



# The Real Deal?

In the world of investments, the term yield has traditionally been synonymous with income. But in the current market landscape, yield is often preceded by adjectives such as zero, pitiful, or missing.

Going through yet another year of historically low yields, investors continue to search for ways to generate income from their portfolios. One asset frequently capturing investor attention is real estate. Real estate is an investment people can see and touch, and stories abound of people generating wealth and income from their real estate investments. However, before investors call a realtor, they should take caution. Like all investments, there are both advantages and disadvantages to owning real estate.

## BENEFITS

- *Real estate may shield investors against fluctuations in the stock market.*

Whether renting a property to a single tenant or leasing a shopping center to a dozen occupants, the income stream generated from lease agreements insulates a property owner against sudden changes in the stock market, since the return is generated from a legal contract and not a company's stock price. Additionally, because most small real estate investors do not rent their property to an S&P 500-type company, real estate may further distance them from existing areas of market exposure.

- *Real estate owners have substantial control over their investment.*

Most people will never sit on Walmart's board of directors to fully represent their interests. However, owners of real estate can decide nearly every aspect of a property's operation and use their individual skills to create value for the investment. Property owners are not at the mercy of a corporate board, but rather their own decisions.

- *Rental real estate has qualities of both a stock and a bond.*

Like a stock, real estate increases and decreases in value. This opportunity for appreciation gives real estate an equity-like quality that potentially allows investors to sell property for more than the total they have invested. And like a bond, the income stream generated from rent causes real estate to produce contractually stipulated income for the owner.

## CONSIDERATIONS

- *Real estate is not liquid.*

Unlike stocks, real estate lacks a low-cost, ready market for transactions. Instead, real estate is typically sold through agents such as realtors. Owners must allow a reasonable period of time for their agents to produce willing and able buyers. This process can take two to twelve months (or more), depending on the type of real estate and a host of other factors. Transactions are also more costly than buying and selling stocks and bonds.

- *Real estate is a capital intensive asset class.*

An investment in real estate does not end with its purchase price. Owners must be prepared to invest additional money to support the property and maintain its performance. These capital requirements appear in the form of roof replacements, parking lot repairs, and tenant improvements, just to name a few. Investors must also maintain adequate reserves to ensure the ongoing performance of rental properties.

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- *Owning real estate is not a passive investment.*

Regardless of how the IRS classifies income from real estate activities, there is usually nothing passive about owning real estate. Murphy's Law dictates that if you own a rental house, expect to unclog a sink on a Sunday afternoon. If you own a shopping center, expect to clear snow out of a parking lot while your family enjoys New Year's Day football. Your obligations to your real estate often show up when you least prefer. When you buy rental property, you are not only making an investment, you are adding "landlord" to your list of titles.

Every investment has both risks and rewards, and real estate is no different. For some investors, real estate makes the perfect addition to their portfolios, diversifying their holdings and generating additional income. For others, the promise of higher yield is outweighed by the risks and obligations real estate requires of them. At Trust Company, we advise our clients to focus on their goals, not just their holdings, when deciding whether any investment is right for them. Our team of real estate advisors is always happy to discuss the pros and cons of having real estate in your portfolio. 🏠



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