The ABC's of real estate investment trusts

BY MARY DEATHERAGE

After a brief period of relative stability, the stock market seems to have returned to the proverbial roller coaster ride, with worries about the global impact of the Greek economic meltdown, Puerto Rico's inability to pay its debts and concern for China's economy sending investors scurrying in many directions.

As the market swings up one day – and sinks the next – many investors will look for some stability, something to more reliably provide a decent return further down the road. A review of New Jersey's real estate market provides some hopeful glimpses into the future and suggests consideration of Real Estate Investment Trusts (REITs).

Let's be up front about this: the real estate market, statewide and nationwide has not been in very good shape for the past six to eight years. But 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 investment. 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. 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.

A REIT owning property in Eatontown may specialize in mobile home parks while its neighbor focuses on industrial investments, for instance. Another could be well-versed in retail centers or perhaps office buildings. In fact, there could well be a REIT investing in a range of property types throughout the country.

The point is, 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.

Real estate, like any other area of investment, can be risky and yet simultaneously bring great rewards. With an intelligently applied plan of research, investors can find those REITs that best suit their long- and short-term needs. REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification, and sensitivity to economic factors such as interest rate charges and market recessions.

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, too.

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Are tax breaks available for my in-home business?

"Ask the Realtor" is a weekly column from the RealSource Association of Realtors, serving northern New Jersey. Those in need of advice from a professional Realtor may e-mail realestatepr@northjersey.com, keying "Ask the Realtor" in the subject line. Every effort will be made to answer the question in a subsequent edition.

Q. *I'm considering opening a small, part-time business from my home. Are there any tax breaks I can earn if I do this?*

Tommy E.
Haledon

A. All of our best Tommy. As with any question related to the IRS, it is advisable to sit down with an accountant to discuss the details. That said, with very few exceptions, the part of your home you use for your business must exclusively and regularly be used for the business, not personal activities. Typically, the home office would be one room, a group of rooms or a part of a room as long as the partition is clear. There is an exception for child care as a licensed day care provider. You may be entitled to at least a partial home office deduction even if you care for the children in rooms you also use for personal use after the children go home. Plus, your home office must be your principal place of business or where you regularly meet with customers. Note that if your company provides you with an office, and your supervisor allows you to work at home occasionally, you probably most likely will not be eligible for the deduction. For more information, go to the IRS website.

Q. *What room in a home would you say attracts the most buyers?*

Clark P.
Northvale

A. Clark, this is an open-ended question that has no definitive answer. I will answer by saying that a well-maintained, open-access kitchen is a feature most buyers look for in a home. Here are a few quick tips for staging a kitchen: 1) Eliminate counter clutter. Clutter makes a kitchen look smaller. 2) Remove refrigerator items. Take off all the magnets, photos, posters, artwork, etc., 3) Make sure all appliances and lights work. These and many other ideas will help the kitchen shine for all buyers who come for a walk-through.

Q. *We're selling our house this fall. Our Realtor just viewed our home and suggested we make some minor upgrades and improvements. Is it worth it, considering we don't intend to stay?*

Matthew E.
Midland Park

A. Matthew, your Realtor suggested minor improvements because completing them will likely make your house more attractive to buyers, increase its value and enhance "curb appeal." Minor improvements can make the difference in finding a buyer quickly and getting the maximum return based upon the current market dictated values. Your Realtor will almost always tell you to make sure all mechanical systems and appliances are in good working order, and offer other additional suggestions.

Ask the Realtor is a public education initiative of RealSource Association of Realtors. For more information visit realsource.org or call 201-444-3100.