

What is a Real Estate Investment Trust (“REIT”)?

REIT's are collective investment vehicles which invest in real estate. A UK REIT is a type of REIT which, provided certain conditions outlined in UK legislation are satisfied, is exempt from corporation tax on rental income and capital gains from property.

UK REITs are structured as public limited companies and will therefore have an independent board to ensure shareholder interests are protected. UK REITs can be traded on an investment exchange (i.e. stockmarket). Whilst REIT structures exist in many markets, the rest of this document refers to UK REITs.

As they are listed companies, the longevity, structure, investment objective or strategy of the REIT may be subject to corporate activity arising from shareholder pressure or may be subject to M&A activity by / with other REITs or private entities.

REITs vs open ended vehicles

REITs are a type of collective investment vehicle as are open ended vehicles such as unit trusts, unit funds and open-ended investment companies (“OEIC”). However, there are a number of significant differences in the way that they operate as follows.

Shares in Issue

As with all companies traded on an exchange, REITs are deemed to be ‘closed-ended’. This is because the number of shares in issue is fixed and will not change unless there is a corporate event, whereby the REIT announces the issues of new shares, a stock split, a stock consolidation or cancels shares as the result of a share buy-back.

In contrast with open-ended vehicles, the manager is generally able to issue and cancel shares on a daily basis, to meet the demand, or lack of, for that particular investment.

Share Prices

Due to the fact a REIT is closed-ended and only has a fixed number of shares in issue, the share price is determined by supply and demand, as is the case for all companies traded on the stock market. Investors will buy shares at the ‘offer’ price and sell at the ‘bid’ price which will be lower. The difference between the two is the ‘spread’ and includes the fee the stockbroker charges for facilitating the trade.

The price of a share in an open ended-vehicle is principally determined by the net asset value (“NAV”) of the underlying investments at a predetermined pricing point (e.g. mid-day) and at a pre-determined frequency (daily, monthly, quarterly or even annually).

Trading at a premium / discount

As a REIT is a form of collective investment vehicle which invests in a number of underlying assets, it too will have a NAV. However, as the share price is determined by the demand for its shares, a REIT may be priced by the market at a premium (more than its NAV), or at a discount (less than its NAV).

E.g. the NAV per share of a REIT may be 100p, but the price investors are willing to pay for a share may be 125p (a 25% premium) or 75p (a 25% discount).

The discount or premium at which a REIT's shares trade can be influenced by a number of factors, including:

- The performance of the REIT and the market's expectation of prospects for future returns;
- Investor interest in the real estate asset class and sub sector it provides exposure to;
- The economic/ interest rate cycle;
- Liquidity in the shares, i.e. the ability to easily buy or sell them in the size investors wish to trade in; and
- Imbalance in investor demand in the form of large sellers or buyers of shares.

As already discussed, the price of a share in an open-ended vehicle is determined solely by its NAV and therefore they will not trade at a premium or discount.

Leverage / Gearing (borrowing)

Unlike open ended vehicles, REITs can borrow money on a longer-term basis to invest. Gearing has the effect of magnifying gains when markets are rising, but will have the opposite effect when markets are falling. The more borrowing a REIT has, the more volatile the share price is likely to be.

Interest payments associated with borrowings will also impact the net revenues of REITs, and their ability to pay dividends. If the interest payments are not fixed or otherwise hedged, fluctuations in the interest rate cycle may have an adverse impact on dividend payments.

It should be noted that borrowings are generally subject to covenants which require the REIT to satisfy certain conditions, generally with respect to revenues or capital values, on an ongoing basis. Whilst REITs are generally careful in ensuring that there is plenty of headroom over the covenant, the breach of these covenants can have an adverse impact on the ability to manage the portfolio or pay dividends, and the lender may recall the loan at short notice.

Open-ended vehicles can also seek to mirror the effects of leverage to an extent, through the use of derivatives, though this may not work equally with all asset classes.

Nature of the asset class

Listed UK REIT structures are better suited to investments in less-liquid asset classes in particular, as the structure allows the investment manager to take a longer-term view when investing, in the knowledge that the capital available for investment is fixed.

Investors in REITs who take an appropriately long-term view are also protected from the actions of other investors who may take a short-term view and exit their investment early. Open ended, alternative real estate investment structures have had a checkered history over the last few decades at times of poor investor sentiment with respect to the asset class. This is because in order to cover redemptions, an open-ended structure may need to sell assets potentially giving rise to unnecessary costs. In addition, having to sell assets when market conditions are poor could also impact the NAV of an open-ended fund and because the most liquid assets would be easier to sell, to raise money quickly, an increase in the concentration of less liquid assets held by the fund may be the result.

FAQs

What regulations protect my investment in a REIT?

Companies listed on the London Stock Exchange are subject to the UK Listing Rules of the Financial Conduct Authority. The UK Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public. The Rules include principles on executive pay, a requirement to comply or explain non-compliance with the UK Corporate Governance Code and the mandatory information to be provided in a prospectus.

Investments made by investors on a non-advised basis in REITs are not covered by the Financial Services Compensation Scheme ("FSCS").

If you hold REIT shares in a packaged product such as a share plan, ISA or pension, the product provider must be regulated by the Financial Conduct Authority.

Can I complain, if I am unhappy with my investment?

As a shareholder, you will be able to raise any concerns or complaints directly with the Board of Directors of the REIT or via the administrator or Investment Advisor.

However, if there is no response or you are unhappy with the response, you will not have the benefit of referring your complaint to the Financial Ombudsman Service ("FOS").

