International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

The Rise of REITs (Real Estate Investment Trusts): A Comparative Study of Global Markets

Pranav Verma

Student, School

Abstract

Real Estate Investment Trusts (REITs) have emerged as a significant financial instrument, offering investors exposure to real estate markets without direct ownership. Since their inception in the United States in 1960, REITs have expanded globally, with over 40 countries adopting this model. This paper provides a comparative analysis of REIT markets across developed and emerging economies, examining key trends, challenges, and opportunities. The study highlights the dominance of the U.S., Australia, and Europe in REIT market capitalization while recognizing the rapid growth in Asia-Pacific, particularly India. Key factors driving REIT expansion include economic growth, urbanization, technological advancements, and favorable regulatory frameworks. Additionally, the study explores the role of AI and fintech in enhancing investment strategies and market efficiency. Despite their advantages—such as liquidity, portfolio diversification, and inflation resistance—REITs face challenges, including regulatory complexities, taxation burdens, and macroeconomic volatility. The paper also discusses the growing importance of Environmental, Social, and Governance (ESG) factors, leading to the rise of Green REITs. As global real estate markets evolve, REITs are poised for further expansion, particularly in emerging economies. The findings underscore the need for policy reforms, investor education, and technological integration to enhance the efficiency and accessibility of REIT investments worldwide.

Keywords: Real Estate Investment Trusts (REITs), global REIT markets, real estate investment, financial markets, developed economies, emerging economies, market trends, AI in REITs, fintech, regulatory frameworks, taxation policies, portfolio diversification, inflation hedge, ESG investing, Green REITs.

1. Introduction

REITs or Real Estate Investment Trusts are companies that own and manage income-producing real estate. These companies allow common people to invest in skyscrapers, shopping malls, etc. It works a lot like mutual funds but in the real estate sector. REITs were first established in the USA by Congress in 1960. In the last 30 years, the number of registered REITs increased from 120 across 2 countries to now 40+ countries worldwide. In India, the first REIT model 'Embassy Office Parks' started in March 2019. Now, three more REITs have been launched in India under the names 'Mindspace Business Parks REIT', 'Brookfield India Real Estate Trust', and 'Nexus Select Trust'. In the Real Estate industry, REITs only occupy 13.7% in India whereas in the U.S, they occupy 98.9% and in Australia 94.8% which indicates that REITs still need more development and influence in India (Kukreja, D. et al 2024)

REITs hold great importance in the modern financial markets as they are a source of income for small investors looking to invest in the Real Estate Industry and they also help tackle inflation. By investing in REITs, long-term investors can protect their funds from inflation better than by investing in stocks or bank FDs. It also maintains liquidity in the Real Estate Industry and provides funds for more commercial structures like skyscrapers, hospitals, etc. to be built. For example, just like in stocks, companies generate their revenue through their IPOs, REITs in the same way receive more revenue and in turn, start more projects contributing to the welfare of the country.

1.2 Objective of the Study

- To analyze the growth and development of REITs across global markets.
- Comparative analysis of trends, challenges, and opportunities in developed and developing markets.

1.3 Scope and Significance

- The main target audience for REITs is small investors and retirement savers as they distribute 90% of their income to shareholders maintaining a smooth income stream.
- REITs have helped investors fund real estate globally as investors can invest in real estate in multiple countries without any need to travel. Through REITs, one can check the status and performance of several real estate markets globally in real-time.

2. Understanding REITs

2.1 What Are REITs?

REITs work just like mutual funds, instead of managing stocks and shares, they manage real estate. REITs generally invest in commercial properties through the pooled money generated by the investors and earn revenue primarily through rent and other sources like mortgages, loans, and by acquiring mortgage-backed securities.

