KLF KNOWLEDGE SYSTEM

FINANCIAL STEWARDSHIP LIBRARY

FS-005

REIT INVESTING

Building Passive Real Estate Income
Without Owning Property

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Stewarding Spirit. Body. Wealth.
Eat To Live Forever

KINGDOM LIFE FITNESS

REIT Investing

FS-005 · Version 1.0

KLF KNOWLEDGE SYSTEM

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CHAPTER 1

WHAT IS A REIT?

A Real Estate Investment Trust, or REIT, is a company that owns, operates, or finances income-producing real estate. Congress created the structure in 1960 with a specific goal: to let everyday investors access the income real estate produces — office towers, warehouses, apartment complexes, hospitals, data centers — without needing the capital, credit, or time required to buy and manage a property directly.

Most REITs are publicly traded, meaning shares can be bought and sold on a stock exchange exactly like shares of any other company. That single fact separates REIT investing from traditional real estate ownership in almost every practical way: no mortgage, no tenants, no maintenance calls, and no waiting for a buyer when you want out.

IN PLAIN LANGUAGE

> *A REIT is a landlord you can own a piece of. The company collects the rent, deals with the tenants, and pays you a share of the income — you simply hold the stock.*

Key Facts at a Glance

Fact	Detail
Created	1960, by an Act of Congress
Structure	Company that owns/operates/finances income real estate
Access	Purchased like any publicly traded stock
Legal requirement	Must distribute at least 90% of taxable income annually
Sectors	Industrial, retail, residential, healthcare, hospitality, and more

CHAPTER 2

WHY INVESTORS USE REITS

The Benefits

- **Passive income** — dividends are paid on a schedule without any operating involvement from the shareholder.
- **Diversification** — real estate often moves differently than stocks and bonds, giving a portfolio a different risk driver.
- **Liquidity** — publicly traded REIT shares can typically be bought or sold within seconds, unlike a physical property.
- **Lower capital requirements** — a single share can cost less than $100, compared to the down payment on a physical property.
- **Professional management** — leasing, maintenance, and tenant relationships are handled by the REIT's management team, not the shareholder.

Realistic Expectations

REITs are not a get-rich-quick vehicle. Their historical strength is income and long-term compounding, not speculative appreciation. Treat a REIT allocation as a way to build a durable income stream over years, not a shortcut to a large payday.

IN PLAIN LANGUAGE

> *Think of a REIT less like a lottery ticket and more like a well-run rental property that someone else manages for you — the reward is steady, not sudden.*

CHAPTER 3

HOW REITS WORK

The mechanics of a REIT are straightforward once broken into steps. Money flows in a single direction, from tenant to shareholder:

INVESTOR

owns shares of

THE REIT

which owns

PROPERTIES

which generate

RENT

used to pay

OPERATING EXPENSES

with the remainder paid as

DIVIDENDS

back to the

INVESTOR

The REIT structure exists specifically to make this loop efficient: the company gets a tax advantage for passing income through to shareholders, and the shareholder gets access to real estate income without the operational burden of ownership.

CHAPTER 4

TYPES OF REITS

REITs are organized by the type of property they own. Each sector responds to different economic conditions, so the sector mix inside a REIT determines much of its risk profile.

Sector	What It Owns
Industrial	Warehouses and distribution centers that support e-commerce and logistics
Data Centers	Facilities that house the servers behind cloud computing and the internet
Retail	Shopping centers, malls, and free-standing stores
Residential	Apartment communities and multifamily housing
Healthcare	Medical office buildings, hospitals, and outpatient facilities
Senior Housing	Assisted living and senior care communities
Hospitality	Hotels and resorts
Gaming	Casino resorts, typically leased to operators under long-term contracts
Self Storage	Storage unit facilities
Timber	Timberland harvested for wood and paper products
Cell Towers	Communications infrastructure leased to wireless carriers

CHAPTER 5

THE 90% RULE

SEE ALSO

For dividend fundamentals — including yield, dividend growth, payout sustainability, and reinvestment — see FS-004: Dividend Investing. This guide focuses on how those concepts apply specifically to REITs.

To qualify for REIT tax treatment, a company generally must distribute at least 90% of its taxable income to shareholders each year. This is a legal requirement tied to maintaining REIT status — it is what allows the company to avoid corporate income tax on the income it distributes.

This is frequently misunderstood. The rule does not mean an investor receives 90% of a REIT's total profits, and it does not guarantee a 90% return of any kind. It is a distribution requirement on taxable income, not a promise about yield, growth, or investor outcome.

IN PLAIN LANGUAGE

The 90% rule is about what the company must pay out, not what you personally receive as a percentage of your investment. Don't confuse a tax rule with a return figure.

CHAPTER 6

BROKERAGE ACCOUNTS

REITs can be held in several account types, and the right one depends on your tax situation and time horizon.

Account Type	How It Works
Roth IRA	Contributions are taxed going in; qualified withdrawals in retirement are tax-free. Often favored for long-term dividend reinvestment since growth and income are never taxed if rules are followed.
Traditional IRA	Contributions may be tax-deductible; withdrawals in retirement are taxed as income. Useful for reducing current taxable income.
Taxable Account	No special tax treatment, but no contribution limits or withdrawal restrictions. Dividends are generally taxed in the year received.

