# A Few Thoughts on REIT Dividends and Total Return*

Historically, REIT dividends have accounted for approximately 65% of the total investment return. The remaining 35% being derived from share price appreciation. Because REIT dividends are generally secured by contracts in the form of leases, there is a higher probability associated with receiving the cash flows from which the dividend is derived than that of the other component of total return; price appreciation. The price appreciation component is far more nebulous as much depends on the prevailing winds of investment fund flows throughout all asset classes. These fund flows can be fickle and are beyond anyone's control.

Therefore, a hypothetical 10% total return comprised of 6.5% in dividend income plus 3.5% in price appreciation, is much more preferable than the same 10% total return comprised of 3.5% in dividend income plus 6.5% in price appreciation. The reason being the first scenario has a greater probability of continued performance than that of the second scenario.

Because Monmouth's assets are secured by long-term leases to investment grade tenants, the probability associated with receiving the high quality cash flows from which our dividend is derived, is greater than that of the REIT sector as a whole. This fact was evidenced throughout the recent Great Recession when REIT dividends were severely cut and in some cases even eliminated entirely. Meanwhile, Monmouth's dividend didn't miss a beat.

Therefore, a hypothetical 10% total return comprised of 6.5% in dividend income generated by our real estate portfolio, plus 3.5% in price appreciation, is much more preferable than the same 10% total return comprised of 6.5% in dividend income generated from the average REIT portfolio, plus 3.5% in price appreciation. Again, the reason being the first scenario has a greater probability of continued performance than that of the second scenario.

Yet, as shown in the adjacent chart, the dividend income generated from an investment in Monmouth continues to be substantially greater than that of the average REIT today. The main explanation for this is in today's world bigger is better when it comes to valuing stocks. In an efficient market, we feel that our dividend yield would be in-line with the REIT average, if not lower. As a result of our recent growth this differential has improved. We expect this favorable trend to continue.

**This essay is reprinted in its original form, which first appeared in our 2014 Annual Report. The accompanying chart has been brought up to date to show how prescient our predictions were.*

# *FTSE NAREIT Index Versus Monmouth Annual Dividend Return*