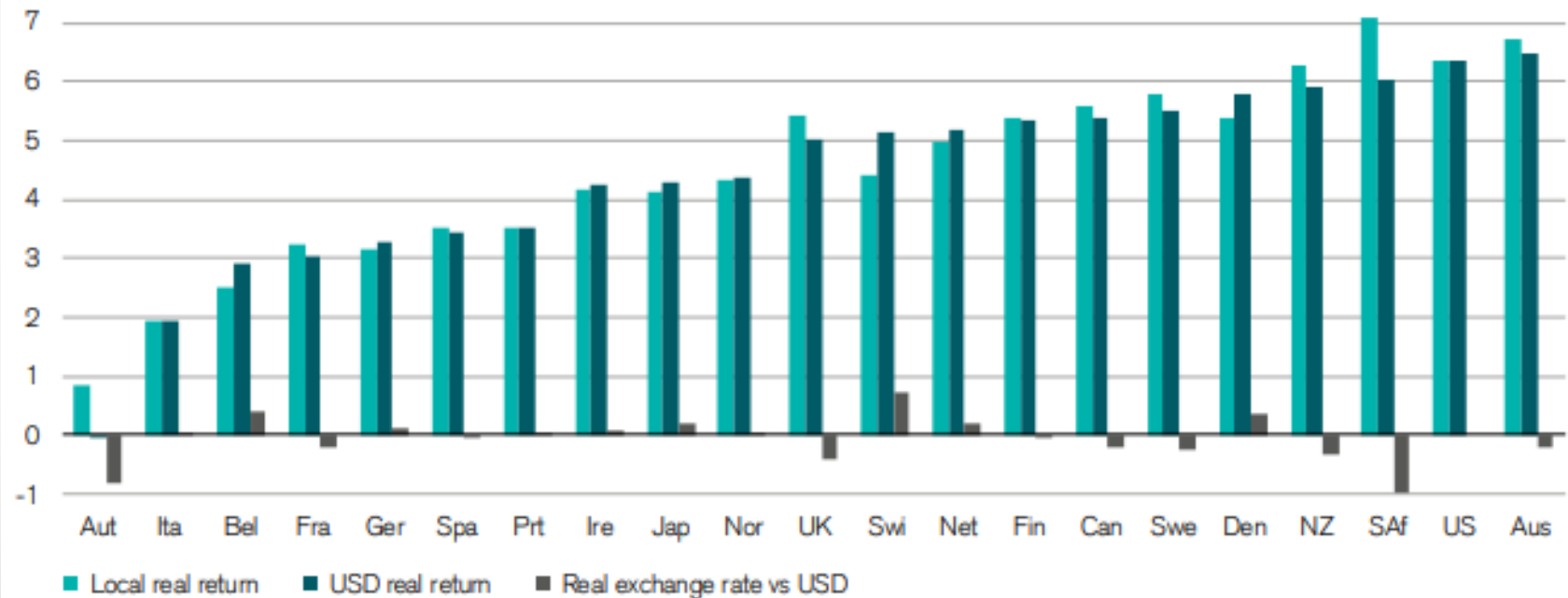
Sources: Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and *Global Investment Returns Yearbook*, Credit Suisse, 2019. Not to be reproduced without express written permission from the authors.

# What does the data show?

- Elroy Dimson, Paul Marsh, and Mike Staunton via Credit Suisse.

<https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/csri-summary-edition-credit-suisse-global-investment-returns-yearbook-2019.pdf>

**Figure 13: Real annualized equity returns (%) in local currency and US dollars, 1900–2018**



Sources: Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and *Global Investment Returns Yearbook*, Credit Suisse, 2019. Not to be reproduced without express written permission from the authors.

# What does the data show?

## Real Estate

- REIT.com publicly lists REIT index returns from 1972, but others go back even further (REITs were created in the 1960s), so we have close to 60 years of REIT data to compare to other investments.
- Many have cited returns for 20-30 year periods, but the appropriate comparison for stock and real estate is the last 50-60 years.
- Many have documented home prices (in some cases for centuries). But until recently no one had calculated home returns on an aggregate basis from an investment perspective, which requires a calculation of either rental income or imputed rent for the owner living in the home.

# What does the data show?

## Real Estate vs. Stocks

- "Real estate (specifically REITs, as measured by the FTSE NAREIT All Equity REITs Index), has lagged the broader market for the past four years, but **outperformed the S&P 500 by more than 1 percentage point per year**, on average, over the period between May 1972 and December 2019."
  - Amy Arnott, CFA "Time for a Second Look at REITs", Feb 4, 2020
  - <https://www.morningstar.com/articles/964406/time-for-a-second-look-at-reits>

# What does the data show?

## Real Estate vs. Stocks

- [Craig Israelsen documents REIT data back to 1970](#)
- The REIT index had annualized return averaging 11.63% versus 10.88 for the small cap stocks and 10.60% for the large caps stocks.
- <http://www.7twelveportfolio.com/Back-Tested.html>

## Summary of Asset Classes

Real estate has generated the highest average annualized nominal return of all seven asset classes.

