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How stocks stack up to real estate now

As the housing market cools, equities may soon trump property as a sure investment

By Philana Patterson

In a cyclical shift, investors are looking at the stock market again as the real estate market shows some signs of slowing.

It's a reversal in strategy for investors who fled the stock market after the burst of the tech bubble, or got hit hard by the shock to the market after the September 11 terrorist attacks. After pulling money out of the securities markets and plunking it into real estate, people may be chasing returns in equities once again. Though investment into mutual funds are down 28 percent from the past year, according to fund tracker Lipper, much of the money is going into value stocks, an asset class that has performed well over the past five years.

By chasing past results, investors may be buying high and selling low, but it reflects growing unease over the flattening of the real estate market boom.

"There's no doubt that when the stock market declined many people left the stock market and a lot of investment money went into real estate," said Michael Bischoff, chief operating officer and a certified financial planner with Webb Financial Group, whose clients tend to be over age 50 with a net worth of \$1 million to \$5 million. "I had clients who flat-out cashed out all of their money and retirement plans and invested in real property."

Now, many of his clients who cashed out, especially those who chose to put money in investments such as publicly-traded and private real estate investment trusts, or REITs, are circling back looking for other alternatives.

"I am starting to have people call me back because they feel we are at the opposite standpoint of where we were five years ago," Bischoff said.

His firm isn't the only one that is seeing an increase in interest in investing in the securities markets. In November 2005, investment brokerage Charles Schwab Corp., the nation's biggest discount and biggest online broker, had a 13 percent increase in new assets under management compared to a year earlier. Schwab's net new assets totaled 7.5 billion that month compared with 4.6 billion in net new assets in November 2004.

Even though the returns in the broader equity markets aren't as robust as the 20 percent or greater annual appreciation that property in some markets has experienced over the past several years, there are segments of the market that have racked up good returns and companies that have reported positive earnings growth.

"In the third quarter, many S& 500 companies generated double-digit earnings growth," said J.J. Burns, president of J.J. Burns & Co. in Melville, Long Island. "No one is talking about it."

In 2005, stocks in the Standard & Poor's 500 Index are expected to report operating earnings of nearly \$77 a share, up more than 13 percent from year-ago levels, according to Standard & Poor's.

"We are working in a much more developed, mature country that is beginning to reap rewards of tech spending and outsourcing that's happening in S& 500 companies," Burns said.

Stocks that are considered to be undervalued should begin to garner more attention, says Marc Sussman, principal and certified financial planner at M.H. Sussman & Associates in New York. He looks for mature companies with a good amount of cash on their balance sheets and with a healthy dividend yield - many of which, for some reason, have been beaten up by the market, such as health care.

"People look at the market as a total entity and that's a mistake," Sussman said. "When it comes to value investing, you want to buy things when they are worth a lot more than what you are paying for them."

Still, some say that investors shouldn't be so quick to count real estate out. The outlook for office and industrial space, the underlying securities for many real estate investment trusts, is upbeat. As the economy strengthens, hiring is expected to pick up and vacancy rates in many office markets are expected to decline.

"Employment growth leads to space utilization," said David Steinwedell, chief investment officer at Wells Real Estate Funds. Corporations retrenched in the first part of this decade and are finally feeling confident about the future. "They didn't know if the

economy was going to rebound. Over time, I think the economy has proved out that it has some legs to it."

Real estate investment trusts that focus on office and industrial space may be poised to benefit, while REITs with a large amount of retail holdings may not fare as well, he said.

"There's been this pent-up demand," Steinwedell said. "I think a lot of companies crammed people into space. We're seeing a significant amount of demand to find space that's going to work for [REITs] in the next five to 10 years."

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