

Real Estate Finance & Investment

Prepared by Dr. Emad Zaher
Assistant Professor of Accounting

REA 631

Lecture (9) **Real Estate Capital Markets & REITs**



What We Will Cover Today

01

Public Capital Markets

How real estate is bought and sold on stock exchanges — and how public and private markets connect.

02

Real Estate Investment Trusts

How REITs are structured, regulated, and analysed using the industry's own performance metrics.

03

Indirect Property Investing

How everyday investors earn real-estate returns without ever buying a physical building.

04

Regional & Global Markets

The global REIT landscape, with a close look at Saudi Arabia and Egypt.

PART 1

Public vs. Private Real Estate Markets

Real-estate capital can be accessed through two very different channels — each with its own risk, return, and liquidity profile.

Two Paths to Real Estate Investment

The same asset class — reached in two completely different ways.

PRIVATE MARKETS

- Direct property ownership
- Private real-estate equity funds
- Illiquid — hard to sell quickly
- High minimum investment (EGP 1M+)
- Full control over the asset
- Lower price transparency

PUBLIC MARKETS

- Traded on stock exchanges (EGX, NYSE)
- REITs, ETFs, real-estate mutual funds
- Highly liquid — sell shares instantly
- Low minimum (the price of one share)
- Professional management
- Prices visible in real time

Key insight (Baum & Hartzell, 2021): the two markets are linked — private valuations eventually follow public pricing signals, especially in a downturn.

PART 2

Understanding REITs

The Real Estate Investment Trust turned large-scale commercial property into something an ordinary investor can own with a single share.

What Is a REIT?

A company that owns, operates, or finances income-producing real estate — and trades on the stock exchange like any public company.

The simple idea

Think of a REIT as a **mutual fund for real estate**. Instead of pooling money to buy stocks, investors pool their money to own a portfolio of properties.

Each investor owns **shares** of the trust. The rent the buildings earn flows back to those shareholders as **dividends**.

1960

The year REITs were first introduced in the U.S. — to open large-scale property to everyday investors.

One share

is all it takes to own a slice of dozens of income-producing buildings.

How a REIT Works

A pass-through vehicle: money flows in from investors, buildings earn rent, and income flows back out as dividends.



Because it passes income straight through to shareholders, a qualifying REIT pays little to no tax at the corporate level — the tax is paid by investors instead.

The Four Rules Every REIT Must Follow

To keep its tax-efficient status, a REIT has to pass four continuous tests.

1

Income Test

At least 75% of gross income must come from real-estate sources — rents, mortgage interest, or property sales.

2

Asset Test

At least 75% of total assets must be real estate, cash, or government securities.

3

Distribution Test

At least 90% of taxable income must be paid to shareholders every year as dividends.

4

Ownership Test

At least 100 shareholders — and no 5 individuals may own more than 50% of the shares.

Three Types of REITs

REITs differ by what they actually do with investors' money.

Equity REITs

OWN PROPERTY

Own and operate physical buildings. Revenue comes from rent. The most common type — roughly 90% of REITs worldwide.

Mortgage REITs

LEND MONEY

Lend to property owners and earn interest. Their profit is the spread between what they borrow at and what they lend at.

Hybrid REITs

DO BOTH

Combine owning property and lending. Less common, but they spread risk across two different income sources.

Where REITs Invest: The Sub-Sectors

Equity REITs specialise by property type — and each sector behaves differently across the economic cycle.

Residential

Apartments & student housing

Office

City towers & business parks

Retail

Malls & shopping centres

Industrial

Warehouses & logistics hubs

Healthcare

Hospitals & senior living

Data Centres

Cloud & digital infrastructure

Hospitality

Hotels & resorts

Self-Storage

Storage units & facilities

REITs: Strengths & Limitations

Every investment involves a trade-off. Here is the honest balance sheet for REITs.

Why REITs Are Attractive

- ✓ Liquidity — buy or sell on any trading day
- ✓ Diversification — one share, many properties
- ✓ Professional management handles everything
- ✓ Regular dividends — 90%+ payout means steady cash
- ✓ Low minimum — open to small investors

Limitations to Consider

- Market volatility — prices move with the stock market
- No direct control over which properties are held
- Dividends may be taxed as ordinary income
- Interest-rate risk — rising rates can hurt values
- Returns partly driven by market mood, not just rent

EGP 100K: Apartment vs. REIT

Criterion	Direct Apartment	REIT Investment
Minimum capital	EGP 500K – 2M+	EGP 100 (one share)
Liquidity	Months to sell	Sell in seconds
Diversification	One property, one place	Dozens of properties
Management	You handle repairs & tenants	Professional team
Income	Rental yield ~5–7% (Cairo)	Dividend yield ~4–8%
Risk profile	Concentrated & illiquid	Diversified, market risk

Conclusion: for most students and young professionals, REITs offer superior access and diversification. Direct ownership suits those with large capital and a desire for control.

