CAPITAL SQUARE

UNDERSTANDING REAL ESTATE INVESTMENT TRUSTS (REITS)

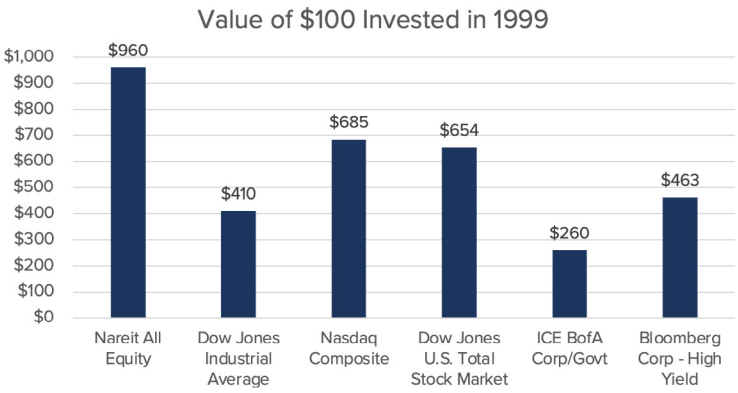
Unlocking Investment-Grade Real Estate for Tax-Advantaged Income

A real estate investment trust (REIT) is a company that owns, operates or finances income-producing real estate by pooling the capital of many investors to purchase and operate a portfolio of investment-grade assets.

The REIT structure enables individual investors to obtain tax advantages and generate potentially substantial total returns through rent growth and asset appreciation, while reducing risk through diversification.

WHY INVEST IN REITs?

- **Investment-Grade Real Estate**
  REITs enable individuals to invest in high-quality, investment-grade real estate otherwise out of reach.



- **Low Correlation to Traded Stocks**
  REITs have low correlation to traded stocks, making them an excellent portfolio diversifier. By adding REITs, an investor can reduce overall portfolio risk while also increasing returns.

- **Prolific Income Generation**
  REITs must distribute 90% of their taxable income via dividends to stockholders, often resulting in higher dividends than other asset classes.

- **A Hard Asset**
  Real estate is a hard asset ("bricks and mortar") that may be recession-resistant with inflation protection from regular rent increases.

- **Total Return**
  History demonstrates exceptional REIT returns from dividends plus appreciation.

- **Tax-Advantaged Income**
  REITs offer significant tax advantages, including a 20% deduction for qualified REIT dividends.

- **Professional Management**
  REITs provide professional management, maximizing shareholder value through management expertise and operating efficiencies at scale.

- **Increased Transparency**
  REITs give investors additional oversight by independent directors, analysts and third-party auditors.

Shareholders enjoy REIT earnings without having to actively participate in the real estate business. That's why millions of Americans invest in REITs, benefitting from real estate ownership without having to buy, manage or operate the properties within their diversified portfolio.

REIT STRUCTURES:

- **Public Traded REITs**
  These REITs are registered with the Securities and Exchange Commission (SEC) and trade on a public exchange.
- **Public Non-Traded REITs**
  These REITs are registered as a public company with the SEC but are not traded on a public exchange.
- **Private REITs**
  These are private companies exempt from SEC registration.

Note: Private and public non-traded REITs do not trade on exchanges; they have limited liquidity but typically offer a more stable value.

Real estate investment trusts own and manage more than **$4 trillion** in gross assets across the United States. This includes approximately 575,000 properties and millions of acres of undeveloped land.[1]

Some REITs specialize based on asset class, for example, investing in residential housing communities.

REIT SUBGROUP	AVERAGE ANNUAL TOTAL RETURN (1994-2023)
Self-Storage	17.3%
Industrial	14.4%
Residential	12.7%
Health Care	11.6%
Retail	11.2%
Office	10.1%
Lodging/Resorts	9.0%
Diversified	7.9%
S&P 500	10.1%

Data source: Nareit and YCharts (2024).

Since their creation by Congress in 1960, REITs have allowed anyone to invest in a diversified real estate portfolio with professional management.

Approximately 168 million Americans are invested in REITs. This number equates to roughly 50% of American households, whether directly through the purchase of REIT shares or indirectly through mutual funds or exchange-traded funds incorporating REITs.[2]

For decades, REITs have proven themselves by providing a reliable income vehicle with growth and inflation protection, a savings solution for the future or retirement.

Ready to learn more? Talk to your financial advisor or connect with Capital Square's team of real estate investment experts.

Sources:

1. Nareit®, https://www.reit.com/what-reit, Accessed February 15, 2024. | 2. Nicole Funari, "Increased Equity Investment Boosts Number of Americans Invested in REITs to Nearly 170 Million," Nareit®, February 2, 2024. https://www.reit.com/news/blog/market-commentary/increased-equity-investment-boosts-number-americans-invested-reits

ABOUT CAPITAL SQUARE

As one of the nation's leading sponsors of tax-advantaged real estate investments, Capital Square builds legacies for investors, team members and communities – enabling the discovery and implementation of tax-advantaged real estate investments with unwavering integrity, developing best-in-class multifamily communities synonymous with value and managing multifamily properties with a drive for excellence.

Capital Square's offerings include Delaware statutory trusts (DSTs), qualified opportunity zone funds, development funds and a real estate investment trust (REIT). Capital Square sponsors turn-key real estate investment offerings with low investment minimums to provide investors access to larger and higher quality estate than they would be able to acquire on their own. Learn more at CapitalSq.com.

DISCLAIMERS

Always remember that each property is unique and past performance is no guarantee of future results.

Diversification does not guarantee profits or protect against losses.

There are material risks associated with investing in real estate including illiquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short-term leases associated with multifamily properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal. Past performance is not a guarantee of future results. Potential cash flow, returns and appreciation are not guaranteed. This is not a solicitation or an offer to see any securities. Private placements are speculative.

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You should be aware that our business is subject to risks and uncertainties, including the foregoing, that could cause actual results to differ materially from those contained in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date thereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations or any changes in events, conditions or circumstances on which any such statement is based.

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