Chapter 17: Investing in Real Estate

1. Define the term REIT. Discuss in detail how a REIT works and how investors can utilize it to achieve their financial goals.

2. List and explain at least 4 major advantages and 4 disadvantages of REITs.

3. Dave bought a rental property for $200,000. One year later, he sold it for $240,000. Suppose Dave invested only $20,000 of his own money and borrowed $180,000 (90 percent financing). What was his return on investment given a total interest payment of $10,000?

4. Describe the CGM Realty Fund we discussed in class. Explain the operating mechanism of the CGM Realty Fund. What are the major characteristics of the fund? How does such fund relate to personal financial planning?
CHAPTER 17 QUIZ

TRUE-FALSE

_____1. Home prices have generally climbed steadily over the years.

_____2. A passive activity is a business or trade in which you do not materially participate, such as rental activity.

_____3. ___________________________________________

_____4. ___________________________________________

_____5. ___________________________________________

MULTIPLE CHOICE

_____6. Direct real estate investments include
   a. limited partnerships.
   b. single family dwellings.
   c. syndicates.
   d. REITs.

_____7. Which type of REIT invests in properties?
   a. Equity
   b. Mortgage
   c. Hybrid
   d. Preferred

_____8. If you want a risk-proof real estate investment, invest in
   a. a vacation home.
   b. your own home.
   c. a participation certificate.
   d. commercial property.

_____9. According to a federal law, REITs must distribute what percentage of their net annual earnings to shareholders?
   a. 65
   b. 75
   c. 85
   d. 90

_____10. Which one of the following is a disadvantage of investing in real estate?
   a. Illiquidity
   b. A hedge against inflation
   c. Financial leverage
   d. Short depreciation period