FREQUENTLY ASKED QUESTIONS ON

REAL ESTATE INVESTMENT TRUSTS (REITS)

1. 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.

2. What does a REIT represents?

- Equity ownership
- Indirect access to large, stable estate portfolios in a tax efficient manner
- Tax efficiency ï investors are only taxed once
- High corporate governance ï REITs are governed by a Trust Deed as well as the stock exchange and the securities commission regulations, which define the operating procedures and ensure a high level of corporate governance

3. What are the benefits of investing in listed REITs?

- **Affordability**
  Investment in REITs cost a fraction of the cost of direct investment in real estate. You can start off with a minimal investment outlay.

- **Liquidity**
  REITs are more liquid compared to physical properties. Shares of publicly-traded REITs are readily converted to cash as they are traded on the stock exchange.

- **Stable income stream**
  REITs tend to pay out a steady dividend, which is derived from existing rents paid by tenants who occupy the REIT properties.

- **Exposure to a large-scale real estate**
  The benefits of the real estate are derived on a pro-rated basis through a REIT.

- **Professional management**
  REIT properties are managed by professionals who will add value for a higher yield, benefiting investors in the long run.

4. **How to invest and where to buy REITs?**

Similar to trading in stocks, you will be required to have a Central Depository System (CDS) account and a trading account maintained with a broker. You may buy or sell ETFs through your broker, remisier or via online trading during trading hours.

5. **What do I have to pay when buying and selling REITs?**

Like buying and selling stocks, investors need to pay brokerage commission, stamp duty and clearing fees.

6. **How are transactions in REITs settled?**

In the same manner as share transactions i.e. not later than 3 market days after the transaction date (T+3).

7. **What are the risks involved when investing in REITS?**

- **Returns are not guaranteed**
  The total return of a REIT is subject to the performance of the property market. Hence, the unit price of a REIT may go down if its underlying properties drop in value.

- **Loss of control over investment**
  Investors will not have direct control over the management company's investment decisions like when to buy or sell certain real estates, or how they will be managed.

- **Market factors**
  REITs are also subject to market demand and supply. As such, market fluctuations, confidence in the economy and changes in the interest rates may affect REITs price.

8. **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.

9. 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.

10. What are the 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.

11. What is a unitholder rights?

The key rights as a unit holders include rights to receive income and other distributions attributable to the units held; received the funds report of REIT; and participate in the termination of REIT by receiving a share of all net cash proceeds derived from the realization of the assets of REIT less any liabilities, in accordance with their proportionate interests in REITs.

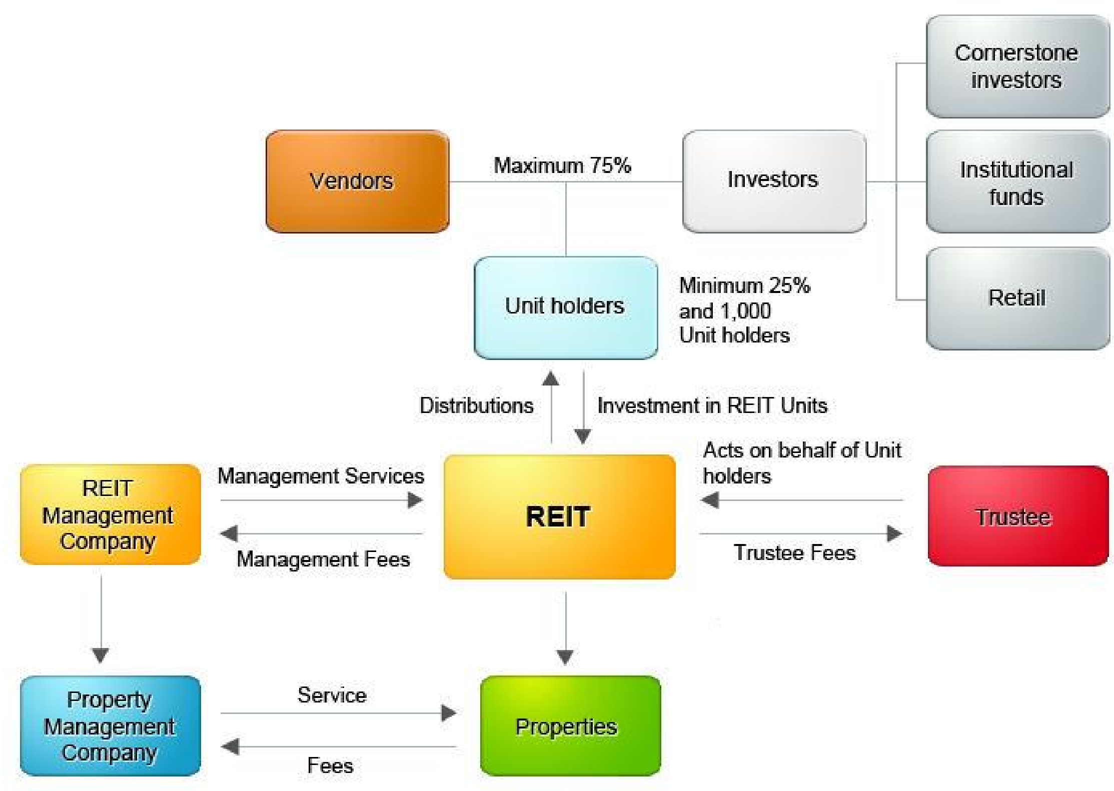
12. What do I have to pay when buying and selling REITs?

Like buying and selling stocks, investors need to pay brokerage commission, stamp duty and clearing fees.

13. How to select a good REIT?

Type of property	Property sub-sectors Quality of assets
Location	Prime location Geographical diversification
Growth potential	Organic growth Acquisition growth
Sponsor	Strong sponsor Good track record
Financial structure	Capital management Management gearing
Management team	Experience, professional, integrity
Governance	Compliance

14. Typical Conventional REIT Structure



15. REITs vs Property Companies

	REITs	Property Companies
Earning Profile	A REIT is driven by recurring rental income	A property company seeks a combination of property sales, development profits, rental income and property investments
Capital Structure and Cash Flow	A REIT has low and defined level of retained earnings, low debt level defined by the regulators and strong cash flow from operations	A property stock has a high gearing ratio due to high capital expenditure required for property development and sometimes negative cash flow; and low dividend payouts
Dividend Distribution Policy	A REIT will distribute 90% ï 100%of its retained earnings before tax	A property stock has no certainty of a dividend payout
Risk Profile	A REIT is a low risk, passive investment vehicle with a high certainty of cash flow from rentals derived from lease agreements with tenants	A property stock has a high development and financial risk
Corporate Governance	REITs are governed by multiple layers of stakeholders ï unitholders, manger, trustees, regulating authorities ensuring that interest of minority unitholders are protected	A property stock is often dominated by a controlling shareholder which raises conflict of interest issues with minority shareholders

Source: Bursa Malaysia