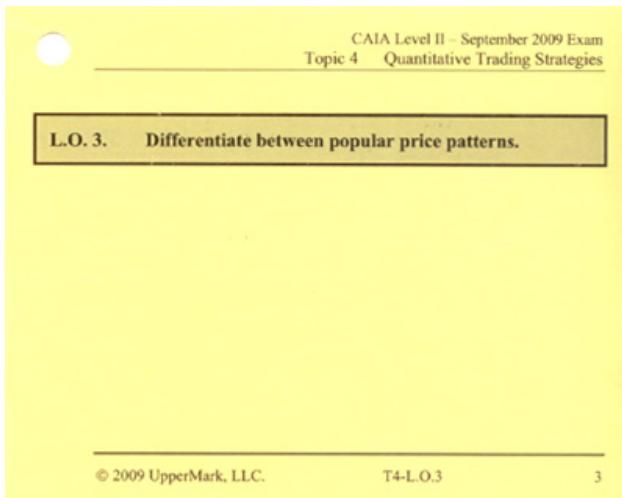


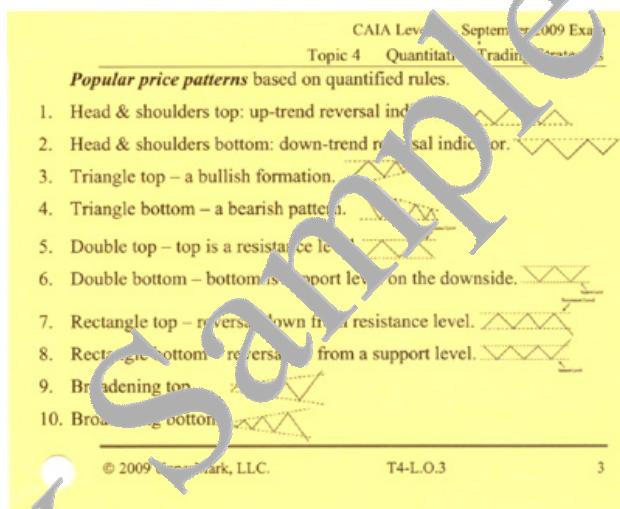
Level II Flashcards Sample

UpperMark™ *Flashcards* are a highly effective and convenient way to review and retain key concepts and keywords. This document provides a sample of our printed flashcards. Our e-flashcards contain the same content.

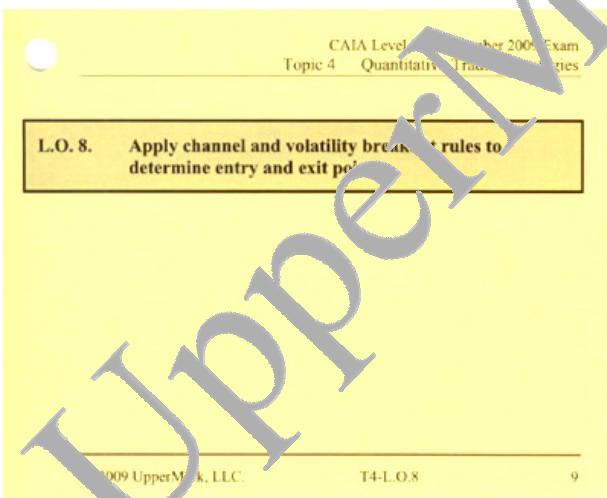
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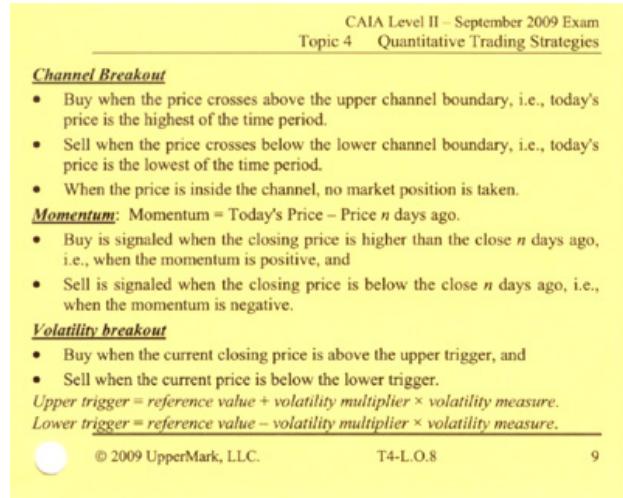
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CAIA Level II – September 2009 Exam
Topic 6 Real Estate Investment Trusts

L.O. 32. Compare and contrast the use of debt in the stock market, the real property market, and REITs.

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Topic 6 Real Estate Investment Trusts

Use of debt in the stock market and in REITs.

- REITs use considerably more debt than stocks of public firms.
- Average REIT debt ratios increased after 1990, whereas debt ratios of publicly traded stocks showed little fluctuation between 1980–2000.
- Mortgage REITs use more debt than equity and hybrid REITs, and infinite-life REITs use more debt than finite-life REITs.
- More long-term debt is used than short-term debt.

Use of debt in the real property market.

Factors Affecting Debt Usage	Use of Debt
1. Properties with large existing tax shields from depreciation	Low
2. Corporate investors (in high tax brackets)	High
3. High interest rates	Low
4. High priced property	High
5. Uncertainty about future cash flows	Low

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Topic 6 Real Estate Investment Trusts

L.O. 35. Assess the reasons for the differences between the behavior of REIT IPOs and industrial firm IPOs.

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Reasons for the differences between the behavior of REIT IPOs and industrial firm IPOs.

1. REIT stock values are more uncertain than industrial firm stock values, because the values of the REITs' underlying properties are more difficult to determine.
2. Prior to the 1990s, the REIT market had more individual investors than institutional investors, and these individuals were likely to pay more for REIT IPO shares.
3. The closed-end fund nature and management strategy of traditional REITs causes their IPOs to behave more like those of mutual funds than those of industrial firms.

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