

# Exchange Traded Equity REITS – Poised for a Breakout?

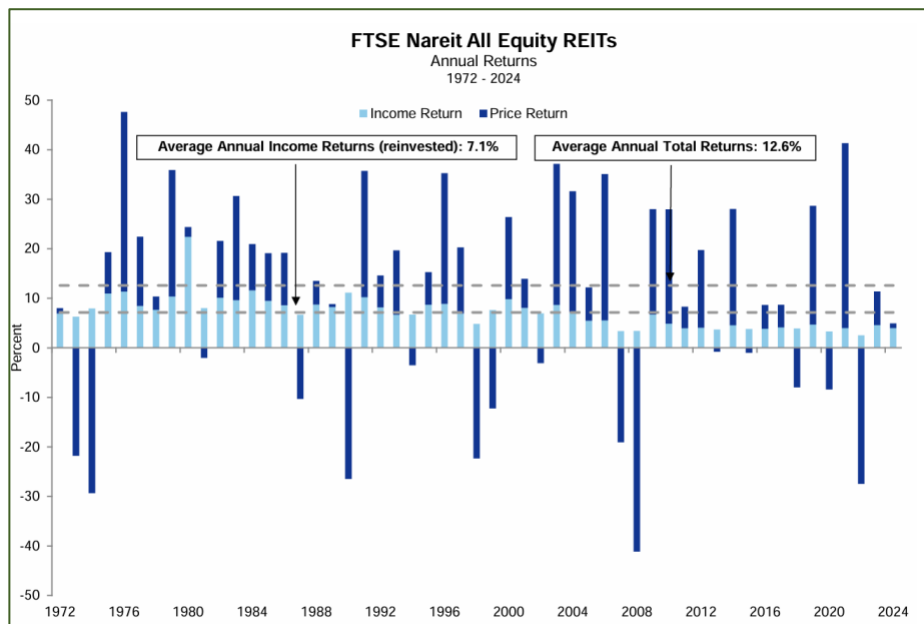
By Larry Eiben  
November 1, 2025

The Portfolio Management team at Thirdline Capital spends most of its time sourcing and analyzing private real estate credit investments. To do this work we rely on many data sources including some which provide data on exchange-traded (“public”) equity REITs (which we’ll refer to as “Equity REITs” in this article). While it’s somewhat outside of our core expertise of private market investing, we can’t help but notice that the Equity REIT market may be poised for a potential breakout.

## A Word of Caution – Equity REITs are Not the Best “Income” Tools

Our focus at Thirdline is on providing income tools for wealth managers. We love private real estate credit because we believe it offers great risk-adjusted performance for income-seekers and materially higher dividends than exchange-traded income tools. Some investors use Equity REITs as an income solution, but we’d advise against that. While Equity REITs do provide dividends, they are best classified as “growth” securities as a large percentage of the return is attributable to capital gains or losses (see Figure 1 provided by NAREIT). Moreover, in the modern interest rate environment the average Equity REIT yield (e.g., 3.87% in 2024) is simply not that compelling for income seekers.<sup>1</sup>

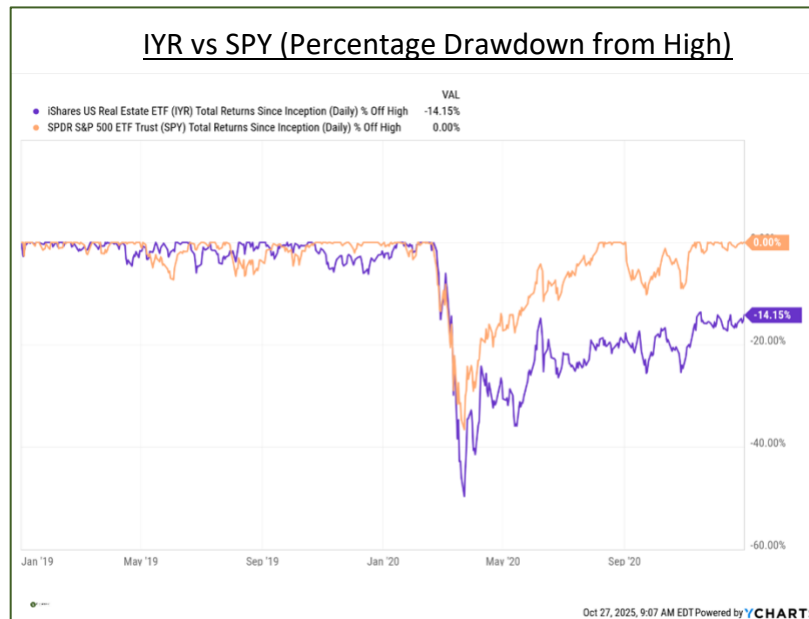
Figure 1



It’s also noteworthy that Equity REITs are quite volatile and therefore not ideal as an income solution in portfolio construction as they’re generally not accretive to risk-adjusted returns if one is seeking an asset with a low correlation to the U.S. equity market. Figure 2 is a drawdown-from-high chart for the exchange-traded fund IYR (a REIT market proxy) and SPY (a proxy for the S&P 500 Index). The REIT

