What Is A REIT??

- Real
- Estate
- Investment
- Trust

- Portfolio of properties
- Operating Income (Rents, Leases, Sales, Managing)
What Is A REIT??

Classify as a REIT:

• Taxable Corporation (pays no taxes)
• Minimum of 100 Shareholders
• 75% of Total Assets in Real Estate
• 75% of gross income from rents from real properties
• At least 90% of taxable income must be paid out in dividends

Between September 1980 and September 2000, equity REITs had a total annual return that far outpaced that of direct property investments (12.57% vs 8.42%)
Residential

Risks:
- maintenance costs
- tenants not paying
- high turnover

Rewards:
- great opportunities for growth
- potential for rent increases

Manufactured Housing

Risks:
- limited rent increases
- low turnover
- no depreciation due to land

Rewards:
- Strong Demand
- Many Barriers to entry
Retail Properties

Risks:
- saturated
- success tied to brand name

Rewards:
- diversity of tenants
- shared operating costs
- rent tied directly to sales

Office REITS

Risks:
- must vulnerable to overbuilding
- tied to growth of surrounding businesses
- telecommuting and automation threaten growth

Rewards:
- stable tenants
- less improvement spending after tenant moves in
**Triple Net Lease**

**Risks:**
- credit risk
- interest rate risk

**Rewards:**
- Stable cash flows
- all operating costs are taken care of rent

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**Self Storage Center**

**Risks:**
- high management involvement
- not many barriers to entry
- very competitive
- high turnover

**Rewards:**
- consistent income
- more room to increase rents
- lack of financing has prevented overbuilding
Healthcare

Risks:
- M&A upward
- credit risk of operators
- more sensitive to debt rating

Rewards:
- great growth potential
- great diversification

Lodging Industry

Risks:
- very dependent on economic stability
- high turnover
- no barriers to entry
- must lease to third party agents

Rewards:
- brand name recognition
- diversification according to income class
- great opportunities for expansion
**Mortgage REITS**

**Risks:**
- highly dependent on credit quality
- interest rate risks

**Rewards:**
- declining interest rates are good
- diversification

**Diversified REITS**

**Risks:**
- pre-1990 diversified are loaded with debt
- passive management

**Rewards:**
- diversification
Performance

What Makes a Good REIT?

- High Dividend Yields
- Stable dividend income
- Portfolio Diversification
- Strong CAD and/or FFO
Valuation on REITS

FUNDS FROM OPERATIONS (FFO):
net income, excluding gains (or losses) from sales of property, plus depreciation and amortization

Cash Available for Distribution (CAD):
FFO adjusted for straight lining of rents (AFFO)

Office REIT

<table>
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<th>Ticker</th>
<th>Price</th>
<th>Dividend</th>
<th>CAGR</th>
<th>P/FFO</th>
<th>PEG</th>
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Recommend:
Trizec Hahn Corp (TZN)
Equity Office (EOP)
Healthcare REIT

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</table>

**Recommend:**
Health Care REIT (HCN)
Health Care Property (HCP)

Thank You