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What is a Reit?

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WHAT DOES IT MEAN?

A real estate investment trust (Reit) is an investment trust, similar to mutual funds and unit trusts in that it pools funds from public investors (unit holders) to invest primarily in property such as malls, office buildings and hotels.

Reits give investors a chance to own a portion of these real estate (analogous to shareholders owning part of the company whose shares they own) and thus claim a portion of the income from these assets.

Singapore listed its first Reits in 2002 and, according to an Ernst and Young report last year, is now the sixth-largest Reit market in the world (third in Asia, after Japan and Australia, and ahead of Hong Kong). Reits in Singapore are also called S-Reits.

WHY IS IT IMPORTANT?

Reits trade like stocks on a stock exchange. A special feature is that they pay out at least 90 per cent of their profit to unit holders and, for that, they are exempted from paying corporate tax.

That means more dividends for unit holders, especially if they are local retail investors who also do not pay income tax for such dividends.

Since Reits have to pay out most of their profit to unit holders, when they want to make new investments, they have to issue new units, similar to listed companies selling new shares. Existing unit holders usually have the right to buy these new units.

IF YOU WANT TO USE THE TERM, JUST SAY:

"This shopping mall is among the assets of the S-Reit in my investment portfolio."

• The writer is associate professor of the Department of Finance at NUS Business School. The opinions expressed are those of the writer and do not represent the views and opinions of NUS.