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# The Many Ways to Invest in Real Estate

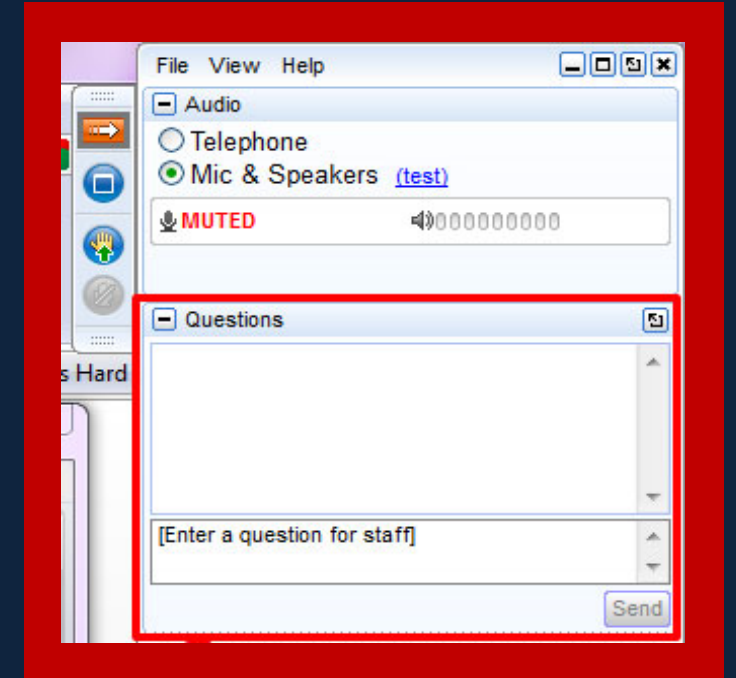
# TODAY'S SPEAKER



**SCOTT HUGHES, CFP®, MBA**  
Managing Partner & Financial Advisor



HAVE  
QUESTIONS?



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# 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*

# THE MANY WAYS TO INVEST IN REAL ESTATE

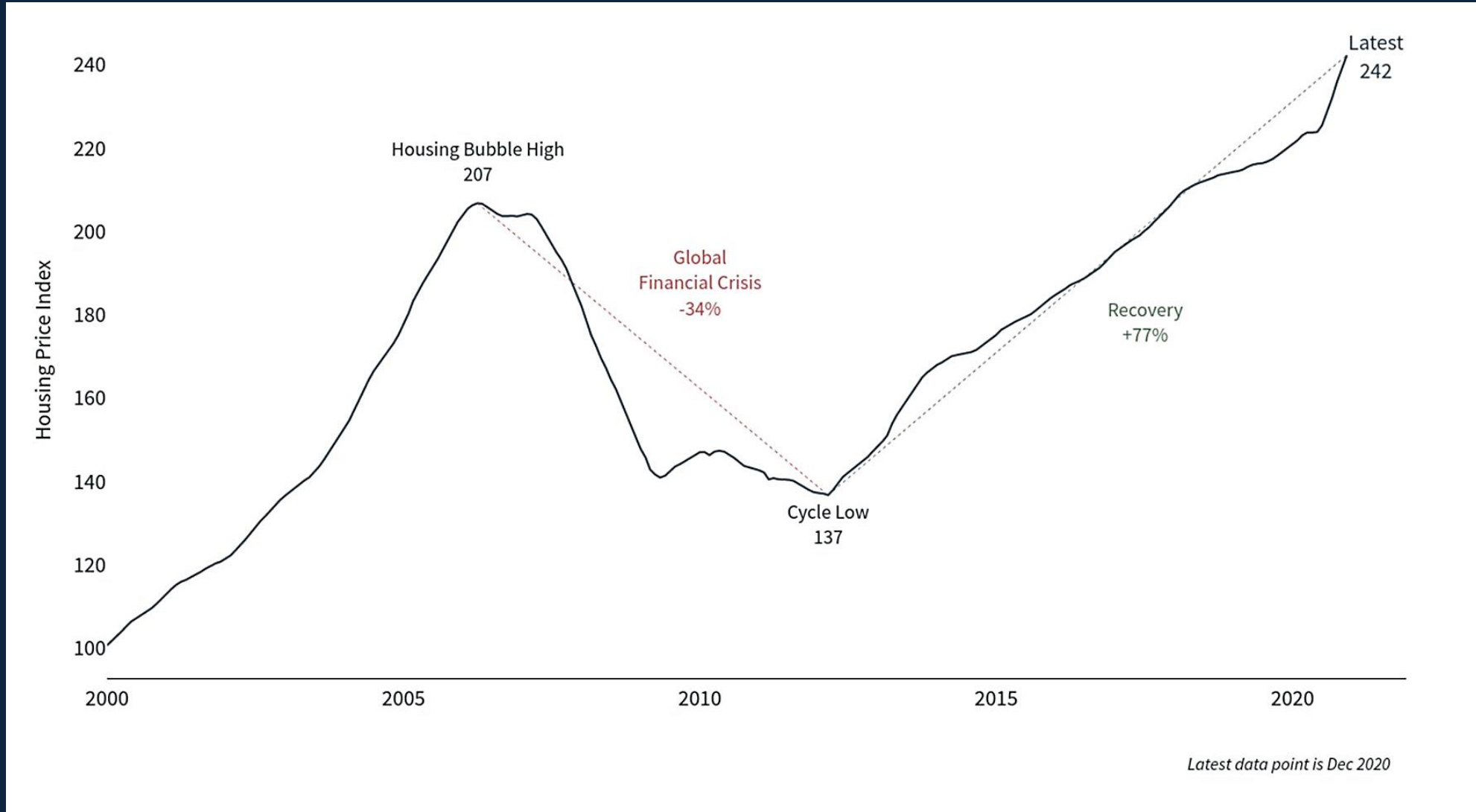
## U.S. Economy: Months' Supply of Inventory



