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REITS

Everything You Need to Know

REITS IN A NUTSHELL

Companies that purchase and manage income-producing real estate on behalf of investors

Your money is pooled together with other investors' money to invest in a portfolio of real estate properties

STOCK EXCHANGE

Typically listed on stock exchanges like the SGX

HOW DO REITS COMPARE TO PUBLICLY LISTED SHARES?

SIMILARITIES

SOLD

Can be bought and sold by the public in the same manner as publicly listed shares

Share and REIT prices move on the open market according to supply and demand

There are REIT ETFs which track the broader REIT market just like there are stock ETFs which track the broader stock market

DIFFERENCES

90%

Legally obligated to pay out at least 90% of taxable income each year as dividends to unitholders to maintain tax-transparency treatment by the IRAS

Can only invest in real estate properties such as shopping malls, hotels, industrial facilities, and healthcare properties

Maximum debt-to-asset ratio of 45%

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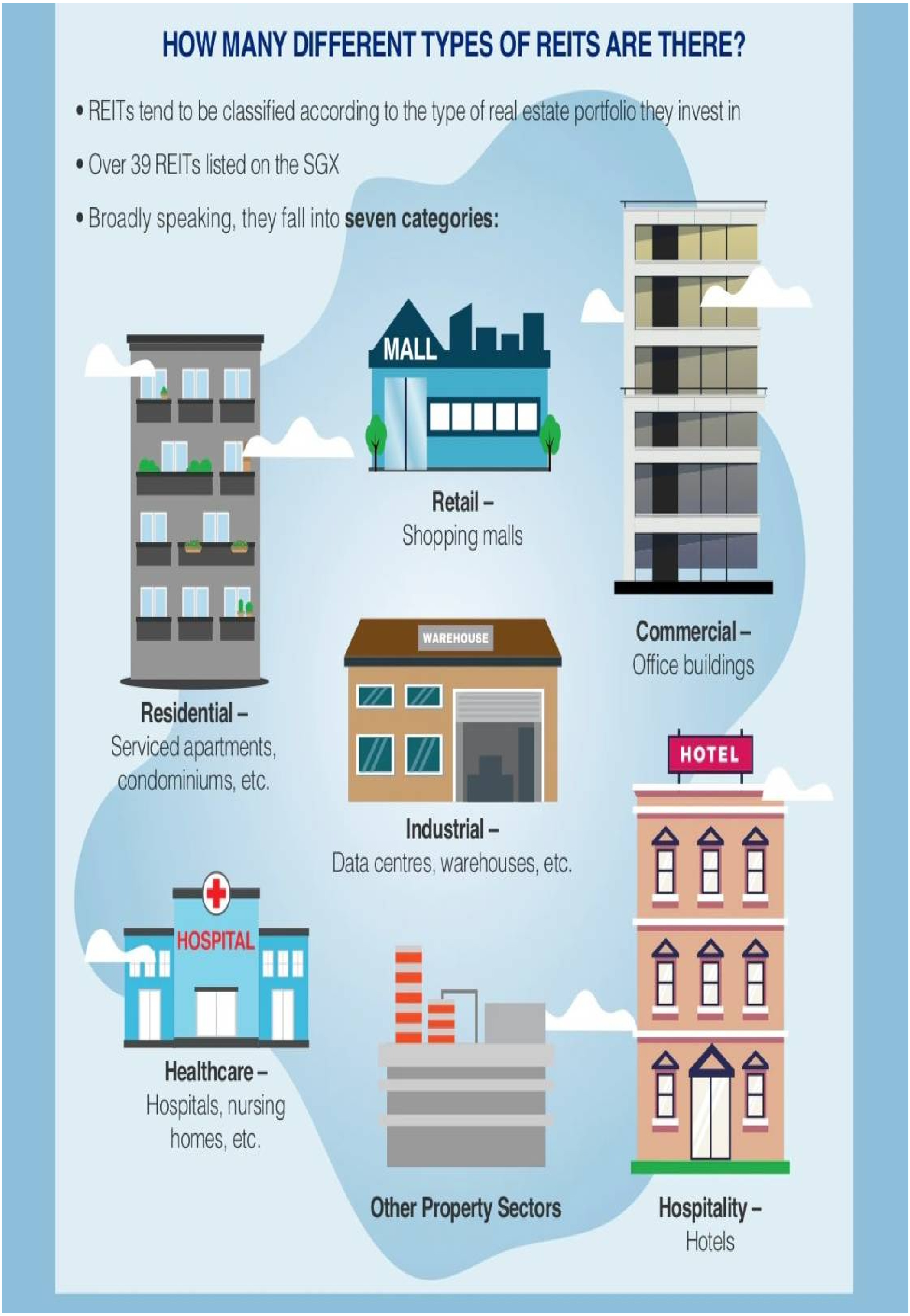

