

## CFA® SAMPLE QUESTION - LEVEL I

## Alternative Investments

**Q:** Which of the following statements about difficulties in investing in Real Estate Investment Trusts (REITs) or Real Estate Limited Partnership (RELPs) is true? Investors often have difficulty:

**CORRECT ANSWER:****(a) Selling RELPs because of poor liquidity**

Other than direct purchase of a property, there are two main institutional structures for investing in commercial real estate: real estate investment trusts (REITs) and limited partnerships (LPs).

The two vehicles differ in terms of their liquidity, flexibility, and control. They also differ in their tax treatment. Because of these differences, one structure may be more appropriate than the other, depending on what you're investing in and your own specific investment objectives.

The biggest advantage of REITs over limited partnerships is their liquidity. REITs most are traded on a major exchange, they can be easily bought and sold at per-share prices comparable to stocks. You can also buy mutual funds that invest in REITs.

A major concern when considering RELPs is liquidity -- or lack thereof. No formal public market for units exists, secondary markets are sporadic, and prices can be deeply discounted.



CFA Society Hong Kong  
Candidate Services