market suffered a more severe drawdown than the S&P 500 Index during COVID, indicating that it is both volatile and correlated to the S&P 500 Index during significant market pullbacks.

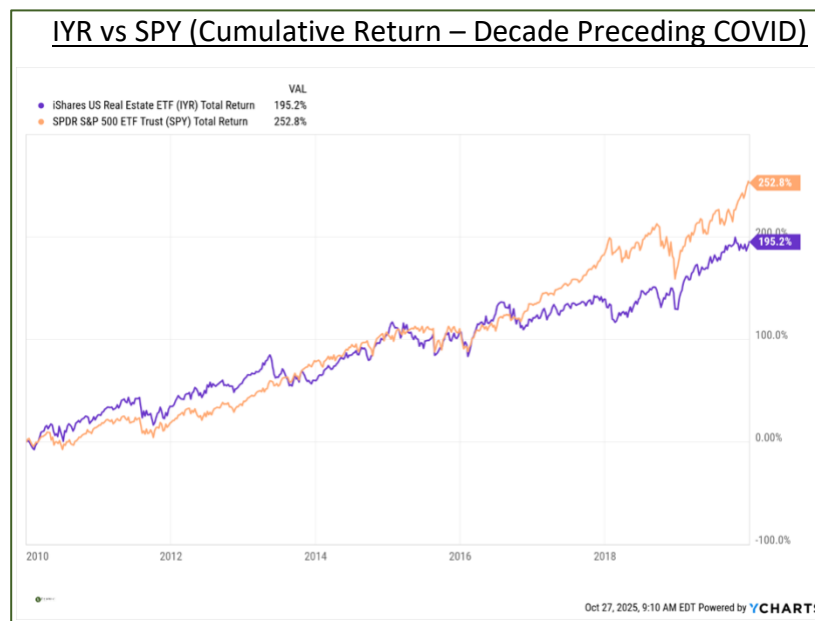
Figure 2



## A Review of REIT Historical Performance

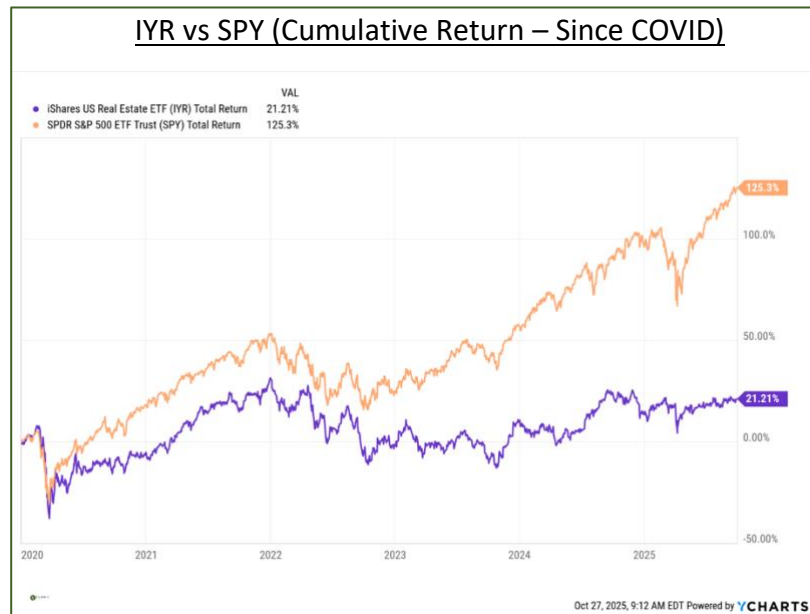
While Equity REITs may not be the best income tool, they have produced impressive total returns for growth investors. For example, Figure 3 shows the cumulative 10-year performance of IYR and SPY between 12/31/2009-12/31/2019 (i.e., just before COVID). Like many investments, IYR trailed SPY over this period but was up 195%.

