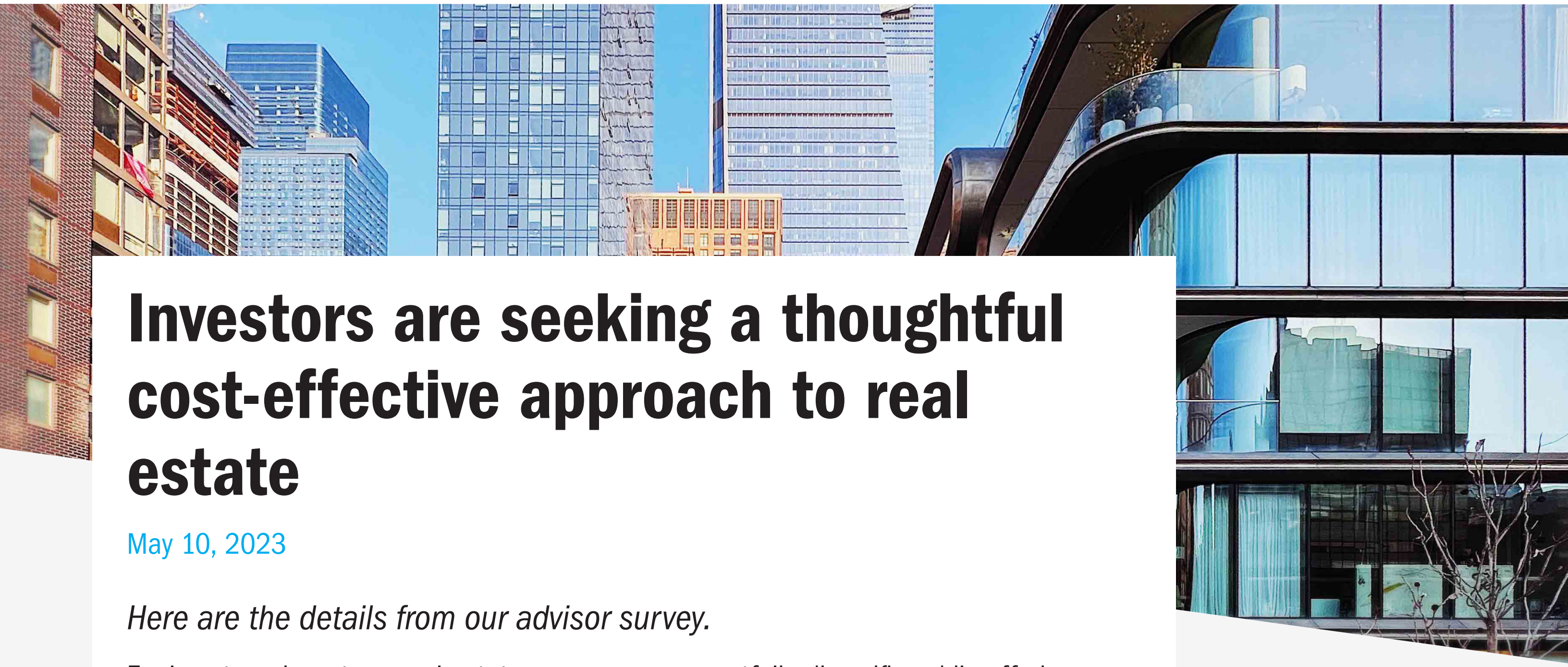


# Investors are seeking a thoughtful cost-effective approach to real estate

May 10, 2023

*Here are the details from our advisor survey.*

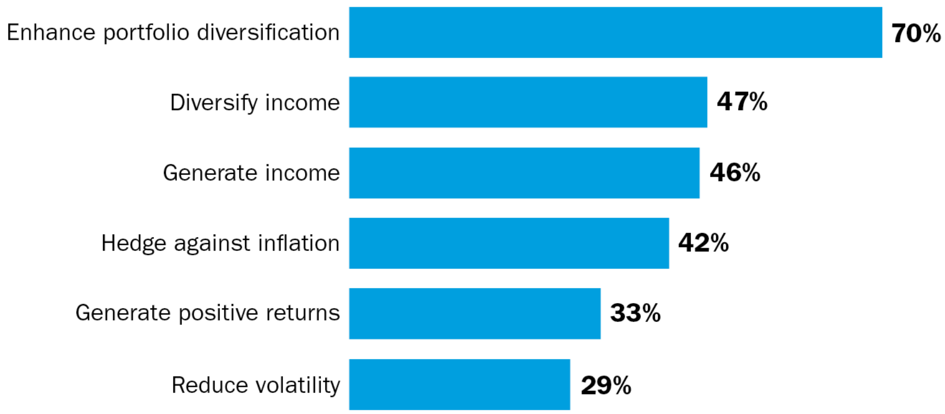
For long-term investors, real estate can serve as a portfolio diversifier while offering long-term growth and income. But investing in this asset class comes with some challenges. Products tracking broad equity benchmarks offer limited exposure to real estate. At the same time, many passive real estate investment trust (REIT) products use a traditional market-cap-weighted methodology and are not designed to meet investor goals. How can advisors help their clients incorporate real estate into their portfolios?

