

## LAND HO!

With property prices finally starting to rebound, is it time to invest in real estate?

**L**and is the only thing in the world that amounts to anything, for 'tis the only thing in this world that lasts. ... 'Tis the only thing worth working for, worth fighting for, worth dying for," says Gerald O'Hara to daughter Scarlett in *Gone with the Wind*.

Wise words. Real estate was on an upward surge for decades. It seemed unstoppable. Then, along came the disastrous collapse of the housing bubble in 2007. Six years later, we're seeing a good rebound in real estate prices, and that has many, perhaps you, wondering if land is once again, if not worth fighting and dying for, at least worth investing in.

The answer is a qualified yes. Real estate, in any economy, can play an important role in a diversified portfolio. Today, with most real estate prices still well below pre-2007 levels, and mortgage interest rates lower than they've been in decades, "It is probably a very good time to buy," says Morningstar financial analyst Samuel Lee.

There are three major ways that people sink money into real estate. The first, the most obvious, is to purchase a home. The advantage to holding real estate in the form of your own house is, well, you get to live there. There are few other investments, outside of art and antiques, that you actually get to enjoy. The big disadvantage is that no investment is less liquid than your home. If you need cash in a jiffy, your house is not the ticket. Also, with real estate agent commissions and title searches and such, homes are not easy or cheap to buy and sell.

The second way to get into real estate is to buy a house and rent it out. The advantage to being a landlord is that you can generate a steady cash flow with rent. If you can afford the down

payment, and can deal with the hassles of being a landlord (fixing broken windows and unclogging toilets, not to mention dealing with the personalities of your tenants), you should be able to earn a healthy 8 percent or so on your money, says Lee, "Not bad at all by today's low interest standards."

The third option, and the easiest, is to invest in real estate securities, such as real estate investment trusts, commonly known as REITs. Traded like stocks, REITs typically represent ownership in commercial properties, usually office buildings, condos, or malls. REITs can be lucrative, but they are risky. The 30-

for those who want long-term exposure to real estate without the headaches of being a landlord," says Miller. "Housing stocks, subject to even more risk, as well as potential, are appropriate for only the most aggressive investors."

Morningstar's Lee, editor of the *ETF-Investor* newsletter, agrees, suggesting a 5 percent allocation to REITs for most investors - best achieved by purchasing shares in a low-cost, indexed exchange-traded fund that invests not in one, but in many companies. One good choice would be the Vanguard REIT Index ETF (ticker VNQ).

If you want to go the more aggressive



### The real estate advantage: What other investment offers a roof over your head?

year average annual return is about 12 percent, but there have been both very good and very bad years.

Norman Miller, Ph.D., professor at the Burnham-Moores Center for Real Estate at the University of San Diego, says that now might be a good time to invest in either REITs or stocks in the housing-construction industry. Of these two investment choices, "REITs are more a buy-and-hold investment,

and volatile route, consider the iShares Dow Jones U.S. Home Construction fund (ITB).

Gerald and Scarlett O'Hara had but one option for investing in land. You have many.

*Russell Wild, a NAPFA-registered financial advisor, is the author of Exchange-Traded Funds for Dummies, Second Edition.*