REITs Glossary

Essential Terms That All REITs Investors Must Know

DrWealth

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Weighted Lease Average Expiry (WALE)

Weighted Lease Average Expiry (ALE) is a metric used by investors to access the likelihood of REITs' properties portfolio being vacant. As we all know, income generated by REITs are derived from its leasing out spaces. Hence, vacancy would hurt REITs' earnings and therefore resulting in a distribution loss.

There are two ways to measure WALE. Either by using rentable area or rental income, measured across all tenants' remaining lease in years.

An example based on gross rental income:

Property #1: 15% of gross rental income with 5 years of remaining lease term

Property #2: 70% of gross rental income with 2 years of remaining lease term

Property #3: 15% of gross rental income with 10 years of remaining lease term

Therefore, the WALE is:

(0.15 * 5) + (0.7 * 2) + (0.15 * 10) = 3.65 years

What it tells us is that the average lease expiry of the properties portfolio is 3.65 years.

As with all metrics, the figure has to be measured across similar sectors to conclude whether it is over or below the industry average.

High WALE implies greater income protection due to later lease expiry term. However, the main downside is that the REIT is not able to capitalize higher rental during market boom as its average lease expiry is longer.

Low WALE, on the other hand, has higher susceptibility towards rental market movement as shorter expiry term means frequent rental renewal. This allows the REIT to capitalize higher rental but at the same time means that it is susceptible to lower rental yield during bad time.

Accretive Acquisition

When an acquisition is accretive, the company would expect to produce higher EPS when it acquires properties. Therefore it is able to give a higher distribution to investors.

In REITs, managers often ensure their property acquisitions are yield accretive in order to win investors votes to pursue an acquisition and raise capital, usually through rights issue.

Acquisition that is not yield accretive would be seen as destroying investor value.

Rights Issue

A rights issue is a right to buy additional shares / units in a REIT. It is issued to the REIT's existing unit holders, usually at a discounted market price in proportion to their holdings.

For example, rights issue of 1:4 means for every four shares you own, you have the option to purchase 1 share at a discounted price as stated in the rights issue.

REITs often use rights issue to raise capital for potential acquisition that are deems to be yield accretive. Unlike raising through debt, rights issue does not increase the financial gearing of the REITs.

Benefit

Existing unit holders are given the opportunity to purchase more of their holdings at a cheaper price than what they get from the stock market.

Disadvantage

As rights issue requires REITs to create more units. Investors who do not participate in the offering would find their proportion of unit holdings diluted.

DPU

DPU = Total Dividend /Distribution ÷ Number Of Shares.

DPU is known as distribution per unit. It tells investors how much dividend / distribution they would get for every share they own.

NAV

NAV Per Share = (Assets Market Value - Liabilities Value) ÷ Number of Shares.

NAV is known as Net Asset Value. It gives us an indicative value of what investors would get if the Company liquidates all of its assets and pays off its liability.

NAV is normally used to compare against market prices to determine above or under valuation of the assets.

RNAV

RNAV Per Share = (Revised Assets Market Value - Revised Liabilities Value) ÷ Number of Shares.

RNAV is known as Revalued Net Asset Value.

It is similar to NAV except that the assets and liabilities are adjusted to market value. RNAV is mostly used on property stocks with land that are valued at old prices.

Gearing

Gearing (Debt-to-Equity Ratio) = Total Debt ÷ Total Equity

Gearing (Debt Ratio) = Total Debt ÷ Total Assets

Gearing is a metric used by investors to access a REIT's financial leverage.

A company with high gearing is said to be more vulnerable during recession as it has to continue to pay interest no matter how bad the earnings are.

Should the REIT be unable to pay its interest or principal on time, the REIT may fold up. Since July 2015, MAS has imposed a gearing limit of 45% for all REITs.

Capitalization Rate (aka Property Yield)

Cap rate = Net Operating Income / Property Value

Cap. Rate is known as Capitalization Rate or property yield.

It is a measure of the property income yielding capability. Most REITs have their individual property Cap. Rate stated in their annual report.

A high Cap. Rate suggests either the REIT managers' abilities to negotiate for higher income or could also mean the property value has depressed.

AEI

AEI is known as Asset Enhancement Initiative.

Refurbishment, revamp and upgrades of existing property assets are examples of Asset Enhancement Initiatives.

The goal is to optimise the value of a REIT's existing asset properties value with the aim of increasing rental income. This is very common in Singapore, especially in shopping malls.

Learn to pick the most sustainable and profitable REITs in the market at any one time.

Let fund manager Kang Lin show you how at the REITs Investing Mastery Course.

You will learn:

- How REITs work and some of the myths that could be affecting your returns
- 3 methods to analyse any REIT in any industry
- 7 financial figures that REITs investors should look at when evaluating REITs
- How to determine when is a good time to invest in a REIT
- Latest REITs market outlook
- *Many more*

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About Dr Wealth

We help you invest better.

We have two approaches to achieve this goal.

First, we conduct affordable investor education courses because you must be conversant with the language of money in order to invest successfully.

Second, we develop practical tools for you to monitor your investments and get trade ideas easily. We understand investing is important but it isn't the centre stage of your life. We leverage on technology to ease the amount of research and monitoring you have to do.