

# REITs and Liquid Real Estate

# REIT History

- REITs (Real Estate Investment Trusts) were created by Congress in 1960 to make investments in large scale, income producing real estate accessible to all investors
- REITs were not a major force until the early 1990s, as banks, insurance companies, tax syndicates, and pension funds provided the bulk of capital for real estate.

# REIT IPO Basics – UPREIT Structure

Value of Moy's Management Fee Stream	
Portfolio Revenue	\$13M
Management Fee (5%)	\$0.65M
Valuation Multiple	7X
<b>Management Fee Stream Value</b>	<b>\$4.6M</b>

Moy REIT Post-IPO Summary	
Pre-IPO Value	\$104.6M
IPO Fees	\$4M
<b>Value of Moy REIT</b>	<b>\$100.6M</b>
Debt	\$42M
Equity	\$58.6M

Moy REIT IPO Summary	
Property Value (+/- 10%)	\$100M
Management Fee Stream Value	\$4.6M
Debt	\$98M
<b>Net Pre-IPO Equity</b>	<b>\$6.6M</b>
IPO Equity Raised	\$60M
IPO Fees	\$4M
<b>Debt Repaid with IPO Proceeds</b>	<b>\$56M</b>
<b>Moy REIT Debt post-IPO</b>	<b>\$42M</b>

Exhibit X: Moy REIT Post-IPO Ownership	
IPO Investors	98%
Moy	2%

# C-Corps Vs. REITs

Structure	Pros	Cons
<b>C-Corp</b>	<ul style="list-style-type: none"><li>- Can retain more cash flow for growth</li><li>- Simpler corporate structure</li><li>- No limitations on the types of businesses performed</li></ul>	<ul style="list-style-type: none"><li>- Pay corporate tax</li></ul>
<b>REIT</b>	<ul style="list-style-type: none"><li>- No corporate tax</li></ul>	<ul style="list-style-type: none"><li>- Large Dividend payments</li><li>- More dependent upon equity specialists to raise growth capital</li><li>- Numerous operating restrictions</li></ul>
<b>Partnerships</b>	<ul style="list-style-type: none"><li>- No corporate tax</li></ul>	<ul style="list-style-type: none"><li>- Tax liability without distribution</li><li>- Cumbersome governance structure</li></ul>

# REIT Vs. Publicly Traded Real Estate Companies

- The REIT decision revolves around the gains from single taxation (estimated at 3-5% of the value of the assets) versus the costs of the operating restrictions. If you believe more value is created by avoiding double taxation than is destroyed by the operating restrictions, you will select REIT status. One reason why most private companies are not REITs, is that to qualify as a REIT you must have a least 100 shareholders, and no 5 shareholders taken together can control 50% of the equity.

# Public Vs. Private

- The decision to go public depends on the desire to access large pools of anonymous capital, versus the willingness to adhere to the rules imposed on public companies.
- What are these rules?
  - They are many, including: reporting executive salaries; detailed audited financials; disclosing material information such as planned financings, developments, and major tenant lease expirations; describing material mistakes made in the course of business; and paying lawyers and accountants to create documents for the SEC.

# Taxable REIT Subsidiary

- REITs can offer ancillary services as long as they do not become the company's primary business, and as long as the REIT carves out the income from such services into a taxable subsidiary. Simply stated, “non-real estate” income cannot be sheltered from taxes by REIT status.
  - For example, a REIT can offer dry cleaning pick-up services to tenants via its taxable REIT subsidiary.

# UPREIT Structure

UPREIT STRUCTURE: TAX EXEMPT

