Real Estate Investment Trusts (REITs)

EXCHANGE RIGHT

A REIT is an investment vehicle that acquires, manages, and sells real estate in order to generate passive returns on behalf of its investors. The REIT structure enables investors to contribute capital, specific property, or DST interests to invest in a diversified portfolio of income-producing real estate.

REIT ownership entitles each investor to their portion of the income, depreciation and tax benefits, and the performance of the underlying real estate. REITs can specialize in a specific asset class or allocate their holdings across multiple classes. While REITs can provide unique income and tax benefits, it is important to remember that the quality of the real estate portfolio and its asset management are the primary factors determining whether a REIT can protect investor capital and provide stable returns.

POTENTIAL REIT BENEFITS AND CONSIDERATIONS

DIVERSIFICATION

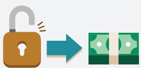
Investing in a REIT allows an investor to participate in a large portfolio of income-producing real estate, providing diversification by location, tenant, industry, lease term, and debt laddering.

PASSIVE RETURNS

REIT sponsors are responsible for all acquisitions, dispositions, management, accounting, reporting, and investor distributions. REITs are structured to provide investors with passive cash flow and return potential.

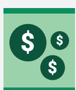
GROWTH OPPORTUNITIES

REITs are able to make property acquisitions on an ongoing basis and execute acquisitions or mergers with other real estate businesses, allowing the investors to participate in expansion and growth opportunities.



ENHANCED LIQUIDITY

Most non-traded REITs feature liquidity provisions for the investor after an initial minimum hold period. Liquidity provisions may be limited to quarterly processing, or suspended altogether if market conditions become extremely unfavorable.



TAX BENEFITS

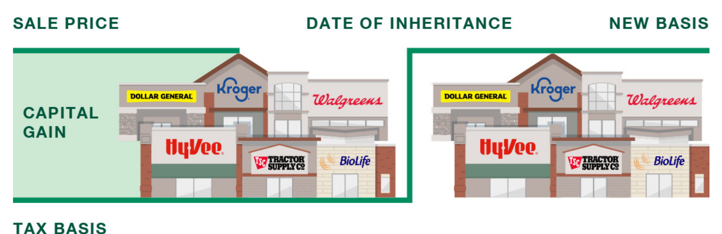
Investors' distributions may be significantly sheltered from income tax through depreciation and section 199A tax deductions. It is common for investors to shelter from 50% to 100% of their distributions from current taxation. Income tax that is deferred on current distributions may increase potential capital gains taxes if shares are sold.

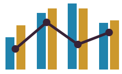
RISKS AND CONSIDERATIONS

Shares in a REIT carry risks associated with real estate, can be illiquid or have limited liquidity, and performance is not guaranteed. Investors should complete a careful analysis of the risks and benefits of any REIT before making an investment decision. See the reverse side for key factors to consider when reviewing REITs.

BENEFITTING YOUR HEIRS WITH A STEP-UP IN BASIS

REIT shares, similar to other real property assets, receive a step-up in tax basis to current market value upon the death of the owner. Heirs inheriting the REIT shares may sell them utilizing their stepped-up tax basis, often minimizing or eliminating capital gains.





ADJUSTED FUNDS FROM OPERATIONS

Has the REIT been consistently paying its dividends from Adjusted Funds From Operations ("AFFO") or has it been diluting investor value by paying dividends partially from investor equity or debt?

BALANCE SHEET STRENGTH

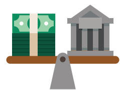
Strong Debt Service Coverage Ratios and balance sheets with plenty of liquid assets can provide access to sources of capital, increase diversification through acquisitions, and meet redemption expectations.

ALIGNMENT OF INTERESTS

How much are the managers co-invested in the REIT? Is the managers' fee structure designed to incentivize growing the REIT's value over time and making acquisitions that benefit investors?

MACROECONOMIC POSITIONING

The REIT should have diversified assets designed to bridge economic cycles, weather financial crises, and minimize the effects of market volatility.

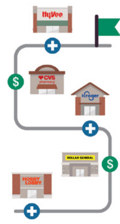


MODERATE LEVERAGE

Make sure the REIT is not significantly increasing your leverage. High leverage can create pressure to refinance in the future, leaves little operating margin, and risks cash flow swings or reduction in available liquidity.

SIMPLIFIED TAX REPORTING

A REIT issues each investor an annual 1099-DIV, which reports the taxable income and the 199A deduction to be filed on the investor's Federal and State tax return.



ACQUISITION PRINCIPLES

Look for a REIT with a disciplined acquisition strategy, ideally with a long pipeline of acquisitions pre-arranged for strategic growth, so that the REIT is not incentivized to make poor acquisitions just to place equity.

WALT AND WADT

The REIT should have laddered lease and debt terms, as well as a high Weighted Average Lease Term ("WALT") and a high Weighted Average Debt Term ("WADT") to bridge market disruptions and economic cycles.

ASSET/LIABILITY COORDINATION

The REIT should have well-coordinated lease and debt rollovers so that its assets and liabilities stay aligned in the long-term. This mitigates interest rate risks where the cost of its debt increases while its revenue stays fixed.

ALIGNMENT OF GOALS

Ensure there is an alignment of goals between you and the REIT's investment strategy. If your goal is consistent passive income, determine that the REIT is designed to minimize risk and provide steady distributions.

This information is intended to highlight the typical objectives, benefits, and characteristics found in REIT structures and may vary for individual REITs. This is not a recommendation of any specific REIT or investment offering. Potential benefits do not guarantee performance. Investors should read any REIT offering in its entirety and consult their tax and/or legal counsel before considering any investment in a REIT.

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