

Investing in REITs





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01

Different Types of REITs

Introduction



A REIT (Real Estate Investment Trust) is a company that owns, operates, or finances real estate. As part of one's portfolio, REITs are stable instruments allowing access to valuable real estate and dividend-based income.

REIT stands for real estate investment trust and it refers to a company that owns and operates real estate in order to generate income. Different REITs specialize in different types of sectors, allowing a massive opportunity for diversification for consumers.

Various property types such as apartment complexes, commercial complexes, health care facilities, data centres, infrastructure (like cables, energy pipelines and cellular towers), self-storage, warehouses, office buildings, timberland, and others all can fall under REITs. Investing in REITs allows investors to generate a steady form of income because the dividends are shared. This is an extremely important thing to keep in mind because fixed income investments often tend to take a bit of a backseat in the face of stocks, bonds, and other forms of investments that offer a superior return.

However, for investors with a low-risk appetite, and investors looking to diversify their portfolio by adding a few stable entities into the mix, REITs can certainly prove to be a huge boom. It allows you to not only preserve capital but also gain a stream of guaranteed income, which can then be used to facilitate more investments down the line if need be. Investing in a variety of asset classes can help you reduce the risk you're exposed to, keep your income high, and even stay ahead of inflation. Additionally, REITs also offer the benefit of high liquidity, letting investors feel secure in the knowledge that if the going gets tough, they can get out with their assets.

What are the different types of REITs that can help with diversifying your portfolio?

In order to understand how REITs can diversify your portfolio, it's important to note that there are different types of REITs that can help you divide your funds between equity and debt markets, while still guaranteeing a fixed income. Some of the most commonly sought after types of REITs available for investors include the following:



Equity REITs: these REITs are the ones that own commercial property directly. They can include any of the following: office buildings, storage units, medical centres and even shopping malls.



Mortgage REITs: these REITs do not directly own any property, which is why they fall under the debt category. They are ideal for investors that want to reduce their risk by a huge margin.

What are the advantages of investing in REITs?

01



When a person buys a share of REIT, this means that they now own a physical asset that has a lifespan that's expected to be long. This means that there is always the potential to collect rent while also benefiting through property appreciation. An investment such as this creates a safety net for the investors as they always have the security of the underlying property.

02



Another advantage that comes with investing in REITs is that people can invest in real estate without having to worry about the high capital. For instance, if you're to invest in a residential property, you have to pay a sum that exceeds what your investment in a particular REIT may be. In order to mimic the kinds of returns you would get from REITs, you would have to invest in lots of different types of properties, which may not be possible if you are young and just starting out your investment journey.

03



As the funds a REIT receives are generally pooled together, investors can enjoy high levels of diversification as this allows them to buy different types of properties. This reduces problems that are typically associated with owning a single asset.

04



As the funds a REIT receives are generally pooled together, investors can enjoy high levels of diversification as this allows them to buy different types of properties. This reduces problems that are typically associated with owning a single asset.



Retail REITs are real estate investment trusts that own and manage retail real estate properties. They further rent those properties to tenants and this is how they make money. Retail REITs include a plethora of REITs that own and manage –

- Large regional malls
- Outlet centres
- Grocery shopping centres
- Power centres that are the base for big-box retailers
- Freestanding properties

The above-mentioned categories are the sub-categories of properties that are managed by Retail REITs. A Retail REIT may track a single category or several of them – it is different for every REIT. For investors that like a steady cash flow, Retail REITs are recommended because every REIT is legally required to distribute 90% of their taxable income to the shareholders as dividends. This goes for all the other REITs as well. This is a very big plus point for any investment and it makes Retail REITs attractive for investors as well.

Why should you invest in Retail REITs?

As an investor, it is your right to know all the advantages of an investment before tying up your money. Here are some reasons in favour of Retail REITs that will convince you and your risk appetite to invest in Retail REITs .



Regular dividends are guaranteed. As discussed before, every REIT has to distribute 90% of its taxable income as dividends.



It is a great long-term investment for investors who want to diversify their portfolio, balancing their risk with various small investments instead of risking it all in a single investment.



Retail REITs, just like every other REIT, are traded on public exchanges, which makes it convenient to buy and sell them. This also makes them quite transparent, which is a bonus for every investment.

How can you invest in Retail REITs?

There are quite a few ways to invest in Retail REITs. You can explore Retail REITs ETFs and Retail REITs mutual funds that are traded publicly. Another way is to purchase them from a broker directly. Knowing when and with whom is more important than knowing how to invest in Retail REITs. As you need a lot of knowledge about the industry to make a balanced decision, it is best that you approach a financial expert. At Kristal AI, we have the best team of financial experts who can advise you and make a comprehensive investment plan with minimum risk involved. They also have access to the latest artificial intelligence, which makes their plans research-intensive and full proof.

03

Commercial REITs



Commercial / Office REITs are real estate investment trusts that own or finance commercial real estate buildings and office spaces. Most investors think twice before investing in commercial real estate because of the extensive knowledge required to take sound risks and also because of the huge capital requirements.

Investing in Commercial REITs allows them to be directly involved in the commercial real estate business without taking on the big risks. If you prioritise a steady cash flow, then investing in Commercial REITs is a good option to consider.

Is it the best time to invest in Commercial / Office REITs?

