

>: Trick or REITs: Is it Time to Buy?

Friday, October 31, 2008 / Ethan Roberts

Since today is Halloween and since the ghosts of 1929 have been haunting the stock market for the last few weeks, I thought I would see if I could conjure up a possible treat or two for your stock-selection goody bag this week. It's certainly not easy with all of the nightmares on the Street right now. ~~How the hell is real estate in recent weeks~~ have been asking for an article about Real Estate Investment Trusts (REITs), and whether or not they hold any promise right now. First, to define it, a REIT is a company that owns, and in most cases, operates income-producing real estate. Some REITs also finance real estate. To qualify as a REIT, a company must distribute at least 90 percent of its taxable income to shareholders annually in the form of dividends.



Scary movie, starring Freddy Krueger and Henry Paulson....

There are many different sectors of REITs. Some invest in commercial or industrial properties, such as shopping centers, strip malls, storage facilities, or office buildings. Others invest in hotels and motels, or residential properties, such as apartment buildings, assisted living facilities, and nursing homes.

Between 1975 to 2005, REITs actually outperformed the DOW and S&P 500, with a compounded annual total return of 13.8%. But in 2007, the performance of REITs began to suffer, as problems stemming from the sub-prime mortgage market began to negatively impact these stocks. As values declined on residential properties, the ability of residential REITs to procure fresh capital by selling older buildings was greatly diminished, and the values of their existing assets declined.

This created a somewhat necessary sell-off in the stocks, especially since the dividend yields on many REITs were at historically low levels. The appeal of the REIT is most often in its dividend rather than in potential capital appreciation. But with many REITs yielding less than 4-5% in dividends, the motivation for buying REITs was gone. However, going forward, as the man wrote many years ago, "the times they may be a changing". The recent bludgeoning of the

tors.



Bob Dylan considers which REITs to purchase....

Most recently, the commercial REIT sector has been an absolute nightmare. With the threat of an impending recession, the fear is that vacancy rates will rise in office buildings and retail store fronts. Within the last month, stocks such as **Liberty Property Trust (LRY)**, **Parkway Properties Inc. (PKY)**, **Boston Properties Inc. (BXP)**, and **Maguire Properties Inc. (MPG)** are all down between 30-60%.

Hotel/Motel REITs have performed even worse over that time period, with stocks such as **MHI Hospitality Corp. (MDH)** **Host Hotels & Resort (HST)**, **Diamondrock Hospitality Co. (DRH)** **Sunstone Hotel Investors Inc. (SHO)** and **Strategic Hotels & Resorts Inc. (BEE)**