We conducted an online survey of advisors[1] that provided important insights into the main considerations and challenges they face in seeking exposure to this asset class. Here's what we found.

**The "why" to invest in real estate is clear**

Our survey clearly indicates that advisors recognize the importance of real estate as a driver of diversification, both in terms of return and risk. Real estate is also acknowledged for its ability to generate income and for its role in hedging against inflation.

## Reasons advisors allocate to real estate

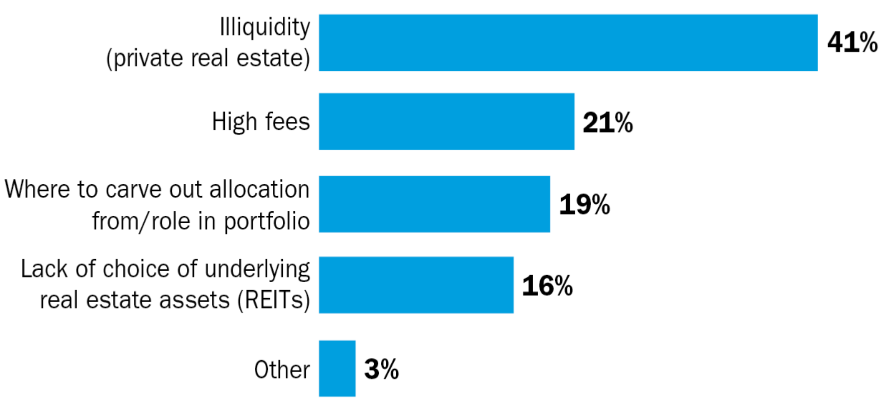



Source: Columbia Threadneedle Investments

### The “how” to invest in real estate is a more challenging question

There are many ways to invest in real estate, including direct investment, REITs, mutual funds and exchange traded funds (ETFs), each with their own benefits and drawbacks. For example, if an investor has a shorter time horizon, a direct investment in real estate — which is less liquid — might not be the most appropriate way to gain access to the asset class. When we asked about considerations for investing in real estate, our survey found that illiquidity and high fees were the biggest concerns.

## Challenges advisors face when allocating to real estate

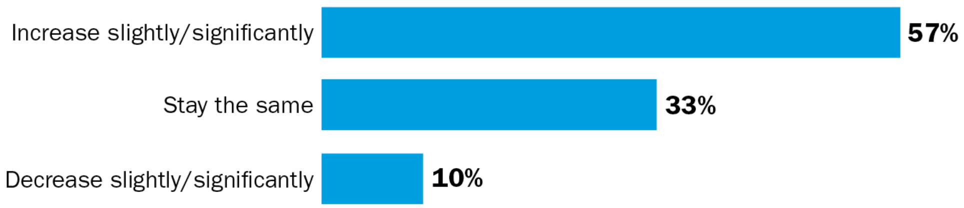



Source: Columbia Threadneedle Investments

## ETFs look to be a vehicle of choice

Vehicles like REIT ETFs and mutual funds are favored because they offer broad exposure to the real estate market at lower costs. ETFs, in particular, generally offer lower fees relative to other vehicles. ETFs also offer meaningful diversification by providing access to different types of real estate, including commercial, residential and office, across different geographies. Other benefits for investing in real estate ETFs over other vehicles, include tax efficiency (ETFs typically have lower capital gains distributions than mutual funds) and liquidity. These benefits help explain why over half of existing REIT ETF investors are expected to increase their allocations within the next one to two years.

### How allocations may change in the next 12-24 months




Source: Columbia Threadneedle Investments

It's important to remember that even within the ETF space, advisors have to navigate a variety of approaches to investing in real estate. But the enhanced diversification and return potential make the effort worthwhile.

[1] Online surveys via Connecting Advisors fielded February 27, 2023 – March 3, 2023.

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