*Latest data point is Feb 2021*

# THE MANY WAYS TO INVEST IN REAL ESTATE

## 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



# THE MANY WAYS TO INVEST IN REAL ESTATE

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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)

# THE MANY WAYS TO INVEST IN REAL ESTATE

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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





# THE MANY WAYS TO INVEST IN REAL ESTATE

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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

# THE MANY WAYS TO INVEST IN REAL ESTATE

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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

# THE MANY WAYS TO INVEST IN REAL ESTATE

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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

# THE MANY WAYS TO INVEST IN REAL ESTATE

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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

# THE MANY WAYS TO INVEST IN REAL ESTATE

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## Key Components of Returns

Income Above Costs

Property Appreciation

# THE MANY WAYS TO INVEST IN REAL ESTATE

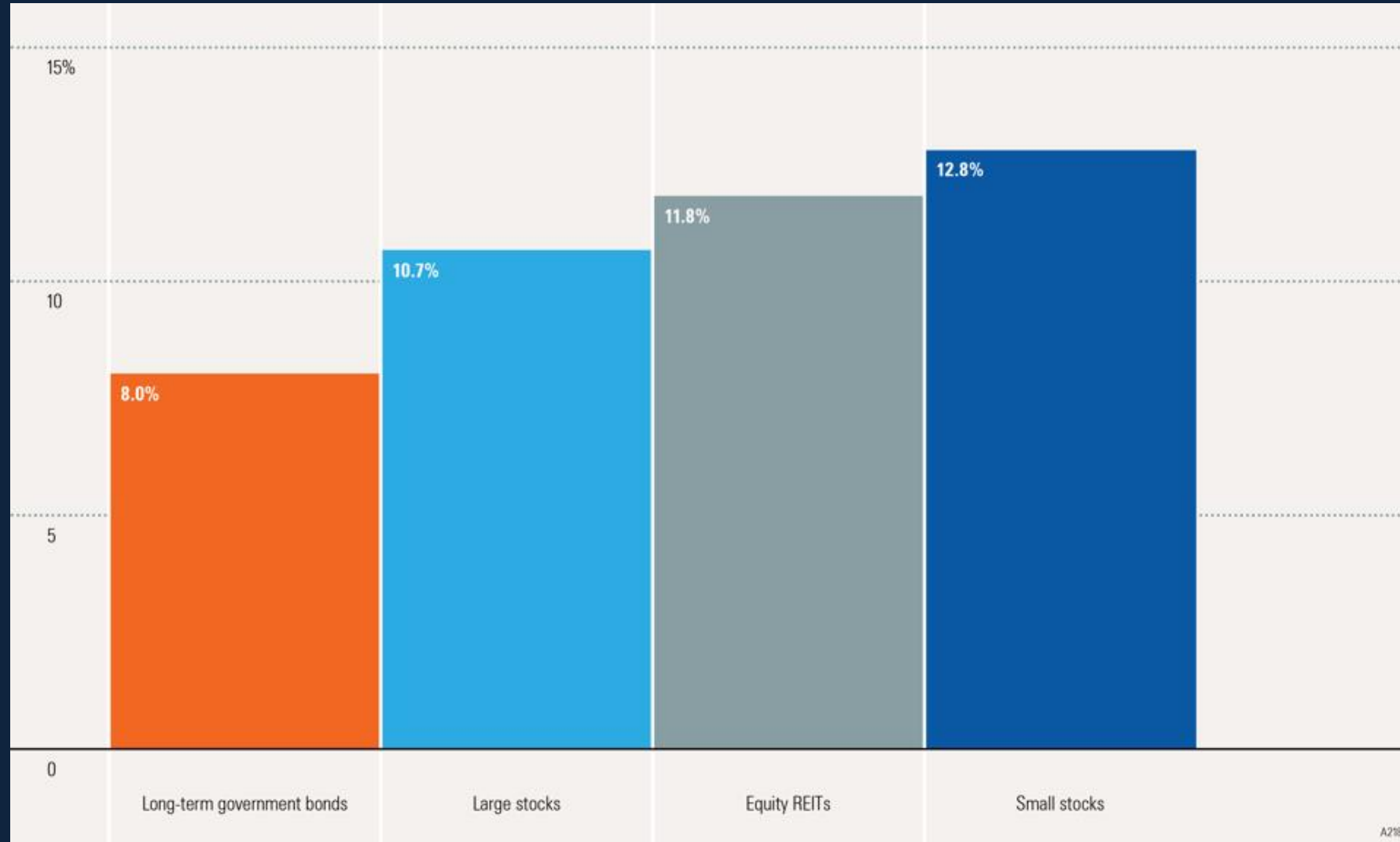
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## Real Estate Investing Trusts (REITs)