1. Equity REITs - They own properties and manage them. Their revenue is mainly based on rent and also depends upon the changes in their property valuations. They occupy about 96% of the market share of total REITs and the reason for their success is that they pay good dividends to investors without the headache of managing the properties themselves.
2. Mortgage REITs - They provide funds to landowners through loans and mortgages. Their revenue is generated by the net interest margin on loans and by acquiring mortgage-backed securities, therefore, they are sensitive to interest rate changes. They occupy a market share of only 4%.
3. Hybrid REITs - They are a combination of both Equity and Mortgage REITs and generate their revenue by both rent and through loans and mortgages but their market share is negligible because, after the 2007-08 financial crisis, REITs only became more specialized and such hybrid models failed.

2.2 Benefits of REITs

Through REITs, retail investors from any place or country can invest globally in any REIT they choose and gain profits without needing loads of capital. Investors who invest long-term can also significantly benefit as compared to the stock market they are not as volatile in the long run and resist inflation while also providing dividends to the shareholders.

REITs allow investors to earn money from the real estate sector without directly having to own and manage properties thereby increasing liquidity in the real estate sector and allowing investors to buy as many stocks directly from major stock exchanges.REITs also help diversify the portfolio as they share a low correlation with stocks and bonds.

Since REITs pay 90% of their taxable income as dividends to their investors, they typically don’t have to pay taxes although they do have to pay taxes on their retained income. The total amount of tax paid by the investors depends on their total income and the marginal tax rate. REITs help investors maintain a stable income as they are more predictable than stocks and pay dividends quarterly. The risk factor in REITs is comparatively less than stocks and offers high returns on a long-term basis.

2.3 Challenges Associated with REITs

In REITs, generally, there is a minimum lock-in period during which one cannot sell their shares, also REITs have certain rules to follow like they have to invest 75% of their assets in real estate and must earn 75% of their income through real estate only. If REITs fail to follow such conditions their status as a REIT might be suspended leading to 100% taxation on their income.

REITs are less volatile than stocks but still, the market is sensitive to recessions, modifications to land acquisition laws, and taxation policies. Private REITs are considerably risky as they are not listed on major stock exchanges and the investment decision cannot be easily monitored but then dividends are also paid accordingly adjusting to the risk factor

3. Historical Evolution of REITs

3.1 Origins in the United States

Legislative milestones: REIT Act of 1960. REIT was first established by Congress when President Eisenhower signed the law for REIT Act title in 1960 by an amendment to the Cigar Excise Tax Extension which allowed companies to pool their money to buy large real estate portfolios. On September 15, 1960, the National Association of Real Estate Investment Funds (now NAREIT) was formed which was one of the major voices for REITs worldwide and the first REIT in which investors would invest. Later more REITs emerged out of which First Union Real Estate Trust (Now, Winthrop Realty Trust), Pennsylvania REIT, and Washington REIT exist even today.

In the U.S. market, REITs started gaining popularity around the late 1960s. Michael Emmerman, an analyst at Arnhold and S. Bleichroeder Advisers wrote the first Wall Street research piece on REITs. The first REIT to be listed on the New York Stock Exchange was Continental Mortgage Investors in 1965. REITs had a good market presence till 2006 and were growing at a steady pace but faced a crash in the 2007-08 financial crisis which obliterated Hybrid REITs. It has been steadily growing since then reaching its peak around 2021. (Gratton, P., 2024)

3.2 Global Adoption

The Netherlands passed the first European REIT legislation in 1969 marking the beginning of the global spread of REITs. Australia shortly launched the REIT model in 1971 followed by Canada in 1993. In Asia, Japan was the first country to introduce REITs in 2001. In India, REITs were introduced by the Securities and Exchange Board of India (SEBI) in 2014 but the first REIT, Embassy Office Parks, was only launched recently in 2019.

