CHAPTER 1

What Is a REIT?

A real estate investment trust (REIT, pronounced "reet") is an entity that receives revenue through owning or financing income-producing property. Similar to other industries, REITs can be private organizations or they can be publicly traded on a stock exchange. (Chapter 6 discusses the benefits of publicly traded REITs versus private or nontraded REITs.) By being public, REITs are accessible to investors of all types, who can benefit from receiving real estate income without purchasing, managing, or financing property directly.

Publicly traded REITs can be bought or sold like the stock of any other public company. Unique to REITs, however, is their tax status. The *Real Estate Investment Trust Act of 1960* legislation that created the REIT structure exempts companies that qualify as REITs from paying corporate income tax, provided they distribute their taxable income as dividends. To qualify as a REIT in the eyes of the Internal Revenue Service (IRS), a company must meet many specific criteria. The most widely known provision is that a REIT must pay shareholders a dividend equal to at least 90 percent of its otherwise taxable income. (Chapter 6 lists the primary fundamental technical hurdles companies must clear to qualify for REIT tax status.)

The National Association of Real Estate Investment Trusts (NAREIT) is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's website, www.reit.com, provides investors with educational resources, research, and data and index information, as well as news and information about the industry.

Size of the REIT Industry

According to the All REITs Index produced by FTSE NAREIT, there were 223 publicly traded REITs with a combined public equity market capitalization (or size) of $939 billion on December 31, 2015. Table 1.1 presents year-end data on the REIT industry's capitalization going back to 1971. The market capitalization shown excludes operating partnership (OP) units, which are similar to shares of stock in the REIT, but which are not publicly traded. (OP units are discussed in detail in Chapter 6.) Among the 223 publicly traded REITs in the FTSE NAREIT All REITs Index, 198 were listed on the New York Stock Exchange (NYSE) and the remaining 25 were listed on either the National Association of Securities Dealers Automated Quotation System (NASDAQ) or the American Stock Exchange (AMEX).

Before delving into the benefits of investing in REITs, investors will find it instructive to understand how different types of REITs operate.

Categories of REITs

The two broadest categories for REITs—equity and mortgage—are based on the types of investments they make and the nature of their revenues. Equity REITs will be included in S&P's Real Estate GICS sector effective September 1, 2016; mortgage REITs will remain in Financials. REITs are also classified by the type of property they own, such as office or apartment buildings, and by other means discussed in the following pages. Before buying or selling any stock, investors should know whether the REIT is an equity REIT or a mortgage REIT, and what type(s) of property it owns. NAREIT tracks equity REITs according to property type and mortgage REITs according to whether their investments are backed by residential or commercial real estate. Chapter 5 provides additional information to help investors identify REITs that fit their portfolio objectives.

Equity REITs

Equity REITs derive the majority of their revenue from rents paid by tenants according to the terms of leases that exist between the REIT (the landlord or lessor) and its tenants (the lessees). These REITs usually have *fee simple interest* in their properties and use debt to finance a percentage of the purchase price. This investment