47-Year Period From 1970 to 2016	47-Year Annualized Nominal Return (%)	47-Year Standard Deviation of Annual Returns	47-Year Annualized Real Return (%)	Percentage of Years With a Positive Nominal Return	Percentage of Years With a Positive Inflation-Adjusted Real Return	Most Recent Negative Nominal Calendar-Year Return Calendar-Year Return
Real Estate	11.94	18.76	7.6	83	77	2008
U.S. Small Stocks	11.02	21.58	6.72	70	68	2015
U.S. Large Stocks	10.31	17.12	6.03	81	72	2008
International Stocks	8.62	21.82	4.41	70	64	2015
Commodities	7.01	25.21	2.87	70	64	2015
Bonds	7.62	6.56	3.45	94	72	2013
Cash	4.95	3.53	0.88	100	60	n/a
7-Asset Portfolio	9.82	10.16	5.56	87	74	2015

Source: Steele Mutual Fund Expert, calculations by author

[Craig L. Israelsen](#) (10/20/2017)

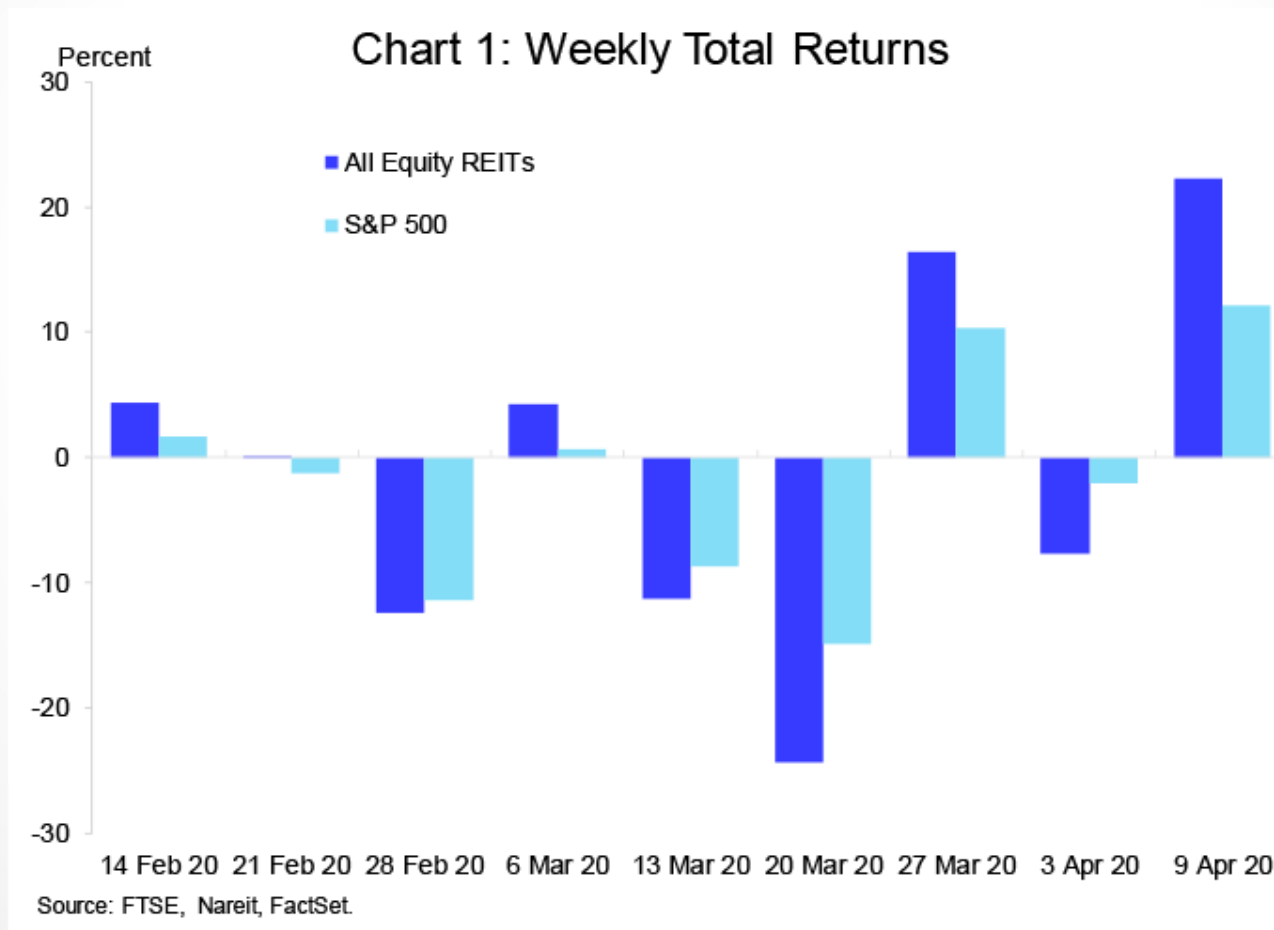
<https://www.financial-planning.com/news/overcome-client-risk-aversion-when-markets-tumble>



