

# REAL ESTATE INVESTMENT TRUST (REIT)



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# REITs: The easiest way to invest in large-scale real estate

Real estate or property is a key asset class in an investment portfolio.

Typically, before REITs were introduced, an investor may invest in property stocks and/or physical (landed) property to get exposure in the real estate sector.

You now have another option i.e. to invest in REITs by paying only a fraction of the real estate prices. In other words, REITs provide a way to invest in quality large-scale commercial real estate without having to buy the properties directly. REITs typically offer you a stable income stream and attractive distribution yields.

## Understanding REITs

### What is a REIT?

A Real Estate Investment Trust (REIT) is a fund or a trust that owns and manages income-producing commercial real estate (shopping complexes, hospitals, plantations, industrial properties, hotels and office blocks).

A management company for a REIT is permitted to deduct distribution paid to its shareholders from its corporate taxable income. However, to enjoy this tax-free status, the REIT must have most of its assets and income tied to the real estate and distribute at least 90% of its total income to investors/unit holders annually.

REITs that are listed on a stock exchange trade just like stocks.

## Why invest in a REIT?

Benefits of investing in listed REITs:

- **Affordability:** Investments in REITs cost a fraction of the cost of direct investment in real estate. You can start off with minimal investment outlay.
- **Liquidity:** REITs are more liquid compared to physical properties. Units of listed REITs are readily converted to cash as they are traded on the stock exchange.
- **Stable income stream:** REITs tend to pay out steady incomes (similar to dividends), which are derived from existing rents paid by tenants who occupy the REITs' properties.
- **Exposure to large-scale real estate:** You can derive the benefits of the real estate on a pro-rated basis through a REIT, a quality investment which is affordable.
- **Professional management:** You benefit from having the REIT and its underlying assets managed by professionals who will add value for a higher yield.

## What are the investment considerations?

Apart from the general market risks of economy, politics, capital market and interest rates, you should be aware of the following:

- Management quality and corporate structure of the REIT, in particular the REIT manager (good track record and reputation).
- Investment objective and strategy of the REIT.
- Quality of the real estate, including factors such as mortgages, occupancy rates and geographical locations.
- Distribution policy and tax rules.

## What kind of returns can be expected from REITs?

Typically, the returns to unit holders of a REIT can be in the form of:

- **Income distribution** based on the distribution policy stated in the REIT's deed; and/or
- **Capital gains** which may arise from appreciation of the REIT's price.

# Performance indicators of REITs

- **Distribution Yield:** The yield is normally published in the business section of major daily newspapers. It is derived from the following formula:

$$\text{Distribution yield} = \frac{\text{Income distribution paid to a REIT unit holder}}{\text{REIT's price paid by the unit holder (or the prevailing market price of the REIT)}}$$

Other indicators include the following which are available in annual reports:

- **Net Asset Value (NAV):** The value of a REIT is based on its tangible real estate holdings. This is calculated by the total assets of a company after subtracting all its liabilities.
- **Management expense ratio:** The percentage of operating expenses (management fees, etc.) incurred to the NAV.
- **Total return:** The change in a REIT's price for the period under review plus any income distribution received during the period.

## Getting started

### How and where to start investing in REITs?

REITs trade just like stocks, subject to the same trading, payment and settlement rules (T+3).

You need to open a **CDS account** and a **trading account** with a participating organisation i.e. a stockbroking firm registered in Malaysia, if you do not have one.

#### For more information:

Please visit [www.bursamalaysia.com](http://www.bursamalaysia.com) and the respective REITs' websites.

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