Table 1.1 Historical REIT Industry Market Capitalization and Total Returns

	FN All REITs			FN All Equity REITs			FN Mortgage REITs			Hybrid REITs		
Year Ended	# of REITs	EMC[a] ($MMs)	Total Return	# of REITs	EMC[a] ($MMs)	Total Return	# of REITs	EMC[a] ($MMs)	Total Return	# of REITs	EMC[a] ($MMs)	Total Return
1971	34	$1,494	–	12	$332	–	12	$571	–	10	$592	--
1972	46	$1,881	11.2%	17	$377	8.0%	18	$775	12.2%	11	$729	11.4%
1973	53	$1,394	–27.2%	20	$336	–15.5%	22	$517	–36.3%	11	$540	–23.4%
1974	53	$712	–42.2%	19	$242	–21.4%	22	$239	–45.3%	12	$232	–52.2%
1975	46	$900	36.3%	12	$276	19.3%	22	$312	40.8%	12	$312	49.9%
1976	62	$1,308	49.0%	27	$410	47.6%	22	$416	51.7%	13	$483	48.2%
1977	69	$1,528	19.1%	32	$538	22.4%	19	$398	17.8%	18	$592	17.4%
1978	71	$1,412	–1.6%	33	$576	10.3%	19	$340	–10.0%	19	$496	–7.3%
1979	71	$1,754	30.5%	32	$744	35.9%	19	$377	16.6%	20	$633	33.8%
1980	75	$2,299	28.0%	35	$942	24.4%	21	$510	16.8%	19	$847	42.5%
1981	76	$2,439	8.6%	36	$978	6.0%	21	$541	7.1%	19	$920	12.2%
1982	66	$3,299	31.6%	30	$1,071	21.6%	20	$1,133	48.6%	16	$1,094	29.6%
1983	59	$4,257	25.5%	26	$1,469	30.6%	19	$1,460	16.9%	14	$1,329	29.9%
1984	59	$5,085	14.8%	25	$1,795	20.9%	20	$1,801	7.3%	14	$1,489	17.3%
1985	82	$7,674	5.9%	37	$3,270	19.1%	32	$3,162	–5.2%	13	$1,241	4.3%
1986	96	$9,924	19.2%	45	$4,336	19.2%	35	$3,626	19.2%	16	$1,962	18.8%
1987	110	$9,702	–10.7%	53	$4,759	–3.6%	38	$3,161	–15.7%	19	$1,782	–17.6%
1988	117	$11,435	11.4%	56	$6,142	13.5%	40	$3,621	7.3%	21	$1,673	6.6%
1989	120	$11,662	–1.8%	56	$6,770	8.8%	43	$3,536	–15.9%	21	$1,356	–12.1%
1990	119	$8,737	–17.4%	58	$5,552	–15.4%	43	$2,549	–18.4%	18	$636	–28.2%
1991	138	$12,968	35.7%	86	$8,786	35.7%	28	$2,586	31.8%	24	$1,596	39.2%
1992	142	$15,912	12.2%	89	$11,171	14.6%	30	$2,773	1.9%	23	$1,968	16.6%
1993	189	$32,159	18.6%	135	$26,082	19.7%	32	$3,399	14.6%	22	$2,678	21.2%
1994	226	$44,306	0.8%	175	$38,812	3.2%	29	$2,503	–24.3%	22	$2,991	4.0%
1995	219	$57,541	18.3%	178	$49,913	15.3%	24	$3,395	63.4%	17	$4,233	23.0%
1996	199	$88,776	35.8%	166	$78,302	35.3%	20	$4,779	50.9%	13	$5,696	29.4%
1997	211	$140,534	18.9%	176	$127,825	20.3%	26	$7,370	3.8%	9	$5,338	10.8%
1998	210	$138,301	–18.8%	173	$126,905	–17.5%	28	$6,481	–29.2%	9	$4,916	–34.0%
1999	203	$124,262	–6.5%	167	$118,233	–4.6%	26	$4,442	–33.2%	10	$1,588	–35.9%
2000	189	$138,715	25.9%	158	$134,431	26.4%	22	$1,632	16.0%	9	$2,652	11.6%
2001	182	$154,899	15.5%	151	$147,092	13.9%	22	$3,991	77.3%	9	$3,816	50.8%
2002	176	$161,937	5.2%	149	$151,272	3.8%	20	$7,146	31.1%	7	$3,519	23.3%
2003	171	$224,212	38.5%	144	$204,800	37.1%	20	$14,187	57.4%	7	$5,225	56.2%
2004	193	$307,895	30.4%	153	$275,291	31.6%	33	$25,964	18.4%	7	$6,639	23.9%
2005	197	$330,691	8.3%	152	$301,491	12.2%	37	$23,394	–23.2%	8	$5,807	–10.8%
2006	183	$438,071	34.4%	138	$400,741	35.1%	38	$29,195	19.3%	7	$8,134	40.9%
2007	152	$312,009	–17.8%	118	$288,695	–15.7%	29	$19,054	–42.3%	5	$4,260	–34.8%
2008	136	$191,651	–37.3%	113	$176,238	–37.7%	20	$14,281	–31.3%	3	$1,133	–75.5%
2009	142	$271,199	27.5%	115	$248,355	28.0%	23	$22,103	24.6%	4	$741	41.3%
2010	153	$389,295	27.6%	126	$358,908	28.0%	27	$30,387	22.6%	§	—	—
2011	160	$450,501	7.3%	130	$407,529	8.3%	30	$42,972	–2.4%	§	—	—
2012	172	$603,415	20.1%	139	$544,415	19.7%	33	$59,000	19.9%	§	—	—
2013	202	$670,334	3.2%	161	$608,277	2.9%	41	$62,057	–2.0%	§	—	—
2014	216	$970,428	27.2%	177	$846,410	28.0%	39	$61,017	17.9%	§	—	—
2015	223	$938,852	2.3%	182	$886,488	2.8%	41	$52,365	–8.9%	§	—	—