Major milestones in the development of REIT markets globally:

1. In June 1970, Bruce Thomson and Frederic Wolfe founded the first Healthcare REIT, now known as Welltower Inc.
2. In November 1991, the first successful REIT IPO was concluded by Kimko Realty Corporation.
3. In December 1991, New Plan became the world’s first REIT to reach $1 billion in equity market capitalization.
4. In October 1999, The European Public Real Estate Association (EPRA) was formed as a sign of growing interest in publicly traded REITs

5. In June 2000, the first REIT ETF, iShare Dow Jones U.S. Real Estate Index Fund entered the market. Now, there are more than 30 REIT ETFs in the market

4. Comparative Analysis of REIT Markets

4.1 Developed Markets

4.1.1 United States

Market size and maturity. The listed REITs in the U.S. market share an equity market capitalization of $1.3 trillion and paid $110.8 billion in dividends to its investors. There are more than 200 publicly registered REITs in the U.S. listed on NYSE and NASDAQ.

Performance and investor participation. The U.S. REITs market has performed well rewarding excellent dividends to its investors. Around 170 million U.S. citizens have invested in REITs which translates to almost half of the U.S. population meaning that REITs have a great growth and future in the U.S.

4.1.2 Europe and Australia

Regulatory frameworks. All REIT models are based on the U.S. REIT model but different countries do have their specific rules regarding taxation and operational restrictions. In the case of Europe, there are no separate regulations for REITs but in Australia, all REITs must distribute 100% of their income as dividends and in turn don't have to pay any taxes. In Europe, French SIICs (Sociétés d'Investissements Immobiliers Cotées) must distribute 95% of their rental income, 85% of capital gains, and 100% of dividends. Dutch FBIs (Fiscale Belegingginstelling) distribute 100% of their income similar to Australia.

Key players and trends. In Europe, the key players are Land Securities Group, Derwent London PLC, Unite Group, Merlin Properties Socimi SA, and Segro REIT PLC. It is a semi-consolidated country meaning many players are present in the market and there are no 1 or 2 dominant players. In the EU, REITs focus more on sustainability by getting green building certifications and working on improving energy efficiency while also focusing on their carbon footprint to gather the attention of environment-conscious clients. It is a highly competitive market. The trends indicate that the EU REITs industry will reach $208.11 billion by 2030. The key players in the Australian REIT market are The Goodman Group, Scentre Group, and Dexus. Both REITs in the EU and Australia are directly impacted by trends in the real estate market, therefore, some sectors do better than others. For Example - During the COVID-19 pandemic period, REITs involved with Corporate Offices declined because work-from-home was implemented whereas those that were concerned with healthcare rose. According to trends, the market cap of Australia is predicted to increase by 5.3%.

4.2 Emerging Markets

4.2.1 Asia-Pacific (India, Singapore, Japan)

In 2005, Asia had only 31 REITs across six countries and it has risen to 223 REITs in 11 countries by 2022. This growth represents the demand for real estate investment structures that show transparency and liquidity. Although it has grown so much, it only constitutes about 23% of global RIETs with Japan, Singapore, and Hong Kong being the leaders. Japan, Singapore, and Hong Kong constitute about 80% of the total REITs in Asia-Pacific but India has seen the fastest growth in this sector as it has shown 31% growth year on year in 2023.

Role of government incentives. In Hong Kong, the rules regarding investment in REITs have been relaxed a bit promoting the development and investment in REITs. Among the Asia-Pacific tax regulations for REITs have been relaxed a bit to encourage investment. Green REITs are also encouraged so that companies choose energy-efficient options and focus on carbon neutrality in exchange they receive tax breaks and other financial incentives.

4.2.2 Latin America and Africa

In Latin America, the demand for digital infrastructure is increasing a lot, attracting big companies like ODATA, Ascenty, etc. leading to investments in real estate and infrastructure. It is predicted that the real estate market in Latin America will grow by over 4% shortly creating opportunities for REITs. The first and the largest in Latin America is Fibra Uno working mainly in retail, industrial, and office sectors. In Africa, Kenya is showing remarkable growth by contributing 7-10% of the country's GDP. There is a huge focus on affordable housing in this area. The total market cap of REITs in South Africa has also grown significantly attracting investor interest. Mixed-use developments are rising here which are the combination of residential, retail, and commercial spaces.