# What does the data show?

## Real Estate vs. Stocks - Risks & volatility

- REITS do tend to be more volatile in general and especially during bear markets.
- <https://www.reit.com/news/blog/market-commentary/policy-moves-sparked-rebound-reits-sp-500-last-week>



# What does the data show?

## Real Estate - Homes as Investments

- Many studies have found that home prices in the long run return just a little above inflation. According to the 2018 Credit Suisse Yearbook, U.S. homes were the weakest performers among 11 countries rising just 2.2% annually over 118 years, or just 0.3% above inflation. Credit Suisse' 2012 Global Investment Returns Yearbook included commentary citing housing data for more than a century, including data from Neil Monnery (2011), who studied house prices in the U.K., the U.S., France, Holland, Norway, Germany and Australia. One study found that stocks performed more than four times better than housing returns (which were more comparable to gold).
- **But the key is that and most data sources do not include rental income, or an imputed cost savings for those living in their homes.**

# What does the data show?

## Real Estate - Homes as Investments

- Oscar Jorda, Katharina Knoll, Dmitry Kuvshinov, Moritz Schularick, and Alan Taylor published "**The Rate of Return on Everything, 1870–2015**" in the August 2019 issue of The Quarterly Journal of Economics
- The authors reviewed a new and comprehensive dataset covering total returns for housing as well as equity, bonds, and bills in 16 advanced economies from 1870 to 2015 (Australia, Belgium, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States). Rather than looking at just home prices, they estimated home rents using various data sources to arrive at total returns summarized below.

**"The first key finding is that residential real estate, not equity, has been the best long-run investment over the course of modern history. Although returns on housing and equities are similar, the volatility of housing returns is substantially lower."**

# What does the data show?

## Real Estate - Homes as Investments

- Before the Global Financial Crisis, there were no REITs investing in rental homes (it was a mom and pop business. As the economy began to recover, deep pocketed investors began buying homes in bulk and converting them to rentals.
- Silver Bay was the first to go public and most of the organizations ended up merging or selling out to bigger players. Today we have two huge multi-billion reits.
- American Homes 4 Rent (AMH ~ \$8 B market cap) owns over 50K single-family in 22 states. The firm was founded by Public Storage billionaire Wayne Hughes and became a public company in 2013.
- Invitation Homes (INVH ~ \$13B market cap) owns over 80K homes in 17 markets. It went public at the start of 2017 and merged with Starwood Waypoint.
- **WSJ 5/11/2020 “Wall Street Bets Virus Meltdown Gives Landlords a Chance to Grow”**  
Largest home-leasing companies have strong occupancy, rent collection and expect demand for suburban houses to rise
- <https://www.wsj.com/articles/wall-street-bets-virus-meltdown-gives-landlords-a-chance-to-grow-11589189405>

