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The Many Ways to Invest in Real Estate

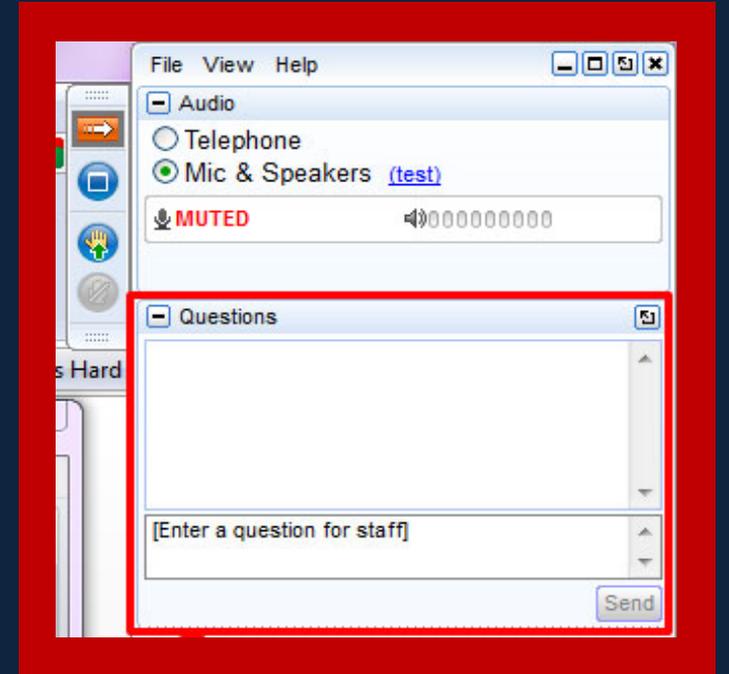
TODAY'S SPEAKER



SCOTT HUGHES, CFP[®], MBA
Managing Partner & Financial Advisor

Q & A

HAVE
QUESTIONS?



ABOUT HUGHES FINANCIAL SERVICES



Independent
Registered
Investment
Advisor



Comprehensive
financial planning
and wealth
management



Fiduciary



Professional
certifications
and continuing
education



Over 90 years
combined
experience

THE MANY WAYS TO INVEST IN REAL ESTATE

3 Types of Real Estate Investments



Primary
Residence and
Second Home



Income
Producing
Properties



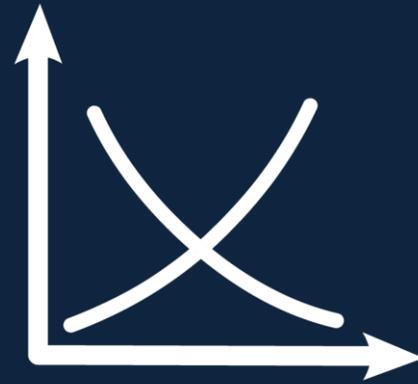
Real Estate
Investment Trusts
(REITs)

THE MANY WAYS TO INVEST IN REAL ESTATE

Factors that Impact Real Estate



Overall U.S.
Economy



Supply and
Demand



Local
Economies



Employment



Demographics

“

COVID has catalyzed a rethinking of where we live, and why we live there, and where we work, and how we work.

”

| RICH BARTON, CEO, ZILLOW GROUP

THE MANY WAYS TO INVEST IN REAL ESTATE

U.S. Economy: Mortgage Rates (30-year fixed rate)