PART 3

Analysing REITs

Ordinary accounting profit can be misleading for a REIT. The industry uses its own set of metrics to measure real performance.

How to Measure REIT Performance

Net Income understates REITs because of large depreciation charges. Three specialised metrics fix this.

FFO

Funds From Operations

$$\text{Net Income} + \text{Depreciation} - \text{Gains on property sales}$$

Removes the distorting effect of depreciation. The most widely used REIT metric.

AFFO

Adjusted FFO

$$\text{FFO} - \text{Maintenance CapEx} - \text{Straight-line rent}$$

A more conservative measure of the true cash available to pay dividends.

NAV

Net Asset Value / Share

$$(\text{Market value of assets} - \text{Liabilities}) \div \text{Shares}$$

The intrinsic real-estate value per share. Compare it to price to spot bargains.

Calculating FFO & AFFO

Annual financials (USD)

Net Income (after tax)	8,000,000
Add: Depreciation & Amortisation	4,500,000
Less: Gain on sale of property	(1,200,000)
= FFO	11,300,000
Less: Recurring CapEx	(900,000)
Less: Straight-line rent adjust.	(200,000)
= AFFO	10,200,000

AFFO per Share

\$2.04

= AFFO \$10.2M ÷ 5,000,000 shares

Reading the result

If this REIT trades at **\$25 / share**, its Price-to-AFFO ratio is $25 \div 2.04 = 12.3\times$.

A lower ratio than its peers suggests the REIT may be undervalued.

PART 4

REITs Around the World

From a U.S. invention in 1960 to a global asset class spanning more than forty countries — including a fast-growing MENA region.

The Global REIT Market

Four numbers that capture the scale of REITs worldwide (2023).

\$2.5T

Global market cap

Total value of listed REITs
worldwide.

40+

Countries

Nations with an
established REIT regime,
from the U.S. to Japan to
Saudi Arabia.

~50%

U.S. share

Roughly half of the global
REIT market sits in the
United States.

3–6%

Avg. dividend yield

The typical annual yield
range for major equity
REITs.

Top Global REITs by Market Cap

#	REIT Name	Country · Sector	Market Cap	Div. Yield
1	Prologis	USA · Industrial	~\$110B	~2.8%
2	American Tower	USA · Infrastructure	~\$85B	~3.2%
3	Equinix	USA · Data Centres	~\$78B	~2.1%
4	Simon Property Group	USA · Retail	~\$52B	~5.8%
5	Public Storage	USA · Self-Storage	~\$50B	~4.0%
6	Welltower	USA · Healthcare	~\$47B	~2.8%
7	Vonovia	Germany · Residential	~\$30B	~5.5%
8	Link REIT	Hong Kong · Retail	~\$14B	~6.2%
9	Al-Rajhi REIT	Saudi Arabia · Diversified	~\$2B	~6.5%
10	Emaar / MENA REITs	UAE · Retail & Commercial	~\$3B	~7.5%

Source: Bloomberg / NAREIT (2023 estimates). Higher yields usually reflect higher risk or slower growth.

Saudi Arabia's REIT Market

18

Listed REITs

Traded on Tadawul (2024)

~SAR 20B

Total Market Cap

≈ USD 5.3B combined assets

Key features of Saudi REITs

- Regulated by the Capital Market Authority (CMA) since 2016
- Must distribute 90% of net income, paid semi-annually
- Major sectors: retail malls, hotels, offices, residential
- Leading names: Riyadh REIT, Jadwa REIT Al Haramain, Al-Rajhi REIT
- Strongly aligned with Vision 2030 — tourism & commercial growth

Saudi Arabia is the most developed REIT market in the Arab world — a useful benchmark for where Egypt's market could head.

Egypt's REIT Market: Why So Small?

Current Status (2024)

- REIT law passed: FRA Regulation No. 30 (2016), amended 2020
- Only 1–2 active REITs listed on the Egyptian Exchange (EGX)
- Market cap under EGP 5 billion — a fraction of Saudi Arabia's
- Focus: mostly commercial & mixed-use assets in Cairo

Barriers to Growth

- High inflation erodes real returns for investors
- Currency risk — EGP devaluation cuts USD-equivalent returns
- Limited investor awareness and financial literacy
- Thin market depth and low liquidity on the EGX
- Regulatory complexity and valuation challenges

Discussion: which reforms — regulatory, tax, or financial — would most accelerate Egypt's REIT market? Draw lessons from the Saudi experience.

