THE Nigerian STOCK EXCHANGE

Real Estate Investment Trusts (REITs): Frequently Asked Questions

1. What are Real Estate Investment Trusts (REITs)?

Real Estate Investment Trusts (REITs) are funds that invest in a portfolio of income generating real estate assets such as shopping malls, offices or hotels, usually with a view to generating income for unit holders of the fund(i.e. investors of the REITs). It is created when a corporation or trust invests in real estate and real estate-related investments, using investors' money.

Assets of REITs are professionally managed and revenues generated from assets (primarily rental income) are normally distributed at regular intervals to investors. REITs allow investors to access real property assets, and share the benefits and risks of owning a portfolio of properties.

2. Why invest in Real Estate Investment Trusts (REITs)?

I. Total Return: REITs typically provide high dividends plus the potential for moderate, long-term capital appreciation. They also have regular cash flows since most of the revenues are derived from rental payments under lease agreements with specific tenure.

II. Liquidity: A major benefit of investing in REITs is the reduction of the liquidity risk associated with holding physical properties. Through a REIT, the individual investor has access to invest in commercial real estate without the normally associated large capital of purchasing buildings directly.

III. Competitive Yield: REITs typically have a competitive yield compared with other types of investments. In some jurisdiction, regulation requires that most of the income generated by a REIT is passed on to the shareholders, as compared to income generated by most operating companies in which the board may determine to distribute a substantially lower portion of the company's income to shareholders.

IV. Portfolio diversification: REITs offer portfolio diversification given the underlying assets are actual buildings, rather than an equity or fixed-income security. Also, REITs typically own multi-property portfolios with diversified tenant pools. This reduces the risk of relying on a single property and tenant in the case of directly owning a real estate asset.

V. Minimal investment risk: REITs own hard, tangible assets like land and buildings. As the mortgage holders on the properties they own, the REIT is a higher-priority "creditor" of corporate tenants than are bond or stock holders of that tenant company.

VI. Professional Management: A REIT employs a staff of professionals who oversee the management of the portfolio of real estate assets. These specialized employees provide a variety of services including day-to-day oversight, management, accounting, leasing, marketing and related support.

3. What Types of REITs are there?

REITs often are classified in the following categories:

I. **Equity REITs** invest in and own actual properties. They mostly own and operate income-producing real estate, such as shopping centers, health care facilities, apartments, warehouses, office buildings and hotels. The revenues for equity REITs come principally from their properties' rents.

II. **Mortgage REITs** invest in and own property mortgages. These REITs loan money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Mortgage REITs mostly lend money directly to real estate owners and operators or extend credit indirectly through the acquisition of loans or mortgage-backed securities. Their revenues are generated primarily by the interest they earn on the mortgage loans.

III. **Hybrid REITs** invest in a combination of properties and mortgages.

4. What types of properties do REITs own and manage?

REITs own and manage a variety of property types: shopping centers, health care facilities, apartments, warehouses, office buildings, hotels and others. Most REITs specialize in one property type only, such as shopping malls, timberlands, data centers or self-storage facilities.

Some REITs invest throughout the country or, in some cases, throughout the world. Others specialize in one region or even a single metropolitan area.

5. What are the associated risks with REITs?

The risks associated with a REIT investment vary and depend on the unique characteristics of each REIT (e.g. leverage ratio, cost of refinancing, alignment of management fees), as well as the geographical location and quality of the underlying property investments (e.g. concentration of properties, length of lease). Other risks associated with stock investing (e.g. price risk, volatility and liquidity risks) also apply.

It is necessary for investors to study the specific REIT prospectus, in order to understand its investment objective and details of the properties to be acquired before making an investment decision.

6. Who invests in REITs?

There are no regulatory restrictions on eligible investors in REITs therefore all classes of investors are eligible including individual investors (retail and high net worth) and institutional investors such as PFAs, Insurance Companies, Funds etc. Foreign Portfolio investors can also invest in REITs.

REITs are available to retail investors just like other shares. They cater for the liquidity risk in holding physical property and an investment in REITs typically represents an investment that is diversified across a range of real estate properties in a variety of geographic locations.

7. How do investors own REITs?

Investors own REITs directly, through REIT mutual funds or through REITs Exchange Traded Funds

REITs are listed and traded on Stock Exchanges. As with other securities, an individual may invest in REITs by purchasing desired units via the initial public offer or in the secondary markets through a securities dealer.

Costs of trading REITs in the secondary markets are same as for buying or selling any other publicly traded stock.

8. How are REITs traded on the NSE?

REITs are traded like shares on the Exchange. There prices are market driven and are quoted real time on the NSE website.

9. What are the regulatory requirements for listing REITs

Presently the NSE regulatory requirements for Unit Trusts are also applicable for REITS, see http://www.nse.com.ng/regulation-site/Documents/The%20NSE%20RuleBook%202015.pdf.
However as part of an ongoing restructuring of the REITs segment, Specific rules relating to REITs and Closed End Funds will be incorporated into the Rulebook of The Exchange.

10. Do REITS issuers disclose relevant information like listed companies?

REITs issuers file financials and key performance metrics via the X-Issuer portal. This is accessible to investors via our website: http://www.nse.com.ng/issuers/corporate-disclosures/company-results and http://www.nse.com.ng/issuers/corporate-disclosures/issuers-announcements

NOTES:

1. The above information does not constitute investment or legal advice. Professional advice should be sought by stakeholders or potential investors where required.

2. For further information: Please visit our website or email productmanagement@nse.com.ng or LSRsales@nse.com.ng