Latest data point is Mar 25, 2021

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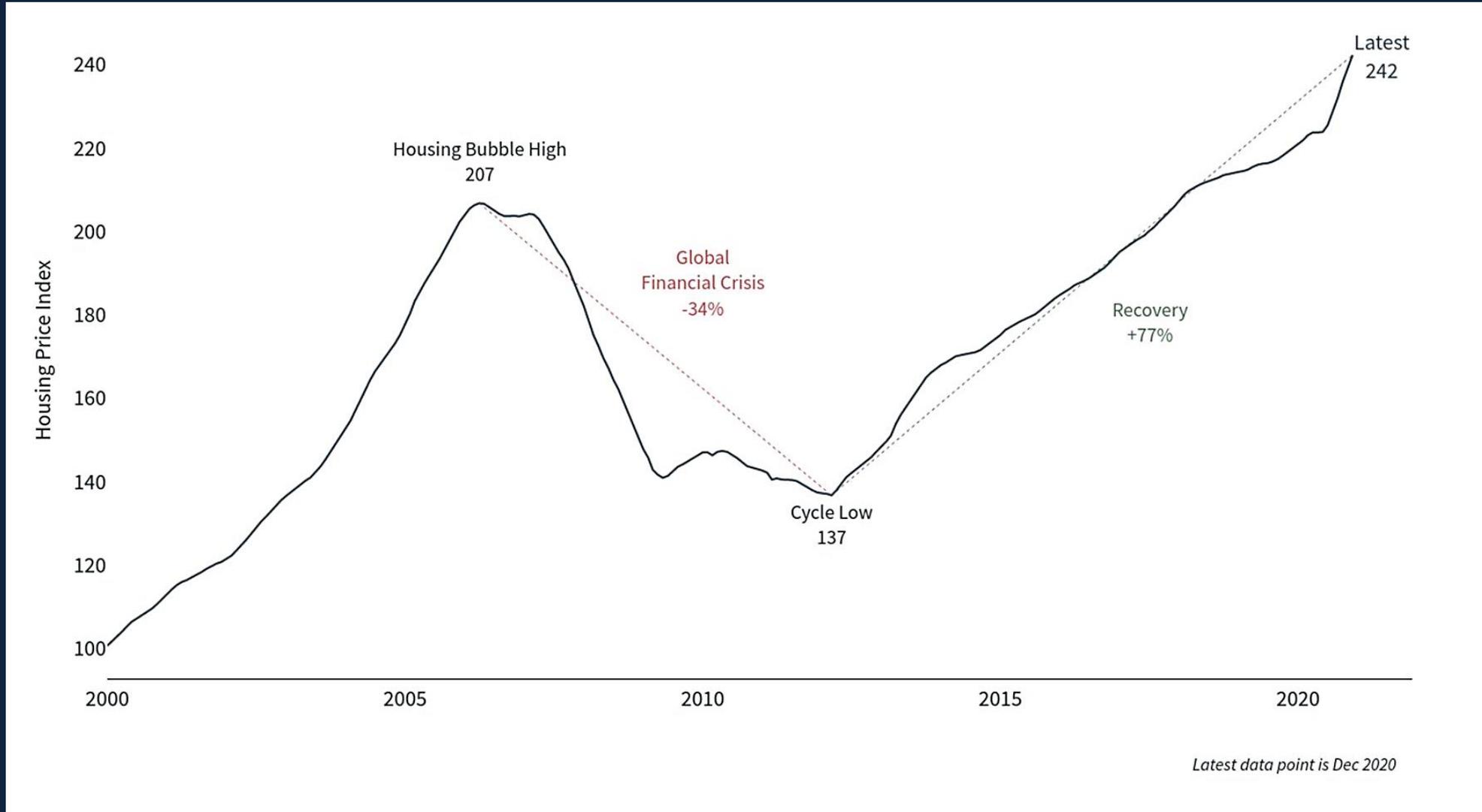
U.S. Economy: Months' Supply of Inventory



Latest data point is Feb 2021

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U.S Economy: S&P/Case-Shiller Index



THE MANY WAYS TO INVEST IN REAL ESTATE

Primary Residence and Second Home: Financial and Non-Financial Benefits

- Nationally, homeownership rates climbed to 65.8% in 2020; expected to continue rising
- Synonymous with the “American Dream”
- Family needs to live somewhere
 - Rent vs own
- Largest asset and largest debt for most households
- Goal: build home equity with combination of principal payments and market appreciation



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Primary Residence and Second Home: Typical Expenses

- Mortgage
- Insurance
- Real Estate Property Taxes
- Maintenance and Remodeling
- Private Mortgage Insurance (PMI)
- HOA and Condo Fees (if applicable)
- One-Time Assessments (if applicable)