*Information prior to 1971 is not available.
§NAREIT discontinued its FTSE NAREIT Hybrid REIT Index in 2010.
[a]NAREIT calculates equity market capitalization (EMC) as the year-end share price times the number of common shares outstanding. The number does not include operating partnership units (OP units), which are not publicly traded and which are discussed in Chapter 6.
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approach is similar to how individuals purchase homes in that the REIT generally uses some amount of debt and pays the remainder in cash. Fee simple interest in real estate means the buyer receives title to the land and improvements, improvements being the building and any structures that exist on the land. The debt an equity REIT uses to finance a portion of a property can either be a mortgage (which is also called *property-level* debt) or corporate-level bonds (also called *senior* or *unsecured* debt).

Sometimes, equity REITs own properties according to a leasehold interest, which is also called a *ground lease*. In this case, the REIT does not own the land on which the building(s) sit(s). The REIT pays the landowner (or *lessor*) a monthly fee for an agreed-upon time period—usually several decades—in exchange for the right to use the land as needed to support the building's operations.

Particularly since the *REIT Modernization Act of 1999* (RMA), equity REITs increasingly operate as fully integrated real estate companies that also derive income from a range of real estate–related business activities. As of December 31, 2015, 182 of the 223 publicly traded REITs in the FTSE NAREIT All REITs Index were equity REITs. These companies had an aggregate equity market capitalization of $886.5 billion (excluding OP units), constituting the largest category of REITs in the United States. Chapter 5 provides more detail on equity REITs according to the different types of commercial properties they own.

Mortgage REITs

Mortgage REITs lend money to real estate owners directly, by issuing mortgages, or indirectly, by acquiring existing loans or mortgage-backed securities. Mortgage REITs, which are also referred to as *mREITs*, derive the majority of their revenues from interest received on commercial mortgage loans or from investments in residential- or commercial-based real estate instruments.

Mortgage REITs are analogous to banks that lend almost exclusively to commercial real estate developers and landlords, except mREITs do not have customer deposits from which to lend. Instead, they raise capital by issuing debt and equity in private or public capital markets. Their revenue comprises the principal and interest payments received from their investments.

As of December 31, 2015, FTSE NAREIT All REITs Index listed 41 mortgage REITs with a combined equity market capitalization of

$52.4 billion (excluding OP units). Since the *Dodd–Frank Wall Street Reform and Consumer Protection Act* (the Dodd-Frank Act) was signed into law in July 2010, the number of publicly traded mREITs tracked by NAREIT has increased 52 percent, from 27 companies at the end of June 2010 to 41 at the end of 2015. This is because the Dodd-Frank Act tightened regulation on traditional banks and lenders. Mortgage REITs essentially stepped in to fill the credit void created by this and other legislation.

Hybrid REITs

Prior to 2011, there was a third category of REITs, then called *hybrid REITs*. These companies combined the ownership strategies of equity and mortgage REITs, depending on the investment opportunities available. Historically, hybrid REITs represented the smallest class of REITs industry and, in December 2010, NAREIT reclassified the four remaining hybrid REITs as mortgage REITs.

