Full-Cycle Non-Traded REITs Average Higher Annualized Returns Than the S&P 500

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Full-cycle non-traded REITs since 1990 have averaged annual distribution yields of 7.05% according to the third annual research study conducted by Blue Vault Partners and the Real Estate Finance and Investment Center at the University of Texas at Austin's McCombs School of Business.

The study compared 35 non-traded REITs that completed a full-cycle event from 1990 through July 1, 2014. The 2013 study analyzed data for 27 non-traded REITs.

Full cycle events could include a listing on a public exchange, a sale or merger with another REIT, or a complete portfolio sale.

Blue Vault's analysis shows that the shorter the period from inception to full-cycle event, the better the performance when compared to REITs with longer holding periods. Interestingly, the amount of time to reach an event from when the SEC declares an offering effective has decreased significantly. In the 2012 study, that time period was 3.75 years compared to 1.9 in the 2014 report.

In the 2013 study, average annual distribution yields were 7.26% compared to 7.05% for this year's results, however, the latest eight full-cycle events added, generated an average annual rate of return of 9.02%, far exceeding the ten REITs added in 2013.

The 35 non-traded REITs generated higher average annualized returns than the S&P 500 Index (S&P) and the Intermediate-Term Treasury Bond Index (Int. Term TBI) during the same holding period. Individually, 20 of the 35 outperformed the S&P and 27 outperformed the Int. Term TBI.

According to Blue Vault, "Higher average rates of return and low cross-sectional correlations between nontraded REITs and the S&P 500 Index and the Intermediate-Term U.S. Treasury Bond Index suggest potential for diversification benefits within a context of well-diversified portfolios."

The study also suggests stronger correlations exist between full-cycle non-traded REITs and the FTSE NAREIT rather than NCREIF when comparing long-term returns.

New this year, Blue Vault analyzed how investors fared when tendering shares to third parties who offered unsolicited mini-tenders. Investors who tendered underperformed those who held and went full cycle by over 7%.

Blue Vault analysts only considered liquidity events full cycle if all shareholders had the ability to convert to cash. In the study, it was also assumed that investors converted to cash on the first date in which the option was available.

Of the 35 full-cycle events, only 15 were a result of a listing on an exchange, while the remaining 20 were a result of a merger or acquisition.