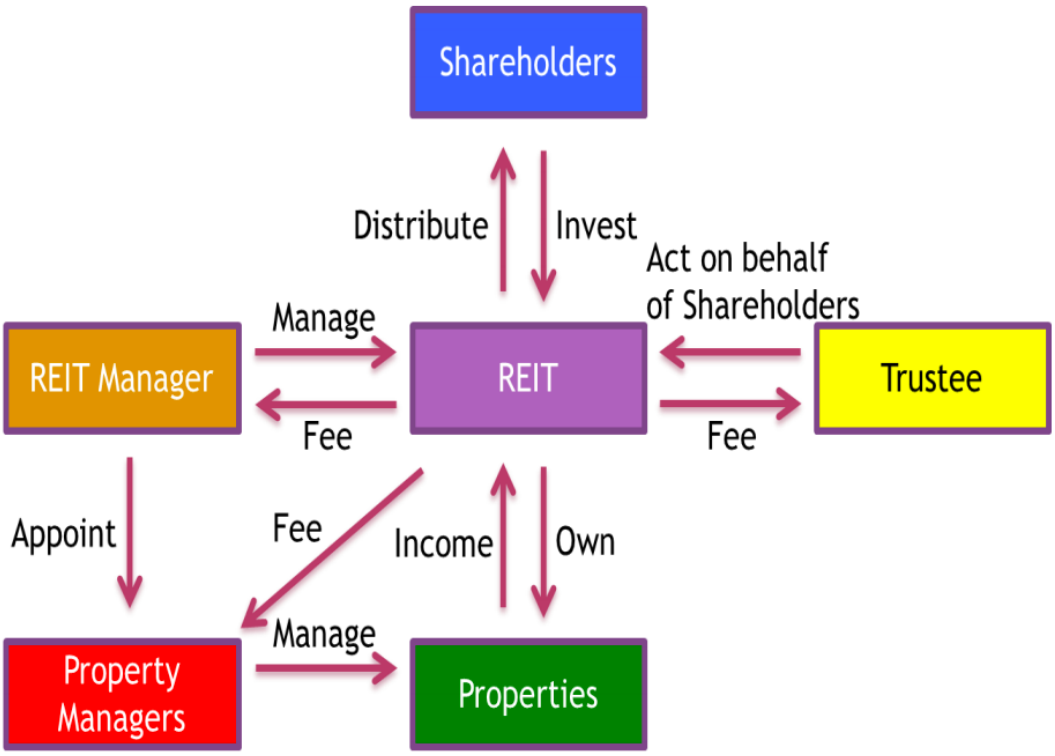
Typical Structure of a REIT



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What is a REIT?

A REIT is short form for Real Estate Investment Trust. REITs are a type of professionally managed collective investment scheme with its primary business being the acquiring, owning and financing of income generating real estate.

REITs have the benefit of providing investors with a regular income stream and prospects of long term capital appreciation.

REITs provide investors an affordable means to invest in a diverse range of real estate assets. REITs tend to have a specific portfolio focus. Typical REITs are classified into the following categories:

1. Residential (e.g. Condominiums, Housing, Apartments)
2. Retail (e.g. Retail spaces, Shopping malls, Shops and Shophouses)
3. Offices (e.g. Office buildings)
4. Industrial (e.g. Factories, Warehouses, Industrial parks)
5. Healthcare (e.g. Hospitals, Nursing homes)
6. Hospitality (e.g. Hotels, Service Apartments)

Some creative REITs may even have investments in Car Parks, Billboards, Storage Spaces, Mines and Plantations just to name a few examples. Some REITs specialize in portfolios in one region or country, while others hold a portfolio of properties in multiple countries.

Shareholders of REITs are also protected as regulations require that the REIT's properties are held by an independent trustee. REITs have appointed managers to manage the REIT and act in the best interest of the shareholders. REIT Managers set the strategic direction, manage their assets and liabilities, and give recommendations to the trustee on the acquisition, divestment or enhancement of assets in accordance with the REIT's stated investment mandate.

Some REITs have sponsors (typically but not necessarily property developers) which provide backing to the REIT by injecting their own properties into the REIT during listing. These sponsors continue to support the growth of the REITs by providing the REIT rights to acquire the sponsor's future pipeline of properties. These sponsors may sometimes themselves be a major shareholder of the REIT they sponsor.

In Singapore, REITs are required to distribute at least **90%** of their net income after tax to shareholders. Shareholders enjoy these tax exempted distributions in regular intervals (e.g. quarterly or half-yearly) throughout the year in the form of dividends. The first Singapore REIT was launched and listed on the SGX in July 2002.

To qualify as a REIT, a company must have the bulk of its assets and income connected to real estate investment and must distribute at least 90 percent of its taxable income to shareholders annually in the form of dividends.

In addition to paying out at least 90 percent of its taxable income annually in the form of shareholder dividends, a REIT must:

- Be an entity that would be taxable as a corporation but for its REIT status;
- Be managed by a board of directors or trustees;
- Have shares that are fully transferable;
- Invest at least 75 percent of its total assets in real estate assets and cash;
- Derive at least 75 percent of its gross income from real estate related sources, including rents from real property and interest on mortgages financing real property;
- Borrowings and deferred payments (aggregate leverage) **must not exceed 35%** of the REIT's deposited property, **except if a credit rating of the fund has been obtained and disclosed to the public**, in which case the aggregate leverage can be **up to 60%** of the deposited property.
- Not to be involved in property development. They can buy over existing properties for rental purpose. Purchase price must not exceed 110% of valuation. Selling price must not be below 90% of valuation.
- A trustee of a REIT is taxed at the prevailing corporate tax rate on its income. However, dividends earned by unit holders will not be taxed.

Real Estate Investment Trusts (REITs)

1. Purpose of REITs is to encourage small investors to pool their money and participate in larger real estate project.
2. Investors who buy REITs transfer title to a trustee, who agrees to manage the property for the benefit and profit of the investors (beneficiaries).
3. Buying REITs is the same way as buying shares and can be freely traded in the stock exchange
4. Income from the trust is distributed to the investors
5. REITs are for investors who do not have high capital but wish to invest in real property and wish to maintain the liquidity. It is an indirect form of property investment unlike property stocks which are based on company's performance.
6. REITs, such as Ascendas REIT, buy JTC factories for 30 years and engage in a "**Third-Party Build and Lease**" or "**Sale and Leaseback**" scheme.