- 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

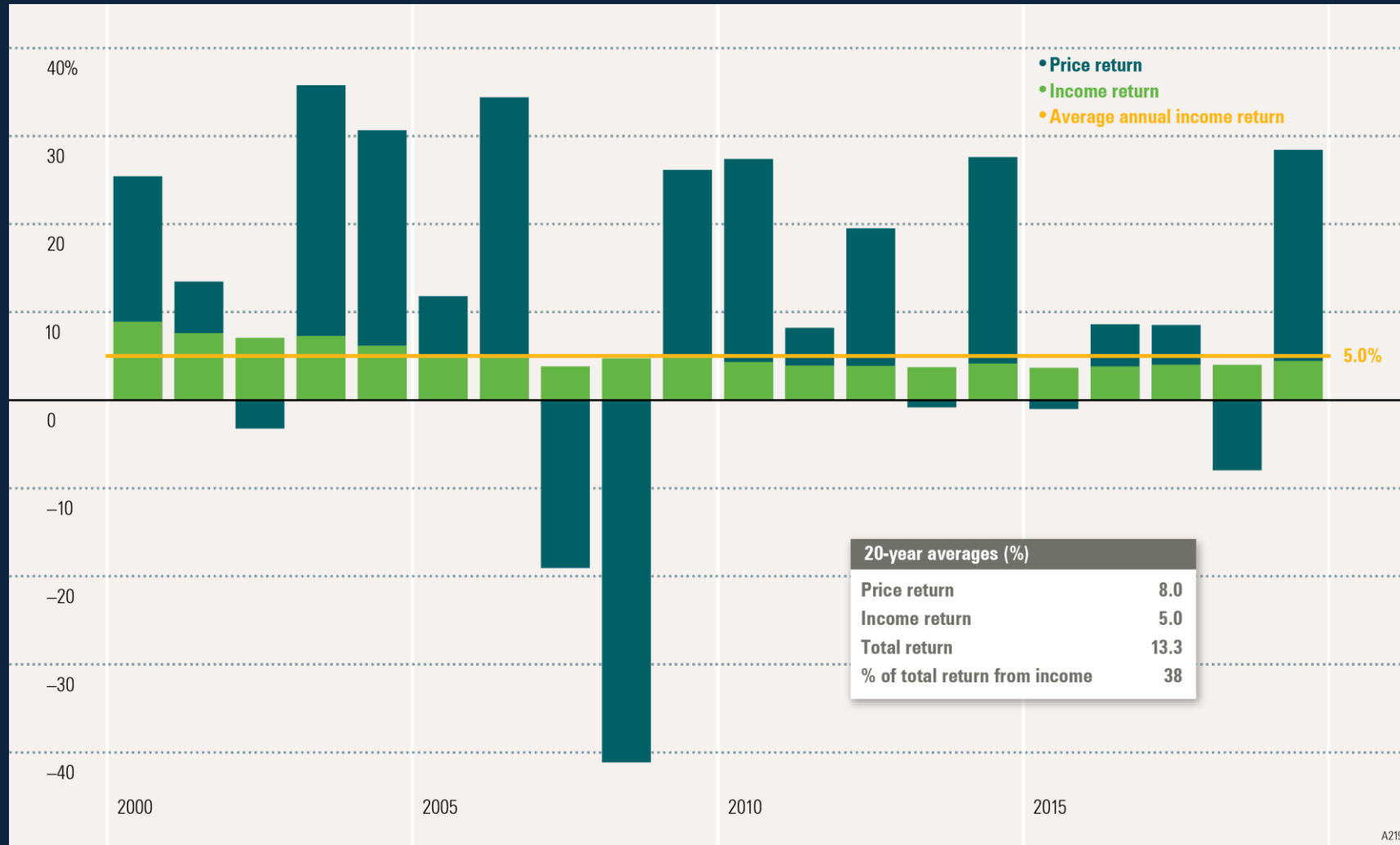
# THE MANY WAYS TO INVEST IN REAL ESTATE

