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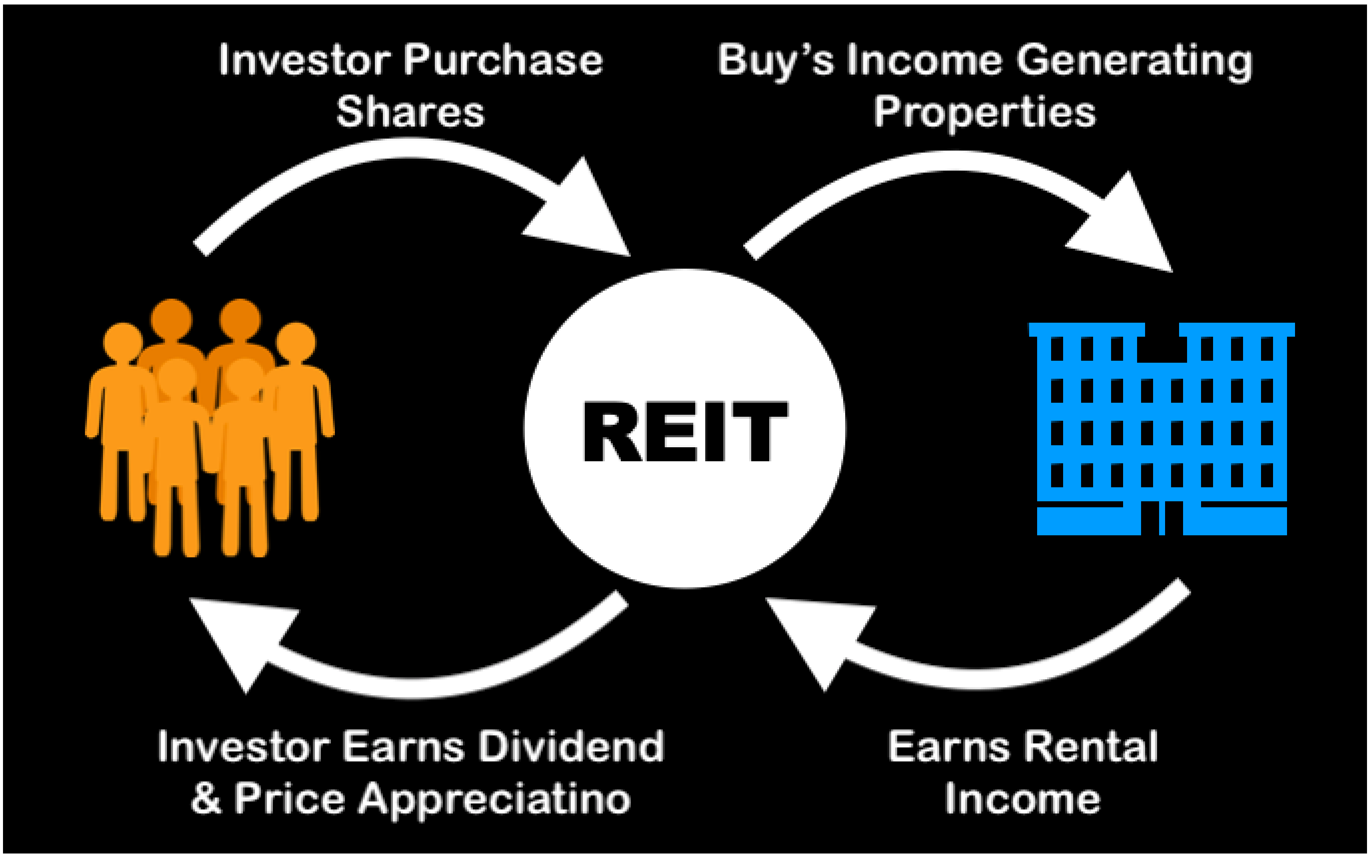
#Didyouknow

What is REIT?
We know mutual funds, right?
Where money is pooled is pooled from investors and in return are offered mutual funds units.
Similarly, instead of shares of public companies, REIT units represent ownership of real estate assets.
(Thread)

