Real Estate Investment Trusts (REITs) Fact Sheet

Redmayne Bentley

Real Estate Investment Trusts (REITs) offer a simplified method of investing in UK commercial and residential property. The aim of REITs is to provide an opportunity for investors to invest in property in a highly tax-efficient manner, while being highly liquid and operating under strong corporate governance.

The concept of a REIT is simple: it is a company which owns and operates income-producing real estate - this can be commercial or residential. REITs are designed to provide security on the income from rented property assets in a tax-efficient way, bringing returns from investing in a REIT in line with traditional property investments.

A SELECTION OF COMPANIES WITH UK REIT STATUS:

- Primary Health Properties
- Tritax Big Box
- LXI REIT
- GCP Student Living
- British Land
- Empiric Student Properties

HOW ARE REITs TRADED?

REITs are traded in the same way as any other share on the stock market. Importantly, there is no difference in how a REIT is listed on trading screens and within newspapers. Pricing and trading is also the same, so you can call us as usual to obtain the latest price information.

THE RISKS & BENEFITS OF REITs

The main benefit of REITs lies with their favourable tax position. Anyone holding shares in a REIT will effectively avoid the 'double taxation' scenario which an investor in non-REIT property companies will face. The tax rules surrounding REIT companies allow the company to avoid paying corporation tax, providing that 90% of income from property rental is distributed to shareholders. As a result, investors pay tax on the Property Income Distribution (PID) which they receive, without it first having been subject to corporation tax. Importantly, REIT shares can be held within a SIPP or ISA where the PID will be paid gross and higher rate taxpayers and additional rate taxpayers will not be liable to further tax. REITs must also have low-controlled gearing. REITs can produce regular high-yield returns, since 90% of rental receipts must be distributed to shareholders within a REIT regime, income seekers may well see this as an attractive aspect to the asset class.

The biggest risk for investing in a REIT is interest rates. Generally when rates move higher, demand for REITs tends to fall. While rising interest rates are seen as symptomatic of a strong economy, REITs haven't performed well historically when rates are going up. Non-traded REITs bring a number of risks. As they are not publicly traded, there will be no research and it is difficult to determine the value. They are illiquid and quite often an investor is locked in for a period of time. In addition, most of these charge an upfront fee and there may also be external manager fees, which will reduce the level of returns.

THE NEXT STEP

Buying and selling REITs is done in the same way as any other share: pricing and trading is in real time and you can contact your local Redmayne Bentley office for information.

Investments and income arising from them can fall in value and you may lose some or all of the amount you have invested. Tax treatment depends on the specific circumstances of each individual and may be subject to change.

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