The Rennie Quarterly Return

Rennie & Associates
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Real Estate Investing Through REITs

Beyond your personal residence, when most think of real estate investing, they envision the "investment property model" requiring the following key ingredients: An investment property, a loan, tenant(s), and perhaps a property manager.

Often discounted at peril, but no less critical, are the "hands-on" roles and personal risks borne by the property owner/investor.

In stark contrast, financial investments like stocks do not burn to the ground, suffer deadbeat tenants or introduce personal liability. Stocks permit participation in the earnings of corporate America without the investor ever turning a wrench or tapping a keyboard.

REITs are to real estate as stocks are to corporations.

REITs

Created by Congress in 1960, real estate investment trusts (REITs) make investment in income-producing real estate available to investors through the purchase and sale of liquid, financial instruments.

An equity REIT, the most common type, is a company that invests in and manages a portfolio of income-producing real estate.

A REIT must distribute at least 90% of its taxable income to shareholders annually, though most distribute 100%. Income is not taxed at the REIT level, instead passing directly to shareholders, thus avoiding double-taxation.

There are approximately 153 publicly traded REITs in the US today. Each has a management team that focuses on one or more sectors of the real estate market. Table 1 below shows the focus of the 5 largest REITs by market capitalization:

Equity REIT	Property Type
Simon Property Group (SPG)	Retail
Public Storage (PSA)	Self-storage
Equity Residential (EQR)	Apartments
Vornado Realty Trust (VNO)	Diversified Com'l
General Growth Prop's (GGP)	Retail

Table 1

Chances are good that your favorite shopping centers or apartments are owned by a REIT.

REIT Advantages

REITS offer the following advantages vs. investment property ownership:

Diversification: REITs own tens to hundreds of properties, reducing property-specific risks.

Liquidity: REITs may be purchased or sold on an exchange, just like a stock.

Transparency: A REIT's value is determined daily. Investment property value is opaque.

Expert Management: REIT managers are skilled, experienced real estate professionals.

Dividend reinvestment: REIT dividends may be reinvested automatically at REIT returns.

REIT Returns

In Table 2, we compare REIT returns[1] to stocks and bonds, and to a proxy for a residential investment property portfolio that takes the S&P/Case Schiller Composite US Home Price Index and adds an annual rental yield of 4.9%, the average for residential REITs over the last decade.

As shown, a REIT portfolio has returned significantly more than a residential investment property portfolio proxy since 1987. In fact REITS have also outperformed stocks and bonds over the last two decades.

REIT Mutual Funds

REIT mutual funds invest in a portfolio of REITs. Thus, through a REIT mutual fund, an investor's real estate exposure is further diversified.

[1] *National Association of Real Estate Investment Trusts® data.*

	All Equity Reits	S&P 500 (Stocks)	Barcap US Aggregate (Bonds)	S&P/Case Schiller Comp. + 4.9% Rent (Proxy)
1 Year	25.0%	15.6%	5.1%	-0.1%
3 Year	2.6%	2.4%	5.3%	-1.7%
5 Year	1.7%	2.6%	6.0%	-1.8%
10 Year	11.5%	3.3%	5.5%	4.5%
15 Year	10.9%	6.7%	6.2%	5.6%
20 Year	11.4%	8.7%	6.8%	5.5%

Table 2 Annualized Returns Through 1Q 2011

Gary B. Rennie, CFP®, AWMA®
Chief Executive Officer
Phone: (949) 679-4775
Fax: (949) 679-4775
Cell: (949) 769-1343
Email: gbrennie@cox.net

E. P. Rennie, CFP®, CFA®
President
Phone: (949) 650-8622
Fax: (949) 650-6683
Email: ecrennie@att.net

1608 Galaxy Drive
Newport Beach, CA 92660

www.rennieandassociatesfp.com

Our Two 

The pessimist sees danger in every opportunity; the optimist sees opportunity in every danger.
Winston Churchill

Quarterly Trivia:

What country of the world has the highest percentage of private housing?

Mongolia where 100% of all properties are owner-occupied.