Classification by Property Type

Most often, investors refer to REITs by the type of commercial property in which they invest, such as offices, apartments, or warehouse buildings. In the past few years, the IRS ruled that rental income from less traditional property types can also qualify as *good income* for REITs. (The concept of good or bad REIT income is addressed in Chapter 6.) As a result, the industry now includes REITs that own billboards, cell phone towers—even gas and electric transmission lines—and other highly specialized real estate. NAREIT classifies these new comers to the industry as *specialty* REITs. Chapter 5 discusses the industry's different property types in greater detail, and Appendix C provides summary information on the 223 REITs that were publicly traded at the end of 2015.

Size and Index Inclusion

In describing each classification of REIT, size is one important investment criterion, because companies that are large (as measured by their equity market capitalization) trade differently than small companies. Chapter 8 details how to calculate a REIT's equity market capitalization (also referred to as simply *market cap* or *EMC*) and other important metrics.

An important detail to keep in mind when looking at REIT data is that, in addition to the shares held by public shareholders, most REITs also have private, nontraded ownership units called *operating partnership (OP) units* outstanding. Specific to REITs, OP units are similar to shares of common stock in that they represent a percent ownership in a REIT (see Chapter 6). Generally, OP units can be exchanged on a one-for-one basis into common stock of the REIT and receive the same level of common dividend as stock. The main difference between OP units and stock is that OP units are not publicly traded (also referred to as not being *liquid*). Unless expressly noted otherwise, market capitalizations for REITs that are available on financial service outlets, such as Yahoo! Finance, exclude OP units.

One of the reasons why large and small cap REITs trade differently is that larger REITs simply have a greater supply of common shares available to buy or sell on stock exchanges; the number of common shares outstanding is also referred to as a company's *float*. Larger-cap REITs with greater float tend to have higher average daily trading volumes.

Approximately 100 REITs, or less than 50 percent of the industry, have market capitalizations and daily average trading volume levels that have qualified them for inclusion in major stock indexes. Index inclusion is a significant factor in long-term REIT performance. This is because money managers typically have to allocate money to invest in stocks that are part of the broader indexes against which they *benchmark*. Benchmarking is simply measuring the performance of an investment strategy against a standard, such as an index. Money managers may aim to match the performance of their targeted benchmark(s); others may aim to exceed their benchmarks.

REITs that are included in the S&P 500, 400, or 600 Indexes are more visible to investors and money managers, and tend to outperform nonindex REITs when REITs are in favor as an investment class. In contrast, when investors do not want to own REITs, the index companies often experience disproportionate declines (albeit, temporary) compared to nonindex REITs. (Chapter 7 discusses factors that affect REIT performance in more detail.)

The 24 large-cap REITs that were included in the S&P 500 Index at the end of 2015 are listed in Table 1.2. With REITs outperforming most other asset classes in the last few years, there have been a number of initial public offerings, or *IPOs*, by small and mid-cap REITs.

Table 1.2 REIT Constituents of the S&P 500 Index[a]

Company Name (Ticker)	Ticker	Property Focus	EMC[b]
Simon Property Group	SPG	Retail—Malls	$60.4
Public Storage	PSA	Self-Storage	42.8
American Tower Corporation	AMT	Infrastructure—Wireless	41.0
Equity Residential	EQR	Residential—Apartments	29.7
Crown Castle International	CCI	Infrastructure—Wireless	28.9
AvalonBay Communities	AVB	Residential—Apartments	25.2
General Growth Properties	GGP	Retail—Malls	24.0
Welltower, Inc.*	HCN	Health Care	23.9
Prologis, Inc.	PLD	Industrial	22.5
Boston Properties	BXP	Office	19.6
Vornado Realty Trust	VNO	Diversified	18.8
Ventas, Inc.	VTR	Health Care	18.7
Equinix Inc	EQIX	Data Centers	18.6
HCP, Inc.	HCP	Health Care	17.8
Essex Property Trust	ESS	Residential—Apartments	15.7
Weyerhaeuser Company†	WY	Timber	15.3
Realty Income Corporation	O	Retail—Free Standing	12.9
Macerich Company	MAC	Retail—Malls	12.7
Host Hotels & Resorts	HST	Lodging/Resorts	11.6
SL Green Realty Corp	SLG	Office	11.3
Kimco Realty Corporation	KIM	Retail—Shopping Centers	10.9
Plum Creek Timber Company†	PCL	Timber	8.3
Apartment Investment and Management	AIV	Residential—Apartments	6.3
Iron Mountain, Inc.	IRM	Specialty	5.7
Total for all 24 REITs			$502.4