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Primary Residence and Second Home: Risks

- Lower housing prices/market values
- Known expenses (i.e., debt servicing, regular maintenance) may change
- Unexpected expenses (i.e., new roof)
- Miscalculation of rate of return by homeowners only considering purchase price and sales price and ignoring the total costs

INCOME-PRODUCING PROPERTY



THE MANY WAYS TO INVEST IN REAL ESTATE

Income-Producing Property

- Risks
- Management
- Schedule E
- Financial Metrics to Evaluate Income-Producing Property



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Income-Producing Property: Risks

- **Vacancy:** how often will the property go unrented
- **Space Market Rates:** will demand change over time
- **Terminal Capital:** will the property's value grow or decline
- **Financial:** debt to finance the investment
- **Liquidity:** how hard will it be to sell
- **Inflation**
- **Environmental**
- **Legislative/Insurance:** zoning laws, building codes, land use and environmental regulations, federal income taxes

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Income-Producing Property: Management

- You: Do you have the time?
- Property Management Company: Fees (15-30%)
- Hybrid (AirBnB, VRBO): Up to 15% fee under some plans

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Income-Producing Property: Financial Metrics

Net Operating Income (NOI)

Gross Operating Income – Operating Expenses = Net Operating Income

Capitalization Rate (Cap Rate)

Net Operating Income / Property Value

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Income-Producing Property: Schedule E

- Rent Monies Received

- Expenses:

 - Advertising

 - Auto and Travel

 - Cleaning, Maintenance and Repairs

 - Commissions

 - Insurance

 - Professional Fees (lawyer)

 - Management Fees (15-30%)