Figure 3



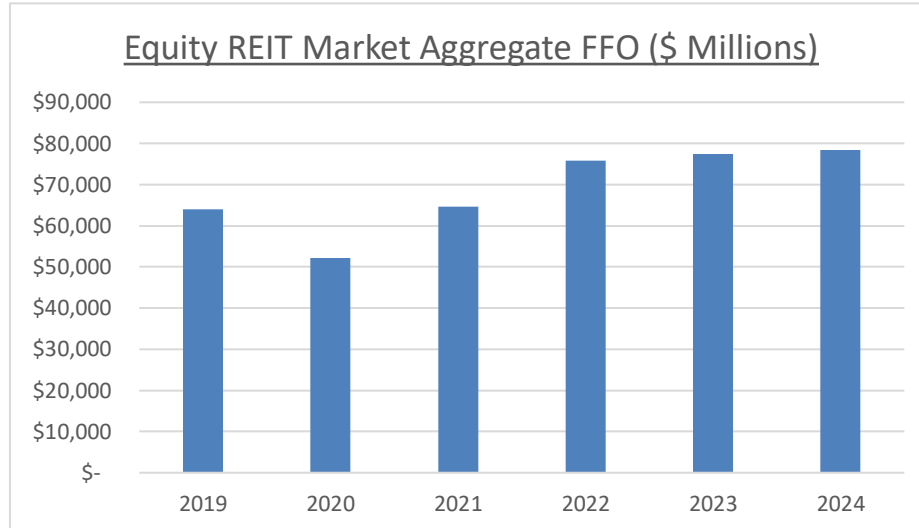
COVID marked a negative turning point in the Equity REIT sector's performance. The combination of COVID-related real estate market stress (e.g., from office, business hotels and retail shopping centers), combined with the rapid rise in borrowing rates, created a tremendous headwind for the sector. The REIT sector generated a quite muted cumulative return of only 21% in the 5  $\frac{3}{4}$  years since 12/31/2019 while SPY was up 125% (see Figure 4).

Figure 4



Equity REITs are often valued using Funds from Operations (“FFO”) which is a similar metric to cash flows or earnings for other equity investments. As such, changes in FFO are inherently related to changes in equity values. In reviewing FFO data (see Figure 5), it’s clear that Equity REITs, in aggregate, have fully recovered from the pullback in cash flows related to the COVID stress. In comparing full-year 2024 FFO to 2019 FFO, we see a 23% increase which, as one would expect, is in the same ballpark as the change in value of IYR during that time.<sup>2</sup>

