REITAS

Investing in S-REITs – the Buffett Way

The legendary investor Warren Buffett has consistently mentioned over the years that an investor with little time to do his own research should invest in low-cost index funds as a way to boost retirement savings. I would also add that a moderately savvy investor with little time to do research should be able to profitably invest in Singapore listed REITs, a sector that has developed nicely with strong government support over the years. This sector has been frequently recommended for most investors seeking to consistently build a nest egg for retirement. Let's go back to some advice from the sage of Omaha on how he invests and see if the rules he lives by are relevant to the investors in the Singapore REIT sector.

Rule No.1: Never lose money. Rule No. 2: Never forget Rule No. 1

Buffett has always been clear that investing should not be mistaken with speculating or gambling. Investing is intended to be for the long term and one needs to do sufficient homework in order to be able to make reasonable investing decisions. It is important to realize that the market will experience swings, but a wise investor should understand this and focus on the goals one set when allocating monies to a specific investment. The REIT sector is intended to be an income generating vehicle by investing collectively in real estate. It is intended to be fairly transparent, with a large proportion of the earnings distributed periodically by way of distribution to the unitholders. In this respect understanding and analyzing a REIT is relatively easier than investing in a regular operating business. You will also note that Buffett prescribes a bottom-up approach, and asks that we not be too concerned with forecasting the state of the economy. There are just too many variables to time the market, and Buffett categorically states that he does not know anyone on the Forbes richest list that made their monies from guessing the market.

If the business does well, the stock eventually follows

Buying a REIT is not different from buying into a company or a business. You are acquiring a stake in a vehicle that owns and manages real estate properties. In order to put together a portfolio of 5 or 6 REITS to put money into on a regular basis, there are a few simple things that an investor can do. One would need to determine if the REIT has a relatively consistent operating history of delivering growing DPU, sustaining its operating margins, have a bulk of the properties in good locations (the perennial 'location, location, location' advise), so as it is able to maintain low vacancies and high rentals. Remember that buying rationale should not be premised on current relative yields alone; it should be based on superior portfolio quality that is underpinned by consistently improving performances. These few basic measures together with the one simple rule – having a portfolio that is both transparent and easy to assess should give the investor sufficient confidence to invest. He or she can decide also to choose one or two names from each sector to diversify the risk exposure. It is worth remember that having 6 to 8 counters in the portfolio is sufficient diversification according to Mr. Buffett.

Its far better to buy a wonderful company at fair price than a fair company at a wonderful price

One of the challenges for most lay investors is the ability to know the value to ascribe to a potential investment. Hence it is even more important that the investor consider investing within their circle of competence, particularly an investment that is easy to understand and follow. In the case of a REIT, an investor might choose to invest in sectors or geographies they are familiar with. In addition, an investor would need to decide whether they prefer pure plays which may be easier to understand and value or are comfortable holding an investment which has properties in more than one geography or asset class.

Value investor typically look for situations where they believe the price they are paying is significantly below the long-term intrinsic value (or underlying value). In the case of buying into REITS, especially if one is buying on a consistent basis, this is less important. If you have identified several superior REITs for your portfolio, and have a relatively good handle of recent yield histories, then it is important to be investing consistently, picking up more on market weakness. As an example, if a particular REIT sector had been recently trading at an average of 5.5% over the last 3 months, and the market is down pushing the REIT prices to yield at say 6.0%, this is a good signal to add to one's portfolio.

Our favorite holding period is forever

This is one of my favorite tests to ensure that my temperament is not playing tricks with me. If after identifying a REIT for one's portfolio, you have to ask yourself if you are willing to hold it for at least 10 years. If you are not, then you have no business holding it for even 10 minutes. Remember that our Singapore REIT sector is sufficiently broad and deep for any retail investors to have sufficient choices. You should only consider changing out a selection over time if you believe you have made a mistake; under those circumstances, one should take the decision to sell and move on.

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Picture taken in front of Gorat's