What is a REIT

By ANNA CHANG-YEN | Green Shoot Media


© FOTOLIA

There are all kinds of places to stash your cash, but one unique investing tool allows you the opportunity to cash in on the real estate market without ever buying property.

REITs, or real estate investment trusts, pool money from various investors to make real estate buys in hopes of beefing up investors' bottom lines.

The National Association of Real Estate Investment Trusts defines a REIT as "a company that owns or finances income-producing real estate."

According to the Securities and Exchange Commission, "REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership – without actually having to go out and buy commercial real estate." REITs may own many types of properties, such as apartment and office buildings, shopping malls and industrial parks, and may even purchase mortgages or mortgage-backed securities to generate income.

A REIT must pay out 90 percent of its taxable income — usually derived from rent and interest — to shareholders. Like all companies, a REIT has a board of directors who oversee the company's activities.

REITS pooled investor money to cash in on low interest rates following the housing crisis of the mid-2000s. CNBC notes that the MSCI U.S. REIT Index was up 30 percent in 2014, but when interest rates rise, REITS become less attractive to investors because of fears that their profits will suffer and the attractiveness of more predictable financial vehicles, such as bonds.

WHY CHOOSE A REIT

If you have a sum of money you're looking to invest, you might consider buying real estate. Perhaps you've got your eye on a single-family home you intend to rent out at a profit or a cash-generating laundromat or office building. In the same way that mutual funds allow investors to spread their money over several different investments by strategically purchasing stocks, a REIT is a way to invest money in various types of real estate ventures. Instead of putting all your eggs in one basket with an investment that is more susceptible to risk — for example your renters don't pay their rent or your laundromat is put out of business by new competition — you may be able to manage your risks by using that same money to buy into a REIT.

HOW TO INVEST

Some REITS are publicly traded, while some are privately held. If you decide to invest in a REIT, you can do so in the same way you buy stocks or mutual funds. Speak with an investment banker or stock broker about the options available. A privately held REIT will be represented by a specific broker. As with any investment, do your own research about the company's strategies and goals before investing any money.

HOMEWISE Real Estate Tips and Advice

© FOTOLIA

What is a REIT?

By ANNA CHANG-YEN | Green Shoot Media

There are all kinds of places to stash your cash, but one unique investing tool allows you the opportunity to cash in on the real estate market without ever buying property.

REITs, or real estate investment trusts, pool money from various investors to make real estate buys in hopes of beefing up investors' bottom lines.

The National Association of Real Estate Investment Trusts defines a REIT as "a company that owns or finances income-producing real estate."

According to the Securities and Exchange Commission, "REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership – without actually having to go out and buy commercial real estate."

REITs may own many types of properties, such as apartment and office buildings, shopping malls and industrial parks, and may even purchase mortgages or mortgage-backed securities to generate income.

A REIT must pay out 90 percent of its taxable income — usually derived from rent and interest — to shareholders. Like all companies, a REIT has a board of directors who oversee the company's activities.

REITS pooled investor money to cash in on low interest rates following the housing crisis of the mid-2000s. CNBC notes that the MSCI U.S. REIT Index was up 30 percent in 2014, but when interest rates rise, REITS become less attractive to investors because of fears that their profits will suffer and the attractiveness of more predictable financial vehicles, such as bonds.

WHY CHOOSE A REIT

If you have a sum of money you're looking to invest, you might consider buying real estate. Perhaps you've got your eye on a single-family home you intend to rent out at a profit or a cash-generating laundromat or office building. In the same way that mutual funds allow investors to spread their money over several different investments by strategically purchasing stocks, a REIT is a way to invest money in various types of real estate ventures. Instead of putting all your eggs in one basket with an investment that is more susceptible to risk — for example your renters don't pay their rent or your laundromat is put out of business by new competition — you may be able to manage your risks by using that same money to buy into a REIT.

HOW TO INVEST

Some REITS are publicly traded, while some are privately held. If you decide to invest in a REIT, you can do so in the same way you buy stocks or mutual funds. Speak with an investment banker or stock broker about the options available. A privately held REIT will be represented by a specific broker. As with any investment, do your own research about the company's strategies and goals before investing any money.

REAL ESTATE 101

REITs to Watch

Forbes Magazine compiled a list of REITS that it expected to grow its dividends the most in 2016. At the top was CubeSmart, an equity REIT focused on the self-storage industry. See Forbes' other predictions for REITS expected to grow their dividends this year at **http://bit.ly/29C3YtH**.

HOMEWISE GLOSSARY

REIT: a company that owns — and typically operates — income-producing real estate or real estate-related assets. A REIT must be an entity that would be taxable as a corporation but for its REIT status; be managed by a board of directors or trustees; have shares that are fully transferable; have a minimum of 100 shareholders after its first year as a REIT; have no more than 50 percent of its shares held by five or fewer individuals during the last half of the taxable year; invest at least 75 percent of its total assets in real estate assets and cash; derive at least 75 percent of its gross income from real estate related sources, including rents from real property and interest on mortgages financing real property; derive at least 95 percent of its gross income from such real estate sources and dividends or interest from any source; and have no more than 25 percent of its assets consist of non-qualifying securities or stock in taxable REIT subsidiaries.

SOURCE: U.S. Securities and Exchange Commission