

Investing in REITs



Malaysians know that property prices have soared aggressively over the last few years. Real estate investment trusts (REITs) should be considered as a way of investing in real estate in a very liquid form while having the potential of getting high returns, writes JOYCE CHUAH.

RISING property prices has brought about two mind-boggling questions posed by property investors: Should I sell my property now that prices have risen? Should I wait for prices to fall before I buy another real estate?

These are hard questions to answer. New property owners are waiting for lower prices whilst current owners are raising their prices hoping to cash in on the price frenzy.

The bottom line is, we just don't know when real estate prices will ever stop escalating. Just when we think prices have stabilised, new property developments are

launched at even higher levels! Instead of buying actual bricks and mortar when investing in real estate, there is an investment vehicle that offers investors a share in the real estate market in a far more liquid form with the potential to reap higher returns – real estate investment trust, or REIT in short.

REIT is an investment vehicle that proposes to invest at least 50% of its total assets in real estate, whether through direct ownership or through a single-purpose company whose principal asset comprises of real estate.

The main investment theme for REITs is to own and invest in

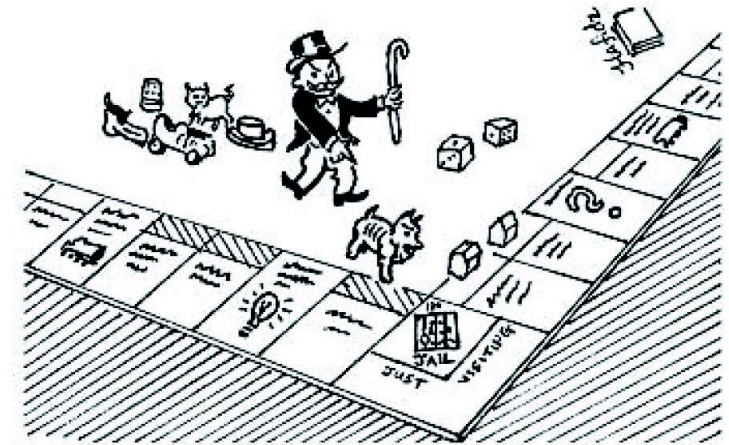


Illustration by HAFIDZ MAHPAR

"Great! This is what I get for just suggesting that REITs are cheaper and more lucrative than directly buying a chain of properties!"

income-producing real estate which can include commercial buildings, shopping malls, hotels, resorts, self-storage facilities, warehouses, apartments and even car park spaces.

REITs are similar to unit trust funds that are professionally managed by an appointed management team to manage the underlying 'REITed' assets.

The benefit of owning a REIT is that an investor shares in the rental incomes of the real estate owned by the REIT without having to buy these assets directly.

Since it is a traded equity, an investor can profit from capital appreciation of its price as well and it is easily converted into cash by selling it.

Tenant management, maintenance fees, real property gains tax and other payments would usually be taken care of by the managers of the REIT, unlike owning a property directly.

In Malaysia, investors are also given a special withholding tax of 10% on the dividends received from REITs. First introduced in 2006, this is valid until Dec 31, 2016.

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