INVESTING IN REITS pdf

1: Investing in Singapore REITs â€“ My Stocks Investing Journey

How to Invest in REITs Individuals can invest in REITs in a variety of different ways, including purchasing shares of publicly traded REIT stocks, mutual funds and exchange-traded funds. REITs also play a growing role in defined benefit and defined contribution investment plans.

Roadrunner March 6, Investing , Real Estate 16 Comments If you are interested in investing in real estate, there are two main ways to do it. You can either buy a real estate yourself, or you can buy shares in companies whose activity is owning and managing real estates. This article will be about the latter one. Real estate investment trusts hereinafter REIT are companies that own and manage assets related to real estates. These can be any type of real estates, like offices, residential properties, shopping malls, land etc. Some specific REITs even invest in mortgages. Investing in a REIT is an easy an efficient way to invest in a diversified real estate portfolio, without the need of a large sum of investment. For the price of a share you can be immediately the very small owner of the company and therefore the underlying assets. For comparison, you can read here about the costs of buying our first rental property: You can easily buy and sell shares of a REIT, while if you would like to sell your property, you might need to wait for several weeks or even months to find the right buyer. They both do have their own advantages and disadvantages that are needed to be considered. Most of the REITs have fallen quite a bit recently. I wanted to see whether I should consider adding them to my portfolio at these levels. One of the most common statement is that REITs are bond substitutes. This is mainly because they are required by law to distribute the large majority of their taxable income to their shareholders in the form of dividends. What it means is that REITs typically have high dividends, at the same time they cannot use much of their earnings to reinvest back to their business. Most investors buy them because of the dividends. And as bond interest rates rise, the increase of the safer bond yields make riskier REITs less attractive. Investors will sell, which will make the share price drop, which will increase the dividend yields. This will happen until the dividend yield gets that high that it will provide enough premium vs the safer treasury yields, so investors will buy their shares again. The above is a bit simplified explanation of the story, but in a nutshell this is what typically happens. I wanted to see some historical comparison on the performance of REITs and interest rates. The above picture is probably something that you might see in many recent articles. This shows that as the 10 years treasury rate blue line rises, the price of VNQ red line falls. Nevertheless bear in mind that this chart only shows the performance of the last 5 months. Is the correlation between the two also so obvious on a long term? If we look at a 10 years chart, we can see some interesting things. Interest rates were cut, but REITs were still falling like a stone. Then in , the 10 years treasury rate started to increase. But so did the price of the REITs. There was also a period in the beginning of when both of them were moving in the same direction. At the same time and were great examples to support the general idea on the correlation. When I looked at this 10 years VNQ chart, something looked familiar. It looks like the overall stock market. Generally they look pretty similar. I see 3 significant periods that I can highlight: REITs were hit much harder during the stock market crash. Once again, I believe it was because besides of the general bad market sentiment, the price of the underlying assets real estate of the REITs were also heavily hit. You can see a REIT under-performance from the middle of until the beginning of If you look at the previous chart, you can see that this was the period when the 10 years treasury rate has suddenly hiked. Finally, since the last part of , REITs are not doing well at all. Once again, this is the time when interest rates in the US have started to increase again. Conclusion Based on the above findings, I make the following conclusions: REITs cannot isolate themselves from the general market sentiment There will be always times when certain sectors do better or worse than the overall market. REITs are not an exception. But it is hard to imagine a situation when the overall market falling, while REITs are doing great or vice versa. There are times when there is a strong correlation between REITs and bond yields There is definitely a reason why REITs typically under-perform the stock market in a rising interest rate environment. At the same time, some well managed REITs could be an excellent investment opportunity at times when their dividend yield provide sufficient premium vs safer bond yields. What will be the bond yields in years matters a lot At the end of the day, the stock market always tries to predict the future. Even a lower yielding REIT can be a great purchase opportunity now, if the 10 years treasury rate will fall again during the next years. My personal opinion is that bond yields in the US can still increase a bit in the future. At the moment these are yielding 6. Please subscribe to the weekly newsletter and never miss a new post! This post or any other information on the site is not intended to be and does not constitute financial advice or any other advice. I am solely sharing my idea, plan and progress on financial independence and early retirement. Visited times, 1 visits today Share this:

INVESTING IN REITS pdf

2: Singapore REITs: Your Complete Guide [Edition:] | Dr Wealth

Healthcare REITs invest in the real estate of hospitals, medical centers, nursing facilities, and retirement homes. The success of this real estate is directly tied to the healthcare system.