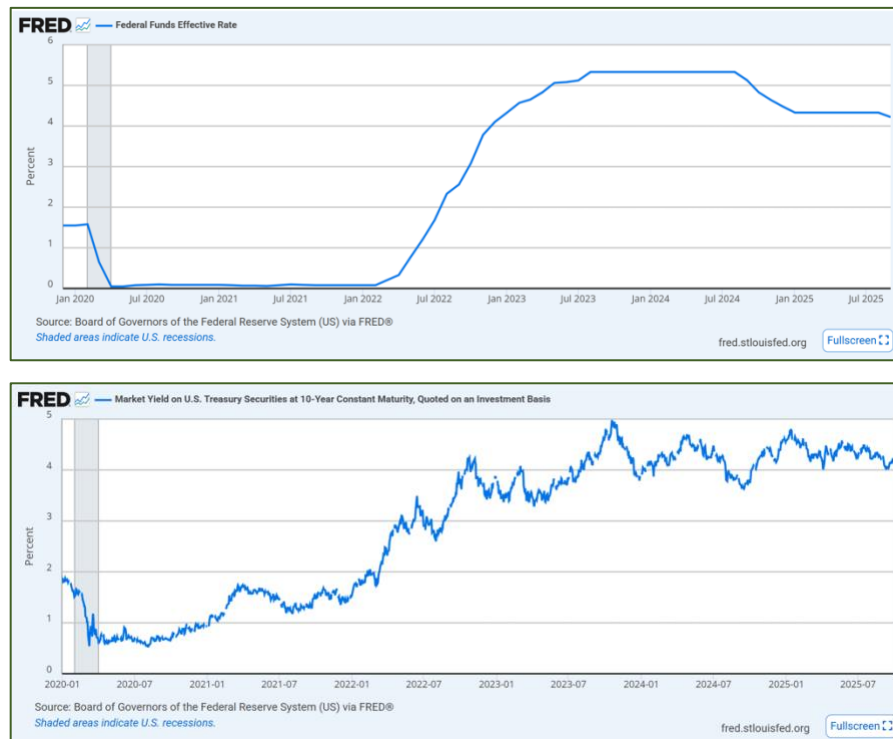
Figure 5



### Fading Headwinds May Lead to Better Results

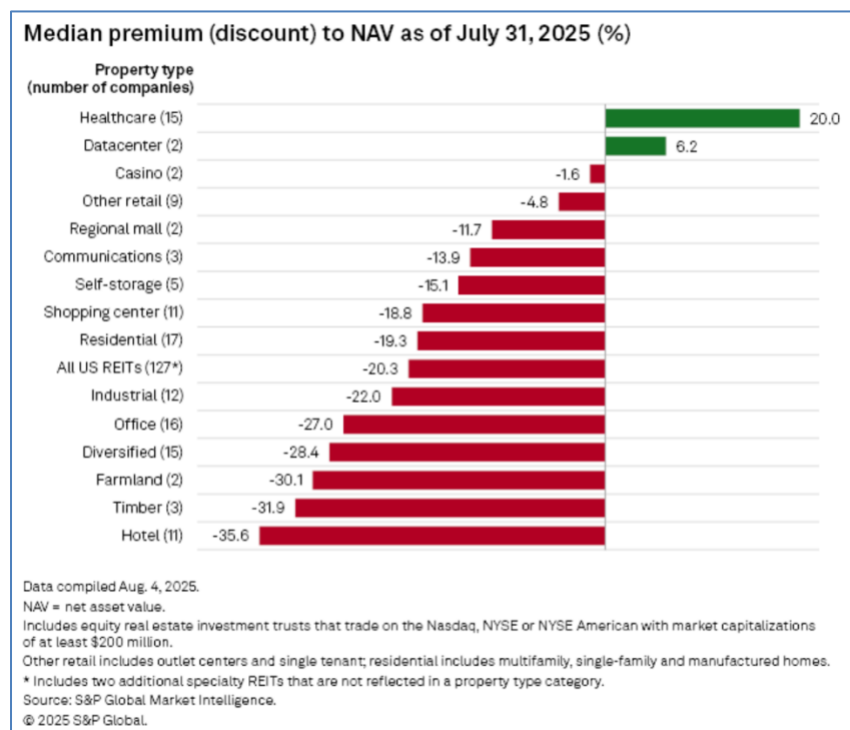
In our view, the Equity REIT sector fundamentals are stronger than implied by the changes in FFO. For one, the improvements in FFO were achieved during a very difficult interest rate environment for real estate. Figure 6 shows both the Effective Federal Funds Rate (“FFR”), a key driver of variable rates, and the 10-Year U.S. Treasury Bond yield, a key driver of fixed rates, during the period. Both rates rose sharply following the COVID driven inflation scare, creating stress on both fixed-rate and variable-rate borrowers. Given that the real estate market is highly rate sensitive, we find it impressive that the overall Equity REIT market was able to grow FFO through this period. Moreover, with the FFR falling and an EOY 2026 FFR target of 3.0%, according to the September “dot plot,” we should see improving cash flows in CRE (including more immediate positive impacts for variable rate borrowers).<sup>3</sup>

