Real Estate Investment Trust (REIT)as a Vehicle for Wealth Creation

TOWN AND GOWN SEMINAR PRESENTATION

AT THE

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BY

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History of REITs

- Congress created REITs in 1960 to make investments in large-scale, income-producing real estate accessible to average investors.
- Congress decided that a way for average investors to invest in large-scale commercial properties was the same way they invest in other industries – through the purchase of equity.

- In the same way shareholders benefit by owning stocks of other corporations, the stockholders of a REIT earn a pro-rata share of the economic benefits that are derived from the production of income through commercial real estate ownership.

- REITs offer distinct advantages for investors: portfolio diversification, strong and reliable dividends, liquidity, solid long-term performance and transparency.

content

- What is REIT?
- Types of REIT
- Classes of properties within REITs portfolio
- Investors
- The Estate Surveyor & Valuer
- The Nigerian experience

What is REITs?

- Real estate investment trust scheme is a company that owns or finances income producing real estate.

- Modelled after mutual funds, REITs provide investors all types of regular income streams, diversification and long-term capital appreciation. REITs typically pay out all of their taxable income as dividends to shareholders. In turn, shareholders pay the income taxes on those dividends.

Types of REITs

- Most REITs are traded on major stock exchanges, but there are also public non-listed and private REITs.
- The two main types of REITs are :
- Equity REITs and
- Mortgage REITs.

Types of REITs

- The two types give investors the opportunity to invest in either:
- the equity financing or
- the debt financing of real estate.

- Equity REITs are real estate companies that acquire commercial properties – such as office buildings, shopping centers and apartment buildings – and lease the space in the structures to tenants

- After paying the expenses associated with operating their properties, Equity REITs pay out annually the bulk of the income to their shareholders as dividends.
- Equity REITs also include capital appreciation from the sale of properties in the dividends they pay.

- In the case of Timber REITs, their dividends include gains from the sale of timber.
- In all cases, this significant dividend distribution is designed to approximate the investment return investors would receive if they owned properties directly

- Mortgage REITs invest in real estate mortgages or mortgage-backed securities, earning income from the interest on these investments, as well as from the sales of mortgages. Mortgage REITs, like other businesses, earn their profit from the difference between the income they receive and their costs, including their funding costs to purchase mortgage investments. They have the same requirement as Equity REITs to distribute the bulk of their income to their shareholders annually.

- Public Equity REITs and Mortgage REITs may be listed on major stock exchanges, or they may be non-listed. Both are registered with the Securities and Exchange Commission (SEC), but non-listed REITs are sold directly to investors by brokerage firms and are not traded on any exchange. Equity and Mortgage REITs also can be privately held.

- REIT-owned properties are located in every state and according to an E&Y study, support an estimated 1.8 million U.S. jobs annually. U.S. REITs have become a model for REITs around the world, and now more than 35 countries around the world have adopted REIT legislation.

Statutory framework of a REIT

- To qualify as a REIT a company must:

- Invest at least 75 percent of its total assets in real estate
- Derive at least 75 percent of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate

Statutory framework of a REIT CONTD.

- Pay at least 90 percent of its taxable income in the form of shareholder dividends each year
- Be an entity that is taxable as a corporation
- Be managed by a board of directors or trustees
- Have a minimum of 100 shareholders
- Have no more than 50 percent of its shares held by five or fewer individuals

Reasons for REIT Investment

- Who invests in REITs?
- Individual investors of all ages, both in the U.S. and worldwide, invest in REITs directly or through REIT mutual funds. Other typical buyers of REITs are exchange traded funds, pension funds, endowments, foundations, insurance companies and bank trust departments.

Reasons for REIT Investment CONTD.

- Investors typically are attracted to REITs for their high levels of continuing current income and the opportunity for long-term growth. These are the basic characteristics of commercial real estate investment.
- Today, a broad range of investors are using REITs to help achieve the investment goals of diversification, dividends, liquidity, performance and transparency.

INVESTORS

- Individual Investors
- Individual investors represent a core component of the REIT investment universe.
- Whether investing in individual companies, through a REIT mutual fund or exchange-traded fund or through a retirement plan, an increasing number of individuals have recognized the benefits of including a REIT allocation in their investment portfolios.

INVESTORS CONTD.

- Financial Professionals
- If you're among the majority of financial advisors who recommend REITs for portfolio diversification, you already understand how marketplace factors are converging to create needs that real estate investment trusts are well positioned to address.

INVESTORS CONTD.

- These factors include and ongoing need for the regular investment income stream that REITs have historically provided and Investor interest in benefiting from an improving economy and the ongoing recovery of commercial real estate.

INVESTORS CONTD.

- Pension and Endowment Funds
- As pension, endowment and foundation fund investors evaluate the benefits that exposure to commercial real estate bring to investment portfolios, they should know that stock exchange-listed REITs and real estate securities offer meaningful advantages as a way of obtaining that exposure.

INVESTORS CONTD.

- Stock exchange-listed REITs have delivered consistently higher long-term investment returns when compared with other public market equity and fixed income investments, as well as with private equity real estate investment benchmarks

INVESTORS CONTD.

- Defined Contribution Plans
- Defined benefit pension plans have invested in real estate, including stock exchange-listed REITs, for decades. While defined contribution programs such as 401(k), 403(b) and 457 plans, have been slower to include real estate, their adoption of the real estate asset class in recent years has been rapid. A significant portion of plans have added real estate investment options on a stand-alone basis. *However, many more have incorporated the asset class within their asset allocation offerings, such as target-date funds.*

Why should I invest in REITs?

