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5 GREAT TIPS

to be a successful passive real estate investor

Who doesn't dream about making some extra money relatively easily?

For sure, we'd all like to supplement our incomes with some smart investments. Frequently, therefore, investors turn their attention to real estate as, time after time, investment in property assets has proven to be a key building block in growing long-term wealth.

There are several ways to go about investing in real estate. Many people like to be hands-on, owning the property assets, renovating and renting them or selling on for a profit. On the other hand, maybe due to time constraints or limited experience, others are more interested in **passive real estate investing.**

You may have heard the term, but just what is **passive real estate investing?**

Put simply, it is investing in real estate without substantial hands-on effort or active participation from the investor. There are two primary methods of passive real estate investing—direct or indirect:

Indirect passive real estate investing

This type of real estate investing is considered passive because there is no day-to-day management needed. It's considered indirect because it doesn't involve a specific piece of real estate. Investors collect passive income as returns or dividends from funds.

Direct passive real estate investing

Direct real estate investing is when an investor will purchase a property or portion of a property that is then rented out. But, the day to day management or operation of the property and associated issues attached thereto will be contracted to a third party such as a specialised property management company who will supervise the property, undertake repairs and maintenance and find a tenant plus collect rent.

5 great tips to get started in passive real estate investing

It's easy to get started in passive investing in real estate, you just need to follow our 5 great tips:

01

Determine your investment objectives

This type of real estate investing is considered passive because there is no day-to-day management needed. It's considered indirect because it doesn't involve a specific piece of real estate. Investors collect passive income as returns or dividends from funds;

02

Work out the amount you have available for such type of investment

this should be an amount you are comfortable with, $100,000 or 1,000,000, it's up to you. In any event, don't invest all of your spare cash;

03

Review your existing investments

diversification is key, and most savvy investors build a varied portfolio of real estate, stocks, shares and bonds or currencies, usually with real estate investments comprising the greater proportion of total assets;

04

Decide as to what degree do you wish to be passive

real estate investing falls on a spectrum of "very hands-on" to "very hands-off". It's best to ascertain at the outset how much, if any, involvement or direct ownership of assets do you want;

05

Determine which type of passive investing suits you best

read on for several options.

Preferred options in passive real estate investing

There are several key options for a passive real estate investor to pursue. Each option has pros and cons and a prudent investor should consider each option and see if it meets their investment requirements and objectives, as well as tolerance for risk. Options include investing in:

1 Private equity investment or syndications

Real estate private equity or investment syndicates are partnerships between several investors who combine their skills, resources, and capital to purchase and manage a property they otherwise couldn't afford. There are two key roles in property syndication: the syndicator or sponsor and investor.

The value-add process and the structure of the investments and the greater deal size and, hence, returns which pooled capital can provide are major benefits which syndication or private equity investing provides.

However, the credibility and experience of the sponsor is key. Often this will be an experienced investor with a great track record or maybe an investment bank, whose primary role is to instigate and lead a deal or project from inception to completion.

Ideally the sponsor should be investing their own equity in the deal to ensure that their interests are aligned with other investors and this is usually at least 10% of the total equity needed for the project.

2 Crowdfunding

Real estate crowdfunding refers to a grouping of investors who each contribute money to become part of a real estate deal. It is less formal than a property fund but offers a multitude of investors the opportunity to be a part of major real estate ventures.

Conceptually, crowdfunding is a way for small investors to pool their resources and help the lead real estate investor to complete a project and sell it, ideally at a high-profit margin. Real estate crowdfunding is mostly managed or operated through online platforms where investors can browse through the opportunities that appeal to them.

Once they select an investment that matches their requirements, their funds are pooled with other investors and the investment is closed. Investors then begin monitoring the performance of their investment and collect the passive income that may accrue from it.

3 Real Estate Investment Trusts ("REITs")

REITs are corporations, trusts, or associations that invest in income-producing real estate. Investors don't own a piece of real estate directly but shares in the entity which they own and can buy and sell these like you would other stocks and funds. Accordingly, investors can invest in real estate without the expense of purchasing and maintaining an actual property. REITs generally have wider diversification, lower risk factors, and potential appreciation so they may be potentially beneficial additions to an equity or fixed-income portfolio.

