PRESS RELEASE

NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

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REIT INVESTING COMPLEMENTS HOMEOWNERSHIP

Washington, D.C. — A new study shows that individual investors build greater long-term financial wealth when they combine homeownership and REIT stocks as part of a diversified investment portfolio.

The study, by economist Jack Goodman, rebuts the view that owning a house voids the merits of investing in REITs. "The misconception that 'real estate is real estate' has intuitive appeal and probably contributes to investors' decisions," he explained. "But this is one of those situations in which the intuition simply is wrong and could cost investors."

"Simple statistics hint at the potential for diversification gains for homeowners who invest in real estate," according to Goodman. "The correlation between house price changes and the total return on REITs has been low over both the most recent ten years, 1992-2001, and also the full 25 years since 1976 for which comparable data are available. In addition, the risk/return performance of REITs has been competitive with that of other financial assets – including large cap stocks, small cap stocks, international stocks, long-term bonds, and short-term Treasury bills – over both of these historical periods."

"The simple statistics are borne out by the investment performance of alternative model portfolios of assets," he continued. "Over both the periods 1976-2001 and 1992-2001, financial portfolios with 10-to-20 percent allocations to REITs were generally able to achieve higher average annual returns, with no increase in volatility, compared to portfolios from which REITs were excluded. Importantly, this result holds not only for renters, but also for homeowners who had one-third or two-thirds of their total wealth invested in their house."

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The study, titled "Homeownership and Investment in Real Estate Stocks," was prepared for the National Association of Real Estate Investment Trusts® (NAREIT).

"Owner-occupied housing differs from other investments in some significant ways," according to NAREIT Senior Vice President for Research and Investment Affairs Michael R. Grupe. "Houses tend to be more highly leveraged than other investments, with most bought 'on margin' through a mortgage loan. Houses are undiversified investments, in contrast to mutual funds or other investment vehicles that pool a large number of equities and fixed-income securities. While the tax treatment of owner-occupied housing is unique, the transactions costs of buying and selling houses generally exceed those of publicly traded securities by a wide margin," said Grupe. "In the final analysis, your house may be a home – perhaps even a good investment – but it's no substitute for real estate stock investment."

A widely-used index of single-family house prices nationwide gained 5.7 percent annually on average from 1976 to 2001. Equity REITs produced a 6.1 percent annual average return on a price-only basis, but with dividends reinvested, REITs' average annual total return for the span was 15.2 percent.

Although the volatility of house prices appears to be significantly lower, Goodman wrote that, "It is important to note that the volatility of the national house price index understates the price volatility of individual houses, which will depend not only on the national market conditions, but also on the local market and on the idiosyncrasies of individual houses."

"The past is not a perfect guide to the future," Goodman concludes, "but history indicates that many investors – owners and renters alike – could benefit from adding real estate stocks to their portfolios."

A former Chief Economist at the National Multi Housing Council, Goodman provides economic and demographic research to the real estate industry through his firm, Hartrey Advisors.

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