- REITs are total return investments. They typically provide high dividends plus the potential for moderate, long-term capital appreciation. Long-term total returns of REIT stocks are likely to be somewhat less than the returns of higher risk, high-growth stocks and somewhat more than the returns of lower risk bonds.

- REITs are required by law to distribute each year to their shareholders at least 90 percent of their taxable income. Thus, REITs tend to be among those companies paying the highest dividends. The dividends come primarily from the relatively stable and predictable stream of contractual rents paid by the tenants who occupy the REIT's properties. Because rental rates tend to rise during periods of inflation, REIT dividends tend to be protected from the long-term corrosive effect of rising prices.

Why should I invest in REITs? CONTD.

- The low correlation of listed REIT stock returns with the returns of other equities and fixed-income investments varies over time. Thus, including listed REITs in your investment program helps build a more diversified portfolio.

Why should I invest in REITs? CONTD.

- REITs historically offer investors:
- Income & Long-term Growth: REITs provide competitive long-term rates of return that complement the returns from other stocks and from bonds.
- High Dividend Yield: Significantly higher on average than other equities, the industry's dividend yields historically have produced a steady stream of income through a variety of market conditions.
- Liquidity: Shares of publicly traded REITs are readily converted into cash because they are traded on the major stock exchanges.
- Professional management: REIT managers are skilled, experienced real estate professionals.
- Oversight: Independent directors of the REIT, independent analysts, independent auditors, and the

Why should I invest in REITs? CONTD.

- business and financial media monitor a publicly traded REIT's financial reporting on a regular basis. This scrutiny provides investors with a measure of protection and more than one barometer of the REIT's financial condition.
- Disclosure obligations: REITs whose securities are registered with the SEC are required to make regular SEC disclosures, including quarterly and yearly financial reports.

Why should I invest in REITs? CONTD.

- Is homeownership a substitute for investing in REITs?

- A house is a consumption good, not an investment, particularly when financed with a sizeable mortgage. It does not produce current income, but rather requires regular mortgage interest, real estate tax and insurance payments, plus other occasional expenditures, to be properly maintained.

- In contrast, REITs represent investment in commercial real estate, which generates continuing income flow from rents.

Why should I invest in REITs? CONTD.

- Additionally, an investment in a REIT represents an investment that is diversified across a range of real estate properties in a variety of geographic locations. By comparison, a home's investment risk is not diversified, but rather highly concentrated in a single location.

Why should I invest in REITs? CONTD.

- The low correlation of REIT returns with house price returns, combined with the historically attractive total returns of REITs, make it no surprise that REITs show up in the optimal portfolios designed for both homeowners and renters

challenges

- Title transfer in Nigeria
- Economic climate- purchase of its units
- Awareness of the scheme
- Cost of property maintenance
- Returns on investment in relation to the money market
- Reporting standards

challenges

- The SEC (Securities and Exchange Commission of Nigeria is very ignorant of the workings of the REITs
- The Nigerian environment needs to be regulated
- The lack of manufacturing affects building raw materials

The Nigerian experience

- The UPDC REITs is the largest in Nigeria with a portfolio of about N30B as at opening March 19, 2013 @ a quote of N10/unit
- The Union Home REITs at initial offering was N
- Skye shelter initial offering was N

The Estate surveyor & Valuer in the REITS

- Education: the requisite knowledge is lacking in the curriculum of estate management
- Professional pressure is lacking for the right structure
- Specialisation is highly required

REITs Administration

- Sponsor

- 2. Fund Manager
-
- 3. Lead Issuing House:
-
- 4. Co-Issuing House: BGL Plc.
-
- 5. Joint Trustees to the REIT: F
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- 6. Custodian:

- 7. Solicitors to the Joint Trustees
- 8. Solicitors to the Offer:
- 9. Reporting Accountants
- 10. The Offer: 3,000,000,000 Units of N =10.00 each at par in the REIT.
- 11. Mode of Offer: Offer for Subscription.
- 12. Nature of the REIT

Way forward

- NAREIT takes seriously its role in encouraging development and adoption of effective sustainability practices in REIT-based real estate investment, and the annual working forum is just one of the many ways in which NAREIT plays its part.

- For example, NAREIT began presenting the Leader in the Light Awards in 2005 to honor member companies that have demonstrated superior and sustained sustainability practices. Beginning in 2012, NAREIT modified its judging criteria to include the results of the Global Real Estate Sustainability Benchmark (GRESB) Annual Survey, enabling the companies competing in Leader in the Light to measure their performance against a global benchmark. GRESB's annual survey measures the environmental performance of property portfolios around the world. The survey is endorsed and closely watched by many of the world's largest institutional investors, representing, in 2014, more than $5.5 trillion in institutional capital under management.

- Going forward, NAREIT will not only build on efforts such as the Leader in the Light Working Forum, but seek out partnerships with like-minded organizations such as GRESB and RealFoundations, a participant in this year's event, and others. Just as it communicates the investment benefits of REITs to the broader public, NAREIT will continue to highlight the REIT industry's contributions to sustainable real estate ownership and operations.

- Study: REITs Raising Investment in Sustainability, Growing Returns
- A study of data from NAREIT's Leader in the Light program found that participating companies increased their total investment in energy efficient projects by roughly 30 percent over their three-year moving average from 2011 to 2013. The study, which was conducted by RealFoundations, also determined that savings in 2014 from sustainability projects nearly doubled the previous three-year moving average.

It's an exciting time. Innovation and challenges breed opportunity.

- **Tom Toomey, president and CEO of multifamily REIT UDR, Inc. is the first CEO of a public firm to serve as global chairman of the Urban Land Institute (ULI).**