

Week In Review

OLLI-GMU Investment Forum

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Today: Real Estate Investment Trusts Review

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Disclaimer: I am not a certified financial analyst.

Any trading decisions you make are your responsibility

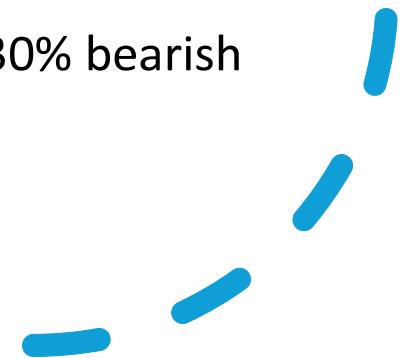
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Economic Commentary

- Fed Chair Powell is under criminal investigation by DoJ
- Inflation increased 2.7% YoY in December – a slight cooling off
- Tax cuts from One Big Beautiful Bill have taken effect
 - SALT deduction raised from \$10K to \$40K
 - New Trump accounts enable parents to save for kids
 - GDP expected to increase an additional 0.5%
 - Obamacare health benefits were withdrawn
 - Debt to GDP ratio increased to 6%
- Regulators are reducing capital requirements on banks (Barrons)
- For the full year, U.S. employment growth in 2025 was the weakest since the recession in 2020; unemployment steady at 4.4%
- AI is a generational change; productivity improvements are beginning to appear (Seeking Alpha)
- Most analysts projecting 14% increase in corporate earnings
- Affordability remains #1 concern among consumers and investors
 - Housing shortage and pricing should ease in 2026 (Bloomberg)

Market commentary

- **Trump's** proposed 10% cap on credit cards caused credit card issuer stocks to fall (Visa, Mastercard, Synchrony, Cap One)
- By most measures, the S&P500 is very expensive
 - Forward PE at 22 vs long term average 16
- **There's not a single market bear anywhere**
 - Market analysts everywhere are uniformly bullish
 - Average 2026 projection for S&P500 is up 11% to 7500
- AI-bubble talk has calmed down
- VIX: declined to 15: neutral
- CNN fear gauge: 58: mildly greedy
- AAI investor sentiment: 42% bullish; 30% bearish
- Junk bond spreads: 1.2%; VERY bullish



What is a Real Estate Investment Trust?

- A company that owns and receives rent from real estate properties or their mortgages
- Created in 1960 and regulated by the SEC in the US
- **REITs pay no taxes as long as they distribute 90% of earnings as dividends; eliminates double taxation**
- Many are private or non-traded (900). Some (225) are traded on US public exchanges.
- Presently, publicly traded REITs are undervalued owing to high FED interest rates
- Two major types of REITs:
 - Equity REITs own the properties and receive rent
 - Mortgage REITs own the paper for properties and receive mortgage payments
- Many different types of properties are held by REITs:
 - Offices,
 - Apartment buildings,
 - Warehouses,
 - Retail centers,
 - Medical facilities,
 - Data centers,
 - Telecommunications towers,
 - Infrastructure and hotels
 - Timber
 - Casinos
 - Marijuana Growers
 - Highway Billboards



How To Evaluate A Real Estate Investment Trust

- **Qualitative Factors:**
- **Property Type and Market:** The type of property (residential, commercial, healthcare, etc.) and the specific market where the properties are located influence factors like vacancy rates, rental income growth potential, and overall risk.
- **Management Experience:** A REIT's management team's experience and track record in property selection, acquisitions, and tenant relations are crucial for its success.
- **Geographic Diversity:** REITs with a diversified portfolios across geographic regions tend to be less risky.
- **Financial Metrics:**
- **Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO):** These are the primary metrics used to assess a REIT's profitability because traditional earnings metrics like EPS (earnings per share) don't accurately reflect cash flow for REITs.
- **Price-to-FFO (P/FFO or AFFO) Ratio:** This ratio compares the REIT's stock price to its FFO per share. A lower P/FFO ratio suggests the REIT might be undervalued compared to its peers.
- **Dividend Yield:** REITs are required to distribute at least 90% of their taxable income as dividends.
- **Debt-to-EBITDA Ratio:** This metric measures a REIT's financial leverage by comparing its total debt to its earnings before interest, taxes, depreciation, and amortization.
- **Cap Rate:** This metric shows the rate of return on a property investment. Typically 7%.
- **Payout Ratio:** What is paid out in dividends vs. what's earned.
- **Occupancy Rates:** Should be about 98%

Realty Income is dividend and shareholder aligned!

- Proud of their dividend track record – Aristocrat!
 - Never cut their dividend
- Monthly dividend payer, 4.2% CAGR growth
- **A3/A- investment grades by Moody's/S&P**
- 55-year operating history, including 30 years publicly traded
- Owns 15,600 properties, primarily free-standing retail and industrial
 - 99.6% Occupancy
- Triple Net Lease model implies tenant responsibilities for maintenance, taxes, utilities, insurance, upgrades, etc.
- Significant international investments mostly in UK and EU
- Strong ESG and DEI commitments
- Interest rates are coming down – makes debt cheaper

Realty Income FFO (Claude)

- **Recent Quarterly Performance (AFFO per share):**
- Q4 2024: \$1.05 (vs. \$1.01 in Q4 2023) [Nasdaq](#)
- Q3 2024: \$1.05 (vs. \$1.02 in Q3 2023) [Zacks](#)
- **Annual Performance (Total FFO):**
- 2024: \$3.669 billion [FinanceCharts](#)
- 2023: \$2.855 billion [FinanceCharts](#)
- 2022: \$2.566 billion [FinanceCharts](#)
- This represents strong year-over-year growth, with FFO increasing approximately 28% from 2023 to 2024. The company achieved full-year 2024 AFFO per share of \$4.19, up from \$4.00 in 2023 [Nasdaq](#).
- **Long-term Growth:** The company has demonstrated consistent long-term growth with a 15-year compound annual growth rate of 22.38% [FinanceCharts](#) for FFO.
- **2025 Guidance:** Management projects 2025 AFFO per share between \$4.22-\$4.28 [Nasdaq](#), suggesting continued growth momentum. The strong trend is supported by their aggressive acquisition strategy and high portfolio occupancy of 98.7%.

Now what?

- Expect one or two Fed interest rate cuts in 2026
- Emerging market stocks expected to perform best this year
- **US economy is strong but....with some uncertainty**
 - AI bubble talk is off the table
 - Affordability remains a concern
 - Consumer spending is strong but with low confidence, nervousness
 - K-shaped consumer profile
 - Strong holiday season sales
- Labor market is clearly cooling off
- Tariff effects minimal and sector-dependent
 - Supreme Court to rule on tariff legality soon
- Stock market is very expensive, fragile
 - Diversify!
 - Protect yourself with automated stop loss orders; or put options as insurance

Quote of the Day: Warren Buffet: [It's good to learn from your mistakes.](#)
[It's better to learn from other people's mistakes.](#)