

# U.S. REITs possess defensive characteristics amid global trade tensions and a potentially attractive valuation entry point

In a global environment shaped by evolving trade dynamics and geopolitical uncertainty, U.S. real estate investment trusts (REITs) may offer a differentiated source of return. Unlike multinational corporations with significant exposure to global supply chains, REITs tend to generate the majority of their revenues from domestic operations. This domestic orientation may help reduce their sensitivity to international trade disruptions.

A key structural advantage of U.S. REITs lies in their geographic revenue composition. As illustrated in Exhibit 1, approximately 89% of revenue generated by U.S. REITs originates from domestic sources, compared to just 72% for companies in the S&P 500 Index<sup>1</sup>. This pronounced domestic orientation may help reduce REITs' sensitivity to global trade disruptions, including tariffs and supply chain volatility. While certain property types—such as industrial and retail—may experience indirect effects from trade policy shifts, the broader REIT universe is less reliant on international markets. This characteristic, combined with the typically long-term nature of lease agreements and the essentiality of many real estate services, may contribute to greater earnings visibility and a more defensive profile relative to general equities during periods of geopolitical or macroeconomic uncertainty.

**Exhibit 1 - Geographic revenue breakdown (%)<sup>1</sup>:**

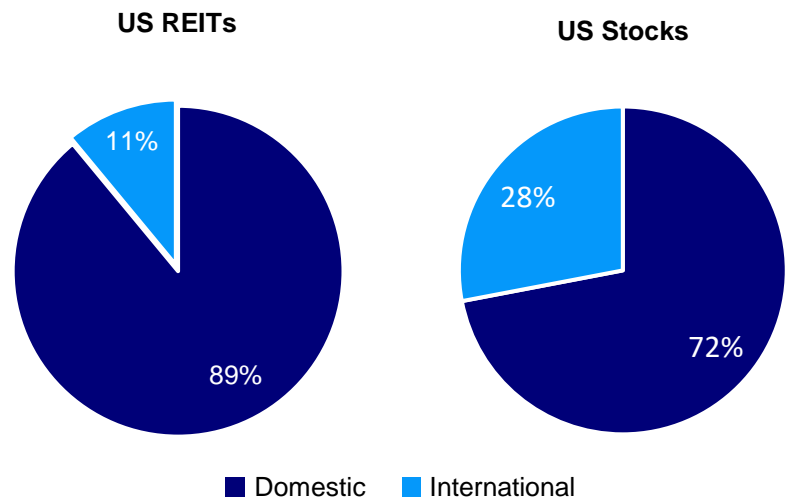


Exhibit 2 presents a comparison of U.S. REIT sectors based on their relative sensitivity to tariffs and global trade disruptions. At the top of the list, sectors such as Healthcare, Residential and needs based Retail tend to have less reliance on imported goods or global trade flows. These sectors are characterized by long-term lease structures, stable domestic demand, and limited exposure to supply chain disruptions, factors that may contribute to their resilience in the face of trade-related headwinds.

Conversely, sectors such as Office, Lodging, and Timber are more exposed to cyclical economic conditions and may be more vulnerable to the effects of tariffs. These property types often depend on global trade volumes, business travel, and sentiment, all of which can be adversely affected by protectionist policies or economic slowdowns.

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**Exhibit 2 - Relative REIT sector sensitivity to tariffs and global trade disruptions<sup>2</sup>**


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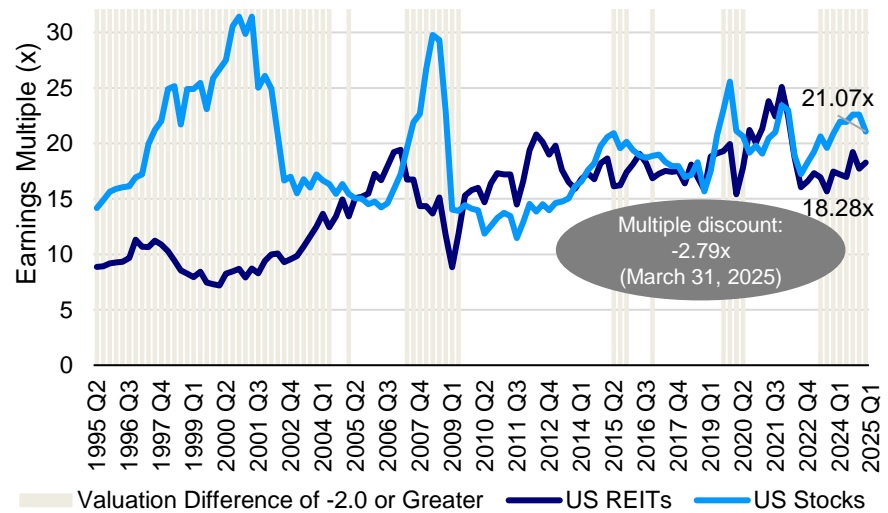