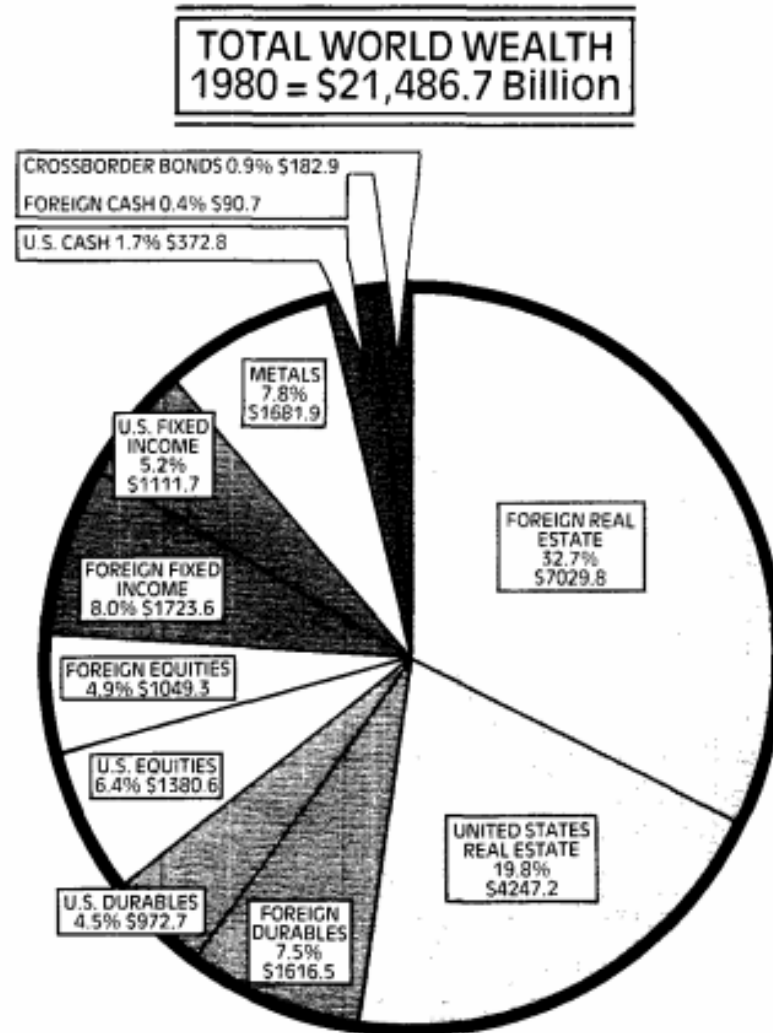
# Real Estate vs. Stocks

## Global Wealth – Breaking Down The #s

- William Sharpe first suggested in 1964 the market portfolio was the natural starting point in portfolio construction. In theory you can attempt to buy funds to replicate all investable assets globally in proportion to their market capitalization, but not all assets are investable or measurable.
- There are many complications (and some unknown quantities) in estimating the total value of all assets. [Roger Ibbotson](#) and [Laurence Siegel](#) published the first comprehensive attempt to quantify the [The World Market Wealth Portfolio](#) in 1983 and they estimated that real estate accounted for over 52% of the total (about 20% US and 32% foreign).

