

Passive income

through

REITs investment

Have you thought of owning a piece of premium real estate like a hotel, hospital or factory and collecting rents year after year? Have you thought of owning a piece of Singapore where land is scarce? In the past, only the rich could afford to own these expensive but lucrative assets. The launch of Real Estate Investment Trusts (REITs) in 2002 in Singapore gave retail investors the opportunity to own a piece of these properties indirectly.

What are REITs?

A REIT is a type of security listed on the stock exchange that manages funds which are invested in properties. Their major source of income is through collecting rents from tenants. REITs are obligated to pay out at least 90% of their net profit to shareholders, making them a popular instrument for passive income seekers.

What are the potential rewards from investing in REITs?

FTSE ST Real Estate Investment Trust Index which tracks the performance of SGX-listed REITs offered a return of 8.97% excluding dividends over the past five years. It outperformed the market (STI index: -8%) during the same period.

While the returns offered by REITs in the past was decent, is it possible to further improve the returns by picking REITs based on some financial ratios? Or in terms of capital, you do not have enough to invest in the combination of REITs, like FTSE ST REIT index. Hence, what are the important parameters that can help investors shortlist REITs to invest in?

In this article, we will explore two parameters: Price to Book ratio and Dividend Yield.

These two parameters help us to pick REITs which are undervalued but at the same time, offer good dividends.

$$\text{Price to Book} = \frac{\text{Share Price}}{\text{Net Asset Value Per Share}}$$

Note:

A quick way to tell whether a stock is overpriced is to compare the stock price with its net asset value. It is overpriced if the latter is lower than the former and vice versa. Investors pay more for something that is worth less.

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share}}{\text{Share Price}}$$

Note:

A parameter to measure how much a company pays in dividends relative to the share price. In the absence of capital gains, dividends are the returns on the investment in the stock.

Index Name	CUMULATIVE PERFORMANCE							ANNUALISED PERFORMANCE						
	1M (%)	3M (%)	6M (%)	YTD (%)	1Y (%)	3Y (%)	5Y (%)	3Y (%pa)	5Y (%pa)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	Div Yield (%)
FTSE ST Real Estate Index	2.45	-2.25	1.56	-2.25	-14.92	-14.08	-0.93	-4.93	-0.19	47.59	-9.68	6.82	-7.19	4.97
FTSE ST Real Estate Investment & Services	4.73	-8.69	-1.32	-8.69	-19.66	-16.61	-7.43	-5.87	-1.53	56.04	-9.76	4.46	-3.37	2.75
FTSE ST Real Estate Investment Trusts	0.63	3.82	4.13	3.82	-10.54	-12.32	8.97	-4.29	1.73	36.67	-8.93	9.17	-10.72	6.78
FTSE ST All-Share Index	4.95	-0.06	2.54	-0.06	-15.86	-14.87	-9.27	-5.23	-1.93	22.18	-1.01	4.79	-13.68	4.01

Source: FTSE Monthly Report, March 2016

“ Don't wait to buy real estate,
buy real estate and wait ”

