Real estate may need renovation but is still a good diversifier

By Lavonne Kuykendall ***InvestmentNews***

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Investors are skittish about real estate investments due to the beating that the sector has taken over the past few years, but alternative-investment managers say that real estate has some features that make it worth another look.

That was the message from a panel of real estate investment managers at the alternative-investments conference last week.

Despite a bad drop in 2008, a real estate allocation over the long term can reduce portfolio volatility and add income, and in many cases offer non-correlation to the larger stock market.

But not always.

“Different product types behave very differently,” said panelist Jeffrey T. Hanson, president and chief executive of Grubb & Ellis Equity Advisors LLC.

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Golf courses didn't do so well during the downturn and neither did office space. But health care facilities did very well.

Mr. Hanson said that he considers health-care-related real estate to be the strongest sector.

“One component that differentiates it is, it is the one asset class that does not heavily depend on job growth,” he said. “Another relates to demographic trends in our aging population.”

Other sectors have unique strengths, Mr. Hanson said.

The hotel and lodging sector can re-price its products quickly, and he sees a strong future for rental housing, due partly to the so-called echo boom generation and their propensity to make home purchases later in life than their baby boomer parents did.

Instead of a 60%/40% stock/bond portfolio, putting 10% of funds into real estate and another 10% to managed futures would have increased return and reduced volatility over the past 15 years, said panelist Mark Goldberg. He is managing director of W.P. Carey & Co. LLC and president of Carey Financial LL