# Global Wealth – Breaking Down The #s

<https://larrysiegeldotorg.files.wordpress.com/2014/08/ibbotson-siegel-1983.pdf>



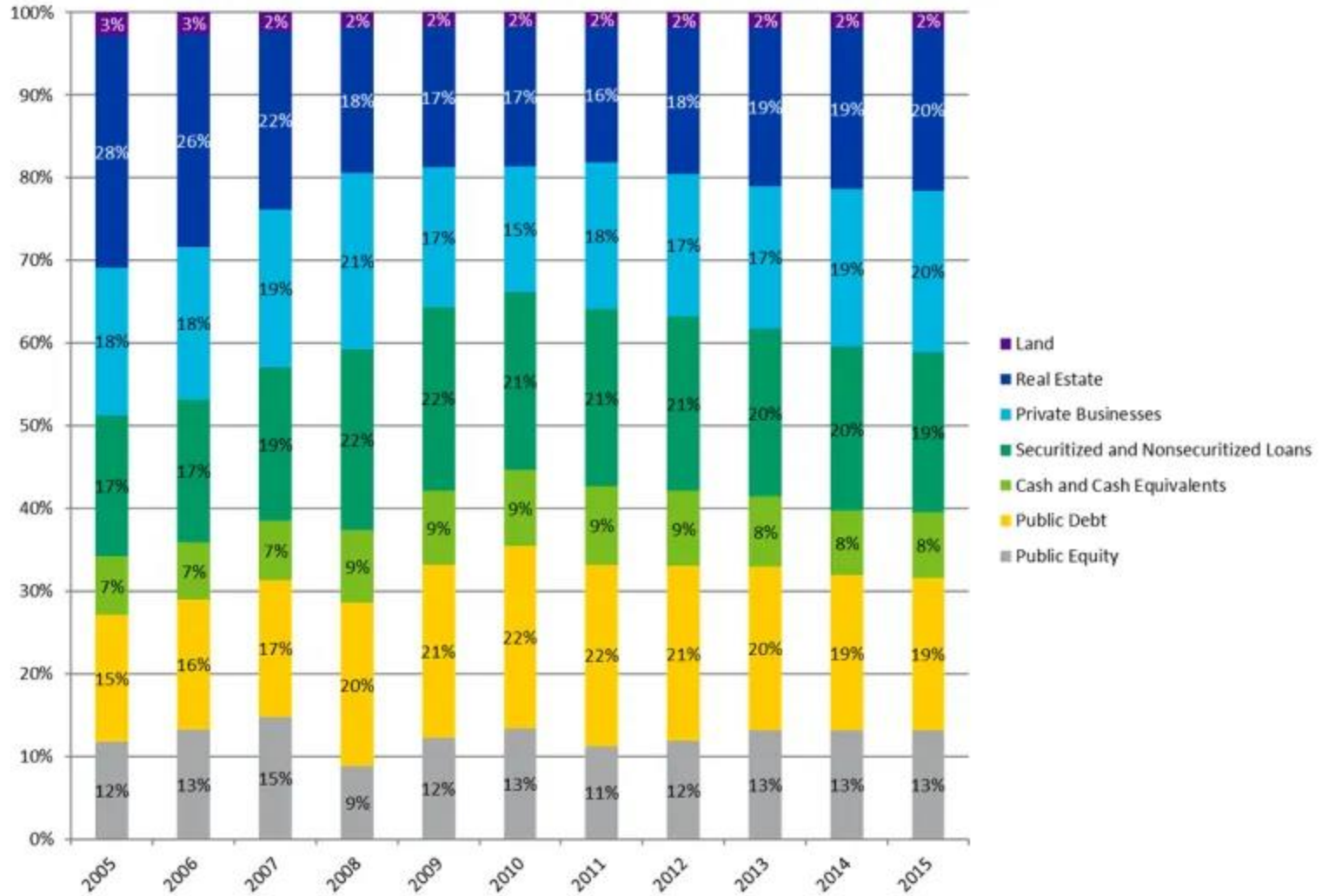
# Real Estate vs. Stocks

## Global Wealth – Breaking Down The #s

- Gregory Gadzinski, Markus Schuller, and Andrea Vacchino published [The Global Capital Stock: Finding a Proxy for the Unobservable Global Market Portfolio](#) in 2018 in The [Journal of Portfolio Management](#)
- They noted that real estate is an asset class that is underweighted in the global market and "A global market portfolio aiming at including the major economic forces would need to take into account this weight accordingly, instead of only accounting for assets under management held by REITs."
- For the end of 2015, they came to the conclusion that real estate accounted for 20%, and land accounted for 2%, of the global capital stock.

# Global Wealth – Breaking Down The #s

<https://blogs.cfainstitute.org/investor/2017/01/25/benchmarking-multi-asset-portfolios-the-global-capital-stock/>





# US Wealth – Breaking Down The #s

Federal Reserve's just released [Financial Stability Report](https://www.federalreserve.gov/publications/files/financial-stability-report-20200515.pdf) (May 2020)  
<https://www.federalreserve.gov/publications/files/financial-stability-report-20200515.pdf>

**Table 1. Size of Selected Asset Markets**

Item	Outstanding (billions of dollars)	Growth, 2018:Q4–2019:Q4 (percent)	Average annual growth, 1997–2019:Q4 (percent)
Equities	38,491	26.4	8.6
Residential real estate	37,768	3.8	5.5
Commercial real estate	20,007	8.0	7.1
Treasury securities	16,629	6.8	7.5
Investment-grade corporate bonds	5,949	4.1	8.4
Farmland	2,555	1.8	5.5
High-yield and unrated corporate bonds	1,341	4.9	6.6
Leveraged loans*	1,193	5.0	15.1
Price growth (real)			
Commercial real estate**		4.6	2.6
Residential real estate***		1.4	2.0

# What does the data show?

## Real Estate

- Do it yourself, or buy a fund?
- There are also individuals that I find more credible, like [popular youtuber Graham Stephan](#) and [Sam Dogen at FinancialSamurai](#). But I would caution real estate investors not to assume they can replicate the experiences of these two financial professionals. Both are relatively young, and I can relate to them because I was licensed as a California real estate agent, and as a stockbroker before I turned 21. Graham is a seasoned, motivated, and very driven real estate professional and Sam is an intelligent, hardworking, and very experienced investment professional with an MBA.
- REITs give the option of hiring proven managers.

# Real Estate Crowdfunding

- New options have evolved in recent years
- [Is Real Estate Crowdfunding Worth It?](#) by Alana Benson (2/4/2020) noted that [Fundrise](#) (which [charges a not unreasonable 1%](#)) and Patch of Land launched in 2012, followed by RealtyMogul in 2013 and CrowdStreet in 2014.
- But she adds some reasons for caution, given that 1) RealtyShares, founded in 2013, shut down only five years later when it ran out of funding, 2) none of these companies has experienced a severe economic downturn, and 3) crowd-funded real estate platforms are also not required to register with the SEC.
- Some new organizations have also sprouted up in recent years offering private farmland investing options, including [Farmtogether](#) and [AcreTrader](#).

