

REIT Chapter 1

Introduction

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Is a REIT a stock or Real Estate?

-Traditional REIT is essentially a closed-end fund.

A **closed-end fund** is a collective investment scheme with a **limited number of shares**.

An **open-end fund** is a collective investment which can **issue and redeem shares at any time**. An **open-end fund** is **equitably divided** into shares which vary in price in direct proportion to the variation in value of the funds **net asset value (NAV)**.

—————→ **Most REITs are collected by close-end fund.**



Is a REIT a stock or Real Estate?



This investment vehicle is created **by the U.S Congress in 1960.**

Congress **waived** the corporate-level income tax on REITs.

The conditions are that REITs must **be widely held** and that they must **distribute most of their taxable income as dividends to shareholders.**

Before the creation of REITs → **property market**

With the creation of REITs → **stock market**

Is a REIT a stock or Real Estate?



REITs can be viewed as **pools of properties(or mortgages)** traded in the stock market. REITs investors need to understand **both** the property market and the stock market.

The prices of the REITs stocks **move significantly within a day** while the prices of the underlying properties stay the same.

In October 1987, the stock prices of REITs dropped more than 20%. → **Black Monday**

But the underlying value didn't drop on that day.

→ In the short run

Is a REIT a stock or Real Estate?



Because there is a problem about the actual value of the underlying properties which could let investors **arbitrage the profits**.



The Congress enacted laws governing REITs **limited the number of large investors** a REIT could have and also encouraged **diversified REIT ownership**.

Is a REIT a stock or Real Estate?



1. The **valuation** issue with REITs unique fund-type organizational structure

2. The constraints on corporate policies imposed by **tax regulations**

3. **Diversified ownership** structures

Make REIT a **unique** group in the stock market

Why REITs Deserve Our Attention



Real estate comprises 40-50% of the total wealth in United State.

The majority of commercial properties are in the hands of investors
What would happen if most of the commercial properties **were traded(via REITs)** in the stock market?



As the **size** of the REIT market **increases**, it will be important for us to understand this market much better than we do now.

Increasing REIT IPO Activities



Some of the commercial properties currently available will be **securitized and traded** in the stock market.

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In fact REITs contribute a significant to the IPO pool.

Initial public offering (IPO), also referred to simply as a "**public offering**," is the first sale of stock by a private company to the public. IPOs are often issued by **smaller, younger** companies **seeking capital to expand**, but can also be done by large privately-owned companies looking to become publicly traded.

REITs Are Different from Other Stocks



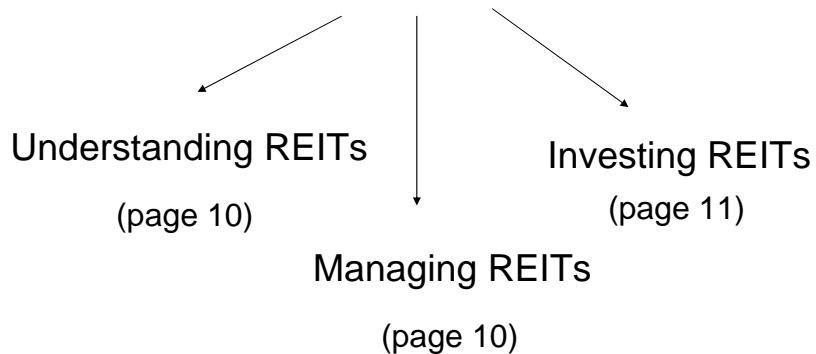
REITs **behave differently** from other types of stock in the market.

1. return prediction
2. price-generating processes
3. dividend policies
4. capital structure
5. initial and seasoned public offerings
6. merger activities



Underscore the need to understand them

Classify the Important Issues into Three Categories



Conclusion



Real estate investment trust (REIT) is the innovative real estate products which can be traded in the stock market. With the invention of REIT, small investors can use it as the investment vehicle to invest in the real estate market. As a student majoring in Real Estate, we can not miss the chance to understand this product. I believe we can learn much more in this class in the following days.



Thank you for your attention