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Is it the RIGHT time for REITs?

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What do you do if you are a long-term investor who believes that real estate prices are attractive, who wants to invest in real estate, but who doesn't have the means to go buy an entire building or project?

One possible solution is an REIT. "REIT" is yet another acronym in the complex field of investment lexicons. It is an abbreviation of the phrase: Real Estate Investment Trust.

Let's explore what they are, why you might want one, and why you might not!

1) Definition: REITs are securities that invest in real estate or mortgages directly (we'll focus on real estate based REITs in this column), but trade on the exchange like a stock. They are pools of money that are invested in real estate thereby operating similar to mutual funds. You can also buy a mutual fund that purchases and invests in only REITs offering you even more diversification. They do not trade during the day, however. Only at the end of the day as do other mutual funds.

2) Liquidity and Diversification: The ability to trade all day long like a stock and on the open exchanges offers liquidity that you wouldn't have if you purchased a piece of property directly or through a partnership. Also, being in a pooled fund offers you diversification into more than one project. You can, for example, be in an REIT that's as specific as let's say apartment buildings in a certain geographic area, or as broad as one that buys commercial, office and apartment buildings all over the globe. Needless to say there aren't many of us who could purchase that type of diversification without being in a pooled investment of such a type.

3) Taxability: REITs have the job of acquiring, managing and selling income oriented real estate. This may be at odds with your tax needs, since they are required by tax law to distribute 90% of their income out each year, taxable to you as dividends.

4) Price Volatility: Since you are investing in a sector, you can experience tremendous price volatility, so your research and your timing can be very critical to your investment decisions. Paying attention to what the REIT you are interested in purchases (i.e. what is their niche within the real estate investing field) is very important, as this can also come into play as part of the price movement of your share value. Your shares may lose money.

5) Experience: When you buy an REIT you are putting your money into the hands of others. Check them out! Research who they are, where they've been, their experience in the past vs. what they are buying now. This is a case where truly their prior track records may NOT be indicative of future performance, so think it through and by all means, lean on your investment advisor for help. Of course, you should expect to pay for that assistance! Be sure you understand how the managers of the REITs you buy are compensated and what effect that can have on your income rate of return as well as your price per share value.

The share price of REITs and REIT mutual funds will fluctuate based on the real estate values of the underlying properties. Real estate values are affected by many factors from interest rates and property tax rates to rent regulations and zoning laws. Also, REIT shares can react to developments in the real estate market, such as changes in supply and demand, and I the local, regional and national economies.

All in all, REITs can be an intriguing option for those of us who would like to expand our real estate portfolios without buying specific properties on our own, offering an alternative investment choice. Of course, none of this will deter us from still attending and enjoying all those fun Sunday open houses!

Happy summer!

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