REITs have faced several challenges like high interest rates with Growthpoint Properties reporting a 10% decrease in the distributed dividend incomes. Several African and Latin American countries do not have special tax considerations for the REIT model leading to excess taxation at multiple levels reducing the overall returns.

4.3 Key Comparative Metrics

The global REIT market shares an equity market capitalization of about $2 trillion globally across a total of 940 registered REITs wherein Europe constitutes $494 billion or 24.7%, Asia-Pacific constitutes $594 billion or 29.7% and the U.S. constitutes 1.424 trillion or 71.2%. REITs are required by the law to distribute 90% of their taxable income as dividends to their investors and these dividends which are collected by the investors are taxed as their regular income depending on the marginal tax rates. Any profits earned by the investors by selling REIT shares are subject to capital gains tax. REITs also must invest 75% of their income in real estate and must earn 75% of their income from real estate or related sectors through rent or mortgage interest. If all these conditions are met a company can be qualified as a REIT and does not have to pay corporate taxes although they do have to pay taxes on the 10% profits that they earn.

Investing in REITs is a great way to tackle inflation as real estate prices also generally rise with inflation but unanticipated shocks to such economic factors can also directly affect the returns and value of REITs. Mortgage REITs are also sensitive to interest rate changes. An increase in GDP and federal funds positively impact the returns of REITs as more GDP means more funds for development thereby increasing REIT earnings whereas a decrease in GDP negatively impacts REITs (Chaudhry, M., et al, 2022)

5. Factors Driving the Growth of REITs

5.1 Economic Growth and Urbanization

Infrastructure Development and Urbanization work highly in favor of REITs as development in the area where a REIT exists will increase its value. For example, a REIT was established in an X location which is developing, more hospitals, shopping malls, metro, and better roads are being built. Definitely the value of real estate and REITs will increase in that area.

5.2 Investment Demand for Real Assets

Real estate investment is growing a lot globally resulting in the demand for more REITs as real estate investments long term offer high returns of up to 10x or 100x or even more depending on the area and the type of property. Investing in traditional real estate requires a high amount of capital, therefore, investors are investing more in REITs. It is also much easier to invest in REITs compared to traditional real estate as one does not need to worry about maintenance or managing the property while being able to invest in huge projects. Therefore, in developed countries REITs have a good market presence and occupy more than 90%, of the developing countries that will soon follow.

5.3 Regulatory and Technological Advancements

Since REITs manage excessive amounts of data on tenant behavior, market trends, and property performance, it was a very time-consuming task to find and read all these reports published by different REITs but the presence of AI has revolutionized the REIT market as it works wonders in data analysis for REITs and can predict the outcomes by looking at the recent trends advising which REIT is the best to invest in at that particular time through its strong algorithms. REITs themselves are also using such powerful AI tools to understand their competition, guide their investments, and accelerate and make their data processing more efficient. Fintech also has a big role in making REITs successful, it has introduced Blockchain technology in REITs improving the security of transactions by enabling smart contracts and reduced paperwork

Fintechs have helped REITs by digitizing the process more by designing more platforms and apps to invest through. Digital marketing has also made REITs more popular through social media platforms, targeted ads, etc. REITs have recently entered a new sector, gaming. The gaming sector in REITs includes casinos, and entertainment properties through risk-mitigating, long-term leases. New direct investment platforms like Fundrise, RealtyMogul, and Yieldstreet allow investors direct access to invest in REITs globally. Several platforms also provide investors with education through webinars, tutorials, etc. as it is still a new concept in many countries.