- T. Harv Eker

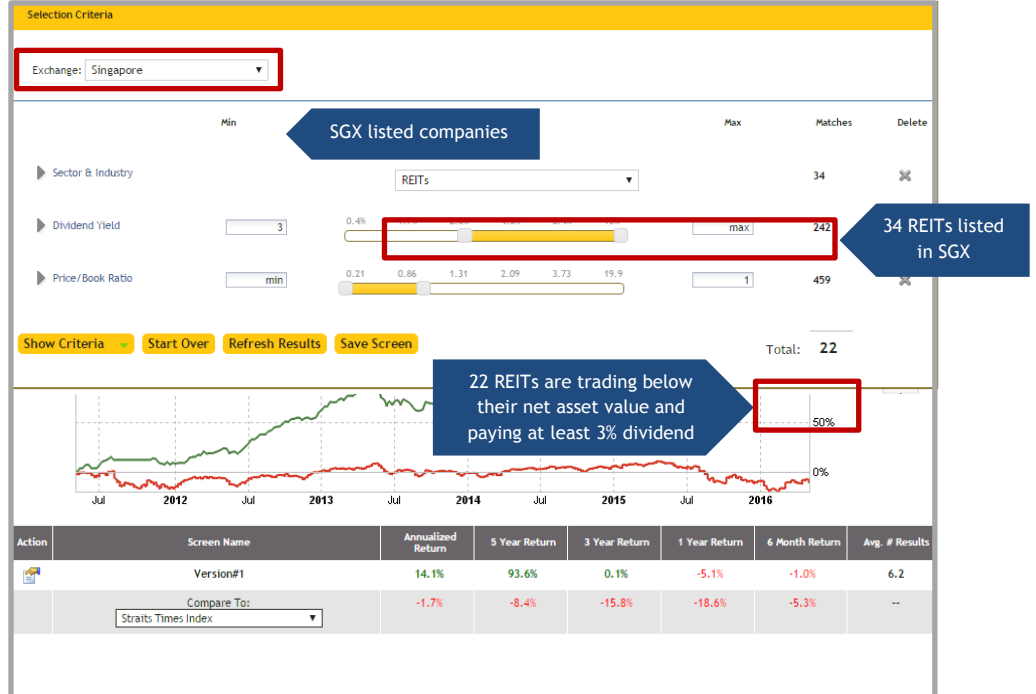
Strategy Builder on KE Trade

Using the Strategy Builder on our KE Trade platform, we can select these two parameters as the screener's criteria. Strategy Builder will rank all the REITs listed in Singapore using these two parameters. Besides, we can also back test the performance of the strategy over the past 5 years.

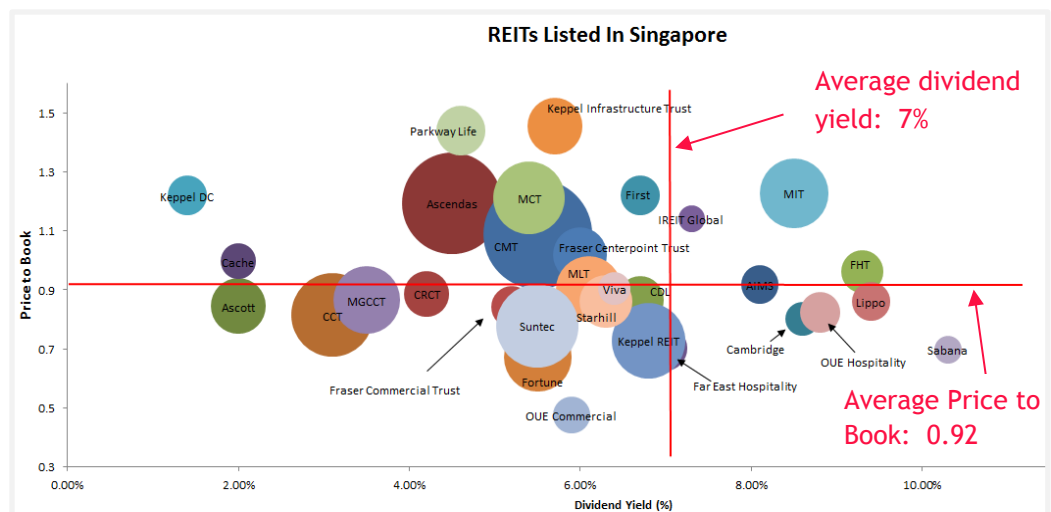
The historical returns over 5 years on a portfolio consisting of the top 10 REITs in Singapore based on Dividend Yield and Price to Book ratio was 93.6%, with an annualised return of 14.1% excluding dividends. This portfolio significantly outperformed the Straits Times Index and the FTSE ST Real Estate Investment Trust index.

The bubble chart below shows the Price to Book ratio and dividend yield for the REITs listed in Singapore. The bottom right quadrant represents the group of REITs which is trading at a high dividend yield and low Price to Book ratio relative to their peers.

As with all other investment products, REITs do come with investment risk. It is important to understand and consider whether REITs investment is suitable for you. If you are interested to know more about REITs, feel free to attend our [REITs seminar](#) or contact us at helpdesk@maybank-ke.com.sg.



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