Covid, Inflation, Interest Rates… What's happening with Real Estate?

Managing Your Money

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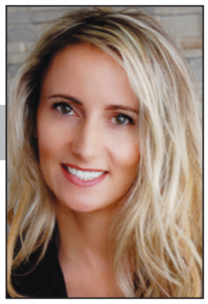

Whether you're a homeowner, a landlord, or a real estate investor, you've watched as tides have shifted in real estate. As a "hard asset" often referred to as "bricks and mortar", real estate has always been considered a safe investment and wise diversifier for investors. Does that still hold true? And are there opportunities to consider?

> *"It's hard to go wrong when you buy a dollar for less than a dollar."*
> *– Warren Buffet*

My long-time mentor in real estate investing would often repeat Warren Buffet's famous saying, "It's hard to go wrong when you buy a dollar for less than a dollar". This holds true for most investments, but especially for real estate. When you buy an investment for less than its intrinsic value (what it's really worth), there is of course more opportunity for growth, but… you also increase your margin of safety! So, when we're looking at real estate investment opportunities, this is a key factor we look for – "Buy a dollar for less than a dollar"!

Too many people end up "house rich and cash poor"- meaning they have more money tied up in their house than they have in liquid financial assets. In these cases, I don't recommend adding more real estate. But when your portfolio grows and your home represents a smaller portion of your overall net worth, real estate can be a great way to diversify, create income, and lower the overall risk in your portfolio.

Most high-net-worth investors invest in real estate. It has traditionally been a safe and effective way to build and maintain wealth. One of their secrets to real estate success is accessing "off-market" deals – deals that are not listed, private deals, or deals that are not available to the general public (for example sales by pension plans). These deals are more difficult to find, and that's when working with key players who can source these deals becomes essential.

How to invest? Most high-net-worth real estate investors are either professionals or business owners, and don't have the time, desire, or expertise to "manage" the day-to-day operations of a real estate investment. So how do they invest? It's often done through a limited partnership structure where multiple investors pool their money together for a particular real estate investment. The general partner is the one who manages the purchase, operations, etc., and distributes the investment income to the other partners on a regular basis.

Generally, these private deals are only available to "accredited investors". An accredited investor is entitled to this privileged access by satisfying at least one requirement regarding their income, net worth, asset size, governance status, or professional experience. If you are not an accredited investor, you will be limited to REITs, real estate ETFs, and mutual funds, as well as publicly traded real estate stocks. If you are an accredited investor, a whole world of opportunities opens for you, not only in real estate but in other areas too. To determine if you qualify as an accredited investor, visit the Useful Tools page on our website.

How much of your overall net worth should you invest in real estate? That is going to depend on a number of factors, such as – the need for liquidity, risk tolerance, age and income needs from the portfolio, etc. To give some perspective on what the ultra-high-net-worth are doing, TIGER 21, an exclusive global community of ultra-high-net-worth investors, releases a quarterly Asset Allocation Report. It measures the aggregate asset allocation exposures of TIGER 21 Members. The Q1 2023 report shows real estate exposure of 24%. This has remained fairly steady over the last years.

Is this a good time to invest in real estate? When economic factors work against real estate, we usually see the best opportunities arise. Case in point, this recent opportunity. We were lucky enough to get access to a private, "off-market" deal where a massive Canadian pension plan defaulted on a loan and became a distressed seller of a premium building which they sold for half of what they paid 5 years ago. Financing is hard to come by these days (even for large secure pension plans) and interest rates are high, so for those who are well positioned financially, the opportunities are extremely desirable.

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Investing in private real estate deals must be considered with due diligence and clear understanding. Working with a professional who has the expertise to guide and advise you is strongly recommended. If you would like to learn more about real estate investing or attend our upcoming presentation in September, please contact us.

If this article has piqued your curiosity or you feel that real estate investing might be something interesting for you, here are some steps to guide you in the process:

1. Ask your current financial advisor(s) if they have expertise in the area of real estate. If not, find someone who does.
2. Find out if your financial institution has access to private deals AND if they do their own due diligence.
3. Determine your goals for investing in real estate – income, growth, diversification, legacy, etc.
4. Understand clearly the risks – is there any liquidity? Is there a hold period? Could there be a capital call? Understand the tax implications.
5. Learn about how the numbers work – occupancy, cap rates, leverage, etc.
6. Determine with your advisors what % would be a good fit in your overall portfolio. You shouldn't allocate the whole amount to one deal. Diversify, even within categories.
7. Start exploring deals and learn how they work.

Note: For more tips and insights on managing your wealth, follow me on my NEW Facebook page Richardson Wealth - **Ephtimios MacNeil Wealth Management.**

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