www.chicagotribune.com/business/sns-rt-us-howtoplay-realestatetre78s26i-20110929,0,5891324.story

chicagotribune.com

How to play it: Real estate's bright spots hard to locate

Sam Forgione

Reuters

7:10 AM CDT, September 29, 2011

THE ISSUE: The S&P Indices/Case Shiller recorded a fourth consecutive month of increases. Existing home sales jumped in the latest report. Low-rate mortgages have boosted affordability measures. Is it time for investors to start looking for real estate?

NEW YORK (Reuters) - After a five-year slide from the price peak reached in 2006 is it finally time for the housing market to rebound?

Not for single-family homes, which are still being jack hammered by foreclosures and unemployment, analysts say. And not for home builders, whose stocks remain deeply depressed.

Looking more broadly at real estate, there are ways to invest. As ever, it's all about location -- but, these days, it's more about locating credit than a patch of green turf:

REITS:HOUSING ALTERNATIVE

A key problem with single family homes is that consumers are having problems getting financing, says Paul Hickey of Bespoke Investment Group. REITs are a solution.

"Rental REITs may be more attractive until credit markets become looser," Hickey said.

Hickey cited Avalon Bay as a favorite. Another strategist, Joel Beam of Forward Management, also likes Avalon, and added Equity Residential and Camden

Moreover, with their regular income payouts, REITs suit the demands of investors fed up with volatile equities and looking for ways to safely add income.

REIT FUNDS:SPREADING THE RISK

REITs have attracted more funds every year since 2008, said Lipper analyst Tom Roseen.

REITs can be extremely specialized in how they generate income and invest their holdings.

"With ETF REITs, you have to make sure it is broadly-based, because they can be very niche-focused," he said. "When you buy mutual fund or ETF REITs, you get a broader range of REITs and get to diversify recent risks."

EARTH-MOVERS, NOT HOMEBUILDERS

While the home building sector is not ready to rebound, one strategist said to look for companies better-placed for an industrial recovery, naming Caterpillar, the earthmoving giant, and MeadWestvaco Corp, which makes packages for many consumer products.

The strategist, Sam Turner, director of large cap portfolio management at Riverfront Investment Group, said also picked KLA-Tencor, a tech stock that is involved in chip making, because it "offers better risk/reward for your cyclical dollar."

Turner is skeptical about REITs.

"We removed our overweight to REITs several weeks ago," citing concerns that "a rally in treasuries was getting mature" and that the valuations were depreciating.

He was particularly negative on SPDR S&P Homebuilders ETF as a fund whose components are made up of over one-quarter public housing builders.

"We advise investors to look under the ETF hood," he said.

Meanwhile, David Kreinces, founder and portfolio manager at ETF Portfolio Management, recommended investing in fixed income ETFs and specified, "The BND (Vanguard Total Bond Market ETF) is a good place to hide."

HOMES, FOR THOSE WHO CAN WAIT

Some see value in the deeply-depressed home builders stocks. But even the optimists expect the market to take a long time to recover.

"It takes a very patient investor. Some stocks are trading at less than what they're worth, so if you have a three-to-five year horizon, there are what appear to be some decent buys in the space," said Eric Landry, Director of Industrials Research at Morning Star.

Landry offered Lennar Owens Corning and NVR Inc as well-run housing sector stocks to look into "over the next several years."

"NVR is one of the best-run homebuilders, has a sturdy balance sheet, a low cost structure, and is likely buying back large amounts of stock right now."

Landry pinpointed that the potential for another US recession would "compress the household formation dynamic and make less of a need for new housing," which confirms investors' allergy to housing stocks.

(Writing by Sam Forgione; Editing by Richard Satran)