## 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



# THE MANY WAYS TO INVEST IN REAL ESTATE

## Real Estate Considerations

	EQUITY	INCOME	TAX BENEFITS
<b>Primary Residence and Second Home</b>	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
<b>Income-Producing Property</b>	Built with growth/decline in market value	Generated from net positive cash flows	Expenses including depreciation provide write-offs
<b>Real Estate Investment Trusts (REITs)</b>	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 3<sup>rd</sup>

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

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WEDNESDAY, MARCH 10<sup>th</sup>

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

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WEDNESDAY, MARCH 17<sup>th</sup>

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

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WEDNESDAY, MARCH 24<sup>th</sup>

**The 2021 Plan to Protect Yourself Against Identity Theft and Cybercrimes**

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WEDNESDAY, MARCH 31<sup>st</sup>

**The Many Ways to Invest in Real Estate**

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WEDNESDAY, APRIL 7<sup>th</sup>

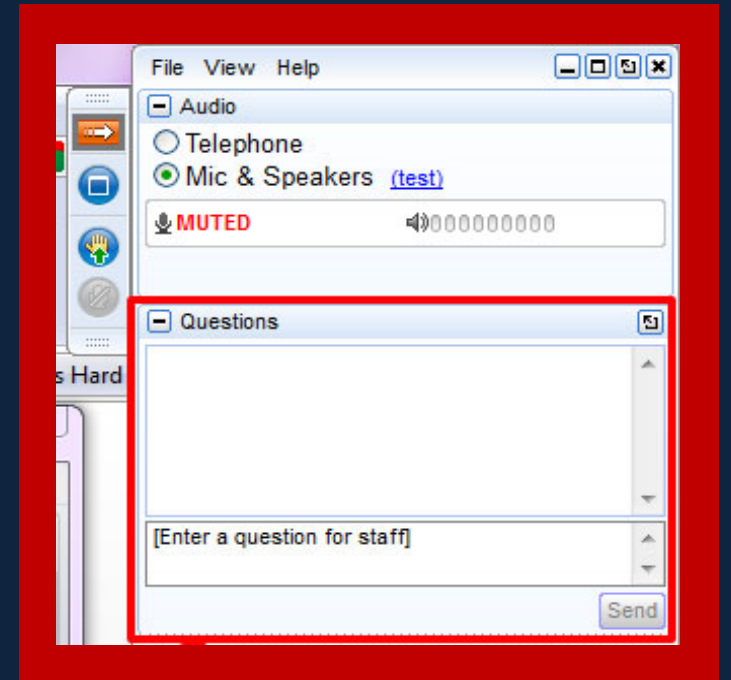
**2020 Was the Year of the Roth – What About 2021?**

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# HAVE QUESTIONS?





If you have questions about this presentation, please contact us at:  
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Sources: Clearnomics; Freddie Mac; National Association of Realtors; Standard & Poor's

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