The properties are then leased out to tenants in return for rent. Aside from that, investors also stand to benefit from the capital gain as the property value increases. Suntec REIT is known for their commercial real estate portfolio. Before you can invest in local REITs, you will need 2 accounts: Brokerage account If you have been investing in the stock market, then chances are you already have both the accounts. All you need is to know the code of the REIT you are interested in, and purchase it via your online brokerage platform or by calling your broker. You can go straight to a local brokerage firm directly to apply for both accounts in a single seating. The turnaround time takes less than 7 working days depending on your broker. ETFs are passive funds that aim to emulate the results of an underlying index. The index is a free-float market capitalization weighted index which is reviewed bi-annually in March and September. For more information you can refer to: The geographic breakdown is represented in the image above. Probably due to the lack of options they have in the market, most of them assume that all REITs are equally safe and that the only difference is the dividend payout they will receive. The truth is, REITs investors face the same risks as any other stock investor. Hence, there is a need to do your due diligence and study the REIT that you are interested in. As with all real estate investments, valuation of the REIT is important. So why would you want to overpay for REITs? This outlook can refer to any macro trend from interest rate and regulatory trends to industry and economic trends. For example, we know that the global economy has been slowing down in the past few years. Because of this slowdown, it has indirectly impacted the rental market in the office REIT industry, leading to negative rental reversion. Another example of macro trend is the rising importance of data centres as corporations begin to harvest data to implement data analytics. This directly increases the demand for data centres. These rental incomes are then distributed to the shareholders after accounting for expenses. This gives REITs a bond-like feature of quarterly dividend payments to shareholders, just like the quarterly coupon payments that bondholders receive. On the other hand, REITs also behave like a stock where speculation, better valuation and forward outlook can push its share price higher to give shareholders capital gains. These capital gains can be driven by any catalyst. Thus, one important characteristic that good REIT investments need to possess is the growth element. Stock investors should be quite familiar with the idea of growth stocks. Good REIT investments should continue to be growing its net income on a year-on-year basis. Growth can come in two forms: Inorganic growth through acquisition of new properties or invest in undeveloped properties. This can give you a better indication of whether the REIT in focus is actually generating good rental income or just using accounting shenanigans to make you think that it is a good investment. What do we mean by that? In , Sabana REIT share price fell by 25 percent even if we exclude the significant drop in Jan from the rights issue announcement! Even after getting an As investors, we tend to have selection bias in focusing on REITs that have higher dividend yields and avoid those that have lower yields. So rather than looking at dividend alone, we should instead be looking at the total return that we can generate from the REIT. As for any real estate investment, the macro outlook of the economy influences the returns of the investment. For REITs, there are five sub-sectors: Office, Retail, Industrial, Hospitality and Healthcare. Each sub-sector has a different outlook considering the economics factors affecting them. There are still outstanding REITs within each sub-sector. However, the opportunity cost of investing in outstanding REITs of sub-sectors with poor macro outlook is still high. The capital could be put into better use in sub-sectors that have good growth potential. For example, we know that the retail sub-sector is facing a lot of headwinds in the year ahead due to uncertainty in the global economy as well as increasing competition from ecommerce players in the region. Thus, investments in REITs will expose investors to interest rate risk. To determine the relative amount of debt a REIT has, we use gearing ratio as a gauge. As the ratio increases, it signifies the more debt the REIT has over each unit of asset. Investors are exposed to higher interest rate risk when REITs are over-leveraged high gearing level.

3: Timberland REITs: Investing in Forestry - Alexis Assadi

Investing in REITs REITs offer investors the benefits of real estate investment along with the ease and advantages of investing in publicly traded stock. REITs have historically provided investors dividend-based income, competitive market performance, transparency, liquidity, inflation protection and portfolio diversification.

