



TheStreet.com

ETF Tuesday

[Return to Article](#)

Two REIT ETFs You May Wish You Owned

Billy Fisher

04/22/08 - 09:57 AM EDT

After having a rough outing for much of 2007, it appears that REIT ETFs have begun to reverse their fortunes this spring.

While the **S&P 500** appreciated 3.6% last year, the **Vanguard REIT Index ETFVNO** and the **DJ Wilshire REIT ETFRWR** suffered fates much worse. By the end of 2007, these two funds saw their prices fall by 20.5% and 21.5%, respectively.

Thanks in part to recent hot streaks, both ETFs are now showing signs that they may have turned the corner. While the broader market is down 7% year to date, the Vanguard ETF is up 8.4% and the Wilshire ETF is up 8.0%.

With dividend yields of approximately 5%, these two ETFs are among the top dividend-paying ETFs on the market. They have also been making a resurgence as their holdings have benefited from a pullback in new construction starts, lower interest rates and healthy occupancy rates in many markets.

The funds are similar in terms of their holdings and contain **Simon Property GroupSPG**, **PrologisPLD**, **Vornado RealtyVNO**, **Public StoragePSA** and **Boston PropertiesBXP** among their top names.

Despite this recent REIT revival, Greg Sukenik, an analyst for Zacks [Investment](#) Research, doesn't think they are completely out of the woods yet.

"We have a neutral outlook for 2008," he says. "Most gains will likely be from dividends, but valuations have come down over the past year. Some REITs are even trading for less than their net asset values, and this trend could last throughout the rest of the year."

Neal Frankle, president of California-based Wealth Resources Group, cautions investors that REITs may have yet to hit rock bottom.

"At this time, REITs are speculative investments," he says. "Nobody knows how deep values in real estate will drop."

Frankle also advises investors to focus on total returns. "Some investors may be lured into these funds by high dividends but I think that could be a mistake," Frankle said. "A fund may be paying a yield over 5%, but if the value drops by 10%, it will be a net loss for the investor."

The two ETFs have a diversified mix of different REIT [classes](#). Apartment, office space, retail, lodging and health care are among the different REIT classes covered by these funds.

Sukenik is more optimistic about the health-care and apartment REITs than he is about office space REITs and retail REITs. **HCPHCP** and **UDRUDR** are two names that he thinks stand out among the individual holdings of these funds.

"HCP has good assets, good earnings growth and a good yield," he says of the health-care REIT. "With UDR I like their relative valuation and they have a good yield also."

Individual investors looking to allocate a portion of their portfolio to REITs can benefit from the elimination of company-specific

risk via the diversification that these ETFs provide. On the flip-side, the wide variance in outlooks for the different classes of REITs as well as for the individual companies within each class may provide some incentive for investors to invest in individual names as opposed to ETFs.

Royal Shepard, an analyst for Standard and Poor's, provides a case in point within the office-space REIT industry. He sees some positive characteristics in **SL Green Realty**SLG, which has a strong presence in Manhattan and is a holding of both ETFs.

"SL **Green** is benefiting from long-term leases that give its portfolio embedded rent growth," he says. "The Manhattan market is also fairly tight right now." Shepard has a hold rating on the stock.

He isn't as optimistic about **Maguire Properties**MPG, which has a portfolio that is focused on Southern California.

"There has been a significant increase in empty office space in the Orange County market," Shepard says. "I wouldn't be surprised if Maguire has to cut its dividend."

Visit TheStreet for more great features

THESTREET PREMIUM SERVICES

From the action-oriented investing ideas of *Action Alerts PLUS* by Jim Cramer to the expert technical trading strategies of Helene Meisler's *Top Stocks*, TheStreet.com offers a range of premium services to help boost your portfolio's performance. [View now.](#)

EXPERT ADVISORS ALERTS DELIVERED TO YOUR INBOX

Action Alerts PLUS: Cramer's personal portfolio, emails before he acts.
RealMoney: 45+ experts share their top investing ideas and analysis.
Stocks Under \$10: Alerts identify undervalued stocks with profit potential.

FREE NEWSLETTERS

Get an edge on the market with the help of free email newsletters like Jim Cramer's *Daily Booyah!*. Learn about the day's major market events, companies that sizzled or fizzled and lots more that can help you make more profitable investing decisions. [Sign up.](#)

PLAY BEAT THE STREET GAME NOW

Test your investing skills with our new Beat the Street trading game, where you get a chance to win \$5,000 weekly. [Play now.](#)

Sponsored Links

Countrywide® Home Loans

No Closing Cost Refi. No Points. No Credit Report or Processing Fees.
www.Countrywide.com

Options Investing Streamlined

\$9.95/Option + \$0 per Contract, Any Size. Get Flat Rate Commissions!
www.optionshouse.com

Forensics Degree Online

Become a Forensics Investigator. Request free info!
elearners.com

[Buy a link here](#)