ASSESSMENT

Practice Question Bank

Which of the following is NOT a required qualification for a REIT?

A

Distribute at least 90% of taxable income

B

Have at least 100 shareholders

C

Own only residential properties

D

Derive 75%+ of income from real estate

ANSWER: C. A REIT may own any income-producing real estate — offices, retail, industrial, and more — not just residential property.

FFO differs from Net Income mainly because it adds back which item?

A Interest expense

B Depreciation and amortisation

C Property tax

D Dividend payments

ANSWER: B. Real estate depreciates on paper but often rises in value. FFO adds depreciation back to correct that distortion.

QUESTION 3 OF 15

MULTIPLE CHOICE · REIT Analysis

A REIT has FFO of \$12M and 4M shares, trading at \$36 per share. What is its Price / FFO ratio?

A 10×

B 12×

C 14×

D 9×

ANSWER: B. FFO per share = $\$12\text{M} \div 4\text{M} = \3.00 . Price / FFO = $\$36 \div \$3 = 12\times$.

Which metric is the most conservative measure of a REIT's distributable cash flow?

A Net Income

B FFO

C AFFO

D EBITDA

ANSWER: C. AFFO subtracts maintenance CapEx and rent adjustments from FFO, giving the truest picture of sustainable dividends.

Which body is the main regulator of Saudi REITs?

A Saudi Central Bank (SAMA)

B Capital Market Authority (CMA)

C Ministry of Finance

D Real Estate General Authority

ANSWER: B. The Saudi CMA established the REIT framework in 2016 and supervises every REIT listed on Tadawul.

Which type of REIT owns and operates physical buildings, earning income from rent?

A Mortgage REIT

B Hybrid REIT

C Equity REIT

D Index REIT

ANSWER: C. Equity REITs are property owners that collect rent. Mortgage REITs, by contrast, are lenders that earn interest.

What is the minimum share of taxable income a REIT must distribute to shareholders each year?

A 50%

B 75%

C 90%

D 100%

ANSWER: C. The distribution test requires at least 90% of taxable income to be paid out — which is why REITs offer high dividends.

Compared with owning an apartment directly, a key advantage of a public REIT is:

A Guaranteed higher returns

B Full control over the building

C High liquidity — shares sell in seconds

D No exposure to market prices

ANSWER: C. REIT shares trade on the exchange, so they can be sold almost instantly — unlike a physical property, which can take months.

A REIT must distribute at least 80% of its taxable income to qualify for tax benefits.

TRUE

FALSE



ANSWER: FALSE. The requirement is 90%, not 80%. Missing this threshold risks losing the REIT's tax-efficient status.

Equity REITs own and manage physical properties, earning income mainly from rents.

TRUE



FALSE

ANSWER: TRUE. Exactly. Equity REITs are property owners. Mortgage REITs, by contrast, are lenders that earn interest income.

AFFO is always higher than FFO for any given REIT.

TRUE

FALSE



ANSWER: FALSE. AFFO is always LOWER than FFO, because it deducts maintenance CapEx and straight-line rent adjustments.

Saudi Arabia has more active publicly listed REITs than Egypt as of 2024.

TRUE



FALSE

ANSWER: TRUE. Saudi Tadawul lists around 18 REITs, while Egypt's EGX has only 1–2 active REIT listings.

A REIT reports the figures below. Calculate its FFO and AFFO.

Given

Net Income	\$6.0M
Depreciation	\$3.0M
Gain on sale	\$0.8M
Recurring CapEx	\$0.6M
Straight-line rent	\$0.2M

Step-by-step

$$\begin{aligned}\text{FFO} &= 6.0 + 3.0 - 0.8 \\ &= \$8.2\text{M}\end{aligned}$$

$$\begin{aligned}\text{AFFO} &= 8.2 - 0.6 - 0.2 \\ &= \$7.4\text{M}\end{aligned}$$

ANSWER: FFO = \$8.2M • AFFO = \$7.4M

A REIT has AFFO of \$10.2M and 5,000,000 shares. Its price is \$25 per share. Find AFFO per share and the Price / AFFO ratio.

Given

AFFO	\$10.2M
Shares	5,000,000
Share price	\$25.00

Step-by-step

$$\begin{aligned}\text{AFFO/share} &= 10.2\text{M} \div 5.0\text{M} \\ &= \$2.04\end{aligned}$$

$$\begin{aligned}\text{Price/AFFO} &= 25 \div 2.04 \\ &= 12.3\times\end{aligned}$$

ANSWER: AFFO per share = \$2.04 • Price / AFFO = 12.3×



Thank You