Welcome to this very special edition DCREC Podcast Series, sponsored by the Defined Contribution Real Estate Council. An organization passionate about providing American workers a financially secure retirement by investing in commercial real estate. And now, here's today's host, Todd Schnick.

Todd: Good morning and welcome back to the special edition DCREC briefing. I am your host, Todd Schnick. Thanks for joining us. On today's show, we will be discussing the benefits of REIT's, and joining us on today's show, say hello to Kurt Walton. He is the Co-Treasurer of DCREC. Kurt, welcome to the show.

Kurt: Thank you Todd, good to be here.

Todd: It's good to have you. Thanks for carving out some time to join us. I know you are a busy fellow, so I appreciate that. To lead us off, as I said, we're going to talk about REITs, a Real Estate Investment Trust. So what exactly is a REIT?

Kurt: Let me see if I could tackle that. A REIT or a Real Estate Investment Trust is a company that owns or finances income producing real estate. And by the way, when I'm talking about REIT's today Todd, I'm talking about stock exchange listed equity REIT's. And these are REIT's that are traded on major stock exchanges. Such as the New York Stock Exchange. And today REIT's are tied to almost every aspect of the economy. And that's reflected in the fact that REIT's own and manage a diverse range of property. And that includes commercial office properties, retail properties. Various forms of residences, such as apartments, industrial facilities. But there also are REIT's that own and manage hotels, health care related properties. Timberland storage facilities, and industrial infrastructure properties. Basically, REIT's allow anyone to invest in portfolios of large scale properties, the same way they invest in other industries - but through the purchase of stock.

Todd: Interesting. I'm familiar with REIT's, but I wasn't thinking about it in the context of hotels and timberland and storage. Fascinating stuff. So walk me through the investment attributes that REIT's bring to the table.

Kurt: Well the bottom line is, an investment in REIT's is an investment in real estate. And it's generally accepted among the investment and academic community that real estate is a fundamental asset class. So as a fundamental asset class, REIT's bring additional diversification benefits to a long term investment portfolio - in addition to exposure to equities, bonds and other assets. And this is based on the attributes of the real estate investment. Which is - they have a distinct economic cycle, relative to equities and bonds. Due to supply in elasticity. Which reduces the correlation of investment returns from real estate with returns from other assets. They also offer competitive long term investment returns that potentially provide high and growing income from rents. Plus moderate capital appreciation over time. The other attribute is they provide portfolio diversification benefits within equity and bond portfolios. And finally, they provide potential inflation hedging attributes. Due in part to the fact that many leases or leases are tied to inflation.

Todd: Okay. Understood. So thinking about defined contribution plans, how should they offer real estate investment through REIT's?

Kurt: Well when thinking about defined contribution plans, I think it's important to have the context of what's happened in the defined benefit pension world. Because pension plans have invested in real estate, including stock exchange listed REIT's for decades. And while defined contribution programs or DC plans, such as 401K, 403B and 57 plans have been slower to include real estate. Their adoption of the real estate asset class in recent years has been rapid. And a significant portion of plans have added real estate on a stand-alone basis within their investment menus. But many more plans have incorporated this asset class within their asset allocation offering. Such as their target date funds or target risk funds. And what we've seen is - based on surveys conducted by investment consultants such as Cal and Associates and management consulting firms such as Casey Quirk. A vast majority of target date funds used by DC plans now feature a REIT allocation. And this exposure is typically provided through investments in exchange listed equity REIT's. Because they provide daily market pricing, they are low cost. They're liquid. And they have a good long term record of performance.

Todd: Okay, alright. So exactly how much should defined contribution participants invest in REIT's?

Kurt: Well what we found in general, as it relates to the real estate asset class, including REIT's. Is that investors should have a meaningful allocation to the real estate asset class or REIT's. In fact the study that May (4:52?) Read, my organization has sponsored with the investment consulting firm, Wilshire Associates, each year since 2012 on the role of REIT's and listed real estate equities in target date funds. Found that a meaningful allocation to US or global REIT's increased the long term investment performance and diversification benefits of target date portfolios. And the allocation that came out of those studies came between 5% to 18%. That was found to be optimal for investors saving for retirement. And really that underscores why the establishment of the Defined Contribution Real Estate Council was so important.

Todd: Alright, well - Kurt I appreciate you taking some time to share the benefits of REIT's. Before I let you go, how can people learn more about the DCREC? And more importantly, where can they learn more about REIT's?

Kurt: Well for more information on DCREC, people can go to dcrec.org. And for more information on REIT's, they can go to reit.com.
Todd: Got it. So dcrec.org and reit.com. Alright, well that's all the time we have for today. On behalf of my guest Kurt Walton, the co-treasurer of DCREC, I am Todd Schnick. We'll see you next time on the DCREC briefing.