4 WAYS TO INVEST IN REAL ESTATE

01 RENTAL PROPERTY

The term "passive income" has become synonymous with real estate investing. Many experts tout investment properties as mailbox money but that is clearly not the whole picture. It is true that real estate can be an excellent source of income and capital appreciation. Moreover, inflation protection and the ability to inexpensively leverage a property are other valuable attributes. Accordingly, we support the inclusion of rental properties in a diversified investment portfolio. However, like any investment asset, it should be contemplated in the context of the comprehensive financial program. Assisting with negotiations and coordinating financing strategies are a component of our purchase advisory service. But helping our clients make a well-informed decision is the fundamental goal.

RENTAL PROPERTY CONSIDERATIONS	
▪ Recurring costs and maintenance expenses	▪ Loss of income during vacancy period
▪ Emergency and unexpected repairs	▪ Inconvenience of being a landlord
▪ Highly illiquid and high transaction costs	▪ Eroding margins if you use a property manager
▪ Competition in the rental market	▪ Withholding tax if you are a non-resident
▪ Additional tax filing and record keeping requirements	▪ Advertising, agent, legal and nuisance costs to find new or replacement tenants

02 REAL ESTATE INVESTMENT TRUSTS (REIT)

REITs are publicly or privately traded companies that pool investors' money to acquire and manage multiple real estate properties. You are not burdened as a property owner – you simply hold shares in a company that is legally required to distribute its income stream to investors. REITs are effective for diversifying among real estate sub asset classes since they often hold different types, classes, and locations. The emotions of equity markets often allow an investor to purchase shares in real estate at a discount to their private value when public markets selloff. The iShares Core U.S. REIT ETF has a yield of 2.27%[1]. An examination of U.S. REITs from the perspective of all G7 countries indicates that U.S. REITs offer both an inflation hedge and diversification[2]. However, results also indicate a rather strong positive correlation with stocks, thereby limiting REITs' potential for risk reduction through portfolio diversification.

1. iShars.com as of 30-Jun-21. 2. Mull, Stephen and Soenen, Luc, Financial Analysts Journal, March/April 1997

03 SYNDICATED INVESTMENTS

Investors can passively participate in funding a real estate property development along with multiple investors who pool funds for a third-party partner to purchase and manage an investment. The return potential varies depending on the specific investment opportunity. For example, the risk characteristics of equity participation in an urban luxury condominium tower are much different that those of a grocery-anchored, strip mall partnership. These investments can be structured as equity, where the investor becomes a part-owner in the project or property; or, the investor can become a lender. For example, GAVIN's investors have participated in short-term, private commercial loans to large multi-residential developers through Trez Capital. This strategy has provided a steady stream of income for investors, targeting a 7.5% annual yield. Since inception in June 2013, unitholders have earned 9.4% annually[3].

3. trezcapital.com Trez Capital Yield Trust U.S. (CAD) Series F as of 31-Mar-21.

04 MORTGAGE LENDING

Private mortgages are a common strategy for receiving a steady income stream. For example, like a bank, an investor will loan money to a homeowner for the purchase of a primary residence. Each month the buyer makes a payment to the lender that will consist of principal and/or interest. The homebuyer is responsible for maintaining the property, paying taxes, and securing insurance. The lender has relatively no ongoing participation in the property. Lenders also benefit from origination fees or charges to set up the private mortgage, which can average 1% to 3% of the loan value. Overdue payments or pre-payments can also trigger additional fee income for the lender. Further, if the borrower defaults, the lender can foreclose and take ownership of the asset. Canadian investors can also gain access to pools of mortgages through a mortgage investment corporation (MIC). A sample of public MICs that trade on the TSX yield[4] about 7%.

4. tmx.com as of 03-Aug-21.