[a]In 2016, Extra Space Storage (NYSE: EXR) and UDR, Inc. (NYSE: UDR) will be added to the S&P 500, becoming the 25th and 26th REITs in this index.
[b]Equity market caps are in billions of dollars.
*Formerly known as Health Care REIT, Inc.
†These two timber REITs are merging; the transaction is expected to be complete in the first half of 2016.
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Although these smaller companies are not as liquid as larger-cap stocks, they nonetheless can offer strong value for longer-term investors. The 35 and 32 REITs that, respectively, were included in the S&P 400 Mid Cap and 600 Small Cap Indexes at the end of 2015 are listed in Tables 1.3 and 1.4.

Geographic Focus

REITs typically own and operate regional or national portfolios of properties. Investors interested in investing in "the U.S. office

Table 1.3 REIT Constituents of the S&P 400 Mid Cap Index

Company Name (Ticker)	Ticker	Property Focus	EMC[a]
Extra Space Storage Inc.[†]	EXR	Self Storage	$10.9
Federal Realty Investment Trust	FRT	Retail—Shopping Centers	10.1
UDR, Inc. [†]	UDR	Residential—Apartments	9.8
Duke Realty Corporation	DRE	Industrial	7.3
Mid-America Apartment Communities, Inc.	MAA	Residential—Apartments	6.8
Camden Property Trust	CPT	Residential—Apartments	6.6
Omega Healthcare Investors, Inc.	OHI	Health Care	6.5
Alexandria Real Estate Equities, Inc.	ARE	Office	6.5
Regency Centers Corporation	REG	Retail—Shopping Centers	6.4
Kilroy Realty Corporation	KRC	Office	5.8
National Retail Properties, Inc.	NNN	Retail—Free Standing	5.5
Lamar Advertising	LAMR	Specialty—Billboards	4.9
BioMed Realty Trust, Inc.[‡]	BMR	Office	4.8
American Campus Communities, Inc.	ACC	Residential—Apartments	4.6
Taubman Centers, Inc.	TCO	Retail—Malls	4.6
Liberty Property Trust	LPT	Industrial	4.6
Douglas Emmett, Inc.	DEI	Office	4.5
Weingarten Realty Investors	WRI	Retail—Shopping Centers	4.3
Highwoods Properties	HIW	Office	4.2
Hospitality Properties Trust	HPT	Health Care	4.0
Sovran Self Storage, Inc.	SSS	Self Storage	3.8
Senior Housing Properties Trust	SNH	Health Care	3.5
Equity One, Inc.	EQY	Retail—Shopping Centers	3.5
Post Properties, Inc.	PPS	Residential—Apartments	3.2
Tanger Factory Outlet Centers, Inc.	SKT	Retail—Shopping Centers	3.1
Corrections Corporation of America	CXW	Specialty—Prisons	3.1
LaSalle Hotel Properties	LHO	Lodging/Resorts	2.8
Communications Sales & Leasing	CSAL	Infrastructure	2.8
Rayonier Inc.	RYN	Timber	2.7
Care Capital Properties, Inc.	CCP	Health Care	2.6
Urban Edge Properties	UE	Retail—Shopping Centers	2.3
Mack-Cali Realty Corporation	CLI	Office	2.1
Corporate Office Properties Trust	OFC	Office	2.1
WP Glimcher Inc.	WPG	Retail - Malls	2.0
Potlatch Corporation	PCH	Timber	1.2
Total for all 35 REITs			$163.8

[a]Equity market caps are in billions of dollars.
[†]In 2016, Extra Space Storage and UDR, Inc. will be added to the S&P 500 Index.
[‡]In January 2016, BioMed Realty Trust (former NYSE: BMR) was taken private.
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Table 1.4 REIT Constituents of the S&P 600 Small Cap Index

