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ARE REITs RIGHT FOR YOU?

You can own real estate without having to be a landlord.

What is a REIT? A real estate investment trust (REIT) is a real estate investment company that manages a portfolio of income properties, distributing the lion's share of its profits as dividends. By getting into a REIT, you can gain an ownership interest in prime commercial real estate ... without the headaches of commercial real estate management.

How do REITs work? On one level, a REIT is an agreement with the IRS. In choosing a REIT structure, a real estate investment company agrees to pay out 90% or more of its taxable profits in dividends in exchange for avoiding corporate income tax.¹

In the typical public REIT, investors buy shares in the trust. (You may have heard the term "real estate stock" before; that's what we're talking about.) Like any other stock, REIT stock offers you the potential for dividend income and share value appreciation. REIT dividend income tends to be stable, as REITs usually invest in large commercial properties involving long-term tenant leases. The REIT may choose to make some of the dividend a nontaxable return of capital, which results in tax deferral and a lower taxable income for the investor during the period he or she holds the stock. That can boost the after-tax dividend yield. REITs don't pass their losses on to investors, and they usually don't have minimums.²

Non-traded REITs. Most REITs are listed on stock exchanges, but not all are. Some REITs are non-traded (or "non-listed"). Non-traded REITs are akin to private equity funds in that they are usually conceived to last less than 10 years before listing their shares, selling out, or liquidating. They typically invest aggressively when they start buying assets, and their dividend yields can be notably higher than those from publicly listed REITs.³

Are REITs right for your portfolio? Many investors are considering REITs these days, attracted by the diversification they provide for a portfolio. Notably, there are REIT mutual funds, closed end funds, and REIT ETFs to choose from, among several options. Give me a call before you make the move to invest in a REIT, so we can discuss the particulars surrounding REIT investments.

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