# Real Estate Investing Options

## Institutional Investors

1) Direct (hire own staff)

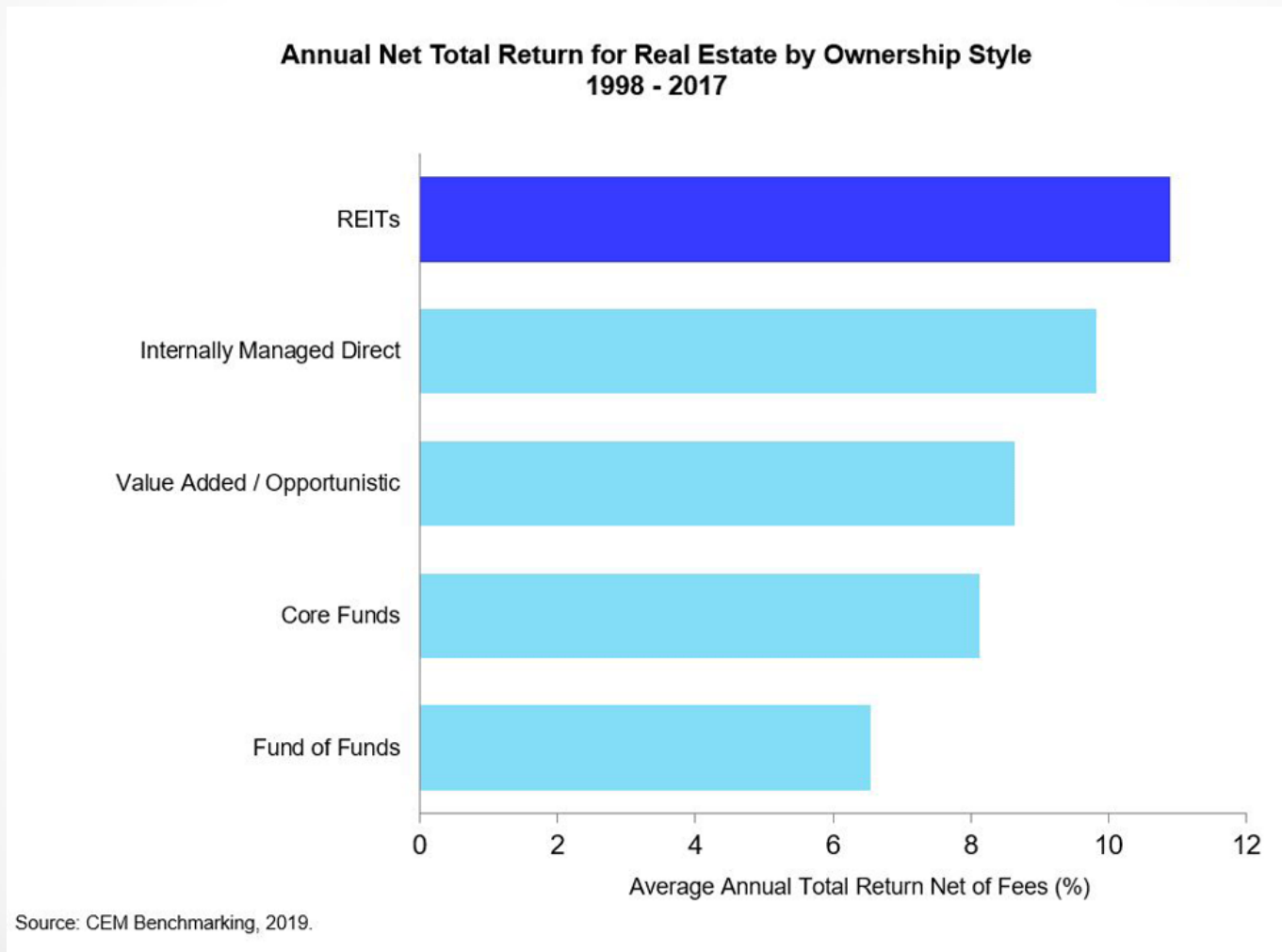
2) Private Partnerships

3) Public REITs

- [CEM Benchmarking's 2019 study](#)
- "comprehensive look at realized investment performance across asset classes over a 20-year period (1998-2017) using a unique dataset covering over 200 public and private sector pensions with nearly \$3.8 trillion in combined assets under management."