A REIT must also meet the SEC requirement of distributing 90 percent of its taxable income as dividends to shareholders, who then have to pay income tax on the dividends earned.

There are primary three types of REITs:

Equity REITs: one of the most common forms of investment, equity REITs buy, own, and manage real estate properties which generate revenue;

Mortgage REITs: entities which loan money for mortgages to real estate owners and operators. They purchase either existing mortgages or mortgage-backed securities. In this case, the revenue is generated mainly by the interest they earn on the mortgage loans;

Hybrid REITs: which combine the characteristics of both the equity and mortgage REITs in their portfolios. They earn money through a combination of rent and interest. REITs can be publicly traded, public non-traded or private.

4 Real Estate Funds

Real estate funds are types of mutual funds which invest mainly in real estate. Many real estate funds also invest in REITs and offer certain benefits that may appeal to passive investors, namely greater diversification, which is intended to reduce risk and a higher potential for returns. A major portion of a real estate fund is often invested in commercial properties such as offices, retail centres or apartment complexes, and land.

5 Joint ventures

Joint ventures are much more hands-on and at times may not seem to be a passive investment, but they can be one of riskiest passive investments because there are several key variables. One is finding a reliable partner(s) to trust, another is the issue of control and responsibility for decision making Furthermore, there are usually liabilities involved as joint ventures are not always organised through a limited partnership structure where the investors are 100% passive and have no liabilities.

6 Turnkey rental property

A more active kind of passive real estate investing, investing in a turnkey rental property can lead to a potentially steady flow of money without much effort. In this scenario, the investor can be a silent partner to someone who is doing most of the preparatory work. A management company then comes in to take on the responsibility of finding and maintaining the rental property. The professionals oversee the management whilst the rental paid by the tenants pays off the mortgage or loan. The management company also makes sure that high occupancy of the units is maintained, finding tenants who will take care of the property and pay rent on time;

In private equity transactions there are two main categories of investor:

an accredited investor is a person or entity is allowed to invest in securities that are not registered with the Securities and Exchange Commission (SEC). To be an accredited investor, an individual or entity must meet certain income and net worth guidelines such as having an annual income exceeding $200,000 ($300,000 for joint income) for the last two years with the expectation of earning the same or a higher income in the current year. In Canada and the US they must meet this requirement or be:

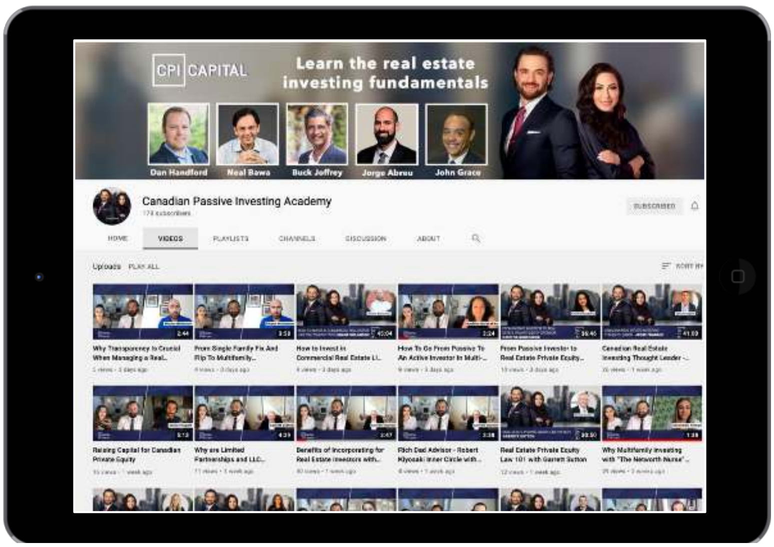
- corporations, limited partnerships, trusts or estates having net assets of at least $5 million;
- individuals who have at least $1 million in financial assets (cash and securities) after deducting any loans or debt and before taxes;
- individuals who have at least $5 million in net assets

non-accredited investors are only eligible to invest in investment opportunities that are different from accredited investors. The options available for non-accredited investors include certain types of bonds, real estate, equities, and other securities.

Ready for a bonus tip and to take action?

You've read through this article, determined that you want to be a passive real estate investor and worked out:

- how much you want to invest;
- what degree of involvement you require; and
- which route you wish to take to make a passive investment.



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