FINANCIAL MARKET

CANADIAN REITs 2025

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REITs(“REETS)

INTRODUCTION

Real Estate Investment Trusts (REITs) are publicly traded companies that own, operate or finance real estate. REITs pool funds from individual investors and use those funds to build a portfolio of real estate investments. When you invest in a REIT, you’re buying a share of that portfolio. REITs let you invest in real estate without having to buy, manage or finance real estate on your own, while providing a steady income steam.

TYPES OF REITs

Equity REITs

Equity REITs own or manage commercial properties like apartment buildings, office buildings, and shopping centres. Equity REITs lease properties to tenants and generate revenue primarily through the collection of rents and property sales.

Mortgage REITs

Mortgage REITs (mREITs) finance income-producing properties by lending money to real-estate owners and operators in form of loans, mortgages and mortgage-backed securities (MBS). They generate revenue by collecting interest on their loaned money. Profit is often tied to the cost to fund these loans, also called the net interest margin. This makes these products more sensitive to interest rate changes.

Hybrid REITs

Hybrid REITs are a mixture of equity and mortgage REITs. Hybrid REITs provide the benefits of both equity and mortgage REITs and can reduce the risks of investing in equity REITs or mortgage REITs alone.

How to Invest in REITs

Publicly Traded REITs: Publicly traded REITs are listed on public stock exchanges and can be purchased through an investment broker. Publicly traded REITs can be bought and sold just like stocks, making them a highly liquid form of investment.
Multiple REITs can also be pooled together in mutual fund or ETF. These also trade like traditional equity funds.

Public Non-listed REITs: Public non-listed REITs aren't listed or publicly traded on the stock market. Compared to publicly traded, public non-traded REITs can be harder to liquidate and can incur higher fees to trade.

Private REITs: Private REITs aren't traded on the stock market and, in most cases, can only be purchased by institutional investors.Private REITs aren't valued as frequently as public REITs and may only undergo valuation once a year.

Publicly traded REIT stocks, mutual funds and ETFs can all be purchased through a broker. Shares of non-traded REITs can only be purchased from eligible brokers or financial institutions.

SECTORS OF EQUITY REITs

- **Data centre REITs** specialize in data storage. They typically have temperature-regulated spaces with uninterruptible power supplies, which they lease out to technology companies for housing equipment.

- **Diversified REITs** manage numerous types of real estate, such as residential, commercial, and industrial space. Many focus on one market, such as a city or a district within the city, though some may even diversify by locale.

- **Health care REITs** operate health care-related properties, such as hospitals, medical offices, senior living communities, outpatient facilities, even science and research labs.

- **Hospitality REITs** own hotels and resorts, and make money by renting out rooms and conference space. Of all the REITs, hospitality REITs tend to be the most volatile, as they're connected to a fairly cyclical sector that requires a strong economy to perform well.

- **Industrial REITs** specialize in the storage and production of industrial goods and products. These spaces include food manufacturing facilities, temperature-controlled warehouses, office and flex space, even growing facilities for cannabis. Industrial REITs have taken off recently due to the surge in e-commerce companies, which need to rent facilities to store their products.

- **Infrastructure REITs** are unique in that they don't usually lease out physical space, such as buildings or land. Instead, they lease out infrastructure-related real estate, such as oil pipelines, fibre optic cables, cell towers, and other telecommunications assets.

SECTORS OF EQUITY REITs

- **Office REITs** rent out office space to tenants. These spaces could be as luxurious as skyscrapers or high-rises, or as basic as the tuition offices of a college in a small town. Many office REITs focus on a specific city or region, while others lease space by job type.

- **Retail REITs** lease out retail spaces, like shopping centres, malls, and freestanding retail stores. Though some brick-and-mortar retailers have lost momentum since the outbreak of COVID-19, many others will always need retail space, such as grocery stores and pharmacies.

- **Residential REITs** manage living space for tenants, including apartments, condos, and even houses. These REITs are typically stable investments, as the population is rising and people are demanding more rentals.

- **Self-storage REITs** operate storage facilities and lease them out to individuals and businesses. Of the 12 REIT types, self-storage REITs tend to perform the best. This is not only because demand for self-storage is high, but also because self-storage warehouses are cheap to build and maintain, making it easy to generate high margins.

- **Speciality REITs** are basically the “other” category of REITs, and can include spaces as diverse as casinos, trampoline parks, farmland, and sky-diving arenas.

- **Timberland REITs** own and operate timber-producing land. This might seem oddly specific, but the timber industry is very land-intensive, using land not only to grow trees but also to mill and sell timber.

Key Factors to Consider When Investing in REITs

Funds from Operations (FFO):

FFO tells investors how much cash flow is being generated from a REIT's operations. It's calculated by adding a company's net income, depreciation, and amortization expenses and subtracting gains from property sales. When looking to invest, look for REITs with a consistent and growing FFO.

Dividend Yield:

Dividend yield gives investors an idea of how much income they may earn from REIT dividends relative to the cost of investing. It's calculated by dividing annual dividend payments by the current share price. Be cautious of unusually high dividend yields as they may not be sustainable over the long term.