# Institutional Real Estate Investors

<https://www.reit.com/data-research/research/updated-cem-benchmarking-study-highlights-reit-performance>



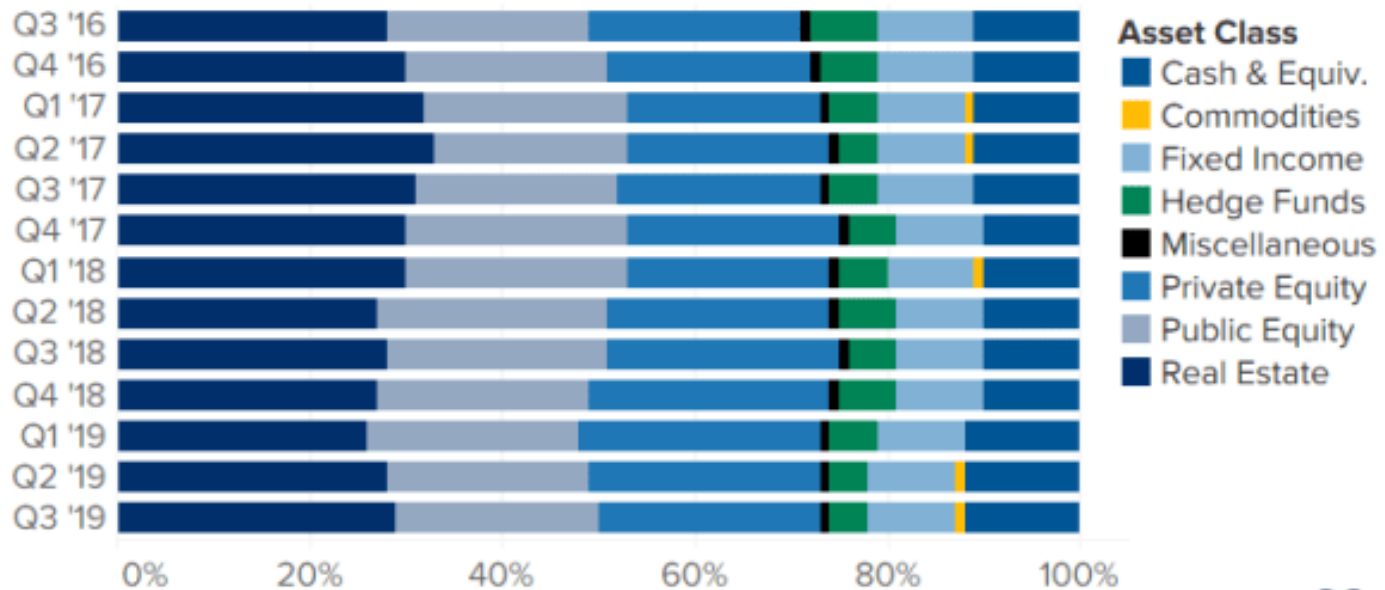
# Institutional Real Estate Investors

- Prior data came to similar conclusions. REITs outperform private funds and internally managed real estate ([See http://www.investorhome.com/the-case-for-reits.htm](http://www.investorhome.com/the-case-for-reits.htm))
- 2011 Morningstar "Publicly traded equity REITs have outperformed core, value-added, and opportunistic funds consistently over the long term, experienced stronger bull markets, recovered faster from downturns, and had lower fees and expenses on average compared with private equity real estate funds."
- Cambridge Associates [reported in 2017](#) that private equity real estate funds underperformed listed equity REITs by 3.9% per year over the prior 25 years.
- [Green Street Advisors](#) found that on average, the return produced by nontraded REITs lagged their publicly-traded peers that specialize in the same kind of property by 3.6% per year. Non-traded REITs were even compared to Neanderthals (inferior to Homo sapiens, yet they managed to co-exist with them for thousands of years before going extinct).

# High Net Worth Investors

- Tiger21 is a group of hundreds of individuals with at least \$10 million to invest. Real estate was consistently the largest component of their asset allocation between 2016-2019
- <https://www.cnbc.com/2019/12/19/heres-where-the-wealthiest-investors-are-finding-opportunities.html>

## TIGER 21 asset allocation



SOURCE: TIGER 21 Q3 2019 report



# REITs

- [Public approval of Congress](#) has been pretty weak recently, but in 1960 Congress may have created one of the best investing options for investors.
- 35 countries have since created their own versions of REITs.
- REITs give investors the opportunity to buy one of the best long term investments in a liquid form. By using index mutual funds or ETFs that buy broad collections of REITs, investors can employ modern tools to create efficient portfolios that achieve both high returns and lower risk.



# REITs

## Current Valuation

- The recent bear market triggered by the COVID-19 crisis may have made REITs even more attractive given that REITs overall have underperformed stocks this year.
- Some have argued real estate is [facing problems](#)
- Others have suggested real estate has a [positive outlook](#).

