What is a REIT?

A Real Estate Investment Trust, or REIT, is a company that owns, and in most cases, operates income-producing real estate. Some REITs finance real estate. To be a REIT, a company must distribute at least 90 percent of its taxable income to shareholders annually in the form of dividends.

Types of REITs

There are approximately 150 publicly traded REITs in the U.S. today, with a combined equity market capitalization of more than $300 billion. The shares of these companies are traded on major stock exchanges, which sets them apart from traditional real estate. Other REITs may be publicly registered but non-exchange traded or private companies. REITs are classified in the following categories:

- **Equity REITs** own and operate income-producing real estate.
- **Mortgage REITs** lend money directly to real estate owners and their operators, or indirectly through acquisition of loans or mortgage-backed securities.
- **Hybrid REITs** are companies that both own properties and make loans to owners and operators.

The Evolution of REITs

Congress created REITs in 1960 to give anyone and everyone the ability to invest in large-scale commercial properties. The REIT industry has grown dramatically in size and importance since then, and during the last decade in particular. Factors sparking increased investor interest include:

- REITs—also known as real estate stocks—have outperformed most other major market benchmarks over three decades with significantly less volatility.
- REITs operate commercial properties in nearly every major metropolitan area across the country and in several international locations.
- In 2001, Standard & Poor’s recognized the evolution and growth of the REIT industry as a mainstream investment by adding REITs to its major indexes, including the S&P 500.

Dividends and Diversification

Because REITs must pay out almost all of their taxable income to shareholders, investors can look to REITs for reliable and significant dividends (typically four times higher than those of other stocks, on average).

Analysis of historical data concluded that the relatively low correlation between REITs and other stocks and bonds makes them a powerful diversification tool. In particular, Ibbotson Associates found:

- REITs offer an attractive risk/reward trade-off.
- The correlation of REIT returns with other investments has declined over the last 30 years.
- REITs may boost return and/or reduce risk when added to a diversified portfolio.

Any investor can build greater long-term wealth by combining homeownership and REIT stocks as part of a diversified investment portfolio.
REITs & Your 401(k) Plan

Institutional investors (organizations such as pension funds) routinely have included real estate in their portfolios. Yet, the latest study shows that only 20% of the nation’s 401(k) plans even offer participants the opportunity to invest in a real estate fund.

In view of real estate stocks’ record of providing dividends and diversification, every retirement plan participant should have the right to choose REITs.

If your 401(k) plan doesn’t include a real estate option, ask for one. Your first step may be to talk with your company’s benefits officer and request a prospectus containing information about the fees, expenses, and risks of investing in a REIT fund. That individual is also likely to serve as a liaison with your 401(k) provider. Remind them that a well-constructed 401(k) plan isn’t possible without real estate.

To learn how to invest in real estate stocks, visit: REIT.com