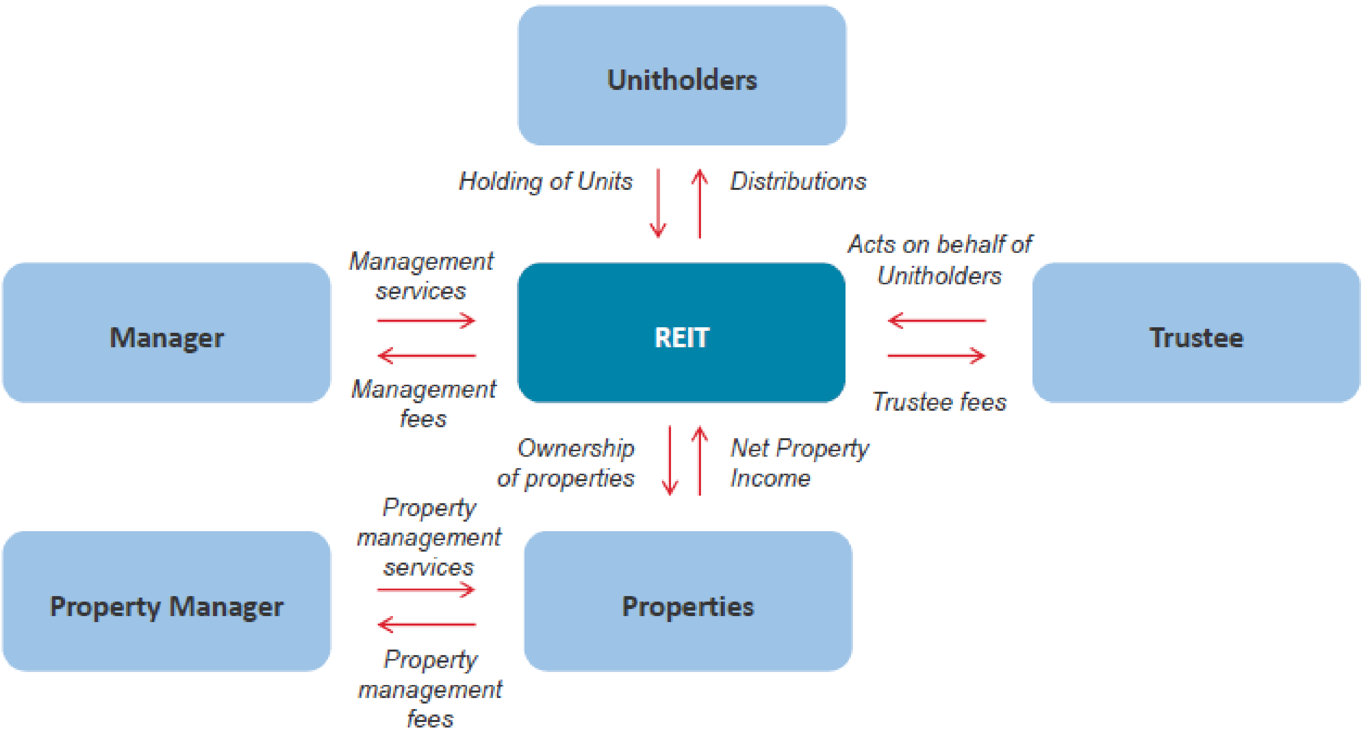
#reit #realestate



1)Real Estate Investment Trust (REIT) is a tax-efficient vehicle that owns a portfolio of income-generating real estate assets. It is created by a sponsor, who transfers ownership of assets to the trust in exchange for its units.

2)SEBI regulations require REITs to payout 90% of distributable cashflows to unitholders, and must have at least 80% of their assets to be completed & income generating, which decreases the execution risk.

3)The sponsor is obligated to hold certain units of the REIT & remaining are issued to investors in the form of an IPO. Once listed, they serve as permanent vehicle to raise debt and equity in the capital markets to acquire new assets & grow.



4)Certain parameters to evaluate REITs:
Weighted Average Lease Expiry (WALE): The biggest risk of running a commercial property is vacancy. WALE is used to calculate the time left for property to go vacant. The higher the better.

5)Distribution Yield
By law REITs have to pay 90% of distributable cash flows to investors. It is a metric to measure these payments. However this is
not a guaranteed payout. It depends on the trust performance. Again the higher the better.

6)Net Assets Value (NAV): It is one of the best way to assess REITs and can be thought like a Book value per share. It is calculated as the estimated market value of the properties minus all liabilities, which is divided by number of shares outstanding.

7)Sometimes, REITs tend to trade below or above NAV, which happens because of supply & demand of the traded units. In such cases, we have to keep an eye on share price distance from NAV.

8) Sponsor: A strong sponsor will have many advantages like brand recognition, trust factor, on time delivery etc. REITs will also have Right of

9)Loan To Value(LTV): It measures how much debt was borrowed compared to the underlying asset value. Just like any other business, lower the leverage, the better.

10)High occupancy: The occupancy rate is the percentage of the square foot available in the portfolio of REIT, which ensures consistency in payouts, increasing rental & dividend income. The
higher the occupancy, the stable are the cash flows.

11)Diversified Portfolio: A well managed property in prime location will have the highest occupancy rate. On the other side, oversupply of properties can reduce occupancy rates & rental income.

12)REITs having diversified portfolio across geographies & tenants are less prone to oversupply & concentration risk.

Which is the best listed REIT in India?
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