Company Name (Ticker)	Ticker	Property Focus	EMC[a]
EPR Properties	EPR	Specialty—Cineplex	$3,493
Healthcare Realty Trust Incorporated	HR	Health Care	2,843
Medical Properties Trust	MPW	Health Care	2,738
PS Business Parks	PSB	Industrial	2,354
Acadia Realty Trust	AKR	Retail—Shopping Centers	2,282
Kite Realty Group Trust	KRG	Retail—Shopping Centers	2,151
GEO Group	GEO	Specialty—Prisons	2,144
Education Realty Trust	EDR	Residential—Apartments	2,099
Cousins Properties Inc.	CUZ	Office	2,042
DiamondRock Hospitality Company	DRH	Lodging/Resorts	1,937
Lexington Realty Trust	LXP	Diversified	1,888
EastGroup Properties, Inc.	EGP	Industrial	1,796
Retail Opportunities Investments Corp.	ROIC	Retail—Shopping Centers	1,768
CoreSite Realty Corporation	COR	Data Centers	1,738
Parkway Properties, Inc.	PKY	Office	1,737
American Assets Trust, Inc.	AAT	Diversified	1,722
LTC Properties, Inc.	LTC	Health Care	1,533
Pennsylvania REIT	PEI	Retail—Malls	1,512
Chesapeake Lodging Trust	CHSP	Lodging/Resorts	1,501
Sabra Health Care REIT, Inc.	SBRA	Health Care	1,318
Government Properties Income Trust	GOV	Office	1,128
Saul Centers, Inc.	BFS	Retail—Shopping Centers	1,082
Inland Real Estate Corporation[†]	IRC	Retail—Shopping Centers	1,068
Franklin Street Properties Corp.	FSP	Office	1,037
Summit Hotel Properties, Inc.	INN	Lodging/Resorts	1,035
Capstead Mortgage Corporation	CMO	Mortgage—Residential	835
Universal Health Realty Income Trust	UHT	Health Care	665
Agree Realty Corporation	ADC	Retail—Free Standing	642
Cedar Realty Trust, Inc.	CDR	Retail—Shopping Centers	596
Getty Realty Corp.	GTY	Retail—Free Standing	573
Care Trust REIT Inc	CTRE	Health Care	527
Urstadt Biddle Properties	UBA	Retail—Shopping Centers	511
Total for all 32 REITs			$50,291

[a]Equity market caps are in millions of dollars.
[†]This REIT is in the process of being acquired and will no longer be publicly traded.
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market" could invest in a REIT, such as Boston Properties, Inc. (NYSE: BXP), that owns office buildings in major U.S. cities. By contrast, an investor who wants to capitalize on a rise in demand for office space in, say, Philadelphia, Pennsylvania, could focus on stocks such as Brandywine Realty Trust (NYSE: BDN).

Certain larger-cap U.S. REITs have expanded their real estate holdings outside the United States. Stocks like Prologis (NYSE: PLD) provide a way for investors to participate in the economics of owning warehouse/distribution space in the global marketplace. Similarly, Simon Property Group, Inc. (NYSE: SPG) affords individuals the opportunity to invest in the company's globally diversified portfolio of high-end shopping malls.

Risks and Rewards of Geographic Concentration

There are risks and rewards associated with each REIT's degree of geographic concentration and the supply-and-demand characteristics associated with their property markets. Landlords that own apartment buildings in New York City's Manhattan market will likely generate different levels of rent growth, occupancy, and shareholder returns than apartment landlords in Dallas, Texas. In all cases, the competency and discipline of a company's senior management and property management teams are key determinants of a REIT's ability to increase shareholder value, regardless of geography or property focus. That said, investors who strongly believe one region or market in the country will experience disproportionately better—or worse—economic times than the rest of the country can capitalize on their conviction by investing in (or selling out of) REITs based on the geographic concentrations of their portfolios.

