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Investing in Real Estate Investment Trusts

Reduce the risks by sharing in a diverse real estate portfolio.

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As the stock market swings up one day – and sinks the next – many investors are looking for stability, something to more reliably provide a decent investment return further down the road. A review of New Jersey's real estate market suggests consideration of Real Estate Investment Trusts (REITs).

It appears that in New Jersey, real estate has bottomed out and is showing signs of rebounding, meaning there likely are some terrific bargains out there. But you don't have to buy an apartment building or a shopping plaza by yourself to take advantage of an improving real estate market.

REITs were authorized by Congress in 1960 to provide investment opportunities that compared favorably to other forms of investments. By investing in REITs, buyers can avoid direct purchases of property. Instead, REIT investors buy into a trust that does the buying and selling, typically owning a large selection of properties and generating income through rents, mortgage investments or securities.

By investing in a REIT, the potential risk of owning an individual property is spread over many sites. Rather than owning a single building, and thereby assuming all the risk that it will be profitable, a REIT spreads the risk among an entire portfolio of real estate.

Of course, it is up to the individual investor, or financial advisor, to be sure that any REIT seen as a possible investment vehicle meets all of its legal requirements. These include: investing at least 75 percent of its total assets in real estate; deriving at least 75 percent of its gross income from the rentals of real property, interest on mortgages financing real property, or from sales of real estate; paying at least 90 percent of its taxable income in shareholder dividends each year; and meeting the legal definition of a taxable corporation that has no more than 50 percent of its shares held by five or fewer individuals.

Once the validity of a particular REIT has been determined, there also should be some further research into the REIT's area of concentration and track record. Not all REITs are the same, and they may have differing approaches to investing, resulting in widely different results over time.

The savvy investor will do significant research into exactly where each REIT under consideration is most qualified, and whether those areas are in the investors' comfort zones.

In New Jersey, there are signs that the real estate market is awakening. The wide variety of REITs combined with the potential for a sustained upswing in the real estate market could be the foundation for an important portfolio addition that may well provide significant returns now and over the long run.

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