



Once over lightly.

# InvestmentNews

The Leading News Source for Financial Advisers

---

## REITs move from alternative to mainstream

Obscure real estate investment now a must-have for many portfolios

By **Janet Morrissey**  
June 9, 2008

What a difference a decade makes.

From a clubby world of wheeler-dealer moguls, commercial real estate investment went mainstream. REITs transformed a once opaque investment where properties were traded with a wink and a nod into must-have, transparent additions to diversified portfolios.

The profile, size, scope and performance of REITs over the past 10 years grabbed the investor spotlight, said Steven Wechsler, president and chief executive of the Washington-based National Association of Real Estate Investment Trusts.

"I was not using them 10 years ago. Back then, they were seen [as] more of an alternative investment for the super-wealthy or the super-high-net-worth," said Dean Harman, a certified financial planner with Harman Wealth Management of The Woodlands, Texas, which manages about \$100 million in assets.

Although REITs have been around since Congress approved the structure in 1960, much of their popularity and growth has come in the past 10 to 15 years as the number and size of REITs entering the public arena became too large to ignore.

Many rose from the ashes of the savings and loan debacle of the early 1990s when vulture funds and others snapped up real estate at bargain-basement prices through the Resolution Trust Corp. This was followed by a wave of consolidation, as REITs metamorphosed into larger and larger companies, making it easier for institutional investors to take positions in them.

Indeed, the equity market capitalization of publicly traded REITs has more than doubled over the past 10 years to \$309 billion, from \$138.3 billion in 1998, while the number of REITs fell to 152 from 210, according to NAREIT.

Mack-Cali Realty Corp. went public as REITS got hot in late 1997 after closely held Mack Co. bundled up its office properties and acquired Cali Realty Corp. in a reverse merger.

"Back then, it was a little bit in the nascent days of equity REITs," said Mitchell Hersh, chief executive of Edison, N.J.-based Mack-Cali Realty. Public REITs gave private real estate companies a way to reform their capital structure and deal with the debt from the dislocation in the thrift industry, he said.

For investors, the above-average dividend yields were a great defensive play, and the disclosure requirements for publicly traded REITs lifted the veil of secrecy.

In the late 1990s, the booming economy and dot-com explosion caused demand for real estate to surge and office rents to soar.

At the time, though, investors, seduced by the triple-digit returns of high-flying tech stocks, had little interest in the stable, predictable, mid-teen returns offered by REITs. They abandoned the sector, causing equity REITs to post total returns of -17.5% in 1998 and -4.6% in 1999.

In 2000, investor sentiment abruptly shifted back toward so-called value stocks, such as REITs.

Many observers think the dot-com implosion, in particular, forever changed investor appetite for REITs. Suddenly, bricks-and-mortar investments became more important than paper profits.

About the same time, billionaire investor Warren E. Buffett snapped up stakes in a number of REITs, which helped raise their profile.

Then New York-based Standard & Poor's in October 2001 decided to allow REITs into its U.S. indexes. For years, the index operators had snubbed REITs, largely due to their relatively small market capitalization and illiquid nature.

For the next six years, REITs outperformed the S&P 500 stock index, fueling investor interest further.

John Larsen, a CFP with Navigator Financial Advisors LLC, said he started changing his views toward REITs in 2004 when he noticed that they had been solid long-term performers during good times and bad.

"That was very compelling," said Mr. Larsen, whose Davis, Calif., firm manages \$50 million in assets. In a long-term growth portfolio, he allots about 15% to REITs.

Hedge funds and private-equity players jumped into the sector, leading to hotly competitive bidding wars for properties and a surge in going-private transactions. All this peaked with the sale of Equity Office Properties Trust, the country's largest REIT, to Blackstone Group in 2007.

At the same time, at least 20 countries around the world have adopted REIT structures, making global real

estate investment easier.

Although the credit crunch has rocked the broader market as well as mortgage REITs over the past year, equity REIT fundamentals remain solid, at least for now.

REITs are well positioned to perform solidly in the next 12 months, Mr. Wechsler said. Beyond that, much will depend on the length and depth of the credit crunch.

"If we go into a sustained recession, it will have an effect on all aspects of the economy, including real estate," he said.

*E-mail Janet Morrissey at [jmorrissey@investmentnews.com](mailto:jmorrissey@investmentnews.com).*

Reproductions and distribution of the above news story are strictly prohibited. To order reprints and/or request permission to use the article in full or partial format please contact our Reprint Sales Manager at (732) 723-0569.



[About Us](#) | [Contact Us](#) | [Search](#) | [Editorial Calendar](#) | [Advertise](#)

Subscriber Services: [Subscribe](#) | [Renew](#) | [Subscription Status](#) | [Pay an Invoice](#) | [Change Mail Address](#)

[Reprints](#) | [List Rental](#) | [Issue Index](#) | [Privacy Policy](#) | [Terms & Conditions](#)

Crain Financial Group: [Pensions & Investments](#) | [FinancialWeek](#) | [Workforce Management](#)

Copyright © 2008 Crain Communications Inc.

Use of editorial content without permission is strictly prohibited. All rights reserved.

Site Design by [Karen Morstad & Associates](#).