 - Mortgage Interest

 - Furniture and Supplies

 - Utilities

 - Taxes

 - Depreciation

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Key Components of Returns

Income Above Costs

Property Appreciation

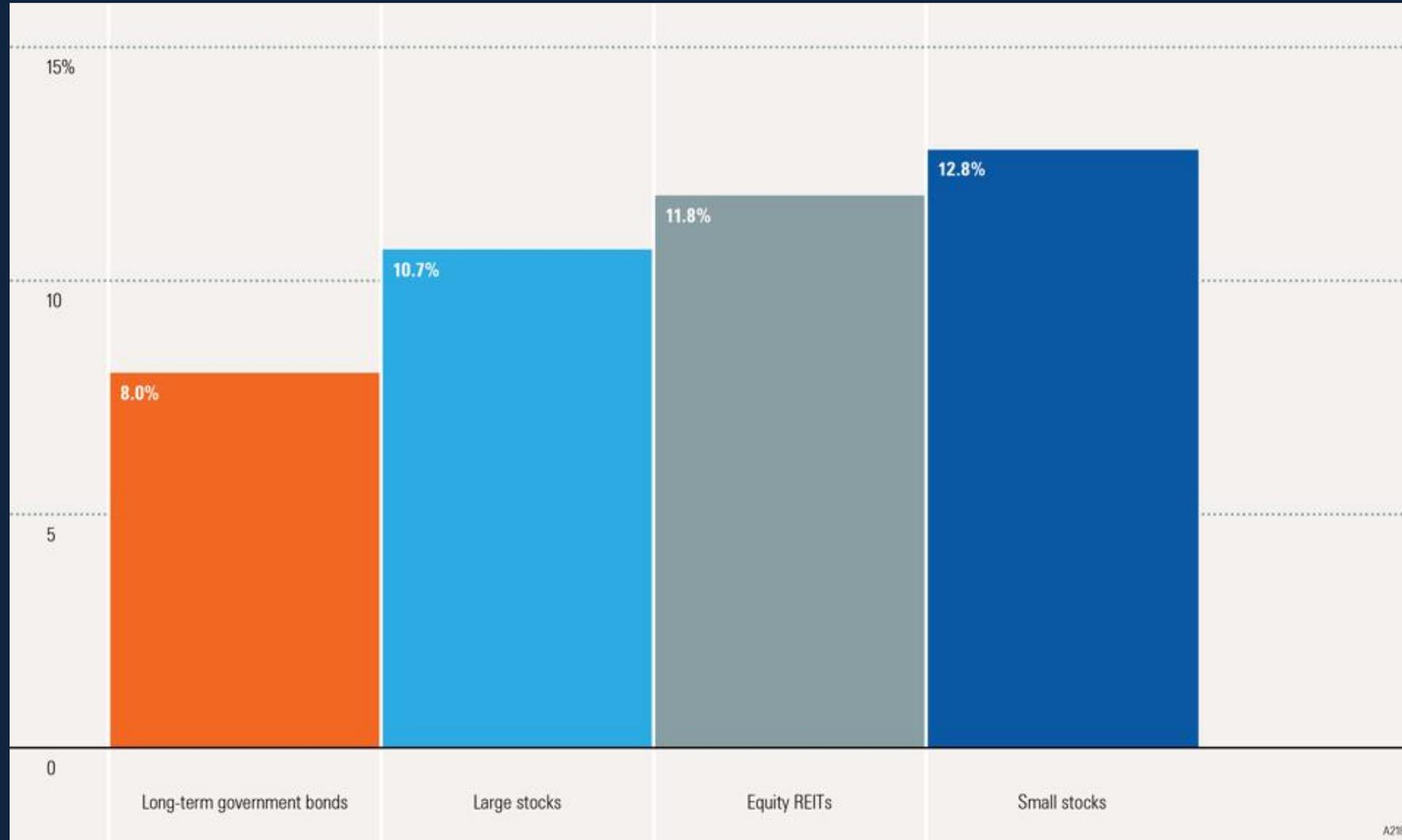
THE MANY WAYS TO INVEST IN REAL ESTATE

Real Estate Investing Trusts (REITs)

- Companies that own, manage and lease investment-grade, income-producing commercial real estate
- Provides investors with exposure to REIT's portfolio without having to buy or manage property
- REITs must be in real estate business
 - At least 75% of assets must be real property
 - At least 75% of revenue must come from real estate
- At least 90% of taxable income back to investors annually in the form of dividends
- Taxes are paid at shareholder level