Occupancy Rate:

Occupancy rate measures the percentage of a REIT's properties that are currently occupied by tenants. Low occupancy rates may be a sign that there is limited demand for the properties held within a REIT, while high occupancy rates may indicate that REIT properties are in high demand.

Debt-to-Equity Ratio:

compares the amount of debt a company carries to the equity it's generated from shareholders. It's calculated by dividing a company's total debt by its total equity. REITs with a high debt-to-equity ratio may be taking on too much debt and may be more likely to default on their loans.

Property Type:

Different types of properties present different risks and potential returns. Rental properties may be less sensitive to economic downturns than commercial properties, but the rental income and long-term growth potential provided by commercial properties may be higher. Consider your investment goals and risk tolerance when thinking about which REITs to invest in.

Geographic Location:

Consider the location of the properties held within a given REIT before deciding to invest. If you're looking for high growth potential, consider investing in REITs that own or finance properties in high-growth areas. If you're more interested in stability, consider REITs that hold properties in more established markets. While these properties may offer lower growth potential, they may be less susceptible to market volatility as well.

Management Team:

Evaluate the track record and experience of the REIT management team as they can have a significant impact on the REIT's performance. Look for management teams with a proven history of successful investment decisions and generating value for investors

Regulatory Environment:

Changes to tax regulations and securities laws can impact a REIT's performance. If you invest in REITs, be aware of potential changes in the regulatory environment and how they may affect the REIT's performance and its ability to provide dividends to investors.

Advantages of Investing in REITs

1. Income generation: REITs can provide investors with a passive source of income by providing investors with divided payments on a monthly, quarterly, or annual basis.

2. Portfolio Diversification: Investing in REITs can help you diversify your portfolio. The real estate market tends to be less volatile in the short term than the stock market. Including REITs within your portfolio can help mitigate risks associated with investing in stocks, bonds and other assets. In addition, REITs hold a range of different properties, letting you invest in a range of real estate investments.

3. Liquidity and Accessibility: Buying or investing in real estate yourself can require a significant capital investment. In addition, selling real estate takes time, which can make physical real estate investments hard to liquidate. Investing in REITs helps to avoid these two problems. REIT shares can be purchased at a relatively low price and can be sold quickly if needed.

4. Inflation Hedging: REITs tend to perform well when inflation is high as the rent and value of properties held by REITs tends to increase during these periods.

Disadvantages of Investing in REITs

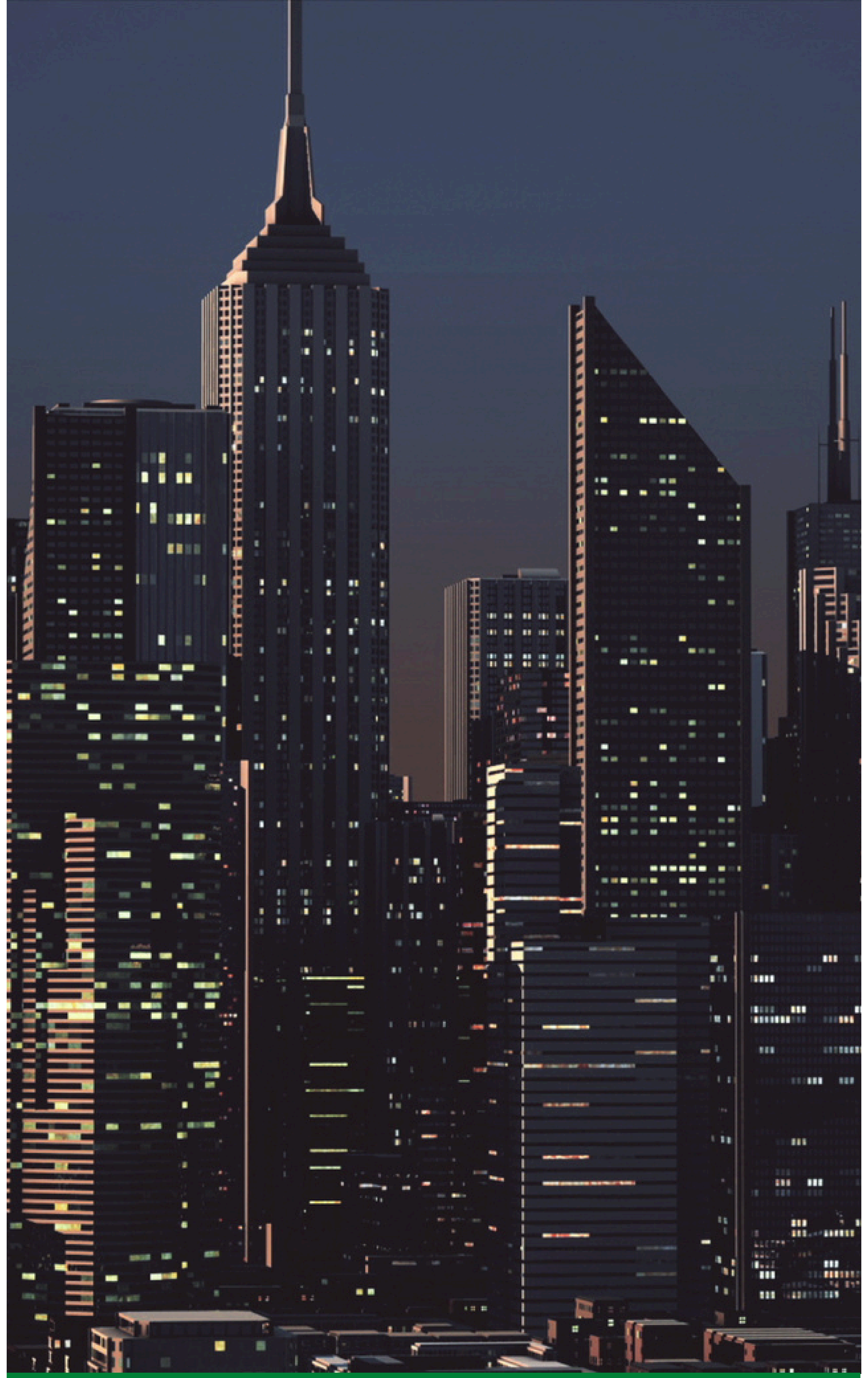
1. **Market Risks:** As REITs trade on stock exchange, REIT prices are subject to market fluctuations just like other stocks. In addition, all real estate investments are subject to volatility, including investments held within REITs. Changing trends in the real estate market or the demand for certain kinds of properties can influence the value of REITs and impact the REIT price.
2. **Interest Rate Risks:** The value of REITs can be very sensitive to changes in interest rates. During the economic growth period, REIT price and interest rates correlate positively. However, during a slower economy this relationship can turn negative. That's because if interest rates go up, the costs of carrying investment properties go up as well. This can eat into the profits generated by REITs and dividends paid to investors and decrease the value of REIT shares.
3. **REIT-specific Risks:** REITs face many of the same risks as posed by owning real estate. Fluctuations in property values, occupancy rates, and changes in rents and geographic demand all affect the value of REITs.

