Conclusion

Many investors make the mistake of investing in a REIT because they "like the buildings" or know someone who works there. Although these two stock picking strategies can work out, they usually do not. As discussed in Chapter 7, if a REIT has a superior portfolio of properties, a conservatively leveraged balance sheet, and a management team with a proven track record of allocating capital prudently, it is likely to be a good investment, even if the price at which you buy it is not "cheap" or deeply discounted at the time.

Most investors do not have the opportunity to assess management's character directly. They also may not be skilled at gauging the direction in which the U.S. economy is headed—although 24/7 news stations make it easier to stay current. One thing every investor can do is to understand the risks and rewards inherent in each of the different property types. As discussed in Chapters 4 and 5, the risks and benefits of different property types are related to how short or long a REIT's leases are with tenants, as well as the durability of demand for that property type in times of economic growth or contraction.

Longer leases generate steady, more predictable earnings, whereas earnings from shorter leases can be more volatile. REIT share prices and, by extension, P/FFO multiples (see Chapter 8) reflect this fundamental difference in earnings volatility. Table C.1 indicates typical lease durations used by each property type and ranks the sectors by their *beta*s. According to Investopedia.com, beta is a measure of a stock's volatility in relation to the stock market, where the stock market has a beta of 1.0. A "high-beta stock" is one that exhibits price swings greater than the market over time

> Investors who simply buy shares in a REIT "because they like the buildings" may face frustration as REITs in other property types outperform their selection.

The Intelligent REIT Investor: How to Build Wealth with Real Estate Investment Trusts,
Stephanie Krewson-Kelly and R. Brad Thomas

Table C.1 Lease Length and Stock Beta by Property Type

Property Sector	Typical Lease Duration	Average of Beta	
		1 Year	3 Years
Hotel	N/A	0.99	0.98
Regional Mall	3–7 years	0.86	0.82
Industrial	3–7 years	0.81	0.83
Shopping Center	3–7 years	0.76	0.76
Office	3–7 years	0.76	0.78
Multi-Family	1 year	0.73	0.65
Self-Storage	Monthly	0.73	0.75
Specialty	Varies by Company	0.72	0.86
Other Retail (triple-net)	10-plus years	0.66	0.67
Health Care	10-plus years	0.66	0.63
Manufactured Home	Monthly	0.61	0.63
Diversified	Varies by Company	0.58	0.66
Grand Total		0.74	0.77

Source: S&P Global Market Intelligence.

and has a beta above 1.0. Conversely, stocks that trade with less volatility than the market ("low-beta stocks") have a beta that is less than 1.0. Stocks with higher betas carry more risk, but can also deliver greater returns. Hotel REITs, which have no leases, trade with greater volatility than health-care REITs, which typically employ long-term, triple-net leases. While some property types are higher beta than others, every REIT sector shown in Table C.1 trades with less volatility than the market. Investors should understand which REITs are appropriate, given each investor's risk tolerance.

Which REITs Are Right for Your Portfolio?

Understanding how REITs in different property sectors have traded in the past is instructive for setting expectations as to how they may perform in similar trading environments in the future. Table 7.2 in Chapter 7 provides total returns by property sector from 1994–2015. However, developing a sense of *when* to buy *which* REITs is complicated by the fact that real estate fundamentals lag the economy, but REIT shares (as stocks) reflect future expectations.

Real estate fundamentals lag the general economy; by how much depends on the type of property (office, warehouse, hotel, etc.), the structure and average lease length in place in existing buildings, and how balanced the demand for commercial space is with supply. There is no hard, fast rule to determine when the time is right to buy or

> Predicting REIT returns is more complicated than for other industries. The difficulty arises from the fact that commercial property is a defensive, lagging indicator for the economy. However, stock prices represent investors' present value of future expected earnings. As a result, REIT stock prices often do not reflect what investors physically see as they go to work, shop, or enjoy recreational activities.

sell which sectors. Each economic cycle is different with regard to how long and how strong a recovery phase will last, or how long and deep the trough of a recession will endure. There is an adage about investing that still holds true:

The only people who can time the market are fools and liars.

The point being, there is not a best time to buy or sell any stocks, including REITs. Applying the guidelines, data, and historical information, as well as the analytical tools provided in this book, will help investors choose REITs that are appropriate for their portfolios. Reading the information that is available on company websites will also yield a wealth of information that an investor and financial advisors can use to decide if a REIT fits the investor's risk tolerance and return goals. Investors who do not like to see the prices of their stocks gyrate wildly may want to avoid investing in hotel or office REITs. If an investor is more interested in buying REITs for the dividend income, he or she should focus on REITs that use long-term triple-net leases, such as the freestanding retail REITs, most health-care REITs, and many of the specialty REITs.

Whatever the case, individuals would be well served to discuss the appropriateness of their investment with an informed financial advisor—preferably one who has also read this book! Ultimately, the most sound investment strategy for investing in REITs is to go for quality: quality real estate, quality balance sheet, and quality management. Identifying REITs whose senior management teams have successfully navigated their companies through at least one recession is a good screening technique (though there are many skilled teams running newly formed REITs). Assess the strength of the balance sheet and the safety of the dividend using the simple equations provided in Chapter 8, and read about the quality of their properties in research reports and in the REIT's public information. *The Intelligent REIT Investor* has given you the tools and guidelines you need to choose the right REITs, and to avoid investing in the wrong ones. So keep your copy handy and go enjoy the wealth-building power of investing in real estate investment trusts.

Further Resources

The Intelligent REIT Investor can be used in several ways. Individuals who simply want to have more informed discussions about REITs with their financial advisors should focus on Chapters 1–5. Chapters 6–8 are more technical in nature and are geared for professional money managers and analysts who may be investing other people's money in the sector. Financial advisors, depending on the quality of REIT research they have access to within their firms, may want to read every chapter, even if their firm employs a research team to analyze REITs.

REIT.com is NAREIT's website and contains news, articles, and data on REITs and the industry. Investors can access nearly all information for free, including the basics of REIT investment in real estate, lists of REIT funds, detailed company-specific information, and detailed industry research.

SPGlobal.com is the website for S&P Global Market Intelligence, an organization that provides the information that's essential for companies, governments, and individuals to make decisions with conviction. Previously known as SNL Financial, S&P Global Market Intelligence has provided specialized data and news on the REIT industry since 1994.

GreenStreetAdvisors.com is the website for Green Street Advisors. Founded in 1985, Green Street Advisors is the preeminent independent research and advisory firm concentrating on the commercial real estate industry in North America and Europe. The company is a leading provider of real estate analytics, research, and data on both the listed and private markets. Green Street also offers investment research on REITs and trading services to equity investors.

TheIntelligentREITInvestor.com is a reasonably priced, web-based research platform operated by Forbes and R. Brad Thomas.

Other books on REITs have been written that delve more deeply into certain subject matter discussed in this book, including the following:

- *Watch that Rat Hole: And Witness the REIT Revolution,* by Kenneth D. Campbell, 2016
- *Getting Started in Real Estate Investment Trusts* by Richard Imperiale, 2006
- *Investing in REITs: Real Estate Investment Trusts* by Ralph L. Block
- *The Complete Guide to Investing in REITS—Real Estate Investment Trusts: How to Earn High Rates of Returns Safely* by Mark Gordon
- *REITs: Building Profits with Real Estate Investment Trusts* by John A. Mullaney, 1998
- *Real Estate Investment Trusts: Structure, Performance, and Investment Opportunities* (Financial Management Association Survey and Synthesis Series) by Su Han Chan, John Erickson, and Ko Wang