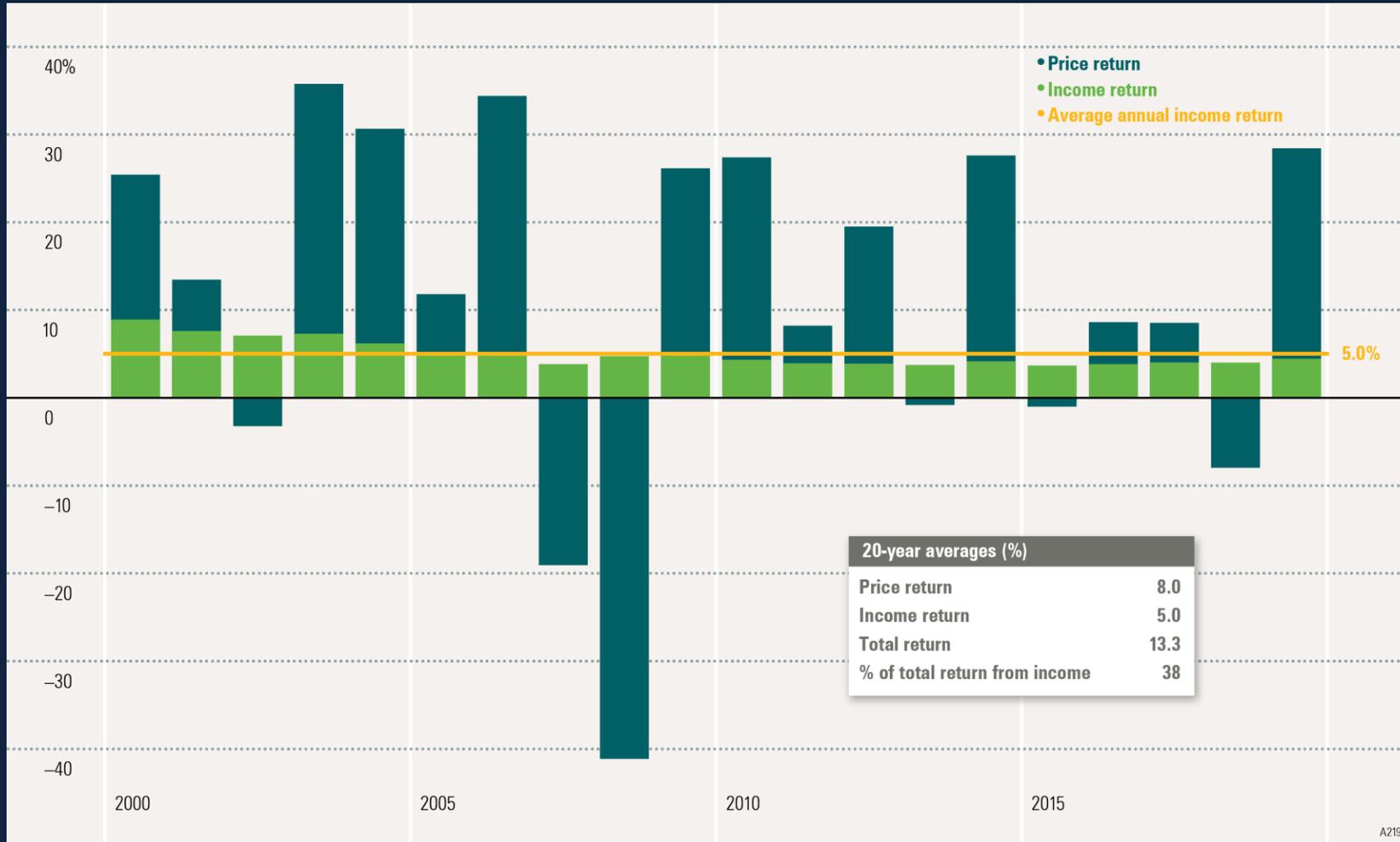
THE MANY WAYS TO INVEST IN REAL ESTATE

Real Estate Investing Trusts (REITs): Consistent Long-Term Performance (1972-2019)



THE MANY WAYS TO INVEST IN REAL ESTATE

Real Estate Investing Trusts (REITs): Reliable Income Returns (20 years)



THE MANY WAYS TO INVEST IN REAL ESTATE

Real Estate Investing Trusts (REITs): Vanguard REIT Holdings



American Tower: owns/operates 180,000 cell towers worldwide, leases space to cell phone/data providers

Prologis, Inc.: owns/operates 9M square feet of high-quality industrial and logistics facilities

Crown Castle International Group: owns/leases 40,000 cell towers in US and 80,000 miles of data fiber

Equinix Inc.: Retail provider of 227 data centers

Digital Realty Trust: owns/operates 275 data centers

Public Storage: owns/operates 2300 self-storage centers

Simon Property Group: owns 207 properties including 106 traditional malls, 69 outlet malls and other properties

SBA Communications Corp.: owns/operates 33,000 cell phone towers

Welltower Inc.: Owns 1600 healthcare properties (senior housing, medical offices, skilled nursing/post-acute care sectors)

Weyerhaeuser Co.: largest forest product company in the world (timberlands, wood products, real estate)

AvalonBay Communities: owns 275 apartment communities with 75000 units (high-quality properties in major metropolitan areas of New England, New York/NJ, Washington DC, California and Pacific NW; headquarters in Alexandria, VA)

THE MANY WAYS TO INVEST IN REAL ESTATE

Real Estate Investing Trusts (REITs)

PROS

- Real estate exposure without having to manage that real estate yourself
- Adds level of diversity to financial portfolio; total returns are competitive with stocks
- Pays 90% of income back to investors in the form of dividends
- Property appreciation
- Due diligence, SEC reports and audited financial reports

