

# Risk outweighs returns in short-selling real estate

Many investments, such as stocks, commodity futures and bonds, can be sold short. The investor borrows the security, sells it without owning it, buys it back later (hopefully at a lower price) and then returns the borrowed asset to the owner.

This is very risky because any bubbles that push up asset values to unreasonably high levels can go up further and spiral out of control, causing huge losses to the short seller.

Likewise, a homeowner may decide to hedge the value of his home against a drop in market price. In theory, one should be able to hedge one's investment by taking an offsetting position in a short sale

of real estate. No one in the U.S. securities or commodity futures marketplace offers this option. To achieve the goal of hedging your risk, you would need to short sell something similar.

For instance, publicly traded

Real Estate Investment Trusts (REITs) can be short sold, just like any other publicly traded stock. REITs invest in real estate or real estate loans. The problem is that REITs rarely, if ever, own single-family homes. Any they own are usually in a moderate-to-lower income area outside

of California, where home values do not correlate with affluent Silicon Valley housing.

Another approach is to short sell publicly traded home-building companies. During a recession, the stock values of these companies may decline.

Unfortunately, real estate is a series of local marketplaces with unique pockets that do not correlate with the rest of the national economy. It is

possible that employment growth in Silicon Valley could continue upward, making homes go up, while the rest of the country falls into recession as in the 1980s during the defense industry buildup. Thus, it is impossible

to have a synthetic version of Silicon Valley real estate that can be short sold.

A hedge-fund manager can say that they have a "long-short" approach to real estate, with owned real estate hedged

with short sales of real estate. However, they are investing in REITs that invest widely over the country, so their ability to hedge does not mean that a Silicon Valley homeowner can hedge his home value.

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## ALTERNATIVE INVESTMENTS

*In theory, one should be able to hedge one's investment by taking an offsetting position in a short sale of real estate.*



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