6. Challenges and Risks in the Global REIT Market

6.1 Regulatory and Taxation Issues

Diverse frameworks across countries. All countries charge taxes on dividends, so the tax burden may increase on the investors. Since U.S. REITs are extensively monitored by the SEC and IRS, which requires more reports and data analysis, it may increase administrative costs. Nonresident investors have to face withholding taxes on their REIT investments. In the U.S. the tax rate for nonresident investors is 30% whereas in the U.K. it's 20%. In India, REITs have a high tax burden as the income is charged at the 3 levels, of rental, interest, and capital gains, the dividends are also taxed after a 10% withholding tax.

6.2 Market Volatility and Macroeconomic Factors

Interest rates and inflation impact. REITs in debt and mortgage REITs are highly sensitive to interest rates. If interest rates rise, fixed-income investment plans or bonds seem more reliable than REITs and investors may migrate to such options. It can also make large-scale constructions unviable as the pressure of debt increases leading to delays or even cancellations of big projects. REITs managing older properties may have a problem tackling inflation as it raises maintenance costs, increased raw material costs, and labor costs. Many REITs operate on long-term leases, so immediate inflation can lead to potential losses. Higher inflation may lead to investors selling their shares and reducing their purchasing power in turn depreciating the value of REITs

6.3 Environmental, Social, and Governance (ESG) Concerns

Recently, investors have focused a lot on environmental stewardship, social responsibility, and governance (ESG) and prefer to invest in companies that are working towards becoming carbon neutral or working towards the betterment of the environment. Therefore, many REITs have adopted such policies and are called Green REITs. The environmental aspect of ESG focuses on energy efficiency, emissions, climate risk assessment, etc. Asset managers analyze all this data and publish a report. The social component of ESG includes the impact of the asset on the community and employee and tenant satisfaction. The governance component of ESG revolves around good governance policies and practices. For this purpose, interdepartmental ESGs and cross-functional groups have been formed which are responsible for taking ESG initiatives and managing them.

7. Future Prospects of REITs in Global Markets

7.1 Expansion in Emerging Economies

There is rapid urbanization in developing countries with an increasing demand for residential, commercial, and industrial properties; here, REITs can provide the capital needed to fund these huge projects. Since REITs have a small presence in emerging economies, investing in them could lead to extremely high returns because they will be successful with time.

7.2 Integration with Technology

REITs use fintech technologies to mark their digital presence. Through many digital platforms and apps, one can invest in REITs from the comfort of their home without having to extensively research manually as it can easily be done through AI-powered tools. Future market analysis through AI-powered tools also benefits REITs as they can predict market volatility and crashes and decide strategies to tackle them.

7.3 Trends in Investor Behavior

Shifting preferences towards sustainable investments. Investors are focusing on ESG and Green REITs prioritizing the environment and climate change. For Example:

1. BXP Incorporated (market cap of $14 billion) 2021 developed Massachusett's first carbon-neutral building reposition project showing the commitment of the company toward sustainability
2. Alexandria Real Estate Equities Incorporated (market cap of $18 billion) uses renewable and eco-friendly energy sources like geothermal heating and cooling, and solar panels. In its Boston and Seattle facilities, it uses an exceptional wastewater heat recovery plant

8. Conclusion

Through this research project, I found out that Real Estate Investment Trusts (REITs) have grown a lot globally from being founded in the U.S. in 1960 to now having a presence in over 40 countries. As of now, developed countries like the U.S., Australia, and Europe are leading in the REIT market globally but Asia-Pacific is rapidly adapting and growing in this sector. I also discovered that REITs allow retail investors an opportunity to invest in real estate without substantial amounts of capital offering excellent long-term returns and a hedge against inflation. However, I also found out that REITs are sensitive to several macroeconomic factors like interest rates,and inflation and can be impacted by taxation policies in different countries. Despite these challenges, REITs are growing a lot thanks to fintech and AI making REITs more accessible and liquid. It was also brought to my attention that ESG concerns are becoming more and more important with more investors seeking environmentally responsible companies. Finally, this research indicates that REITs have a promising future and are a solid sector to invest in.

