A layman's guide to REITs

Real estate has always been an important consideration for investors. It offers stable income, a hedge against inflation, and diversification away from equity and bond markets. However, direct ownership of property comes with its own drawbacks. It requires high capital requirements, is illiquid, and there are significant complexities involved in its management.

As such, investment in Real Estate Investment Trusts (REITs) can be a good option for those who want to invest in real estate, but avoid the headaches involved in direct ownership. REITs provide investors with liquid and transparent access to property markets, whilst retaining the income and diversification benefits that draw investors to bricks and mortar.

What is a REIT?

At its simplest, a REIT is a company that owns and manages income-producing real estate, such as offices, warehouses, or even healthcare facilities. Investors buy shares in the REIT, and in return gain exposure to a diversified property portfolio without needing to own the building outright.

The UK introduced its REIT regime in 2007[1]. To qualify, companies must meet strict requirements: at least three-quarters of their assets and profits must relate to rental property, and at least 90 per cent of their rental income must be distributed to shareholders each year. They must also be listed on a recognised exchange such as the London Stock Exchange. These rules are designed to ensure that REITs act as pass-through vehicles, giving shareholders direct access to rental income while avoiding double taxation at the corporate level.

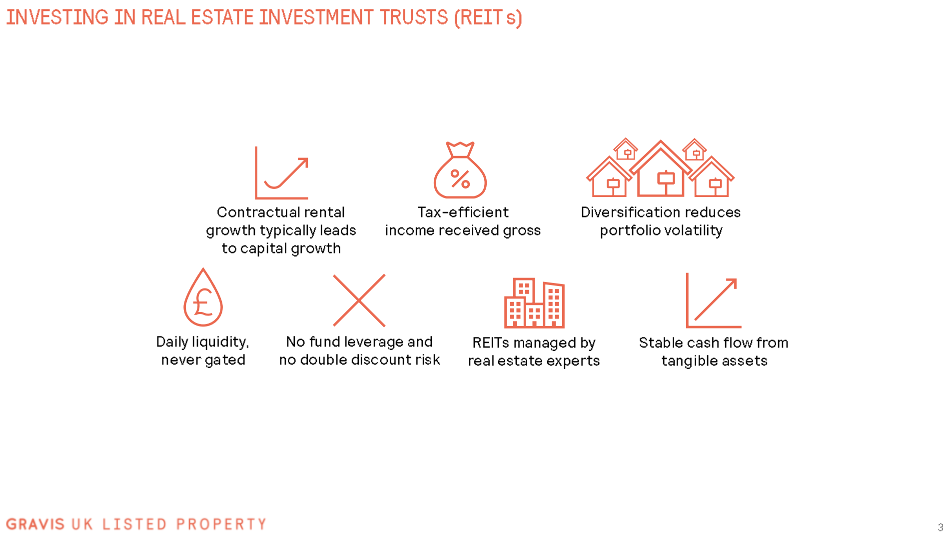
Why should you invest in REITs?

For investors, REITs combine features of both real estate and equity markets. They provide the same liquidity as listed shares, which can be traded daily, and therefore avoid the long time horizons and lockups involved with private property funds. Their mandatory dividend payout makes them an attractive investment option for investors seeking predictable and often inflation-linked and growing income streams.

REITs also offer diversification. The UK market ranges from broad-based commercial landlords to highly specialised players focused on logistics, student accommodation, or healthcare. This breadth allows investors to position portfolios around long-term structural themes, such as the growth of e-commerce or the demand for modern healthcare facilities. At the same time, professional management teams handle leasing, development, and tenant relations, leaving investors free from operational burdens.

The UK REIT market

Today, more than forty REITs are listed on the London Stock Exchange, with a combined market capitalisation exceeding £54 billion[2]. Some of the largest names (Segro in logistics, Tritax Big Box in distribution warehousing, or Unite Students in student housing) are widely followed by both domestic and international investors.



What risks are involved?

Despite their attractions, REITs are not without risks. For example, their share prices can be more volatile than the underlying property values because they trade on stock exchanges and are influenced by broader market sentiment. They can also trade at premiums or discounts to the value of their property assets, depending on investor appetite and macroeconomic conditions. When REITs are trading at a discount, however, it could potentially be an opportune time to invest, as you would be buying the shares more cheaply.

Interest rate cycles are another key factor. Rising rates tend to put pressure on REIT valuations, both because the debt of the underlying companies becomes more expensive and because higher bond yields reduce the relative appeal of REIT income. Sector concentration also matters: while specialist REITs can offer access to high-growth niches, they can be vulnerable to cyclical downturns or structural disruption.

How do they fit in an investor's portfolio?

Investors approach REITs in several ways. For some, they are a liquid complement to illiquid property holdings, providing flexibility to adjust allocations without selling physical assets. Others use them tactically to express views on specific themes, such as the rise of logistics or the resilience of healthcare property. Some investors also use them to diversify their income streams.

TM Gravis UK Listed Property applies this flexibility by allocating across listed property companies and REITs that are positioned to benefit from enduring structural trends. These are ageing population, digitalisation, generation rent and urbanisation. The team's expertise in identifying sectors supported by these mega trends aims to capture sustainable income and long-term capital growth while managing the cyclical risks inherent to property markets.

Best of both worlds?

UK-listed REITs sit at the intersection of property and capital markets. They allow investors to capture the benefits of real estate - income, diversification, and inflation protection - while retaining the liquidity and transparency of listed equities. Like any asset class, they come with risks, but in the hands of a specialist investment team who invest in best- in-class REITs, it can be a pragmatic way for investors to access real estate in a portfolio context. As a result, REITs remain a valuable and flexible investment tool.

1. *Source: https://www.pinsentmasons.com/out-law/guides/tax-treatment-of-reits?*
2. *Source: London Stock Exchange REITs list- June 2025. https://docs.londonstockexchange.com/sites/default/files/reports/REITs%20List%20June%202025.xlsx*

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