Following are answers to the questions that were submitted during the REIT Webinar. Answers are provided by the presenters, Rick Chess, Jay Olander and Craig Porter-Rollins.

Is a public non-traded REIT a Reg D offering?
No, a public non-traded REIT is a full registered offering with the Securities and Exchange Commission (SEC).

Can you clarify publicly REGISTERED non-traded and non-traded that is not publicly registered?
The non-traded non-registered REIT is known as a private REIT. Typically only accredited investors are allowed to invest in (It is a Regulation D offering).

A private REIT is a Reg-D, Private Placement (like 1031)?
Yes, but it does not allow a 1031 exchange into REIT shares. It is non-traded (like a non-traded REIT). Typically only accredited investors can purchase and hold shares.

Can you comment more on the tax deferred benefits on dividends of REIT investments?
A REIT does not pay income tax, so that distributions are ordinary income to the investor to the extent of the REIT's earnings and profits. If the REIT does not have earnings and profits (due, for example, to depreciation), the distribution is treated as a return of capital.

Is it possible to convert an LLC (with an existing single property) into a Private REIT?
Yes, by applying for REIT status with the IRS and meeting the requirements of being a REIT.

What is the range of the cost of the 12 month process to create a REIT?
Public non-traded $1 million (legal, acct, printing) to set up, and $3-5 million to market
Private - $50,000 - $100,000 to set up, and $250,000 - $1+ million to market.

Do all types of REITs issue prospectuses?
Registered REITs issue prospectuses; Private REITs provide a PPM.

What advantages, if any, does a private REIT provide?

Generally a smaller, more focused portfolio and sometimes specified properties, and less upfront costs to create and market. The client must also be an accredited investor.

In the early years of the REIT is it possible that the dividend is actually paid from the new equity being raised as opposed to the cash flow of the properties owned?
Yes, this is generally true, until funds are invested in real estate and there is net cash flow sufficient to cover the dividend.

Are banks providing lines of credit right now for new private REITs in this credit crisis?
Yes, if the bank is comfortable with the sponsor.

Are the non-traded but registered REITs the most popular?
Traded REITs, based on assets under management, are as a group substantially larger than the non-traded REITs (see www.reit.com, the web site for NAREIT). There have been months, over the past year, where there was more equity raised in the non-traded market than in the traded market.

Remember that non-traded vs. traded is a matter of liquidity and possible size of the offering. For asset allocation purposes you may want to consider both for your client. Non-traded REITs, due to their illiquidity, are less correlated to the public stock sector--meaning they don't follow the volatility of the stock market.

How important is the financial solvency of the sponsor?
Initially, it is huge. Once the REIT has size sufficient to make it on its own, this is not as significant an issue.

Can a REIT start out as a private REIT and at some point convert to a public non-traded REIT?
Yes; but because of certain timing issues, it is generally easier to merge into a registered REIT rather than to convert an existing private REIT into a registered REIT.

If distributed funds don't come from operations, where do they come from?
Reserves made up from the original equity raised, new debt taken on, and the sale of properties.

How is paying dividends from new equity being raised as opposed to cash flow not a Ponzi scheme? What if the properties never attain sufficient cash flow to pay the dividend?
The prospectus (or PPM) discloses that dividend may be paid from equity (unlike a Ponzi scheme where what is done is not that which was promised). If a REIT never attains sufficient cash flow to pay dividends, runs out of reserves and is unable to borrow, it will quit paying dividends.

This is why asset procurement and management is a key factor. If the REIT purchases assets correctly and manages the assets properly, it can greatly increase the funds from operations (or FFO), decreasing the need to pay dividends from investor equity. It is however, not uncommon to see dividends, or a portion thereof, come from equity.

Are you limited to properties within the US only in a REIT?
No, but tax treatment may vary depending on the location and form of ownership of the foreign located property. Foreign tax credits do not pass through a REIT.

There are also rules for trusts, corporations, charitable entities etc. that you can obtain on the sec.gov site, search for accredited investors.