

REITs *are all right*

*An indirect property investment
could produce lucrative income,
says Cheryl Markosky*

At a time when values of residential properties are flatlining or even drifting down in parts of the UK, it may well be a good time to look at different options when it comes to putting money into property ventures.

One opportunity you might want to consider is a Real Estate Investment Trust (or REIT).

WHAT ARE REITs?

REITs are quoted companies or groups of companies that own, and in most instances, manage property – be it commercial or residential, with the aim of generating rental income.

A Real Estate Investment Trust provides allows investors to access property assets indirectly without having to buy and directly own physical property.

UK REITs cover a variety of industrial, commercial and residential properties, including office and apartment buildings, student residences, co-working spaces, hotels, and shopping and distribution centres.

“A REIT is a pooled inventory that gives investors access to a portfolio of properties,” explains Laith Khalas, a senior analyst at Hargreaves Lansdown (www.hl.co.uk), a platform that sells REITs. “As an individual (unless you’re a very high net worth individual) typically can’t afford to buy a large commercial property alone, you can buy a chunk of a fund instead.”

A big advantage of investing in a REIT is that “you spread risk across a number of different types of properties”, adds Khalas.

DELIVERING AGAINST A CLEAR PLAN

When checking out a REIT it’s wise to look for a robust policy. Chris Grigg, British Land’s chief executive, sums this up in the company’s 2019 annual report.

He says: “Our long-term strategy is clear: to build an increasingly mixed-use business comprising three core elements – our London campuses, a smaller retail portfolio and residential. By proving the right mix of uses at each of our places, we drive enduring demand for our space, support rental growth and create long-term sustainable value.”

The firm adds that there are four compelling reasons to invest in British Land.

Firstly, British Land has a 23 million square foot portfolio of high quality assets, with £16.8 billion of assets under management.

British Land regards itself as an expert in managing and leasing assets, based on a deep understanding of the customer. This drives incremental value for British Land and its stakeholders – as illustrated by the 97.8% occupancy

reported in last year’s financial results.

Also, the firm is increasing its focus on mixed-use places, is growing its London campuses (Broadgate, Paddington and Regent’s Place) and is building a residential business while refining its retail business. British Land has reshaped its retail portfolio – selling £646 million off-strategy assets since April, 2018.

Lastly, British Land has a well-positioned development pipeline. The company has British Land submitted its master-plan for a new urban centre at Canada Water in south London, including commercial, office and community spaces as well as around 3,000 new homes.

British Land’s portfolio is valued at £16.2 billion (of which the British Land share is £12.3 billion) as of the end of March, making it one of Europe’s largest real estate investment companies.

REITs ARE A FORCE FOR GOOD

Kersten Muller, head of real estate at Grant Thornton UK, comments in the firm’s latest annual report that UK REITs have been around for over 10 years now, and they have evolved significantly since they were introduced. “From initial take-up by the large listed property companies, REITs have become more of a sector-driven investment vehicle. REITs are really contributing to place-making, creating places for people to live, work and play. Adding the REIT brand on top of this helps to build trust and integrity in the economy.”

KEY FACTS ABOUT REITs

The British Property Federation (www.bpf.org.uk) points out that REITs must comply with a number of conditions set out in tax law, as follows:

- REITs must pay out 90% of their property income to shareholders every year.
- Dividends from REITs are treated as property income to the investor, and are taxed accordingly. These dividends are subject to a withholding tax at basic rate income tax, except for certain classes of investors who can register to receive gross rather than net payments. These include charities, UK companies and pension funds.
- REIT shares can be held in ISAs and Child Trust Funds (CTFs), and the managers of these can receive gross distributions, making these highly tax efficient.
- REITs must be primarily engaged in property investment, rather than in development or other non-property related activities.
- As REITs are all listed property companies, investments in them are generally very liquid.



TAX BENEFITS OF REITS

As a good portion of a REITs' taxable income is handed to shareholders through dividends, it's largely exempt from corporation tax. This means that double taxation – corporation tax and extra tax on distributed dividends – is eradicated.

You can get more information on exemptions from UK tax and other useful advice at www.gov.uk.

WHAT YOU SHOULD KNOW BEFORE INVESTING IN A REIT

Khalas advises investing in a diverse portfolio. "Pay attention what's in the REIT; you don't want too many eggs in one basket."

Currently, concerns over Brexit and the global economy have led to some negative sentiment in the sector, but Khalas believes that in the long-term it's likely that REITs will show healthier returns. "Nothing is guaranteed, but further down the line REITs could look attractive alongside shares and bonds."

Property companies exposed to retail have struggled of late, as more people are shopping online. "This could run for some time," he concurs. However, on the flip side, Khalas rates industrial warehouses and distribution centres, because more items are being delivered by post.

HOW TO INVEST

It's a simple process investing in REITs. Investors can place deals online, via a mobile app or by phone.

Investment Property Partners (www.investmentproperty.co.uk) publishes a useful guide to investing in UK REITs.

A SELECTION OF UK REITs

(courtesy of the British Property Federation)

- AEW UK REIT (AEWU)
- Assura (AGR)
- Big Yellow Group (BYG)
- British Land Company (BLND)
- Broadgate REIT (BRL)
- Capital & Regional (CAL)
- Custodian REIT (CREI)
- Derwent London (DLN)
- Drum Income Plus REIT (DRIP)
- Ediston Property Investments Company (EPIC)
- Empiric Student Property (ESP)
- F&C Real Estate Investments (FCRE)
- GCP Student Living (DIGS)
- Glenstone Property Group (GPRO)
- Great Portland Estates (GPOR)
- GRIP REIT (listed on CISE)
- Ground Rents Income Fund (GRIO)
- Hammerson (HMSO)
- Hansteen Holdings (HSTN)
- Highcroft Investments (HCFT)
- Impact Healthcare REIT (IHR)
- Intu Properties (INTU)
- K&C REIT (KCR)
- Land Securities (LAND)
- The Local Shopping REIT (LSR)
- LondonMetric Property (LMP)
- M7 Multi-Let REIT
- McKay Securities (MCKS)
- Mucklow (A & J) Group (MKLW)
- NewRiver Retail (NRR)
- Pacific Industrial & Logistics REIT (PILR)
- Picton Property Income (PPI)
- Primary Health Properties (PHP)
- PRS REIT PLC (PRSR)
- Real Estate Investors (RLE)
- RDI REIT PLC (RDI)
- Regional REIT (RGL)
- SEGRO (SGRO)
- Safestore Holdings (SAFE)
- Secure Income REIT (SIR)
- Schroder Real Estate Investment Trust (SREI)
- Shaftesbury (SHB)
- Standard Life Investments Property Income Trusts (SLI)
- Supermarket Income REIT (SUPR)
- Target Healthcare REIT (THRL)
- Town Centre Securities (TCSC)
- Tritax Big Box REIT (BBOX)
- Unite Group (UTG)
- Walls & Futures REIT (WAFR)
- Warehouse REIT (WHR)
- Workspace Group (WKP)

The London Stock Exchange (LSE) provides a spreadsheet of all its listed companies, including REITs, which you can download it from the LSE website (www.londonstockexchange.com).