Why do REIT shares have a different price if you buy or sell?

As with all shares traded on a stock market, a REIT share will have an offer price (to buy it) and a lower price to sell it back, the bid price. The difference between the two (the spread) represents the incentive for market makers to provide liquidity in the shares, this relates to the risk that the market maker takes in holding the shares themselves in order to make them immediately available to a buyer. For example, the risk that they may have to sell them to an investor at a lower price than they bought them for. Due to this risk element, the spread can change depending upon demand for the share and market conditions. If there is high demand, and therefore it is likely that the market maker will not have the shares for long, the spread will be narrow, if there is little demand meaning the broker may have to have the shares on their books for a while, the spread will be wider. Market volatility may also give rise to wider spreads. The spread also compensates the market maker for using their capital to provide liquidity.

Your executing broker will also likely charge a stock broking fee. Stamp Duty Reserve Tax ("SDRT") at 0.5% may also be payable on purchases of shares.

Are there any other ongoing charges?

As with all investments there may be additional charges levied by a product provider or investment platform to administer your investment, i.e. to look after it for you and process the receipt of dividends and corporate actions.

Is buying a share in a REIT trading at a discount a good or bad idea?

There is no guarantee that any discount will have narrowed by the time you come to sell, and it may widen. Investors should make informed decisions based on the prospects for the shares, taking into account the prospects for real estate as an asset class and the potential performance

of the REIT and the subsector. The Board of Directors of a REIT can take measures to narrow the discount, e.g. by buying back shares in order to increase the demand and therefore the value of the shares that remain available in the market, but there is no guarantee that this will reduce the discount in the long term and there is unlikely to be an obligation on the Board to manage the discount in this way.

All things being equal, buying shares at a discount means that you have more capital working to provide you with a capital return and generate revenue which can be distributed as dividends (after costs). However, a discount can be the market's expression of its expectations of the true value of the underlying portfolio or risks to future returns.

Some REITs also have other discount management measures such as periodic wind-down or continuation votes, which are designed to give investors comfort that if performance is poor or there is a lack of demand for the shares, an exit might be possible, if the required majority of other shareholders vote in favour.

Will buying REIT shares via an investment platform affect my shareholder rights?

It depends. Most investment platforms will hold the shares in a 'nominee' account on your behalf. The nominee will then become the registered owner of the shares. If this is the case, you will need to ensure that the investment platform will pass on all documentation in relation to your shareholder and voting rights.

It is important to note that REITs usually have more corporate actions and other events such as votes on the appointment or reappointment of Directors, which ideally require responses from investors.

How can I compare the risk profile of REITs to open-ended funds?

The NAV and price of open-ended funds move up and down and therefore carry the risk that you may get back less than your original investment when you come to sell. However, a REIT's share price may move by markedly more than its NAV, as a result of the discount/ premium feature.

It should be noted that REITs may see wider swings in their share price than open-ended funds in general, due to changing market sentiment and swings in investor demand, with respect to exposure to real estate.

Can I pass on my shares in a REIT when I die?

Yes. Your REIT shares, which you own in your name, will form part of your estate and can be passed on to the beneficiaries of your Will, subject to the relevant applicable taxes at the time of death.

How do I check whether an investment in a REIT is right for me and my circumstances (e.g. tax, ability to take risk, financial goals)?

We are unable to provide investment advice to retail investors. However, we would suggest that you seek the advice of an Independent Financial Adviser ("IFA") and if you do not have one, the following site can help you find an IFA- [Find a Financial Advisor](#). Please, note that this should not be taken as a recommendation or an endorsement of the website.

What is the easiest way to buy shares in a REIT?

Like all shares, they can be bought via your bank, a stockbroker or online via an investment platform.

We are unable to recommend an intermediary but the Association of Investment Companies (“AIC”) have provided the following list of platforms that provide access to investment companies - [Availability on Platforms | How to Invest | The AIC](#). It should be noted that this is not an exhaustive list of all executing brokers who can provide access. As mentioned, your bank may also be able to help you. Please, note that this should not be taken as a recommendation or an endorsement of the website.

What sets Warehouse REIT apart from other UK REITs?

Warehouse REIT is the only UK REIT focused on multi-let warehouses.

This is an asset class supported by attractive market fundamentals including strong, long-term demand for space. The occupier mix is highly diverse, covering a broad range of sectors including trade counters, general manufacturing and logistics, engineering, technology and media helping to make demand more resilient through the cycle. Our focus is on multi let assets with unit sizes ranging from 500 sq ft to over 370,000 sq ft, enabling occupiers to take one or more units and expand with us as their business grows.

With multiple occupiers on our assets, we are also able to capture reversion, which is the difference between contracted rent and market rent, more quickly given there are multiple lease events. Our occupier base is highly diversified covering a wide range of business activities and sizes, from large, multi-national corporates to smaller, successful, local businesses.

Supply of this asset class is also constrained, both by a tight planning regime but also because the cost to construct is often above capital values, making development uneconomic. This is supportive of rental growth.

Our assets are in key strategic locations across the UK, with particular exposure to major transport routes, international freight routes including airports and ports and large urban conurbations. These are key drivers of demand for occupiers of warehouse space.

How do I find out more and stay informed?

Please refer to the following for further detailed information on us:

- AIFMD Investor Disclosure;
- Factsheet;
- Annual Reports and Accounts/ AGM Presentations;
- Interim Reports and Accounts; OR
- RNS news section for the latest updates.