In the first article, we highlighted a few ETFs that provide investors with broad exposure to REITs, each with its own set of criteria on portfolio construction and management. In the second article, we mentioned how REITs can be used to get exposure to a specific sector or theme that goes beyond real estate. Our example was based on the idea that timber REITs are direct beneficiaries of increasing demand in homebuilding as demand for lumber increases â€” driving prices up along with it. An investor with a positive view on homebuilding could potentially invest in REITs as a way to benefit from that view, in addition to or in lieu of a position in a homebuilder stock. In this brief article, we discuss a third option: My Intro to Building Blocks A building block is just another way of describing a mini-portfolio of stocks with specific characteristics. In my previous role as an Investment Officer at Dimension Capital Management, I managed a series of fund of funds each with exposure to a different asset class or investment strategy. However, each of the nine sub-funds could potentially be a stand-alone portfolio so that a client wanting to invest only in one of the sub-funds would still be invested in a well-diversified, managed portfolio. REIT Building block This is the same concept of what we call a building block, only in this case, we would prepare a mini-portfolio of individual REITs so that an investor, by investing in the building block, would get a properly constructed portfolio â€” like a puzzle that is a piece of a larger puzzle. We get that question all the time: What are your top 10 favorite REITs? The problem with that approach is that oftentimes, certain sub-sectors become more attractive than others, leading to a greater number of the companies in that sub-sector to be attractive risk,return, etc. Combining the most attractive REITs at any moment in time, therefore, might result in a portfolio with high exposure to a few sectors and very little if any exposure to other sectors â€” resulting in a lack of diversification and an increased level of macro and micro risks. A properly constructed building block, therefore, is a well-defined mini-portfolio of companies whose stocks are both attractive, but which collectively makes up a portfolio that can stand on its own merits. The latter is important because each investor may allocate a different portion of their portfolio to the building block. Put another way, the building block itself has an asset allocation strategy defining how much to invest in each stock. How Many Positions in a Building Block? If we are trying to build a mini-portfolio of stocks that is well-diversified, then we should have enough positions in the portfolio to eliminate most or all unsystematic risk â€” that is the risk of any one company having a large adverse effect on the portfolio â€” causing the performance of the portfolio to deviate from the broader market. A portfolio that eliminates all unsystematic risk will tend to move up and down with the market. It is shown on the chart above as the area where the red line becomes horizontal. Having too many stocks, however, makes it more difficult to use a building block as a portfolio construction tool because of the potential for very small allocations to an individual position. Using a Building Block We believe some building blocks can be as few as 10 stocks depending on several factors, such as whether the building block is part of a larger portfolio and the makeup of the rest of the portfolio. As we mention in the introduction and in a previous article, Timber REITs could be used to get exposure to the homebuilding cycle. If an investor is looking to add a REIT building block to an existing portfolio that already has exposure to homebuilders, then we could potentially reduce the Timber REIT exposure within the building block. However, if an investor is looking to invest a considerable amount in REITs via a building block, then we would suggest a greater number of positions â€” something closer to 18 as mentioned above. Each of the companies represents a different sub-sector within the overall REIT sector. The weightings of each are intentional â€” as we have mentioned. The difference is in the percentage allocation to the building block. This is how many money managers leverage expertise within certain asset classes to apply to multi-asset portfolios. It is not the only way, but it is very common despite being described by different names â€” such as completion portfolios, model portfolios, building blocks, etc. Heard on the REITs Portfolio We mentioned earlier that a building block could be created with as little as 10 stocks maybe less in some cases yet our REIT portfolio currently has 27 positions. There are two primary reasons for what might seem to be an overly diversified portfolio. On the one hand, the studies regarding unsystematic risk assume that the stocks are collectively diversified across sectors and industries affected differently by specific macro and micro drivers. In our REIT case, despite each sub-sector having unique underlying drivers, the overall REIT sector can still be driven by common factors regardless of sub-sector â€" such as interest rates, inflation, etc. Because of the concentration in just one sector â€" REITs â€" we take a conservative approach in our portfolio. Heard on the REITs: At Heard on the REITs, I share my best ideas in a concentrated portfolio while implementing smart strategies to minimize downside risk. Join our community today! The following samples were published for free but these highly analytical reports will only be available in the Premium service from now on. Sample Premium Sector Report Disclaimer: Please note, this article is meant to identify an idea for further research and analysis and should not be taken as a recommendation to invest. It is intended only to provide information to interested parties. Readers should carefully consider their own investment objectives, risk tolerance, time horizon, tax situation, liquidity needs, and concentration levels, or contact their advisor to determine if any ideas presented here are appropriate for their unique circumstances. Past performance is not an indicator of future performance. Investing in any security has risks and readers should ensure they understand these risks before investing. Real Estate Investment Trusts are subject to decreases in value, adverse economic conditions, overbuilding, competition, fluctuations in rental income, and fluctuations in property taxes and operating expenses. This post is illustrative and educational and is not a specific offer of products or services. Information on this blog is not an offer to buy or sell, or a solicitation of any offer to buy or sell the securities mentioned herein, nor is the author compensated by any of the products mentioned. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the topics or subjects discussed. Information presented is not believed to be exhaustive nor are all the risks associated with the topic of each article explicitly mentioned. Readers are cautioned to perform their own analysis or seek the advice of their financial advisor before making any investment decisions based on this information. Nothing in this content should be considered to be legal or tax advice and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it other than from Seeking Alpha. I have no business relationship with any company whose stock is mentioned in this article.

4: Real Estate Investment Trusts (REITs) | www.enganchecubano.com

The latter only holds real estate investment trusts (REITs), which are companies that rent out real estate and pass most of the rental income to shareholders as dividends.

