

**PART 1 of 2**

**Next issue:** Incorporating REITs into your clients' investment plan

# Safety in Real Estate?

**Real Estate Investment Trusts** provide diversification and security in a volatile market



### WHAT MAKES AN REIT?

To qualify as an REIT, companies must fulfill the following Internal Revenue Code provisions:

- Invest at least 75 percent of its total assets in real estate
- Derive at least 75 percent of its gross income from rents or interest on mortgages of real estate properties
- Annually distribute at least 90 percent of its taxable income to its shareholders
- Be managed by trustees and be a taxable corporation
- Have a minimum of 100 shareholders with no more than 50 percent of its shares held by five individual shareholders or less during at least half of the taxable year
- Have fully transferable shares
- No more than 20 percent of its assets may be composed of stocks in taxable REIT subsidiaries.

The big crash in the technology sector and the weak economy have been the driving force behind investors looking for safer ways to invest their hard earned dollars. While Money Markets and CDs have historically harbored investor's money during the darker days of the stock market, Real Estate Investment Trusts (REITs) have become increasingly more popular.

According to the National Association of Real Estate Investment Trusts (NAREIT), as of November 30, 2003 there are approximately 172 publicly traded REITs with a combined equity market capitalization of \$215 billion. While the number of publicly traded REITs has declined over the past decade or so, this doesn't detract from their attracting financial planners and investors alike. The 172 publicly traded REITs own \$400 billion worth of commercial real estate and pump out impressive dividend yields and overall returns.

A Real Estate Investment Trust is a company that owns, manages, develops, sells or finances various real estate properties such as office buildings, medical facilities, shopping malls, apartment complexes, hotels and mortgages. There are many provisions required by the Internal Revenue Code for a company to qualify as a REIT (see sidebar).

Created by Congress in 1960 and improved upon in the Tax Reform Act of 1986, REITs allow smaller investors to reap the benefits of large-scale, income-producing commercial properties. They're patterned after investment companies and mutual