Reits Categories – Everything you need to Know

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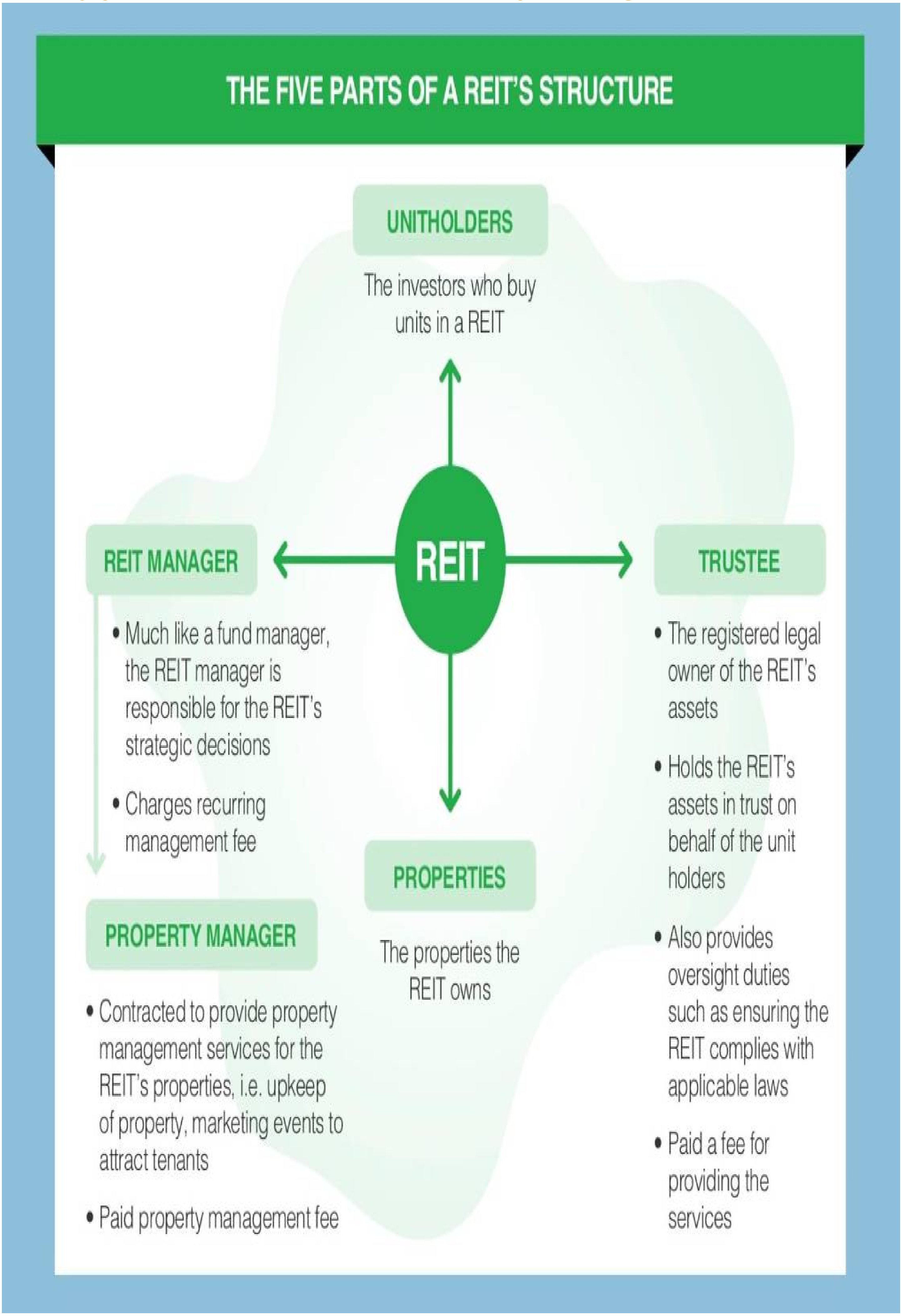

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WHY DO PEOPLE INVEST IN REITS? ARE THERE ANY ADVANTAGES OVER PHYSICAL REAL ESTATE?

