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REITs

REITs: Invest in Real Estate for Under $1000

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A real estate investment trust, or REIT, is a special type of company that can allow investor to acquire real estate in a tax efficient manner. REITs own real estate, but when you buy a REIT, you're not just buying real estate - you're also buying a business run by an experienced management team.

Real Estate Investment Trusts (REIT):

-REITs' total returns, over reasonably long time periods, have been very competitive with those provided by the broader market.

-The vast majority of REITs offer the liquidity provided by public equities markets.

-REITs provide diversification to your portfolio because their price movements, during most periods, are not highly correlated with the rest of the market.

-REITs' higher current yields frequently act as a shock absorber against daily market fluctuations.

-Analysts who follow REITs are normally able to forecast quarterly results within one or two cents, quarter after quarter, year after year, thus minimizing the chances for "negative surprises."

-REITs' higher yields raise the overall yield of the portfolio, thus reducing volatility and providing stable cash flows regardless of market gyrations.

-REIT stocks are equities, , as well as real estate, and thus are subject to the prevailing winds that blow across the investment world.

Background:

Real Estate Investment Trusts (REITs) sell like stocks on the major exchanges and invest in real estate directly through properties or mortgages.

Individuals can invest in REITs either by purchasing their shares directly on an open exchange or by investing in a mutual fund that specializes in public real estate. An additional benefit to investing in REITs is the fact that many are accompanied by dividend reinvestment plans (DRIPs). Among other things, REITs invest in shopping malls, office buildings, apartments, warehouses and hotels. Some REITs will invest specifically in one area of real estate - shopping malls, for example - or in one specific region, state or country. Investing in REITs is a liquid, dividend-paying means of participating in the real estate market.

Three Types:

Equity REITs: Equity REITs invest in and own properties (thus responsible for the equity or value of their real estate assets). Their revenues come principally from their properties' rents.

Mortgage REITs: Mortgage REITs deal in investment and

REIT Video

What to look for in a REIT:

If you try to estimate the value of a real estate investment trust (REIT), you will quickly find that traditional metrics like the earnings-per-share (EPS) ratio, growth, and the price-to-earnings (P/E) multiple do not apply.

When evaluating REITs, you will get a clearer picture by looking at ***1***.*funds from operations (FFO)* rather than looking at net income. If you are seriously considering the investment, try to calculate ***2***.*adjusted funds from operations (AFFO)*, which deducts the likely expenditures necessary to maintain the real estate portfolio. AFFO is also a good measure of the REIT's dividend-paying capacity. Finally, the ratio price-to-AFFO and the ***3***.*AFFO yield (AFFO/price)* are tools for analyzing an REIT: look for a reasonable multiple combined with good prospects for growth in the underlying AFFO.

1. Funds From Operations (FFO)

A figure used by real estate investment trusts (REITs) to define the cash flow from their operations. It is calculated by adding depreciation and amortization expenses to earnings, and sometimes quoted on a per share basis.

2. Adjusted Funds From Operations (AFFO)

A financial performance measure primarily used in the analysis of real-estate income trusts (REITs). The AFFO of a REIT, though subject to varying methods of computation, is generally equal to the trust's funds from operations (FFO) with adjustments made for recurring capital expenditures used to maintain the quality of the REIT's underlying assets. The calculation takes in the adjustment to GAAP straight-lining of rent, leasing costs and other material factors.

Regardless of how industry professionals choose to compute AFFO, it is considered a more accurate measure of residual cash flow for shareholders than simple FFO. This provides for a more accurate base number when estimating present values and a better predictor of the REIT's future ability to pay dividends. This is a non-GAAP measure.

3. AFFO Yield

In addition to being one measure of valuation, AFFO yield is often used as a proxy for a company's nominal cost of capital. It is calculated by dividing a company's per-share AFFO estimate by its stock price. If a company with an AFFO yield of ownership of property mortgages. These REITs loan money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans.

Hybrid REITs: Hybrid REITs combine the investment strategies of equity REITs and mortgage REITs by investing in both properties and mortgages.

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6.5% buys a property at a going-in stabilized return of 7.5%, it has acquired the property at a 100 basis point (or one percentage point) positive spread to its nominal cost of capital.

Full Glossary of REIT Terms

For free personal investment advice and portfolio help, contact us at MrStockTip@TrautFinancial.com

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