

FREE INVESTMENT PLAYBOOK 02



REIT Investment Evaluation

Assess property fundamentals, distribution coverage, financing and valuation before focusing on yield.

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Educational information only, not individualized investment advice. Investing can result in loss of principal. All numerical examples are hypothetical, exclude fees and taxes unless stated, and are not forecasts.

Understand what you own

Begin with REIT type, property sector, geography, lease duration, tenant concentration and development exposure. Equity REITs and mortgage REITs require different analysis. This worksheet focuses on publicly traded equity REITs; do not apply it mechanically to mortgage or non-traded REITs.

Cash flow and dividend coverage

Read the issuer definitions and reconciliations of FFO and AFFO. AFFO is a supplemental measure whose adjustments vary across issuers. Check recurring maintenance spending, tenant improvements and leasing commissions rather than assuming every adjustment represents distributable cash.

AFFO payout ratio = annual dividend per share / annual AFFO per share, using consistent periods and a positive denominator. A \$3 annual dividend and \$4 AFFO per share gives 75%.

House screening band	Interpretation
Below 75%	More retained AFFO; still test cash needs
75% to below 80%	Review coverage, financing and growth
80% to 85%	Less cushion; examine recurring capital needs
Above 85%	Heightened review; no automatic safety judgment

These are research heuristics, not universal standards or evidence of dividend safety. Sector, capital needs, leverage and AFFO definitions can make a lower payout unsafe or a higher payout sustainable.

Property-level quality

Review same-store net operating income, occupancy, leasing spreads, rent collection and tenant concentration. Distinguish occupancy sustained by concessions from durable rent demand. Track lease expirations and deferred capital spending.

Test financing and valuation

Debt stress test

Record debt maturity dates, fixed/floating mix, secured debt, interest coverage and available liquidity. For a hypothetical \$100 million of debt refinanced at a rate 1.5 percentage points higher, annual interest expense rises about \$1.5 million, assuming the balance is unchanged. Test whether coverage survives this cost.

Value the business, not just the yield

Compare price/FFO or price/AFFO only with clear definitions and relevant peers. Consider growth, leverage and property quality. A low multiple or high yield may signal deterioration rather than a bargain.

Hypothetical downside

At a \$50 share price and \$3 annual dividend, starting yield is 6%. If the price falls to \$35 and the future annual dividend is cut to \$2, principal has declined \$15 per share and future income is lower. The initial yield did not protect capital.

Research worksheet

Field	Your notes / dated source
REIT type / sector / geography	
Occupancy / same-store NOI / tenants	
FFO and AFFO definitions / reconciliation	
Dividend / AFFO payout / capital needs	
Debt maturities / rates / liquidity	
Valuation / peers / growth assumptions	
Vacancy and refinancing stress scenario	
Thesis / counterargument / review trigger	

Make a documented decision

Checklist before proceeding

1. AFFO definitions and periods are consistent.
2. Capital needs and dividend coverage are understood.
3. Tenant, lease and property risks are documented.
4. Debt maturities and liquidity have been stress-tested.
5. Valuation is compared with appropriate peers.
6. A dividend-cut and price-decline scenario fits portfolio limits.

When the thesis fails

Tenant defaults, falling rents, asset write-downs, refinancing pressure, equity dilution and dividend cuts can overwhelm an attractive starting yield. Reassess when actual results invalidate your assumptions. Record missing information as unknown rather than guessing.

Practice exercise

Choose a hypothetical equity REIT. Calculate payout using a \$3.50 dividend and \$5.00 AFFO per share (70%). Then reduce AFFO to \$4.00 with the dividend unchanged (87.5%). Write how the reduced cushion affects your research decision.

Research sources

Nareit AFFO glossary: <https://www.reit.com/glossary/adjusted-funds-operations-affo>

SEC REIT education: <https://www.investor.gov/introduction-investing/investing-basics/glossary/real-estate-investment-trust-reit>

Issuer filings: <https://www.sec.gov/edgar/search/>

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