The rent generated from the properties is distributed to shareholders in the form of dividends. REIT is similar to a mutual fund and trade on the major market exchanges. When you own stock in a REIT, you own a small sliver of the apartment or office buildings they own just like when you own stock in a company you own a tiny piece of that company. Due to the nature of real estate investing, REITs typically do better in low-interest rate environments and when there are higher rates it is usually a bumpy ride for the REIT market. Equity REITs often specialize in a specific property types. The revenue from these REITs come from the interest paid on the mortgage loans. REIT stocks let investors invest in real estate the same way they invest in any other industry, by purchasing stocks through a mutual fund or ETF on the stock market. When you are a shareholder in a REIT, you earn a portion of the money generated by that investment. REITs are exempt from corporate taxes as long as they adhere to the Congressional guidelines we outlined above. Shareholders though do have to pay capital gains taxes on the dividends at their ordinary income tax rate. Funrise offers an eRIET. Fundrise pools relatively small sums from everyday investors and uses the money to help developers finance their projects. The advisory fee is 0. Because these investments are not publicly traded like traditional REITs, they are less liquid. Therefore, if you want to invest with Fundrise, you should not use money that you will need in the next five years. Fundrise is a medium-term investment. We did an in-depth review of Fundrise. Like any other ETF, these are not actively managed but built around an index of a publicly traded real estate. The expense ratio is 0. The dividend income that REITs can provide makes them an attractive investment option for those looking for a form of passive income and for those retired who need an income stream. REITs pay out nearly all of their profits as dividends. And that has been true over the long-term: Over that same period, housing carried approximately half the risk of stocks. No muss, no fuss, just a monthly rent check. And we advocate having a diverse portfolio well, us and every other personal finance podcast, blog, expert, etc. Landlords grow rich in their sleep. Fundrise has really opened up REIT investing to a whole segment of people who thought they could never afford it. So yes, we fully recommend using REITs to generate some cash flow and to diversify your portfolio. For the five-year period ending Dec. An American pale ale. The easy way to track your money.

5: Investing in REITs (Real Estate Investment Trusts) ~ www.enganchecubano.com www.enganchecubano

Investing in REITs can serve as a source of cash flow for income-oriented investors. However, succeeding with REITs means finding the best REITs for income and understanding the advantages and.

They own land, but have several other avenues through which to profit. These can include harvesting and selling wood, gathering minerals, oil and gas, and even leasing their properties to hikers, hunters and campers. Timberlands are as much of a business opportunity as they are real estate. Learn more in this latest episode of Income Investing. You can also subscribe via iTunes , Stitcher and SoundCloud. Thank you, as always, for spending your time with me. So, what is a real estate investment trust? A r eal estate investment trust, or a REIT , is a business that invests in a portfolio of real estate. They target assets that either have, or could soon have, rent-paying tenants. REITs are also mandated to pass most of their net earnings back to investors, rather than retaining the cash. For this reason, they are a favorite option for investors like you and me â€" people who want to earn passive income, either monthly or quarterly. By investing in one, you can gain exposure to vast holdings in real estate, like apartment buildings, hotels , shopping malls, warehouses , storage space and office locations. For example, data storage REITs own properties that provide secure, cool shelter to companies like Amazon and IBM, who need space to store their computing hardware. Now, you might recall from last week that some of the properties owned by data center REITs are enormous. But those numbers pale in comparison to the investments made by timberland REITs. What are timberland REITs? What is a timberland and why is it an investable asset? Why should you be interested in timberland REITs? A timberland is a broad term for a forest. It can also contain minerals and oil wells. Companies that own timberlands can harvest the resources there and sell them. The forestry industry is a big part of the US and Canadian economies. Selling wood The most obvious product of timberlands is wood. It is quite literally the foundation of our homes. When a tree is chopped down, it can be converted into beams or planks, otherwise known as timber or lumber. Softwood lumber, like cedar, pine fir, and redwood , is used as the basic infrastructure for residential housing. All of that is lumber. Each year, real estate construction is responsible for trillions of dollars of international economic production. According to the National Association of Homebuilders, over 47 billion board feet of softwood lumber was gobbled up in America in , alone. However, there is far more demand in the US than there is supply. The codependence of the US and Canada with respect to the wood trade occasionally causes tensions to flare. Since the s the US has argued that the Canadian government subsidizes its lumber industry, making it impossible to compete fairly. The tariff was eventually lifted in But most analysts agree that NAFTA is good for all parties involved, although there is plenty of room for edits and improvement. In our advanced technological era, it might seem odd that lumber is still so crucial to housing. However, wood is strong and durable, and is more environmentally sustainable than other materials like aluminum, steel and concrete. Managed efficiently, wood can also produce zero waste. After it has been harvested, its residues can be used for any number of purposes, including being burned for energy and used for composting. Lumber is the most practical housing structure for broad scale construction. Lumber harvesting can actually be good for the environment and can promote rejuvenation. But, in typical fashion, humans have overdone it. As businesses comb through hundreds of millions of hectares of land, they destroy entire ecosystems and produce damaging emissions. But damage is being done in spite of their efforts. The demand for wood is further bolstered by China, a home to 1. While it was once a developing country, it is now the second-largest economy in the world. This is an important statistic to consider because the middle-class does a lot of consumer spending, like buying homes. Two years ago, China imported almost 49 million metric metres of logs. That number should increase as the middle class expands. Similar trends are occurring in countries like India, Vietnam and South Korea. It can also be converted for pulp, paper and pellet manufacturing, which are by-products of turning wood into timber. The point is that wood is a commodity with intrinsic value. It was used by our ancestors ,00 years ago to spark fires, which could provide warmth and light, and it enabled them to cook. They used it for shelter, and to carve tools and weapons. It performs the same functions today, albeit with more sophistication and diversity. Wood has been an key part of the human experience. You can gain exposure to it by investing in timberland REITs. Other revenue streams One of the advantages of timberland properties is that they are a combination of real estate and a fully-operating business. Like other land, they can be built on and borrowed against. However, they can also create revenue by doing any of the following: Investors often flock to it during times of interest rate hikes, which is conveniently now. It went public in the s and became a REIT in It started out with , acres and grew to become one of the largest businesses in the timberland industry. Today, it owns or controls over 13 million acres in the US and manages vast wood properties in Canada. Weyerhaeuser has three primary lines of business. Second, owning and managing real estate, energy and natural resources. And third, selling wood products. This company owns 2. The population is growing and people are consuming more. That should mean that prices will rise. When people have less money to spend, they buy fewer homes. They perform fewer upgrades and renovations to their properties. That can crush the value of a timberland REIT. Investors who bought in right before the Great Recession lost almost two-thirds of their capital during that period. There are other risks, too, but they are generally minor in comparison. Regulations and licensing around natural resources can change, which can impact the timber business. As well, fires, hurricanes and forest pests like pine beetles, can damage inventory. But the average annual loss from natural occurrences is usually relatively little. Canada has a lot of firms in the resources sector, too.