CONS

- Dividends received from REITs are taxed as regular income
- Federal law requirement: small portion of income generated can be reinvested back into REIT for growth
- Risk of losing capital



5 STAR TIP

REITs good options for IRAs and Roth IRAs (and other taxable investment accounts)

- Rule of thumb: limit REIT exposure to 10-15% of total portfolio



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Real Estate Considerations

	EQUITY	INCOME	TAX BENEFITS
Primary Residence and Second Home	Built with principal payments and growth/decline in market value	Not applicable unless renting primary residence or second home temporarily	Mortgage interest deduction if you itemize
Income-Producing Property	Built with growth/decline in market value	Generated from net positive cash flows	Expenses including depreciation provide write-offs
Real Estate Investment Trusts (REITs)	Built with growth/decline in stock price	Dividend income	Taxed at regular income brackets; some 199-A deductions allowed

Hughes Financial Services will be hosting **20-minute virtual educational Lunch & Learn sessions** during which we'll do a deep dive on an array of financial planning topics. Grab your device and lunch and join us each **Wednesday at 12:00 pm** to juice up your financial planning knowledge!



WEDNESDAY, MARCH 3rd

Estate Planning in 2021 with Guest Speaker Martha Sotelo, Esq., Principal, Vaughan, Fincher & Sotelo, PC

WEDNESDAY, MARCH 10th

Tax Planning in 2021: What to Expect & Plan For with Guest Speaker Liz Nuti, President, Accounting & Tax Solutions, Inc.

WEDNESDAY, MARCH 17th

ESG Investing: What is it and should you consider it in your financial plan?

WEDNESDAY, MARCH 24th

The 2021 Plan to Protect Yourself Against Identity Theft and Cybercrimes

WEDNESDAY, MARCH 31st

The Many Ways to Invest in Real Estate

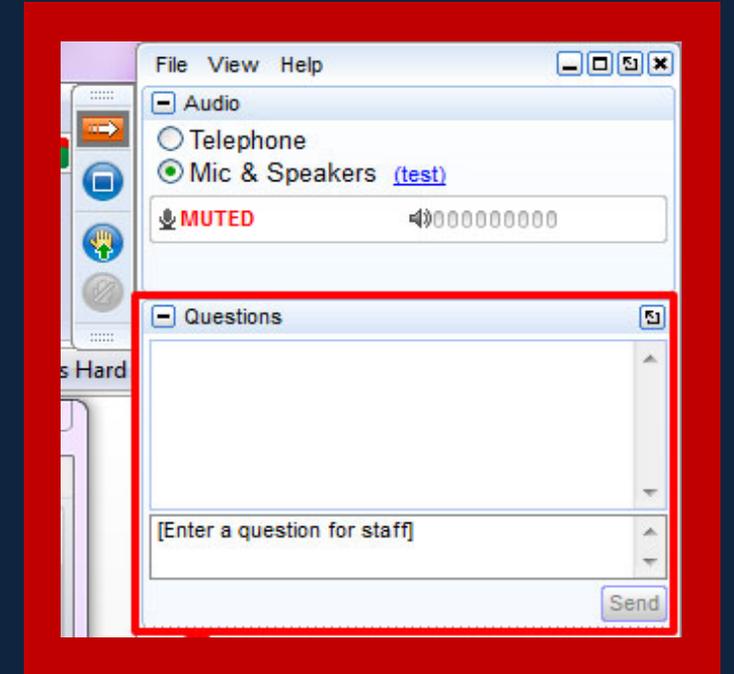
WEDNESDAY, APRIL 7th

2020 Was the Year of the Roth – What About 2021?

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Q & A

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If you have questions about this presentation, please contact us at:
(703) 669-3660 or clientservices@h4fs.com

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We offer our clients an impressive wealth of expertise in retirement and estate planning, investment and risk management, insurance, and education planning. Our advisers hold a variety of professional designations and certifications and are well versed in a number of financial disciplines. Our combined education and experience allows us to proudly offer you independent financial advice that you can trust.

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Sources: Cleareconomics; Freddie Mac; National Association of Realtors; Standard & Poor's

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