Growth Strategy

A less common but nonetheless important way of classifying REITs (at least for investment purposes) is according to the tactics they use to grow earnings and cash flow. Every REIT can be broken down into three activities that support their financial results:

1. Internal growth generated by managing assets the REIT already owns; also sometimes called "organic" growth
2. External growth generated by acquiring or developing properties
3. Financing that growth through issuing new debt or equity, and/or by selling properties

There is no one “right way” for REITs to grow earnings, though each company’s cost of capital affects the opportunities on which a management team can capitalize. Chapter 7 discusses cost of capital in more detail, but for purposes of this chapter, the following rule is sufficient:

> Companies with lower costs of capital are able to grow faster and with higher quality investments than companies with higher, less competitive costs of capital.

Each REIT’s management team pursues the strategy they deemed to be optimal for that company’s chosen real estate markets, opportunities, and cost of capital. The following truisms should assist investors in evaluating individual companies before making an investment.

> Risk Axioms for Growth Strategies:
>
> Developing = More Risk Than Acquiring Properties
>
> Acquiring = More Risk Than Actively Managing Existing Properties
>
> More Debt = More Risk

- **Development**—Growing earnings by developing properties is riskier than acquiring assets that already exist, especially in property types that take a year or more to construct. The added risk associated with development is why companies expect to earn a higher yield, or return, on monies they invest in development. The higher returns compensate the higher risk of potential failure. Many REITs have been able to execute successful development strategies, however, by being extremely careful in their selection of location, by achieving some level of pre-leasing prior to commencing construction, and/or by operating their business with lower levels of debt. Examples of such REITs include: Armada Hoffler Properties (NYSE: AHH), Corporate Office Properties Trust (NYSE: OFC), and the various data center–focused REITs such as Digital Realty Trust (NYSE: DLR).

- **Acquisitions**—Acquiring assets bears more risk than managing properties a REIT already owns. Managing existing assets can include redeveloping them to reposition them in their markets, which generally is less risky than new acquisitions. When a REIT buys a property, management underwrites the local trade area surrounding that asset. If management overestimates the demand for space in the new market, the acquired property will underperform expectations. By the same token, if management underestimates the supply outlook for a new market, and other landlords develop too many competing buildings, then the acquired property will likely underperform expectations due to the REIT's difficulty in raising rents to keep pace with inflation.
- **Financing**—Regarding how a REIT pays for existing operations and any level of external growth, it is hard to find a REIT—or any company—that went bankrupt because it had *too little* debt. REITs are like any company in that more debt, which also is referred to as *leverage*, equates to higher risk and lower certainty of future earnings and cash flow.

No REIT ever went bankrupt from having *too little* debt.

At a minimum, the amount of debt a REIT carries can affect its ability to take advantage of market opportunities. For example, a REIT that has a debt-to-gross book value ratio of 40 percent has greater financial flexibility than a REIT with a 60 percent ratio. (Please refer to Chapter 8 for a definition of gross book value.) The REIT with lower leverage should be able to successfully navigate adverse economic times without lowering its common dividend or selling assets at fire-sale prices. Low-levered companies should also be able to purchase strategic, premium-quality assets that distressed sellers may bring to market during times of economic adversity, such as during the Great Recession of 2008–2009. Last but definitely not least, companies with low levels of debt typically can raise debt and equity capital at lower prices than more highly leveraged companies.

Where to Find Information on REITs

In addition to NAREIT, there are several resources to consult for additional information on the industry and individual REITs. The resources detailed below should provide sufficient information for analyzing the majority of REITs that were publicly traded at the end of 2015.

FTSE NAREIT All REITs Index

The FTSE Group is a joint venture between the Financial Times of London and the London Stock Exchange and is the largest provider of financial indexes in the United Kingdom. The acronym *FTSE* is pronounced "footsie" and stands for Financial Times Stock Exchange.

Appendix A and B provide listings of the 223 REITs that comprised the FTSE NAREIT All REITs Index at December 31, 2015. Companies are listed alphabetically by their name in Appendix A and by their stock exchange (or *ticker*) symbol in Appendix B. Chapter 5 and Appendix C of this book also list each REIT according to property focus and present summary information on each company, including website addresses.

Company-Specific Websites

Once an investor knows which REIT(s) suits his or her investment criteria, each REIT's website will provide the most complete and timely information, including press releases, annual reports, and quarterly statements filed with the Securities and Exchange Commission (SEC), as well as other useful information.