# REITs

## Current Valuation Problems?

The screenshot shows a web browser window with the URL [1843magazine.com/features/death-of-the-office](https://1843magazine.com/features/death-of-the-office). The browser's address bar and navigation bar are visible, including icons for Google, Care360, Sign In, MyFax, WebMail Login, IH - Login, My Yahoo, and JPM. The main content area features the 'The Economist 1843' logo with the tagline 'STORIES OF AN EXTRAORDINARY WORLD'. Below the logo are navigation links for 'LIFE & CULTURE | LONG READS | VOICES'. On the right side, there is a 'PRINT E NEWSLE' link, a 'FOLLOW' section with Facebook and Twitter icons, and a 'SEARCH' bar. The article title 'Death of the office' is displayed in large white text on a dark blue background, with the word 'WORK' in yellow above it. Below the title is a sub-headline: 'As the pandemic leaves offices around the world empty, Catherine Nixey asks what was the point of them anyway?'. A small thumbnail image of the 1843 magazine cover is also visible on the right side of the article header.

# REITs

## Current Valuation Problems?

Commercial Real Estate

### Nationwide closing some offices in permanent shift to remote work

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Create a virtual office over  
Run your business in the cl  
Cloud-enabled QuickBooks Desktop  
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Save 50% off 3 months. Ends 5/31

# REITs

## Current Valuation

## Positive Outlook?

The image is a screenshot of a web browser displaying a Business Insider article. The browser's address bar shows the URL: [businessinsider.com/eric-schmidt-google-companies-office-space-pandemic-2020-5](https://businessinsider.com/eric-schmidt-google-companies-office-space-pandemic-2020-5). The Business Insider logo is centered at the top of the page. The main headline reads: **Silicon Valley billionaire Eric Schmidt predicts that companies will need more office space after the pandemic, not less**. Below the headline, the author's name 'Charlie Wood' and the publication date 'May 11, 2020, 6:18 AM' are visible. The browser's taskbar at the bottom shows various application icons, including Google, Care360, and MyYahoo.

# REITs - Current Valuation - Positive Outlook?

← → ↻ 🏠 [barrons.com/articles/zillow-will-start-buying-homes-again-because-the-housing-market-has-passed-the-worst-of-it-51588895735](https://barrons.com/articles/zillow-will-start-buying-homes-again-because-the-housing-market-has-passed-the-worst-of-it-51588895735)

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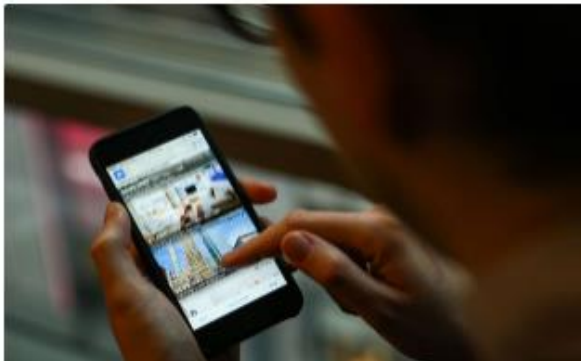
REAL ESTATE | EARNINGS REPORT

## Zillow Will Start Buying Homes Again Because the Housing Market Has “Passed The Worst of It”

Shaina Mishkin May 7, 2020 7:55 pm ET

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Zillow Group 's sales doubled year over year, though the company reported a loss in first-quarter earnings on Wednesday. Still, the real estate company is so upbeat about the housing market's outlook that it has decided to start buying homes again even as the pandemic continues to take

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# Current REIT Performance?

**Most real estate investment trusts are still getting their rent, except in the retail sector**  
**CNBC MAY 19 2020**

Industrial REIT rent collection in May was nearly 96% of a typical month and down just 3 percentage points from April.

Shopping center REITs saw a slight improvement over April but still reported **just 48% of typical rents collected in May.**

<https://www.cnbc.com/2020/05/19/most-real-estate-trusts-are-still-getting-their-rent-except-retail.html>

REIT Performance by Sector (end of April)

<https://www.reit.com/news/blog/market-commentary/outlook-reits-during-covid-19-crisis>

# Current Home Prices?

**Home sales dropped nearly 18% in April, while decline in inventory pushed prices to a record high**  
**CNBC MAY 21 2020**

drop in inventory pushed prices to a new high. The median **price of an existing home sold in April rose 7.4% annually to \$286,800**. That record does not account for inflation, but is a nominal record high.

<https://www.cnbc.com/2020/05/21/april-home-sales-drop-18percent-as-inventory-decline-pushes-prices-to-record-high.html>

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