6: Investing in REITs: Real Estate Investment Trusts: Ralph L. Block: www.enganchecubano.com: Books

A real estate investment trust, on the other hand, provides those same benefits in a streamlined package. REITs may look especially attractive to investors who are conscious about risk and return.

Plus, four funds to get into real estate. Over the past 15 years, property-owning REITs have generated an average annual total return of That makes them gravy trains for dividends. REIT stocks today yield 3. REITs could get a lift, too, from a new buying wave by mutual funds. That was always an odd fit for real estate developers and landlords. Many mutual funds ignore REITs, and the change could prompt more interest in the stocks, propping up the sector. REIT stocks could face pressure, moreover, if long-term interest rates climb. That would make REIT yields less attractive than bonds and other fixed-income investments. REITs continue to offer yields that are greater than those of investment-grade bonds. And their payouts are likely to climb more than those of utilities or other income investments, making them a better bet long term. Below are five REITs we like for their dividend yields, growth prospects and reasonable share prices. Note that price-earnings ratios are based on estimated year-ahead funds from operations, a common REIT measure that represents net income plus depreciation expenses. Returns, prices and related data are through June Overall, though, the purchase is a good deal for shareholders. With revenue now flowing from 35 casino and hotel properties in 14 states, Gaming and Leisure should generate ample cash to fund its dividend and raise it as rental income climbs gradually. Investors worry that hotel revenues, after climbing for years, appear to be peaking, and they fear that competition from Airbnb and other home-rental websites will cut into occupancy rates and hotel profits. Yet at just 9 times projected FFO, the shares look compelling. Demand for its hotels, which other companies manage, appears to be healthy, with average revenue per available room a common lodging REIT measure climbing 3. Yet that would likely be a temporary setback. These firms sign long-term triple-net, or NNN, leases with Realty, requiring them to pay for all property taxes, maintenance and insurance. The firm has paid dividends for a stunning consecutive months. Realty expects FFO to rise by as much as 4. That should support more growth in the dividend, which Realty has increased at an annualized rate of 4. But stick with it: You can scoop up steady monthly dividends while waiting for the shares to edge higher over the long run. The firm is landing customers with its modernized, climate-controlled facilities, many of which are located in high-traffic urban and suburban areas. Sovran recently hiked its annual dividend rate by Although the stock looks pricey at 18 times FFO, it has room to climb. Demand for warehouses should stay healthy as long as the economy keeps expanding. Meanwhile, rental income is rolling in. First-quarter FFO rose by Top funds for real estate stocks If you prefer to buy real estate investment trusts through a fund, you have plenty of choices. Over the past five years through June 10, the fund returned The fund yields 2. Select REIT index, a basket of 96 stocks weighted by market value. The fund, which yields But that looks unlikely over the next year. Annual expenses are 0.

7: 7 Best Benefits of REITs â€“ How to Invest REITs | Mintco Financial

REITs produce highly consistent and predictable cash flow. REITs pay out the great majority of their cash flow in the form of steady and growing dividends to shareholders. REITs are less volatile.