Investors can diversify their portfolios by investing in REITs and earn a steady income through the dividends paid by REITs. REITs offer exceptional returns long term because with time there is more development in infrastructure resulting in capital appreciation and tackling inflation effectively as rent and property prices also rise with inflation. They are also a great choice for short-term investments as they offer higher liquidity compared to traditional real estate. Policymakers/Governments benefit from REITs as they create employment in the country and support infrastructure development. Through REITs, cash flow in the country also increases through foreign investments and governments benefit from the tax revenue received from dividend distributions and capital gains taxes. Incentives can persuade REITs to invest in sustainable and residential options to create more affordable housing. Market stakeholders can take capital from REITs instead of traditional sources like bank loans. Through their partnerships, large-scale projects could be built without any funding problems.

REITs have a lot of potentials to grow globally as economies get stronger, and the need for an organized real estate sector will be needed. To grow for REITs, it must be popularised by conducting educational workshops, and webinars. Tax regulations regarding international REIT investments must be relaxed and made more transparent as the more complicated it is, the fewer people will want to get involved in it. Internationally successful REITs could enter emerging economies and partner up with local REITs or local players in the real estate sector to ensure success.

9. References

1. Haidar, F. (2024, August 12). *India fastest-growing REIT market in Asia Pacific*. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/industry/services/property-/-cstruction/india-fastest-growing-reit-market-in-asia-pacific/articleshow/112472839.cms
2. *The Potential Downsides of Investing in Real Estate Investment Trusts (REITs): A Detailed Analysis*. (2024, March 18). *Rishita Developers*. Retrieved from https://www.rishita.in/blog/reits-investment-risks
3. *Understanding Real Estate Investment Trusts (REITs)*. (2023, December 8). *Bajaj Finserv*. Retrieved from https://www.bajajfinserv.in/investments/understanding-real-estate-investment-trusts-reit
4. *Mortgage REITs, Explained*. (n.d.). *Global X ETFs*. Retrieved from https://globalxetfs.co.jp/en/research/mortgage-reits-explained/
5. *Real Estate Investment Trusts (REITs): Types & Advantages*. (n.d.). *Groww*. Retrieved from https://groww.in/p/real-estate-investment-trust-reit
6. *Evolution of REIT in India: From Inception to Current Trends*. (n.d.). *India Brand Equity Foundation*. Retrieved from https://www.ibef.org/blogs/evolution-of-reit-in-india-from-inception-to-current-trends
7. *Real Estate Investment Trust (REIT)*. (n.d.). *Investopedia*. Retrieved from https://www.investopedia.com/terms/r/reit.asp
8. *Why Invest in REITs?*. (n.d.). *REIT.com*. Retrieved from https://reit.com/investing/why-invest-reits
9. *REIT Industry Timeline*. (n.d.). *REIT.com*. Retrieved from https://www.reit.com/investing/reit-basics/reit-industry-timeline
10. *How AI is Revolutionizing REIT Investment Strategies with Data Analysis & Predictive Analytics*. (n.d.). *Transworld Business Advisors*. Retrieved from https://www.tworld.com/locations/hartfordcentral/blog/how-ai-is-revolutionizing-reit-investment-strategies-with-data-analysis-predictive-analytics/
11. *What Does ESG Mean for REITs?*. (n.d.). *Al Tamimi & Company*. Retrieved from https://www.tamimi.com/law-update-articles/what-does-esg-mean-for-reits/

12. *Green REITs for Sustainable Investing*. (n.d.). *U.S. News & World Report*. Retrieved from https://money.usnews.com/investing/articles/green-reits-for-sustainable-investing
13. *REIT Taxation*. (n.d.). *Investopedia*. Retrieved from https://www.investopedia.com/articles/pf/08/reit-tax.asp
14. *Fintech and Real Estate: New Technology, New Opportunities*. (n.d.). *Investopedia*. Retrieved from https://www.investopedia.com/investing/fintech-real-estate/