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A STEADY SOURCE OF RENTAL INCOME

REITs

A new type of investment that lets you earn from large-scale properties without the high cost of buying them.

You get dividends regularly

You earn if the REIT price goes up

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What is a REIT?

Real Estate Investment Trust (REIT)

A company that owns and operates income-generating properties like condos, offices, hospitals, hotels, warehouses, etc.

REIT companies issue **REIT shares** (like stocks) which are a type of investment that lets you earn from the rental income they generate. Over time as rental income grows, the share price of the REIT may also go up.

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How REITs work

1 A real estate company forms a REIT company

For example: Ayala Land forms Ayala REIT or AREIT. AREIT owns and operates three buildings in Makati.

2 The REIT company issues REIT shares which investors can buy

AREIT lists AREIT shares in the Philippine Stock Exchange through an IPO.

3 Funds from the sale of the REIT shares are used for the company's expansion

Proceeds from the AREIT IPO will be used to acquire another building

4 Investors get regular income as the REIT company earns

Investors regularly receive cash dividends as long as AREIT continues to earn.

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How to earn from REITs

Regular Dividends

90% of the earnings are given to investors as cash dividends.

Share Price Upside

As the REIT company grows, the price of REIT shares may also go up.

How REITs earn

REITs primarily earn through rental income of its properties. They also earn by adding more properties.

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Benefits of REITs

Generous Yields

You get passive income that's potentially higher than yields from time deposits and government bonds.

Regular Income

Income of REIT companies are exempt from 30% corporate tax as they are required to pay out 90% of their earnings in the form of cash dividend to REIT investors.

Affordable and Simple

You get the benefits of a property owner, without the high cost of acquiring them and all the headaches of operating them.

Easy to Buy and Sell

After its IPO, REITs will be traded in the Philippine Stock Exchange.

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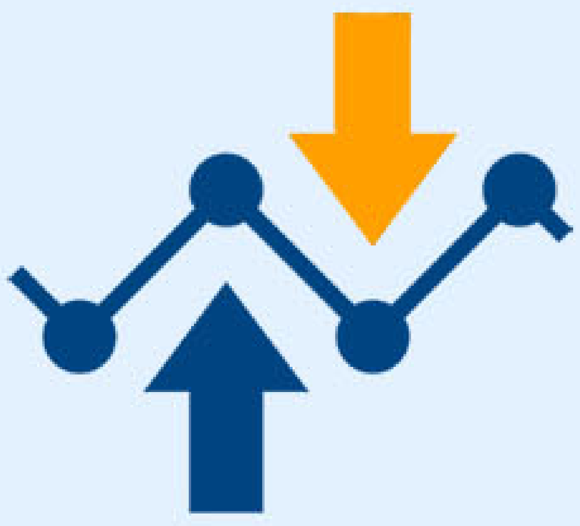
Risks of REITs

If rental demand weakens, the REIT company will have lower income due to higher vacancy and lower lease rates. This means the REIT company will pay less dividends to investors.

REITs become less attractive when interest rates go up to levels that make other traditional fixed-income products more attractive.



Keep in mind as well that REITs are traded like stocks, so its price can also go up and down.

To help you better understand REITs, you can read our research reports on REITs by logging in to your COL account and clicking on the Research tab.

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Choosing the right REIT

Not all REITs are created equal. Below are some things to remember when deciding which REIT to invest in.

Evaluate the REIT assets

COL Chief Equity Strategist April Tan advises investors to gauge the quality of the REIT assets as this would determine whether its dividend yields have room to go up.

Go for quality companies

Check the real estate company's track record and reputation. Are they able to turn over their projects on time? Are their properties well-maintained? Do your due diligence, by getting as much information and reading up on our COL research reports.

Location. Location. Location.

Know if the REIT's properties are situated in thriving areas. It also helps if their assets are PEZA-accredited, or if there are planned infrastructure projects that will make the area boom such as subways.

Frequently Asked

1 In this 'new normal' where office vacancies are rising and fewer people are going to hotels and malls, should I avoid REITs since it relies on rental income?

It depends on the assets inside the REIT. For now, in a quarantine setup with tight restrictions, REITs that own offices that lease out to commercial business tenants might not be attractive. However, offices that lease out to BPOs are more resilient.

2 If REITs are required to pay out almost all (90%) of its earnings as dividends, then little is left to fund its expansion. How will the REIT company grow?

This is why the REIT does an IPO - it sells shares to raise more capital. It also has the option to borrow money in order to invest in more income-earning properties. Finally, it can benefit from higher rental rates as some contracts have annual lease increases.

Frequently Asked

3 Why should I invest in REITs instead of property stocks? For example, why REIT instead of ALI?

REIT vs property stock: REITs are required to pay out 90% of income as cash dividends, while the parent company is not. If you are after regular income or yield, then a REIT might be better for you.

4 What are the fees when investing in REITs?

After its IPO, REITs will be traded like stocks and as such, regular buying and selling fees apply. At the same time, there's also a small custodian fee of 0.01% per annum charged by the Philippine Depository & Trust Corp. (Sample computation: Php50,000 x 0.01% = Php5 per annum)

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How to buy REITs

REITs will be first available through an IPO (Initial Public Offering). There are two ways to subscribe to a REIT IPO. The first is through COL, and the second is through PSE EASy, which is the Philippine Stock Exchange's online IPO subscription platform.

After the IPO, REITs will be listed on the Philippine Stock Exchange and will be traded like stocks, so you can buy and sell them through your COL account.