Figure 6



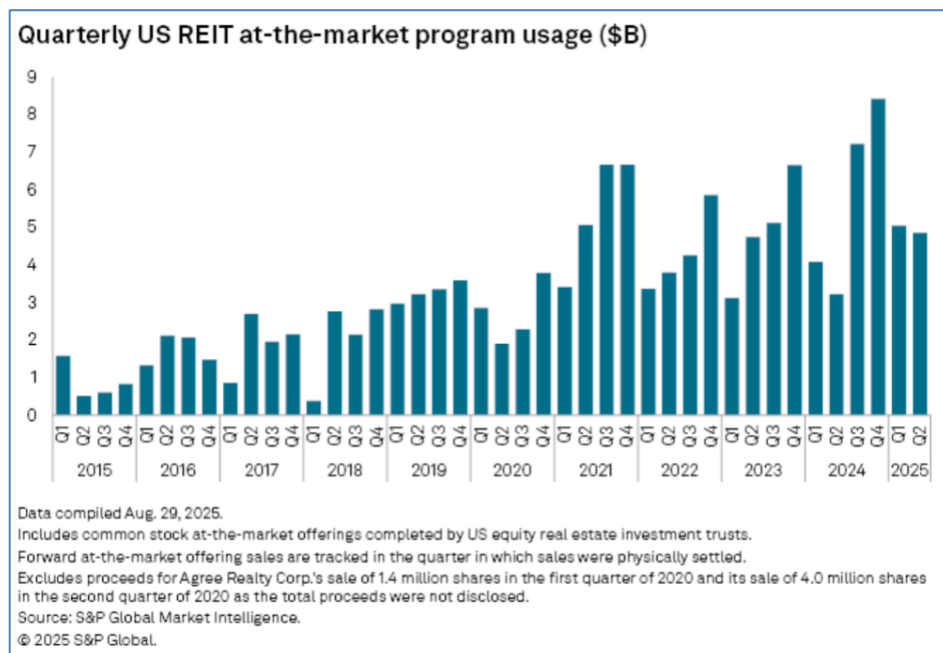
Equity REIT industry analysts offer another indicator of potential future price appreciation. Analysts often compute an estimate of the fair value of an REITs underlying holdings to assess a REITs inherent value. One can compare the aggregate of these estimates to the aggregate market prices to demonstrate whether the overall market, or a given sector, is trading at a premium or discount to NAV. S&P Global recently completed some analysis that showed that most Equity REIT sectors are trading at a discount to estimated NAV and that the market overall sits at a median discount of 20.3% (see Figure 7).<sup>4</sup> There is evidence that discounts lead to outsized future performance with a 10%+ discount leading to median forward 12-month return of 10-20%.<sup>5</sup>

Figure 7



We highlight a 2<sup>nd</sup> chart from S&P Global (Figure 8) indicating that Equity REITs have been re-accelerating fundraising. While the data has seasonal biases, S&P Global notes that 2025 is running 50% higher year-to-date as compared to 2024.<sup>6</sup> We would note that, given the discounts to NAV (i.e., depressed stock prices), this fundraising may be muted and may accelerate further as equity valuations improve. In fact, most of the Q2 fundraising was completed by Healthcare REITs, one of the sole sectors trading at a premium (i.e., attractive stock valuations). Historically, Equity REITs typically fundraise when they are struggling financially or when they see private market opportunities that are accretive to their public market valuations. We would suggest that the latter is the present rationale given the overall improvement in fundamentals along with the widely documented depressed private market valuations.

Figure 8



A final catalyst for the Equity REIT market may come from the broader market itself. Equity REITs have shrunk as a percentage of the overall U.S. equity market. For example, the entire Equity REIT market (e.g., with 196 listings in the FTSE NAREIT All REITs Index) is computed to have a market capitalization of \$1.4 trillion which is only approximately 3% of the entire U.S. equity market.<sup>7</sup> Should the technology-driven broader market equity indices pause or retreat, it's likely that other sectors may benefit. Any potential capital reallocation could provide a tremendous tailwind to Equity REITs.

In summary, we believe it could be a good entry point for Equity REITs for those looking to diversify growth holdings in portfolios. The recent trailing-5-year performance has been materially below historical averages driven by COVID challenges and escalating interest rates. However, Equity REITs have bounced back with solid fundamentals despite the headwinds and now appear to be going on offense by raising capital. We expect this "out of favor" sector to bounce back with some improved performance in the years to come.

## About the author

Mr. Eiben is Co-Founder and Co-Portfolio Manager at Thirdline Capital, an investment advisor and manager of a real estate credit interval fund and other private real estate investments. Prior to Thirdline, Mr. Eiben spent over 15 years at TFS Capital, a firm that specialized in developing liquid alternative investment strategies, where he served as a Portfolio Manager and Chief Operating Officer.



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## Notes

1. NAREIT (<https://www.reit.com/>), "REITWatch" (September 2025)
  2. NAREIT (<https://www.reit.com/>), "REITWatch" (2019-2025)
  3. Federal Reserve Bank (<https://www.federalreserve.gov/>), "Summary of Economic Projections" (September 2025)
  4. S&P Global, [spglobal.com](https://spglobal.com), Chris Hudgins & Ronamil Portes, "NAV Monitor: US REITs close July at median 20.3% discount to net asset value (2025)
  5. Duff & Phelps Investment Management Co., "Why REITs are Compelling Now: A Historical View on NAV Discounts" (2020)
  6. S&P Global, [spglobal.com](https://spglobal.com), Chris Hudgins, "US REITs raise \$4.85B through at-the-market programs in Q2 2025" (2025)
  7. NAREIT (<https://www.reit.com/>), "REIT Industry Financial Snapshot" (September 2025)
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