



18 - REITs - ch. 21

🔍 course	MGMT 170
📁 area	ucla
🕒 created	@June 4, 2023 11:26 PM
🕒 updated	@June 15, 2023 10:08 AM
📌 ✓ tasks	
📌 📖 courses	🏠 <u>MGMT 170: Real Estate Finance</u>
🔗 URL	
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▼ Supplemental

▼ Lecture

▼ REIT structure

- ▼ created by US congress in 1960 for small investors to invest in property markets wo paying corporate tax
- ▼ REITs provide liquidity, dividends, diversification, and prof management
- ▼ if a REIT follows the rules, it will not payu tax at entity level and tax will passthrough to shareholders for dividends (losses not pass through)

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/2b641f74-5936-43a0-aa2f-a8bd9495ae03/16_-_REAL_ESTATE_INVESTMENT_TRUSTS_-_Chapters_21.pdf

- ▼ types of REITs
 - ▼ most are equity REITs that own properties - usually sing property type
 - ▼ rest are Mortgage REITs that own mortgages and MBS - on either resi or commercial
- ▼ REIT qualifications
 - ▼ managed by board of directors w at least 100 shareholders
 - ▼ no more than 50% equity can be in ≤ 5 sharehholders (5/50 rule)
 - ▼ shares must be fully transferrable and either public or private
- ▼ distribution reqs
 - ▼ $\geq 90\%$ of taxable income must be distributed as dividends → else corporate tax applied
- ▼ asset reqs
 - ▼ $\geq 75\%$ of assets must be related to real estate, govt secs, or cash
 - ▼ $\leq 20\%$ can be in taxable REIT subsidiaries (TRS) - authorized by 1999 REIT modernization act
- ▼ income reqs

- ▼ $\geq 95\%$ of gross income from real estate rents, profit on sale, mortgage interest, and dividends
- ▼ net asset value (NAV)
 - ▼ an accounting measure of REITs net worth - not true market value due to depreciated cost
 - ▼ if REIT's stock price reflects NAV more so than market value
→ may be prime takeover candidate
- ▼ funds from operation (FFO)
 - ▼ reit income is FFO = EPS adjusted by adding back depreciation and excluding profits from asset sales (only rent and interest)
 - ▼ a measure of dividend paying ability
- ▼ UPREITs
 - ▼ umbrella partnership reits issue operating partnership units (OP units) - convertible into REIT shares and allow REIT to buy appreciated properties w OP units instead of cash
 - ▼ so sellers can achieve 1031 tax deferred exchange
 - ▼ capital gains tax due when OP units transferred to REIT

shares

▼ REIT growth drivers

- ▼ increase NOI from existing properties (increase rent and occupancy)
- ▼ acquire more properties
- ▼ renovate/expand existing or on new land
- ▼ provide property services through TRS (taxable reit subsidiaries) - leasing, property management
- ▼ financial engineering - property debt or REIT corporate leverage

▼ Discussion



SUMMARY