None of these is universally “correct.” The right choice depends on your current tax bracket, expected future tax bracket, and how soon you expect to need the funds. This is a question worth discussing with a qualified tax professional.

CHAPTER 7

HOW KLF EVALUATES REITS

Before any REIT earns a place in a KLF-aligned portfolio, it is evaluated against the same disciplined checklist — regardless of sector or story.

- Occupancy — are the REIT's properties actually leased, and to whom?
- AFFO Growth — is the REIT's true cash-generating ability growing over time?
- Dividend Safety — is the payout comfortably covered by cash flow, or stretched thin?
- Credit Rating — how does the REIT's debt look to independent rating agencies?
- Debt — how leveraged is the balance sheet, and what are the terms?
- Sector — what economic forces drive this property type, and are they favorable?
- Management — does leadership have a track record of disciplined capital allocation?
- Tenant Quality — who is actually paying the rent, and how creditworthy are they?
- Valuation — is the current price reasonable relative to the REIT's cash flow and assets?

CHAPTER 8

REIT CATEGORIES WE LIKE

The following sectors are presented for educational purposes only. This is not a recommendation to buy any specific REIT or sector — it is an illustration of the categories worth understanding as you build your own evaluation process.

- **Industrial** — benefits from e-commerce and supply-chain demand for warehouse space.
- **Healthcare** — demand tends to be less tied to economic cycles than other sectors.
- **Triple Net** — tenants typically cover taxes, insurance, and maintenance, simplifying the REIT's cost structure.
- **Gaming** — long-term leases with operators can provide contracted, multi-year income visibility.
- **Infrastructure** — cell towers and similar assets tied to long-term communications demand.
- **Data Centers** — tied to the growth of cloud computing and digital storage needs.
- **Residential** — apartment demand is tied to household formation and housing supply constraints.

Again: this is education, not a buy list. Every sector carries its own risks, covered in Chapter 10.

CHAPTER 9

BUILDING A REIT PORTFOLIO

How much of a portfolio to allocate toward REITs, and which sectors to emphasize, depends on your goals and time horizon. The following are illustrative examples only, not personalized recommendations.

Approach	Illustrative Emphasis
Income-Focused	Weighted toward higher-yielding, stable sectors (e.g., triple net, healthcare) for current cash flow.
Growth-Focused	Weighted toward sectors with strong secular tailwinds (e.g., data centers, industrial) prioritizing dividend growth over current yield.
Balanced	A mix of income and growth sectors, aiming to smooth out sector-specific cycles.
Retirement-Oriented	Emphasizes dividend safety and payout history over yield or growth, prioritizing consistency.

In every case, REITs should be sized as one component of a diversified portfolio, not the entire strategy.

CHAPTER 10

RISKS

- **Interest Rates** — rising rates can increase REIT borrowing costs and make bonds relatively more attractive to income investors, pressuring REIT prices.
- **Tenant Risk** — if a major tenant struggles or leaves, the REIT's income can be directly affected.
- **Economic Cycles** — recessions can reduce occupancy and rental rates across most sectors.
- **Leverage** — REITs commonly use debt to acquire property; higher leverage magnifies both gains and losses.
- **Dividend Cuts** — dividends are not guaranteed and can be reduced if cash flow deteriorates.
- **Market Volatility** — publicly traded REIT share prices can swing with the broader stock market, sometimes independent of the underlying real estate's actual value.

None of this is a reason to avoid REITs altogether — it is a reason to evaluate each one deliberately, using the checklist in Chapter 7, rather than buying based on yield alone.

CHAPTER 11

KLF REIT CHECKLIST

Before Buying

- Understand the business — what the REIT actually owns and how it makes money.
- Read recent reports — the most recent quarterly and annual filings.
- Review dividend history — consistency and any past cuts.
- Check AFFO — whether cash flow comfortably covers the dividend.
- Evaluate debt — leverage levels and maturity schedule.
- Determine position size — how much this REIT should represent of the total portfolio.
- Record your Decision Memo — the facts, assumptions, and conclusion behind the decision, in writing, before acting.

KLF PRINCIPLES

HOW THIS FITS THE KLF APPROACH

- REITs are one asset class — not an entire portfolio.
- Income should support long-term wealth creation, not replace diversification.
- Reinvesting dividends can accelerate compounding over time, consistent with a philosophy of directing income back into the portfolio rather than spending it.
- A good investment process matters more than chasing the highest available yield.

APPENDIX

GLOSSARY

Term	Definition
REIT	Real Estate Investment Trust — a company that owns, operates, or finances income-producing real estate.
FFO	Funds From Operations; a REIT-specific measure of cash flow that adds back real estate depreciation to net income.
AFFO	Adjusted Funds From Operations; FFO further adjusted for recurring capital expenditures, often considered a cleaner measure of distributable cash flow.
Yield	Annual dividend divided by share price, expressed as a percentage.
NAV	Net Asset Value; an estimate of what a REIT's underlying real estate would be worth if sold, minus liabilities.
Payout Ratio	The percentage of available cash flow (typically FFO or AFFO) distributed as dividends.
Dividend	A cash distribution paid to shareholders from company earnings.
Market Cap	The total value of a company's outstanding shares.
Expense Ratio	For REIT funds or ETFs, the annual fee charged as a percentage of assets under management.

KNOWLEDGE SYSTEM

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NEXT RECOMMENDED MODULES

After completing FS-005: REIT Investing, continue with:

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