INVESTOR'S EDGE

REITs are a low-cost way to add real estate to your portfolio

"Buy land. They ain't making any more of the stuff." — Will Rogers

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Happy New Year, my readers & friends!

If you stayed fully invested throughout 2021, your financial stocking was full — long before Santa slid down your chimney. However, if you were naughty, and tried to time the market by getting in and out, well, your candy was a little less sweet.

In fact, by all accounts, 2021 was an outstanding year for stock market investors. Even though the omicron variant is causing heightened volatility this past month, as I write this in late December, the S&P 500 Index is up over 25%, and the Dow Jones Industrial Average up almost 20%. How wonderful!

Another strong story in 2021 was the U.S. real estate market. For the full year, it is estimated that home prices will have increased more than 14% nationwide with the median home sale price hitting a new all-time high of about $360,000. Demand was relentless, with more than 33% of homes having an accepted offer within just one week of hitting the market.

From an investment standpoint, real estate can be a strong hedge against inflation. It's also an alternative to fixed income, offering potentially higher yields.

While I am not a real estate expert — I prefer quality stocks — I do get asked my thoughts on the real estate market and sometimes even on specific investment properties.

The fact is, unless you can identify a significantly underpriced property, or have enough capital to scale your real estate purchases, the returns from investing in real estate, when you factor in expenses and upkeep, are generally below average.

I'll take owning stocks over having to manage a two-story duplex any day.

REITs, however, are a low-cost way for investors to get investment real estate into their portfolio. REITs own, operate, and finance income producing commercial and residential properties. With more than $3.5 trillion in real estate assets, REITs are a very popular choice among investors both as growth and income producing vehicles.

So, here are some of the best ways to get exposure to the REIT space without having to take out a mortgage, loan, or deal with frustrated tenants.

Vanguard Real Estate Index Fund (Symbol: VNQ): VNQ is the largest real estate fund on the market, with fund assets in a variety of areas from housing and shopping malls to data centers and hospitals. The fund holds 171 firms solely exposed to the real estate sector including some of the best in breed real estate companies such as American Tower, Simon Property Group, Public Storage, and more.

VNQ currently yields nearly 3% which is more than twice the yield of the S&P 500 Index and more than a full percent better than the Vanguard Total Bond Index. With an expense ratio of only 0.12%, it's a low-cost, no nonsense way to add real estate exposure to your investment portfolio while earning an above average yield.

It's the recommendation I feel strongest about.

If you want to get access to the real estate space through individual stocks, here are two I also like:

Realty Income (O): O holds one of the largest diversified real estate portfolios in

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3 good ways to invest in real estate

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the business, with nearly 11,000 commercial properties across 60 different industries in the United States, Puerto Rico, and parts of Europe. Some of the company's largest tenants include Walgreens, FedEx, Walmart, Dollar General, and Home Depot.

O yields an impressive 4.3% and the only REIT company to pay dividends monthly rather than quarterly. In fact, the company's slogan is "The Monthly Dividend Company."

Prologis (PLD): Prologis is a real estate investment trust that focuses on e-commerce facilities that support the global supply chain.

They are the ones building the major warehouses that run 24/7 pulling, packing, labeling, and shipping of your online orders.

Prologis leases its facilities and warehouses to some of the largest e-commerce companies in the world including Amazon, Walmart, and Home Depot. Anything you order or return from an online seller like Amazon, likely flows through a Prologis owned facility.

As the demand for two-, one-, and even same-day shipping accelerates, Prologis will continue to build and lease out new facilities. Prologis has raised its dividend by almost 7% per year and is a fine growth investment to add to your portfolio.

With both the real estate and stock market near all time-highs, I would counsel income-seeking investors to avoid adding a significant loan to purchase a rental property. Instead, the three recommendations above are true buy and hold investments whose income streams should increase nicely over the next five to 10 years.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com