- As part of income/cashflow investing – REITs pay consistent dividends as they must pay out at least 90% of their taxable income each year to maintain tax-transparency treatment by the IRAS
- Underlying value is based on physical real estate, and is thus deemed less volatile compared to shares
- REITs offer several advantages over directly investing in physical real estate:

Low barriers to entry – you can start investing in real estate with as little as a few hundred dollars

Tax Benefits: In general, dividends received from REITs are not subject to taxes in Singapore, but rental income from physical properties are

Greater flexibility stemming from its higher liquidity (since REIT units can be traded on an exchange)

Allows diversification in real estate portfolio, something that is difficult to achieve with buying real estate directly for average investors

Dividends are generally prompt and consistent – don't have to chase tenants for rent

$$$

Annual management fees are typically lower compared to fees associated with buying physical property like stamp duties, legal fees, agent commissions, and insurance

WHAT SORT OF RETURNS CAN YOU EXPECT FROM REITS?

5-6+%

In Singapore, based on the FTSE Straits Times Real Estate Investment Trust Index, an ETF covering Singaporean REITs, the average dividend yield is 5-6+%

Singaporean REITs also tend to have the highest level of yields across most major markets

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HOW DO YOU ANALYSE A REIT?

Like any investment, you must do the proper due diligence before investing. When analysing a REIT here are some key things you should pay attention to.

1) DIVIDEND YIELD

- Calculated by dividing the REIT's dividend per unit by its unit price
- Used to broadly compare a REIT's returns against other REITs and other types of investments like bonds and dividend stocks
- Because dividend yield is based on the REIT's price, a low dividend yield may simply indicate higher REIT prices rather than low dividends

2) DIVIDEND PER UNIT

- The amount of dividends paid out per unit/share of the REIT
- Unlike dividend yield, this metric will not vary with the REIT's unit price

3) PROPERTY YIELD

- Calculated by dividing the REIT's net operating income by its net assets
- Tells you how much income a REIT can generate from its property portfolio

4) PRICE-TO-BOOK RATIO

- Calculated by dividing the REIT's unit price with its net asset value (NAV)
- Shows you the value of a REIT's market price versus its assets
- A price-to-book ratio of 1 theoretically indicates a perfect fair value as price and asset values are evenly matched
- However, caution must be taken – price-to-book ratio is not the be-all-end-all of analysing a REIT; other factors must be taken into consideration as well

5) GEARING RATIO

- Calculated by dividing a REIT's total debt by its total assets
- Typically will not exceed 45% for Singaporean REITs
- A REIT with lower gearing ratios would tend to be more conservative
- A REIT that is chasing growth would tend to have higher gearing ratios, which also implies higher risk

6) PROPERTY PORTFOLIO

- Looking at the properties held by the REIT
- Familiarise yourself with the geographical area and sector that the REIT is in
- Factors to consider can be tenant occupancy rate, location, size, and regularity of crowd

7) MACROECONOMIC CONDITIONS

- Analyse whether there are any macroeconomic news that could adversely affect the broad real estate market, e.g. low interest rates make property and REITs more attractive
- Consider how such news would impact the REIT's specific sector, e.g. decreased consumer spending may hit REITs which invest in malls the hardest

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WHAT ARE THE RISKS INVOLVED WHEN INVESTING IN REITS?

Just because REITs invest in property does not necessarily make them a low-risk investment. There are several key risks to consider.

MARKET RISK

- REIT prices fluctuate on the open market just like equities
- Prices of the underlying properties are themselves subject to market risk

BUSINESS RISK

- Underlying properties may face adverse business conditions which might affect tenancy and thus income

INTEREST RATE RISK

- The relationship between REITs and interest rates is far from definite
- Higher interest rates can mean that yields on REITs become lower by comparison
- However, rising interest rates due to economy growth can be positive for REITs and the value of real estate assets it owns as well

LIQUIDITY RISK

- While the REIT units are themselves liquid, the underlying property asset remains illiquid (may be difficult to find buyers and sellers for its properties)

CREDIT/REFINANCING RISK

- REITs with high leverage may be at risk of default if they are unable to pay their loans
- If the REIT is wound up, its assets will be paid off to creditors first before unit holders

CONCENTRATION RISK

- REITs whose property portfolio only consists of a few properties are more exposed to adverse events

Investing in REITs is one way for investors to add income-producing real estate to their investment portfolios. While they are not risk-free, they can be valuable additions to the portfolio of investors who have done their due diligence.