REIT ETFs

REIT (ETFs), on the other hand, invest their assets primarily in equity REIT securities and other derivatives. They often have low expense ratios and passively track indexes for the larger real estate market.2 These REIT indexes include a number of different types of REITs as components. By tracking an index, an investor can gain exposure to the larger real estate sector without having to risk capital on one individual company.

REIT ETFs invest the majority of their funds in equity REITs and other related securities. As noted above, these investments are passively managed around indexes of publicly-traded owners of real estate. They are generally known for and favored by investors because of their high dividend yields.

REIT ETFs resemble both equities and fixed income securities, providing very consistent income for investors. These kinds of assets must pay out the majority of their income and profits to shareholders on an annual basis.



How do REITs compare to real estate investing?

For those who have neither the time nor the capital needed to invest in real estate properties, REITs are certainly a strong alternative. In fact, in some cases, REITs can be much preferable to real estate investing.

Perhaps the strongest reason to invest in REITs over real estate is to have more liquidity. As a property owner, you can't effortlessly convert your property holdings into cash. The process is clunky and expensive, and it can take weeks or months before you finally close.

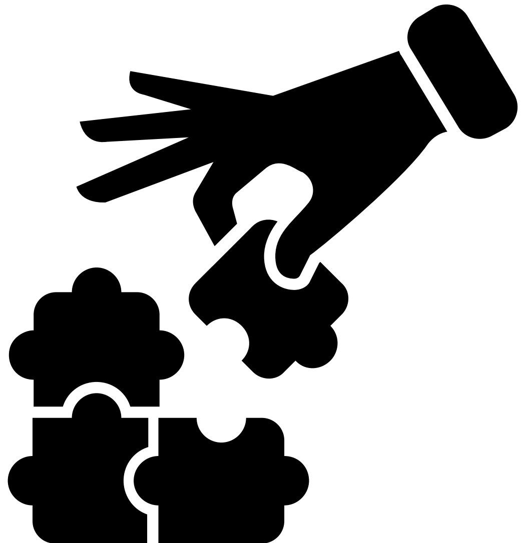
REITs, on the other hand, trade like stocks. To trade your shares for cash, just log into your brokerage account, sell your REIT, and deposit the money in your bank account. Depending on your broker, you might have to pay commission on your trade. Aside from that, the trade is effortless, and you'll have the money the same day.

While REITs don't appreciate on the same scale as real estate properties, they also don't crash quite as hard. This benefits risk-averse investors who want to benefit from real estate but also don't want to risk losing immense amounts of money.

Conclusion

REITs make it easy to invest in real estate without having to buy or manage properties yourself. They also let you invest in a portfolio of different properties, making investing in REITs less risky than investing in one or two individual properties. Different types of REITs will present different risks and potential rewards, so always consider your investment goals and risk tolerance when thinking about which REITs to invest in.

Understanding REITs and how to invest in them can help you make informed investment decisions and reach your financial goals sooner.



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Thank You

For Your Attention

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