These are a far more complex, volatile, and challenging class of stocks that are unsuitable for conservative investors seeking steady and growing incomes. Therefore, they should be owned only by the most risk-tolerant investors, who are willing to put in the extra effort to find only the strongest mREITs, hold throughout periods of falling dividends, extreme volatility, and buy on the corresponding dips, corrections, and crashes. Getting back to traditional property-based REITs, as you can see from the above list there is a vast universe to potentially own, each with its own nuances that investors need keep in mind. However, all REITs share common characteristics in that they derive the majority of their cash flow, which is what secures and grows the dividend, from real estate properties and rental income from tenants. This consists of three factors: The most important of these is dividend safety, because nothing can potentially generate permanent losses of investor capital more than a dividend cut, which generally sends shares crashing. However, because of the way REITs are structured for tax purposes, traditional methods of measuring dividend safety, particularly the EPS payout ratio, are not good means of knowing whether or not a payout is actually safe. This is the REIT equivalent of operating cash flow. FFO adds non-cash expenses, such as depreciation and amortization, back to net income, and subtracts gains or losses on asset sales, such as any properties that management may have sold over a period of time. This is similar to free cash flow for a REIT. AFFO subtracts maintenance capital expenditures from FFO to show how much cash the company is generating after running its operations and investing enough capital to preserve what it already owns. The difference between AFFO and true free cash flow, as reported by regular corporations, is that free cash flow also includes growth capex, or the money the company is investing to expand its operations. Investors can retrieve these figures from the company they are interested in, and they are also directly available on our website. In addition to the unique non-GAAP figures reported by REITs, investors need to be aware that these companies rely on issuing debt and equity to keep their businesses running. As a result, the balance sheet of REITs will naturally show higher debt levels than most other sectors of the market. For example, Realty Income O has seen its diluted shares outstanding more than triple from 80 million shares in to million shares in That not only makes the existing dividend more secure, but it also allows for dividend growth, which causes the yield to rise, attracting new investors who bid the share price up. In this way, quality REITs can grow over many decades, generating rising income streams and creating substantial shareholder value along the way. First, due to how they structured for tax purposes, REIT dividends are unqualified, meaning they are taxed as regular income and thus at your top marginal income tax rate. A second important factor is to know whether or not the REIT is internally or externally managed. Typically the manager charges a fixed fee, a percentage of assets, for its services. There is also a performance incentive based on the growth of net asset value NAV above a certain hurdle rate. In other words, externally managed REITs are the real estate version of a private equity firm, and high fees can eat into long-term investor returns. Not only does that lead to higher operating costs, and thus lower profitability, which can make dividend growth harder , but it can also result in conflicts of interest between shareholders and management. You can see this with some of the lower quality REITs in which the share count rises high enough over time to make the NAV per share the equivalent of tangible book value per share stagnate or even decline. Why would anyone take the added risks of owning an externally managed REIT? Well, the best ones are managed by large asset management firms with massive scale, experience, and an army of high quality employees. They are able to make deals that smaller, internally managed REITs might not know about or be able to go after. For this reason, they like to focus on companies that have reliably grown their dividends over time. The financial crisis decimated many retirement accounts and was filled with shocks. Many iconic dividend growth stocks proved to be vulnerable. From General Electric to Bank of America, there was no shortage of surprises. During recessions, some businesses perform much worse than others because demand for their products and services is primarily driven by the health of the economy. Unfortunately, many economy-sensitive businesses happen to be major tenants for certain REITs. Real estate took a big hit during the financial crisis, and many REITs were clobbered. The chart below shows the total return of each REIT group in , , and Fortunately, several types of REITs were not as impacted by the recession. People continue to need many health care services regardless of how the economy is doing, which can make for more stable occupancy levels and rental rates for these REITs. It is a pain to move things in and out of storage. Items are usually stored for a reason, and storage companies usually have an easier time raising prices on their customers. This, in turn, makes them more reliable businesses with fairly predictable demand. While no one can predict when the next recession will occur, many investors are feeling cautious about another risk â€" rising interest rates. First, because of their business model, in which most growth capital comes from raising debt or issuing equity, higher interest rates mean higher borrowing costs. Typically the best REITs are run by conservative management teams that avoid overextending themselves when it comes to debt. Rising rates can affect property values as well. This healthy spread provides some cushion for commercial real estate prices if interest rates continue rising. This partially explains why REITs have done so stunningly well over the past decade, as income investors have bid up their prices due to their generous payouts and stellar track record of consistent dividend growth over time. However, the Federal Reserve is attempting to gradually end its ultra-loose monetary policy by raising the short-term Federal Funds rate. If the risk-free rate of return i. This intuitively makes sense, because any individual stock is naturally much riskier than U. Treasuries, even the highest quality REITs. Thus, investors will demand a risk premium in the form of a higher yield to own such stocks, and since yields and share prices are inversely correlated, the rise in yields means a fall in price. Not only does a potentially falling share price represent a risk that investors need to keep in mind especially if you will need to sell shares to finance medium-term goals such as retirement living expenses , but share prices can have a direct impact on how quickly a REIT can grow. Remember that REITs are periodically raising growth capital by selling new shares. So if the share price falls too low, it can become harder to grow because the cost of that capital might get too high. Think of it this way. And that dividend will hopefully rise over time. If the share price then falls to 0. This means more dilution to existing investors and a higher future dividend cost for the company. As a result, the AFFO payout ratio will rise, dividend security will fall, and future dividend growth might be harder to come by. They only issue more shares in the form of stock-based compensation to employees or to make large acquisitions. But rising interest rates will not spell doom for the industry, far from it. Rather, the more important dynamics to address are the underlying factors that drive rates higher. If interest rates are rising due to strength in the underlying economy and inflationary activity, stronger REIT fundamentals may very well outweigh any negative impact caused by rising rates. As of the fourth quarter of , REITs have clearly taken a number of actions to shore up their balance sheets and lower their exposure to interest rates. Compared to the pre-financial crisis period, they appear to be in great shape. Unusually strong price volatility could ripple across the REIT sector if the Fed continues raising rates at a brisk pace over the coming years, and investors need to be mentally and financially prepared. Focusing on REITs with experienced management teams, ones that have a proven track record of generating strong shareholder value and rising dividends, is all the more important in higher interest rate environments. REITs can be especially appealing for investors who seek high current income, dividend growth that can beat inflation, and stocks that provide some unique diversification benefits. However, as with all investments, moderation is key to long-term success. If you are selective in which REITs you invest in, focus on the most important industry-specific metrics such as AFFO, and remain properly diversified, this sector can make a solid addition for many dividend portfolios. Sign up for our free weekly newsletter and receive the best dividend stock ideas and tips right in your inbox. Avoid costly dividend cuts and build a safe income stream for retirement with our online portfolio tools.