<b>Date Centers</b>	Benefiting from Artificial Intelligence and cloud computing demand. Minimal reliance on imported goods or global trade flows
<b>Telecommunications</b>	Long-term lease structures with telecom providers. Limited exposure to tariffs or supply chain disruptions.
<b>Health Care</b>	Supported by aging demographics and stable demand. Domestic-focused operations with low trade sensitivity.
<b>Net Lease</b>	Benefits from long-term lease structures. Potential impact to rent coverage.
<b>Residential</b>	Solid domestic demand fundamentals. Tariffs on construction materials may pressure development.
<b>Gaming</b>	Stability from long term lease structures. Limited exposure to global trade disruptions.
<b>Self-Storage</b>	Defensive characteristics with lower leverage and consistent demand. Potential impact from a housing market slowdown.
<b>Office</b>	Structured headwinds from hybrid work trends. Economic uncertainty from tariffs adds to leasing challenges.
<b>Retail</b>	Economic uncertainty from tariffs adds to leasing challenges. Structural headwinds from hybrid work trends
<b>Industrial</b>	Sensitive to global trade and supply chain disruptions, especially warehouse space near ports and borders. Slower rent growth due to reduced trade volumes.
<b>Lodging/Resorts</b>	Highly cyclical and exposed to economic downturns. Tariffs increase recession risk, potentially reducing travel demand.
<b>Timber</b>	Downward pressure from lower lumber exports and commodity prices.

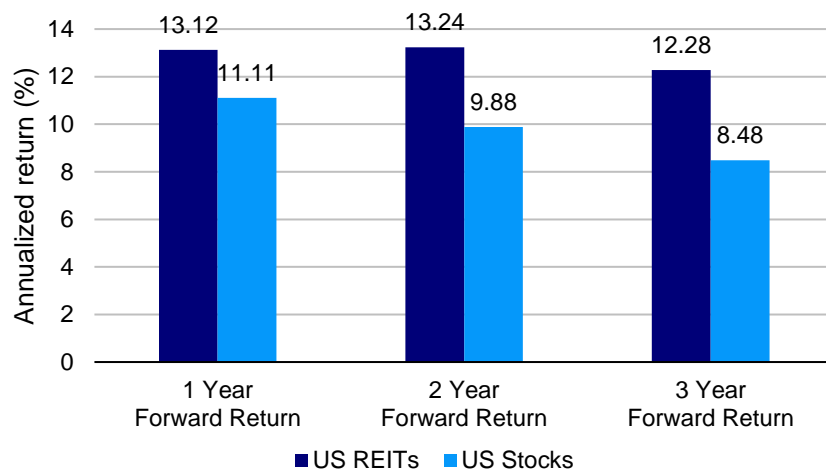
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From a valuation standpoint, U.S. REITs currently appear attractively priced relative to broader U.S. equities. As of March 31, 2025, REITs are trading at a discount of approximately -2.8x on a multiple basis compared to the S&P 500 Index<sup>2</sup>. This represents one of the widest valuation gaps observed in recent decades. Historically, such dislocations have preceded periods of relative outperformance for REITs. As illustrated in Exhibit 3, when REITs have traded at a discount of -2.0x or greater, they have delivered favorable forward returns across one-, two-, and three-year horizons.<sup>3</sup> Specifically, REITs have outperformed U.S. stocks by approximately +2%-4% annually during these periods. This pattern suggests that the current environment may offer a compelling entry point for long-term investors seeking to capitalize on valuation mean reversion.

**Exhibit 3:**  
Valuation level (multiple of earnings)<sup>3</sup>



**Forward annual returns when US REITs trade at a -2.0 or greater multiple discount (%)<sup>4</sup>:**



**Past performance is not indicative of future results.**

U.S. REITs possess defensive characteristics that may help to combat the effects of global trade tensions. Moreover, current conditions present a potentially attractive valuation entry point for U.S. REITs relative to broad U.S. Stocks.

**Important information**

1. Wells Fargo and REIT company filings as of March 31, 2025. US REITs represented by FTSE Nareit All Equity REITs Index. US stocks represented by S&P 500 Index.
2. Invesco Listed Real Estate and Green Street.
3. Data as of Q1 2025. US REITs represented by FTSE Nareit All Equity REITs Index. US stocks represented by S&P 500 Index. SNL Data source, Consensus estimates, Bloomberg L.P. and Standard & Poor's from Q2 1995 – Q1 2025. REIT earnings utilized Funds From Operations (FFO) - proxy for cash flow per share.
4. US REITs represented by FTSE Nareit All Equity REITs Index. US stocks represented by S&P 500 Index. Zephyr StyleADVISOR and Bloomberg L.P. encompassing 30-year period from Q2 1995 – Q1 2025.

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. An investment cannot be made directly into the index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

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Investments focused in a particular sector, such as real estate, are subject to greater risk and are more greatly impacted by market volatility, than more diversified investments.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

REITs are subject to additional risks than general real estate investments. The value of a REIT can depend on the structure and cash flow generated by the REIT. REITs concentrated in a limited number or type of properties, investments or narrow geographic areas are subject to the risks affecting those properties or areas to a greater extent than less concentrated investments. REITs are subject to certain requirements under federal tax law and may have expenses, including advisory and administration expenses. As a result, Fund will incur its pro rata share of the underlying expenses.