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BUILDING VALUE

As REITS Slip, Investor Patience May Be a Virtue

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For current and potential investors in shares of real-estate investment trusts, some financial planners are advising the "P" word: patience.

Some planners are saying that investors wanting to trim some holdings given the sector's recent stumble should do so gradually.

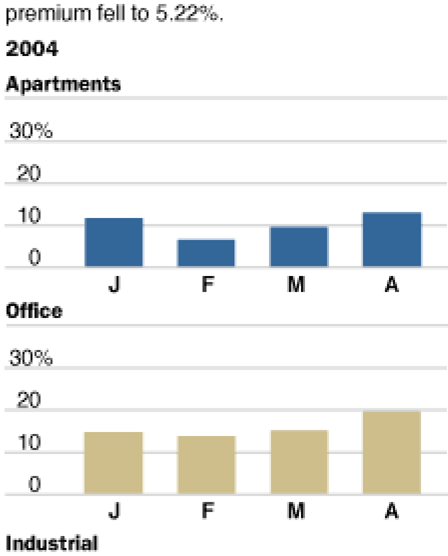
No Need to Panic

"I wouldn't panic sell," says Joseph J. Janiczek, chairman of Janiczek & Company Ltd., a wealth-advisory firm based in Greenwood Village, Colo. "I don't think there is a risk of REITs just continually diving with no bottom. It can maybe go down another 10% or so, and that's probably where the resistance will level out."

Daniel Roe, chief investment officer of Budros, Ruhlin & Roe, a Columbus, Ohio, wealth-management firm, who believes REIT stocks are overvalued, says that "if you started with having 5% of your portfolio in REITs and that's grown, at a minimum I would carve it back to 5% and wait until we see better real-estate fundamentals."

PREMIUM VALUE

Prior to their recent slide, REITs' premiums over the estimated values of their assets have been increasing. As of April 1, REITs overall were trading at a 22.3% premium to their estimated net asset valuations, up from 17.5% at the start of the year. As of Monday, after the stocks' decline, the premium fell to 5.22%.



But Mr. Roe also suggests that investors looking to take advantage of lower prices hold off on buying REIT stocks. He says in addition to waiting for improved fundamentals, particularly for the office market and the apartment market, investors should wait for REIT prices to come down even more than they already have.

"REITs are a good way to have exposure to real estate in the portfolio, but prices are overvalued," he says. "We're looking for additional sell-offs in REITs."

Jobs-Data Fallout

REIT stocks began falling April 2, after the release of stronger-than-expected March job numbers. Prices were down 8% last week. REITs fell another 5% Monday and were down 0.66% Tuesday.

The jobs report sparked a rise in bond yields and fears that the Federal Reserve will raise interest rates. REITs by law must pay out 90% of their taxable income in the form of dividends, and those dividends are a big reason for REITs' popularity. The fear is that higher rates will make other investments such as bonds more attractive from a yield standpoint.

But some financial planners say an obsessive focus on yields may have caused investors to overlook or forget that a strong jobs report should bode well for certain REITs, office and apartment companies in particular. They also think it's unlikely rates will rise that fast.

Right now, financial planners say investors should focus on valuations, which they think are still too high, even after the recent price drops. Green Street Advisors Inc., a Newport Beach, Calif.-based real-estate research firm, estimates that REITs had been trading at a price/earnings ratio of about 18.5, compared with a historical ratio of 12 before the slide.

"I wouldn't buy REITs now because they are still in the overvalued range," says Mr. Janiczek. If REIT yields got in the 6% to 7% range, he adds, "that's where it's going to likely trigger buying opportunities compared with current interest rates."

Good Timing

But one financial planner thinks present prices represent buying opportunities for people who may have missed out on the apparently just-ended four-year REIT boom. Investors should start buying "economically sensitive" REITs such as apartment REITs and hotel REITs because those companies should do well faster as the economy improves, says James Kropp, managing director at Christopher Weil & Co., a San Diego-based investment manager. "They're the first to react to economic upticks," he says. What's more, they're a good deal cheaper than just weeks ago.

Indeed, Green Street's research shows that as of Monday's close, the premium at which REITs were trading relative to their estimated net asset values had dropped to 5.2% from 22.3% as of April 1. For malls, the premium dropped to 0.3% from 22.9%. For apartments, it dropped to 1.9% from 13%. For office space, the premium dropped to 3.5% from 19.7%. For industrial properties, the premium fell to 18.9% from 38.1%.

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