The real estate market is booming right now. While the same cannot be said for residential real estate, it is 100% true for commercial and office real estate. It can be a skyscraper or an office park, specific markets in suburban areas and even central business districts. You can also invest in specific industry firms as well as government agencies. Even if the recession is on the horizon, REITs are a solid investment. For investors who are looking to start their financial journey, Commercial REITs is a great place to start! Check-in with our financial investors to know more about the right type of commercial properties and REITs to invest in that is right for you!

What are the things you need to know before investing in Commercial / Office REITs?

Given below is a list of questions you need to know about the Commercial REIT you are interested in investing in.

- What are the vacancy rates?
- What are the economic conditions of the property the commercial REIT invests in?
- How much capital is there with the office REIT for acquisitions?
- What is the unemployment rate?
- What is happening in the economy?

Why invest in Commercial / Office REITs?

Every investor should know the benefits of investing in Commercial REITs so that making a decision is easy. Here are the top 5 advantages of investing in REITs

01



You can be assured that you will receive a steady income from investing in Commercial REITs as every REIT is legally required to distribute 90% of their taxable income to their shareholders as dividends.

02



You have the chance to test out other investment opportunities without bearing all the risk. By having a share in a commercial REIT, you are directly involved in the real estate market.

03



You can invest in both types of Commercial REITs – those who offer high-risk investment opportunities with high gains and low yield investments with very low risk. You can make the choice that suits your risk appetite.

04



You can easily sell and buy Office REITs as they are traded on public exchanges.

05



After investing in Office REITs, you will have very high levels of transparency as the dividend yields depend on the value of the commercial properties.

04

Healthcare REITs



Healthcare REITs manage and own an assortment of healthcare estates and establishments, mainly hospitals, senior living facilities, skilled nursing facilities and medical office buildings, including research centres.

For investors that want to invest in an industry that has a safety net with a steady cash flow, healthcare REITs are a great bet. It is projected that between 2020 to 2030, there is an annual growth of 4-5% in the 75+ age group, which ensures a high demand in the healthcare industry and this is what makes healthcare REITs a great investment.



REITs | Investments in Singapore | How to Choose REITs

Real Estate is an important investment option offering much diversification. Here are the details for choosing REITs and including them in your portfolio.

Kristal.AI / Ashwin Patravali / Mar 22, 2019

How are healthcare REITs different from all the other REITs?

The difference between healthcare REITs and other sector REITs is simple – demand, which is only increasing. In fact, U.S Census Bureau says that the population of senior citizens will grow by more than 144% by 2050, 6 times faster than the rest. As the demand for health care increases, so will the demand for doctors, nurses, infrastructure and other personnel.

In a domino effect, this means that the demand for hospitals and labs will increase. Therefore, investing in healthcare REITs has stability, not every sector has, which is what makes healthcare REITs more reliable compared to the others. In addition, healthcare REITs produce approximately 4.87% higher dividends than any other sector.

Why should you invest in healthcare REITs?

As an investor or landlord (in the case of healthcare REITs), you should consider investing in healthcare REITs because of the following reasons:

01

They offer stable cash flows – rent.



02

A diverse portfolio is guaranteed as the investor has one foot in the healthcare industry and the other in real estate (hospital, labs, and eldercare facilities).



03

They yield high dividends.



04

They are easy to sell and buy.



04

Healthcare REITs offer a higher level of transparency.



05

Residential REITs



Residential REITs are trusts that manage and own rental properties. Every Residential REIT is different, some focus on apartment buildings while some specialise in urban high-rise apartments. There are Residential REITs that cater to a specific community like college students and single families as well.

You can also find Residential REITs that are either involved in development projects (invest in buildings from the ground up) or grow through acquisitions. Some Residential REITs also do a combination of both. While there are risks involved in every investment, investing in Residential REITs is a safe option as residential real estate is one of the few recession-resistant businesses in the market.



A Crossroad in Investment: Why Investing in REITs can be Good for Your Portfolio

REITs are an effective tool and competitive asset class to diversify your portfolio. Investors may make use of dollar-cost-average in their purchase of REITs to avoid having to time the market.

 Kristal.AI / CK Wong / Jun 10

Why should you invest in Residential REITs?

If you are looking for long-term investment plans, here are a few reasons why you should consider investing in Residential REITs

01



It is a recession-resistant investment. Even if a recession is there, people may sell their houses but they will not move out from rental properties. It is the last point in their list of cutting down expenses.

02



There is a higher level of transparency in Residential REITs than any other investment option.

03



As Residential REITs are traded on public exchanges, they are comparatively easy to sell and buy.

04



REITs have to distribute 90% of their taxable income to the shareholders through dividends, which means that they offer high dividends compared to other stocks.

05



Residential REITs provide long-term interest rates, which provides a steady income to the investor.

What are the risks involved in investing in Residential REITs?



Just like any other investment, Residential REITs also have many risks. However, the below mentioned four risks are the most important, and every investor needs to consider them before investing in Residential REITs.



Interest rate risk

Rising interest rates are a negative catalyst for Residential REITs stock prices, especially for long-term yields. If risk-free yields increase, Residential REITs and other investments have to pay higher yields. As price and yield share an inverse relationship, higher yields lower stock prices.



Oversupply risk

The secret of real estate business booming in higher demand and constant or lower supply. If suddenly, the supply meets the demand, occupancy rates will suffer, which in turn will hurt Residential REITs.



Financing risk

Residential REITs bank on borrowed money to grow. If the debt is too high and they cannot pay the interest, they will have to cut down dividends or sell their assets.



Housing market risk

Governments will always promote homeownership. If this rate increases, the demand for rental homes will drop.



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