In December 2015, the Internet Corporation for Assigned Names and Numbers (or ICANN) designated NAREIT to operate a dot-REIT top-level domain registry. As more REITs adopt the .REIT identifier for their websites, searching for companies that are REITs by using the Internet will become faster and easier. See Appendix C for the website addresses of the 223 REITs in the FTSE NAREIT All REITs Index.

Indexes for Tracking REIT Performance

In 1985, Cohen & Steers, Inc. (NYSE: CNS) created the first real estate mutual fund and, today, is a global investment manager specializing in liquid real assets, including real estate securities, listed infrastructure, commodities and natural resource equities, as well as preferred securities and other income solutions. They offer two real estate indexes:

- Cohen & Steers Realty Majors Portfolio Index (RMP), which tracks the largest, most liquid U.S. REITs.
- Cohen & Steers Global Realty Majors index (GRM), which tracks global real estate securities that stand to lead or benefit most from the securitization of commercial real estate worldwide.

NAREIT and MSCI, a leading provider of investment-decision-support tools, provide indices that track REIT performance:

- MSCI US REIT Index, ticker symbol RMZ on the American Stock Exchange, is a real-time, price-only index that tracks approximately 99 percent of the publicly traded equity REITs in the United States. At the end of 2015, 150 equity REITs composed the RMZ. Mortgage and certain equity REITs are not included in this index. Investors can obtain real-time quotes for the RMZ on financial websites, such as Google Finance and Yahoo Finance, and can learn more about the index by going to www.msci.com.
- MSCI also publishes the RMS, a daily total return version of the RMZ, which encompasses the companies' dividend yields. The RMS is not a real-time index; the total return of the REITs that compose the index is published at the end of the day.
- NAREIT indexes. In conjunction with FTSE, NAREIT publishes several indexes to track U.S. REIT performance; the three most popular indexes, and the number of companies that comprised each one at December 31, 2015, are as follows:
  1. FTSE NAREIT All REITs Index—tracks publicly traded equity and mortgage REITs (223 companies)
  2. FTSE NAREIT Equity REITs Index—tracks publicly traded equity REITs (160 companies)
  3. FTSE NAREIT Mortgage REITs Index—tracks publicly traded mortgage REITs (37 companies)

S&P Dow Jones Indices LLC (www.spdji.com), a part of McGraw Hill Financial, is the world's largest, global resource for index-based concepts, data, and research. Home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®, S&P Dow Jones Indices LLC has over 115 years of experience constructing innovative and transparent solutions that fulfill the needs of investors. S&P Dow Jones Indices publishes many stock market indices, including the Dow Jones Equity All REIT Index (REI):

- The REI contains all the publicly traded U.S. equity REITs in the Dow Jones U.S. stock universe, which totaled 177 companies at December 31, 2015.
- The REI is calculated and disseminated every 15 seconds during the trading day. More information about the Dow Jones REIT indexes can be found at www.djindexes.com.

Exchange-Traded Funds for Investing in REITs

The indexes in the preceding paragraphs only track and report REIT performance. Several exchange-traded funds (ETFs) exist that enable investors to purchase an index (or bundle) of REITs—similar to buying a mutual fund that approximates the returns of the S&P 500 Index or other broad-based stock market index. There are even ETFs that will allow investors to *short* (that is, *bet against*) a rise in REIT share prices. Three of the largest REIT ETFs are listed below:

1. **VNQ**—The Vanguard Group's REIT exchange-traded fund that trades under the ticker symbol VNQ is the largest REIT ETF available and is designed to track the performance of the MSCI US REIT Index (see RMZ discussion earlier in this chapter).
2. **IYR**—iShares U.S. Real Estate ETF investment seeks to approximate the price and yield performance of an index of U.S. equities in the real estate sector.
3. **ICF**—iShares Cohen & Steers REIT ETF seeks to track the investment results of the largest, most liquid REITs.

For a more complete listing and discussion of real estate ETFs, Investors should consult with their financial advisors and also review the ETF Lab provided by Forbes and www.IntelligentREITInvestor.com.