8: 5 Types Of REITs And How To Invest In Them

Think of a REIT as similar to an exchange-traded fund, or ETF, except instead of investing in stocks or bonds, a REIT uses investors' money to acquire properties. Most REITs specialize in a.

A REIT is a company that owns and typically operates income-producing real estate or related assets. These may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and mortgages or loans. Unlike other real estate companies, a REIT does not develop real estate properties to resell them. Instead, a REIT buys and develops properties primarily to operate them as part of its own investment portfolio. Why would somebody invest in REITs? REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership â€” without actually having to go out and buy commercial real estate. What types of REITs are there? These are known as publicly traded REITs. Others may be registered with the SEC but are not publicly traded. This is one of the most important distinctions among the various kinds of REITs. Before investing in a REIT, you should understand whether or not it is publicly traded, and how this could affect the benefits and risks to you. What are the benefits and risks of REITs? Additionally, some REITs may offer higher dividend yields than some other investments. But there are some risks, especially with non-exchange traded REITs. Because they do not trade on a stock exchange, non-traded REITs involve special risks: Non-traded REITs are illiquid investments. They generally cannot be sold readily on the open market. If you need to sell an asset to raise money quickly, you may not be able to do so with shares of a non-traded REIT. Non-traded REITs typically do not provide an estimate of their value per share until 18 months after their offering closes. This may be years after you have made your investment. As a result, for a significant time period you may be unable to assess the value of your non-traded REIT investment and its volatility. To do so, they may use offering proceeds and borrowings. This practice, which is typically not used by publicly traded REITs, reduces the value of the shares and the cash available to the company to purchase additional assets. Non-traded REITs typically have an external manager instead of their own employees. This can lead to potential conflicts of interests with shareholders. For example, the REIT may pay the external manager significant fees based on the amount of property acquisitions and assets under management. These fee incentives may not necessarily align with the interests of shareholders. Generally, you can purchase the common stock, preferred stock, or debt security of a publicly traded REIT. Brokerage fees will apply. Non-traded REITs are typically sold by a broker or financial adviser. Non-traded REITs generally have high up-front fees. Sales commissions and upfront offering fees usually total approximately 9 to 10 percent of the investment. These costs lower the value of the investment by a significant amount. The shareholders of a REIT are responsible for paying taxes on the dividends and any capital gains they receive in connection with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. Consider consulting your tax adviser before investing in REITs. You should also check out the broker or investment adviser who recommends purchasing a REIT. To learn how to do so, please visit Working with Brokers and Investment Advisers.

9: Investing in REITs - The Road to One Million

Real estate investment trusts ("REITs") allow individuals to invest in large-scale, income-producing real estate. A REIT is a company that owns and typically operates income-producing real estate or related assets. These may include office buildings, shopping malls, apartments, hotels, resorts.

