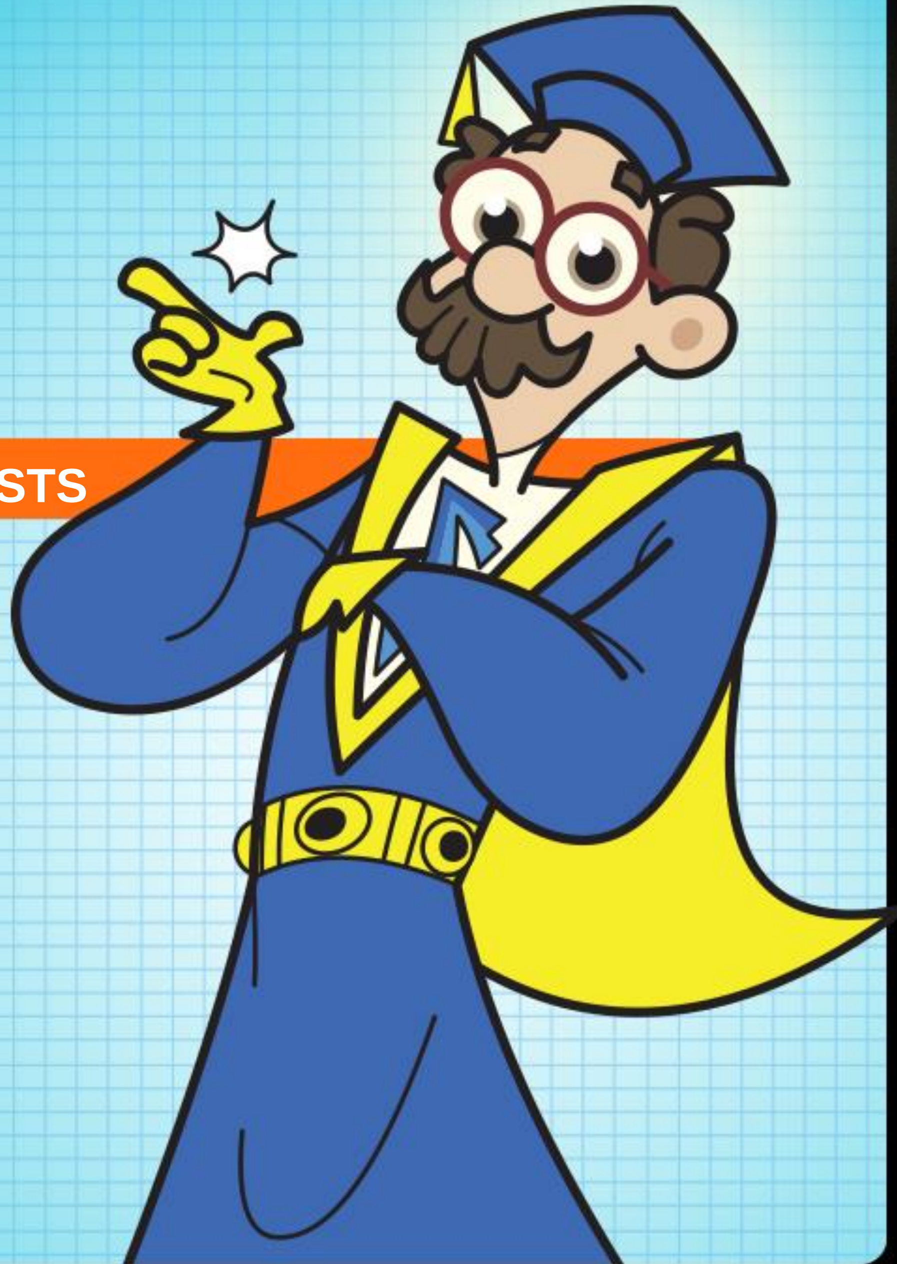
REAL ESTATE INVESTMENT TRUSTS



Real Estate Investment Trusts

– By Prof. *Simply* Simple™

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- **A Real Estate Investment Trust or REIT is a company that owns and operates income-producing real estate**

- **REITs are also known as real estate stocks**

- **Some REITs not only operate, but also finance real estate**

- **To be a REIT, a company must distribute at least 90% of its taxable income to shareholders annually in the form of dividends**

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Basically…

REITs were created in the US in 1960 to give anyone and everyone the ability to invest in large-scale commercial properties

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REIT Basics…

- The shares of most REITs are publicly traded on major stock exchanges
- The US Congress created the legislative framework for REITs in 1960 to enable the investing public to benefit from investments in large scale real-estate enterprises
- REITs provide ongoing dividend income along with the potential for long-term capital gains through share price appreciation
- It is also a powerful tool for long-term portfolio diversification

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Categories of REITs…

- **Equity REITs own and operate income-producing real estate**

- **Mortgage REITs lend money directly to real estate owners and their operators, or indirectly through acquisition of loans or mortgage backed securities**

- **Hybrid REITs are companies that both own properties and make loans to owners and operators**

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REITs are now mainstream investments….

In 2001, Standard & Poor's recognized the evolution and growth of the REIT industry as a mainstream investment by adding REITs to its major indexes, including the S&P 500

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REIT sectors…

With a diverse profile, the REIT industry offers investors many alternatives across a broad range of specific real-estate properties:-

- **Apartments**
- **Office properties**
- **Shopping Centres**
- **Malls**
- **Storage centres / Warehouses**
- **Industrial Parks**
- **Hotels and Resorts**
- **Health care facilities**

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Benefits of REITs…

Ownership of REIT shares has historically increased investors' total return and / or lowered the overall risk in both equity and fixed income portfolios due to diversification

Dividend growth rates for REIT shares have outpaced inflation over the last decade

REIT business enterprise is based in large part; on the value of tangible and quantifiable assets, namely large scale commercial real state

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How are REITs valued?

<u>NAV calculation</u> – The REITs' total assets minus all liabilities, divided by all outstanding equity shares of the REIT yields the NAV Value of a REITs' property assets can be enhanced through capital expenditures. This is significant because these expenditures, either for development or maintenance of property, can maintain or increase NAVs

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Investor Participation…

- **Individual investors can participate broadly in opportunities available in the REIT industry through REIT mutual funds**

- **These REIT mutual funds are managed by portfolio managers with a high degree of expertise in the real estate industry**

- **REIT mutual funds provide investors with a cost-effective opportunity to add to a balanced investment portfolio**

- **REIT mutual funds offer diversified exposure to the real estate asset class**

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REITs are similar to other businesses…

- **<u>Liquidity</u> –** REITs are traded on all major stock exchanges in the US, like any other publicly traded company
- **<u>Shareholder Value</u> –** REIT shareholders receive value in form of both dividends and price appreciation
- **<u>Active Management</u> –** REITs are professionally managed and adhere to corporate governance principles
- **<u>Disclosure Obligations</u> –** REITs are required to provide regular financial disclosures and audited financial statements
- **<u>Limited Liability</u> –** Shareholders have no personal liability for debts incurred by REITs

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Hope you have now understood the concept of REITs.

Thinking of Investment

Contact

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