Thursday July 26, 11:27 am Eastern Time

FUND VIEW-REITs a safe haven in tough market-Lend Lease

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By Richard Leong

NEW YORK, July 26 (Reuters) - Investors, dogged by the woes of the former Nasdaq telecom and technology darlings, may consider adding real estate investment trusts (REITs) in their portfolios, said Kenneth Rosen, who co-manages the Fremont Real Estate Securities Fund.

REITs, publicly traded real estate management companies, offer diversification for investors who have been too heavily weighted in high-risk stocks, Rosen said.

``Real estate is performing relatively better in this cycle,'' Rosen told Reuters.

REITs provide an oasis for investors thirsty for investments that offer high dividends and moderate growth, not matched by most other types of stocks since last autumn.

While the real estate market has not been immune to the economic downturn -- with sliding rent prices and rising vacancy rates commonplace amid softening demand for office and store space -- REITs with stable cash flows from long-term leases will likely weather the uncertain economic climate.

The $20 million Fremont real estate fund has posted a 10.3 percent return since Rosen and co-manager Michael Torres took over the fund in mid-March.

Rosen set Fremont's annual return target in the 10 to 15 percent range, same as the institutional portfolios he manages and a solid rate of return at a time when large cap Standard & Poor's index (^SPI - news) has lost 11 percent and the Nasdaq composite (^IXIC - news) has declined 21 percent.

Prior to entry into the retail mutual fund sector with the Fremont fund, Rosen and Torres, as chief executive officer and president at Lend Lease Rosen Real Estate Securities LLC, have been managing $1.4 billion in real estate for institutional investors and wealthy individuals.

Lend Lease Rosen is an affiliate of Lend Lease Real Estate Investments Inc., a subsidiary of Lend Lease Corp. (Australia: LLC.AX - news).

In April, Fremont said Lend Lease Rosen replaced Kensington Investment Management as manager of its real estate fund, when it decided to change the fund's focus to large, high-quality REITs from illiquid, small-cap REITs.

STRONG TENANTS PAY THEIR RENTS

Although the overall REIT sector has fared well in a tough investment environment, careful selection within the group is paramount. REITs that perform best are those with strong cash flows from tenants who pay their rents on time, Rosen said.

``Money alone is not the only thing for a good real estate estate manager. Credit quality is important,'' said Rosen, noting that attractive REITs now include those which avoided dot-com start-ups which have closed their doors after signing expensive leases.

For example, in San Francisco's business district, Rosen projected that office rents by year-end should drop back to their 1999 levels, before the dot-com frenzy, to $50 a square feet from the peak of $80 a square feet. Office vacancy rate in San Francisco will also continue to climb over the second half of the year, rising to 25 percent, Rosen said.

Rosen is chairman of the Fisher Center for Real Estate and Urban Economics at the Haas School of Business at the University of California at Berkeley.

Among the strongest office REITs, Rosen was particularly keen on Equity Office Properties Trust (NYSE:EOP - news), Fremont's biggest holding at the end of April, and Toronto-based Brookfield Properties Corp. (Toronto:BPO.TO - news), which posted record second-quarter earnings on Wednesday.

As for other property types, he liked apartment REITs, making up 28.5 percent of Fremont's holdings, second behind office REITs. ``People always have to live somewhere,'' he said.

Equity Residential Properties Trust (NYSE:EQR - news), the No. 1 U.S. apartment REIT, was Fremont's second largest holding.

Despite worries about slower consumer spending and a recent wave of retailers filing for bankruptcies, Rosen said those retail REITs such Simon Property Group Inc. (NYSE:SPG - news), with low vacancies and strong properties in top retail centers would perform well.

But Rosen said he has low exposure to hotel REITs, which represent a tiny 1 percent of Fremont's portfolio, as businesses have slashed their travel budgets due to the economic slowdown.

``We avoid hotels because of the cyclical downturn,'' he said.

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