Real estate investment trusts REITs are a key consideration when constructing any equity or fixed-income portfolio. In short, their ability to generate dividend income along with capital appreciation makes them an excellent counterbalance to stocks, bonds, and cash. You can invest in the companies individually or through an exchange-traded fund or mutual fund. There are many types of REITs available. Here we look at a few of the main ones and their historical returns. By the end of this article, you should have a better idea when and what to buy. Historical Returns of REITs Real estate investment trusts are historically one of the best-performing asset classes available. Real estate was the worst performer of eight asset classes in just two years out of Fixed income, on the other hand, was the worst performer six times in the same year period. More recently, the three-year average for REITs between March and March was in line with the averages in the 20 year period, clocking in at Historically, investors looking for yield have done better investing in real estate than fixed income, the traditional asset class for this purpose. A carefully constructed portfolio should consider both. This represents the single biggest investment by type in America. When considering an investment in retail real estate, one first needs to examine the retail industry itself. Is it financially healthy at present and what is the outlook for the future? At that point, a new tenant needs to be found, which is never easy. These include grocery and home improvement stores. In a poor economy, retail REITs with significant cash positions will be presented with opportunities to buy good real estate at distressed prices. The best-run companies will take advantage of this. That said, there are longer-term concerns for the retail REIT space in that shopping is increasingly shifting online as opposed to the mall model. Owners of space have continued to innovate to fill their space with offices and other non-retail oriented tenants, but the subsector is under pressure. When looking to invest in this type of REIT, one should consider several factors before jumping in. For instance, the best apartment markets tend to be where home affordability is low relative to the rest of the country. In places like New York and Los Angeles, the high cost of single homes forces more people to rent, which drives up the price landlords can charge each month. As a result, the biggest residential REITs tend to focus on large urban centers. Within each specific market, investors should look for population and job growth. A falling vacancy rate coupled with rising rents is a sign that demand is improving. As long as the apartment supply in a particular market remains low and demand continues to rise, residential REITs should do well. As with all companies, those with the strongest balance sheets and the most available capital normally do the best. Healthcare REITs invest in the real estate of hospitals, medical centers, nursing facilities, and retirement homes. The success of this real estate is directly tied to the healthcare system. A majority of the operators of these facilities rely on occupancy fees, Medicare and Medicaid reimbursements as well as private pay. As long as the funding of healthcare is a question mark, so are healthcare REITs. Things you should look for in a healthcare REIT include a diversified group of customers as well as investments in a number of different property types. Focus is good to an extent but so is spreading your risk. Generally, an increase in the demand for healthcare services which should happen with an aging population is good for healthcare real estate. Therefore, in addition to customer and property-type diversification, look for companies whose healthcare experience is significant, whose balance sheets are strong and whose access to low-cost capital is high. They receive rental income from tenants who have usually signed long-term leases. Four questions come to mind for anyone interested in investing in an office REIT What is the state of the economy and how high is the unemployment rate? What are vacancy rates like? How is the area in which the REIT invests doing economically? How much capital does it have for acquisitions? Try to find REITs that invest in economic strongholds. The best known but not necessarily the greatest investments are Fannie Mae and Freddie Mac, government-sponsored enterprises that buy mortgages on the secondary market. An increase in interest rates would translate into a decrease in mortgage REIT book values, driving stock prices lower. In addition, mortgage REITs get a considerable amount of their capital through secured and unsecured debt offerings. Should interest rates rise, future financing will be more expensive, reducing the value of a portfolio of loans. In a low-interest rate environment with the prospect of rising rates, most mortgage REITs trade at a discount to net asset value per share. The trick is finding the right one. However, there are a few things to keep in mind when assessing any REIT. They include the following: REITs are true total-return investments. They provide high dividend yields along with moderate long-term capital appreciation. Look for companies that have done a good job historically at providing both. Unlike traditional real estate, many REITs are traded on stock exchanges. You get the diversification real estate provides without being locked in long-term. This is defined as net income less the sale of any property in a given year and depreciation. Simply take the dividend per share and divide by the FFO per share. The higher the yield the better. Strong management makes a difference. Look for companies that have been around for a while or at least possess a management team with loads of experience. Only invest in REITs with great properties and tenants. Bottom Line The federal government made it possible for investors to buy into large-scale commercial real estate projects as far back as However, only in the last decade have individual investors embraced REITs. Reasons for this include low-interest rates, which forced investors to look beyond bonds for income-producing investments, the advent of exchange-traded and mutual funds focusing on real estate and, until the real estate meltdown, an insatiable appetite on the part of Americans to own real estate and other tangible assets. REITs, like every other investment in , suffered greatly. But despite this, they continue to be an excellent addition to any diversified portfolio. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

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