REAL ESTATE REMAINS A GREAT INVESTMENT

Even those who want to be 'hands-off' can get in on this lucrative market.

BY JOHN SPOTO

Is real estate still a solid and sensible investment? And if so, what real estate investment is right for you?

Although many personal factors come into play, most savvy investors would likely agree that the improvement in recent residential housing data, current values and low financing rates make this an attractive time to consider buying property.

Yet even with the good timing, it's important to consider your goals, finances, and the role you are willing and able to take as a real estate investor and owner.

Let's break these factors down:

Shares of REITs are bought and sold like stocks of other companies on the major exchanges, such as the New York Stock Exchange and NASDAQ.

▸ **Your goals:** Are you looking for a place to live? Do you want to become a landlord and build a small business generating rental income? Or are you looking for a way to participate in the real estate market and to diversify your stock and bond portfolio to better weather the ups and downs of the financial markets?

▸ **Your finances:** Do you have sufficient start-up capital to acquire property and renovate it to make it safe and attractive to potential renters? Do you have a sufficient financial cushion to address the inevitable repairs, vacancies and state and local compliance requirements?

▸ **Your role:** Owning and managing rental real estate is a challenging business enterprise, requiring you to deal with contractors, state and local regulators, difficult tenants, unexpected set-backs and unpleasant surprises. Are you skilled in the trades?

Do you have friends who can help you with potentially expensive renovations and repair work? Are you willing and able to invest the time and energy to understand and comply with the regulatory requirements imposed upon property owners that govern the landlord-tenant relationship?

Your answers to these questions will help determine whether you should be an "active" or "passive" investor. And if the answer is "passive," a great option is a Real Estate Investment Trust (REIT).

The most common and effective way to get exposure to the real estate market (without buying and renting your own properties) is through publicly traded REITs, which are highly regulated companies that pool the capital of many investors to purchase and manage income-producing real estate (apartment buildings, office buildings, shopping malls, and so forth). Each year they distribute nearly all of the income they receive (from rents, interest from mortgages, and other real estate transactions) to shareholders.

> ***For those interested in investing in real estate who are unable or unwilling to commit to the substantial time, energy, and money it takes to renovate and manage your own properties, REITs can provide an attractive option.***

Shares of REITs are bought and sold like stocks of other companies on the major exchanges, such as the New York Stock Exchange and NASDAQ. When you buy shares of a REIT, you become part owner in the holdings.

Although you do not enjoy the control over your investment that owning your own rental property provides, for most people the advantages outweigh the drawbacks.

Why?

▸ **Investing in REITs** is simple and straightforward. With a little due diligence you can find the investment that suits your needs, and you can purchase the shares through many of the same sources as you purchase mutual funds or stocks.

▸ **You can invest** even if you have a modest amount of money. You can start as small as you want and gradually add to your investment over time.

▸ **An investment in an REIT** is highly liquid. In other words, if you want or need the cash, you simply sell your position and deposit the proceeds into your bank account.

▸ **REITs can provide** an important source of investment returns and diversification within a portfolio of stocks and bonds.

▸ **REITs typically have** a low correlation and therefore do not move in tandem with the returns of stocks and bonds. That means they can help smooth out fluctuations within a traditional portfolio.

Like any investment, REITs carry the risk of loss due to market downturns, higher-than-expected costs, mismanagement and numerous other factors. Before investing, it is important to understand what kind of organization you are buying into and the details of the underlying investments.

However, for those interested in investing in real estate who are unable or unwilling to commit to the substantial time, energy, and money it takes to renovate and manage your own properties, REITs can provide an attractive option.

John Spoto is the founder and principal of Sentry Financial Planning, a fee-only firm that works solely in the best interests of clients, not financial institutions. For information visit www.sentryfinancialplanning.com, or call 978-475-2533.