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REITs Positioned to Make Gains in 2024, Say Industry Experts

According to expert panelists at the recent Nareit REITworld annual conference, 2024 could be a year of opportunity for Real Estate Investment Trusts (REITs). However, they cautiously noted that there are still headwinds affecting investor perspectives on REITs and capital markets in general.

Market Upsides

Among the upsides for REIT markets are potential rate cuts in 2024, as well as generally strong positioning for the sector.

As Jeff Horowitz, head of global real estate, gaming, and lodging investment for Bank of America Securities, explained on the panel, REITs are well prepared for a “higher-for-longer” rates environment. He added that public markets in general are “really well positioned” with a typical five-year window on debt maturity at below 4% rates.

“This is a moment when REITs should ultimately be able to play offense…we’ve got to be a little bit more optimistic and a little bit more upbeat because it’s not so bad.”

Investment by Asset Type

Strong performance in specific asset types was noted as another silver lining for REITs, with panelists pointing specifically to healthcare properties, industrial assets, and data centers. Demand for data centers is expected to continue for the next three to five years, driven by growth in the AI sector.

Looking across other asset types, A-rated malls have also recently been in the REITs spotlight, as an asset of choice for picky investors. Those properties are anticipated to see strong NOI (Net Operating Income) growth in coming years, thanks largely to high occupancy, continued tenant demand and rent growth.

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Other areas where we've seen strong recent movements include low-priced office REITs and other asset types responding to the possibility that rates may remain stable or decrease in the near future.

Potential Headwinds

There are still challenges to keep in mind when it comes to determining how the market may play out in the coming months.

Steve Sakwa, senior managing director for investment banking advisory group Evercore ISI, puts it like this: "The road is still pretty rocky going into next year," adding that REIT earnings and access to capital was still a "tale of two cities," with certain asset types facing steeper difficulties ahead.

He noted office assets in particular as: "[B]y far the most distressed, dislocated property type with probably the most uncertainty."

Rates Boosting REITs

Among the strongest factors shaping the REITs market as we move into 2024 is the likelihood of federal interest rate cuts. If those do materialize, we could see a lot of growth for the sector.

According to Sakwa, that scenario holds true if the Federal Reserve cuts rates multiple times. In that case, REITs could be pushed 15-20% higher, with most of those gains materializing in the second half of the year.

It's a bold prediction, and certainly well worth keeping an eye on. As always, however, our top advice to real estate professionals and investors is to focus on fundamentals and consider all the factors in play before making any large-scale investment decisions.