

# Investor Alerts and Bulletins

## Investor Bulletin: Non-traded REITs

**Aug. 31, 2015**

*The SEC's Office of Investor Education and Advocacy is issuing this bulletin to educate investors about investing in non-traded REITs.*

### **What are REITs?**

A REIT, or real estate investment trust, is a company that owns – and typically operates – income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include real assets (e.g., an apartment or commercial building) or real estate-related debt (e.g., mortgages). Most REITs specialize in a single type of real estate – for example, apartment communities. There are retail REITs, office REITs, residential REITs, healthcare REITs and industrial REITs, to name a few.

### **What is the difference between publicly traded REITs and non-traded REITs?**

*Publicly traded REITs* (also called *exchange-traded REITs*) are registered with the SEC, file regular reports with the SEC and are listed on an exchange such as the NYSE or NASDAQ. As with stocks listed on an exchange, you can buy and sell a publicly traded REIT with relative ease. An investment in publicly traded REITs is typically a liquid investment. Similarly, you can easily assess the value of the publicly traded REIT by noting the share price at which the REIT is trading on the exchange.

In contrast, there are also **non-traded REITs** that are registered with the SEC, file regular reports with the SEC, but are **not** listed on an exchange and are **not** publicly traded. An investment in a non-traded REIT poses risks different than an investment in a publicly traded REIT.

### **Some risks of non-traded REITs to consider before investing**

- **Lack of liquidity.** Non-traded REITs are illiquid investments, which mean that they cannot be sold readily in the market. Instead, investors generally must wait until the non-traded REIT lists its shares on an exchange or liquidates its assets to achieve liquidity. These liquidity events, however, might not occur until more than 10 years after your investment.

Non-traded REITs usually offer investors' opportunities to redeem their shares early but these share redemption programs are typically subject to significant limitations and may be discontinued at the discretion of the REIT without notice. Redemption programs also may require that shares be redeemed at a discount, meaning investors lose part of their investment if they redeem their shares.

***For these reasons, investors with short time horizons or who may need to sell an asset to raise money quickly may not be able to do so with shares of a non-traded REIT.***

- **High fees.** Non-traded REITs typically charge high upfront fees to compensate a firm or individual selling the investment and to lower their offering and organizational costs. **These fees can represent up to 15 percent of the offering price, which lowers the value and return of your investment and leaves less money for the REIT to invest.** In addition to the high upfront fees, non-traded REITs may have significant transaction costs, such as property acquisition fees and asset management fees.

**Check your broker or investment adviser.** Whether working with a broker or an investment adviser, it is important to check that they are registered with the SEC or a state securities regulator. **If the person is not registered, it could be a red flag for fraud.** You can find out if someone is registered and obtain information about the person by visiting the SEC's Investment Adviser Public Disclosure (IAPD) website or FINRA's BrokerCheck website. You can also check with your state securities regulator about the person soliciting your investment.

- **Distributions may come from principal.** Investors may be attracted to non-traded REITs by their high distributions, which may be referred to as dividend yields, compared to other investment options, including publicly traded REITs. However, the initial distributions may not represent earnings from operations since non-traded REITs often declare these distributions prior to acquiring significant assets. Investors should consider the total return of a non-traded REIT – capital appreciation plus distributions – instead of focusing exclusively on the high distributions. **Non-traded REITs may use offering proceeds, which includes the money you invested, and borrowings to pay distributions. This practice reduces the value of the shares and reduces the cash available to the REIT to purchase real estate assets.**
- **Lack of share value transparency.** Because non-traded REITs are not publicly traded, there is no market price readily available. Consequently, it can be difficult to determine the value of a share of a non-traded REIT or the performance of your investment. In addition, any share valuation will be based on periodic or annual appraisals of the properties owned by the non-traded REIT, and therefore may not be accurate or timely. **As a result, you may not be able to assess the value or performance of your non-traded REIT investment for significant time periods.**
- **Conflicts of interest.** Non-traded REITs are typically externally managed – meaning the REITs do not have their own employees. **As noted above, the external manager may be paid significant transaction fees by the REIT for services that may not necessarily align with the interests of shareholders, such as fees based on the amount of property acquisitions and assets under management.** In addition, the external manager may manage or be affiliated with other companies that may compete with the REIT in which you are invested or that are paid by the REIT for services provided, such as property management or leasing fees.

