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REITs: A Good Hedge in Volatile Times

Traditionally, real estate has been viewed as an excellent investment. Property values in Canada have risen significantly and many investors have seen some rather sizeable growth in their equity. For British Columbians, this has been particularly true. In BC, average MLS® residential prices increased 12% in 2007 alone. However, it isn't realistic to expect this trend to continue.

Both nationally and provincially home sales are expected to ease due to factors such as erosion of affordability and economic uncertainty. The British Columbia Real Estate Association's spring Housing Forecast points to successive declines in BC residential home sales – down 9% in 2008 with a further 2% reduction in 2009. These sales reductions will be accompanied by more modest price increases than recently.

If real estate is your investment of choice and you want something beyond residential holdings, what are your alternatives? Can you maintain exposure to the real estate markets yet remain safe, liquid, *and* properly diversified? The answer is yes, you can purchase Real Estate Investment Trusts (REITs) with a focus on commercial property.

REITs seek out investment opportunities that actively manage real estate assets, giving investors exposure to income-producing real estate holdings such as office buildings, retail space, apartment blocks, retirement homes and industrial buildings. And they do this *without requiring huge capital outlays* because investors own publicly traded REIT units rather than directly investing in these properties.

While residential sales have slowed, commercial real estate in Canada has remained strong. Vacancies have been low, contractual revenues have been stable, and there has been positive growth in rents. By diversifying risk away from your residential property and into the commercial real estate market, you gain a number of advantages.

Canadian commercial REITs are yielding approximately 6% to12% through regular tax-advantaged distributions. This translates into an income stream that can help fund retirement. Since REITs trade on the exchange, they offer a much higher degree of liquidity than traditional real estate.

REITs also have the potential for capital appreciation. Not only is the increase in asset value reflected in the unit price, but so too are any increases in income growth. This means that you benefit when the underlying property values rise *and* when rents or leasing terms are increased.

One of the best reasons to own REITs is their low correlation to the markets. During times of stock market volatility, REITs can offer an excellent hedge against inflation. When you add a product with low correlation to your portfolio, you diversify your risk and increase your defensive stature. This fact has not gone unnoticed by many large institutional investors who have been actively increasing their allocations in commercial REITs.

Canadian REITs were first introduced to the markets in 1993 and have since become a very popular investment vehicle. There are now many different types of REITs available with a wide variety of investment choices and it is wise to seek expert advice prior to investing. It is important to make sure your choices provide access to superior sectors.

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