**Where can I get information about a non-traded REIT?**

When offered an opportunity to invest in a non-traded REIT, your financial professional should provide you with a copy of a *prospectus* for the investment. The prospectus is the offering document describing the REIT's investment strategy, offering terms, risks and other information that you should consider when deciding whether to invest. There may also be *supplements* to the prospectus detailing changes since the original date of the prospectus. ***You should carefully review the prospectus and any prospectus supplements before making any investment decision.*** The prospectus and any supplements can also be found through the SEC's EDGAR database usually identified as a "424B3" filing.

Non-traded REITs that are registered with the SEC also must regularly file quarterly and annual reports detailing the financial results of the non-traded REIT. These reports can be found on the SEC's EDGAR database and are identified as a Form 10-Q for a quarterly report and a Form 10-K for an annual report. Forms 8-K may also be filed in connection with the occurrence of certain events that require disclosure. ***You should carefully review these reports before investing.***

### Chart comparing REIT types

	Publicly traded REITs	Non-traded REITs
<b>Overview</b>	REITs that file with the SEC and whose shares trade on national stock exchanges.	REITs that file with the SEC but whose shares do not trade on national stock exchanges.
<b>Liquidity</b>	Shares are listed and traded, like any publicly traded stock, on major stock exchanges. Most are NYSE listed.	Shares are not traded on public stock exchanges. Redemption programs for shares vary by company and are limited. Generally a minimum holding period investment exists. Investor exit strategies generally linked to a required liquidation after some period of time (often 10 years) or, instead, the listing of the stock on a national stock exchange at such time.
<b>Transaction costs</b>	Brokerage costs the same as for buying or selling any other publicly traded stock.	Typically, fees of 10-15 percent of the investment are charged for broker-dealer commissions and other up-front costs. Ongoing management fees and expenses also are typical. Back-end fees may be charged.
<b>Management</b>	Typically self-advised and self-managed.	Typically externally advised and managed.

<b>Minimum investment amount</b>	One share.	Typically \$1,000 - \$2,500.
<b>Performance measurement</b>	Numerous independent performance benchmarks available for tracking listed REIT industry. Wide range of analyst reports available to the public.	No independent source of performance data available.

Source: *National Association of Real Estate Investment Trusts (NAREIT)*

**Private REITs.** In addition to publicly traded REITs and non-traded REITs, there are also *private REITs*. Similar to non-traded REITs, private REITs are not listed making them hard to value and trade. Private REITs also do not regularly file disclosure reports with the SEC possibly making it difficult for you to keep informed of your investment. Instead, private REIT offerings are private placements and rely on an exemption from the obligation to register with the SEC. Investors are typically limited to accredited investors.

### Additional Information

See FINRA's investor alert about non-traded REITs for more information.

For more information about REITs generally, see our Investor Bulletin.

For information about how fees impact your investment, see our Investor Bulletin.

To learn about how to research your investment professional, see our Investor Bulletin.

For our Investment Adviser Public Disclosure (IAPD) website, visit adviserinfo.sec.gov.

For FINRA's BrokerCheck, visit brokercheck.finra.org.

To locate contact information for your state securities regulator, visit nasaa.org.

For information on how to search for company documents, such as Forms 8-K, in the SEC's EDGAR database, see Using EDGAR - Researching Public Companies.

For another resource for using EDGAR, see Researching Public Companies Through EDGAR: A Guide for Investors.

For more information about private placement, see our Investor Bulletin.

For more information about accredited investors, see our Investor Bulletin.

For additional investor educational information, visit the SEC's website for individual investors, Investor.gov.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

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