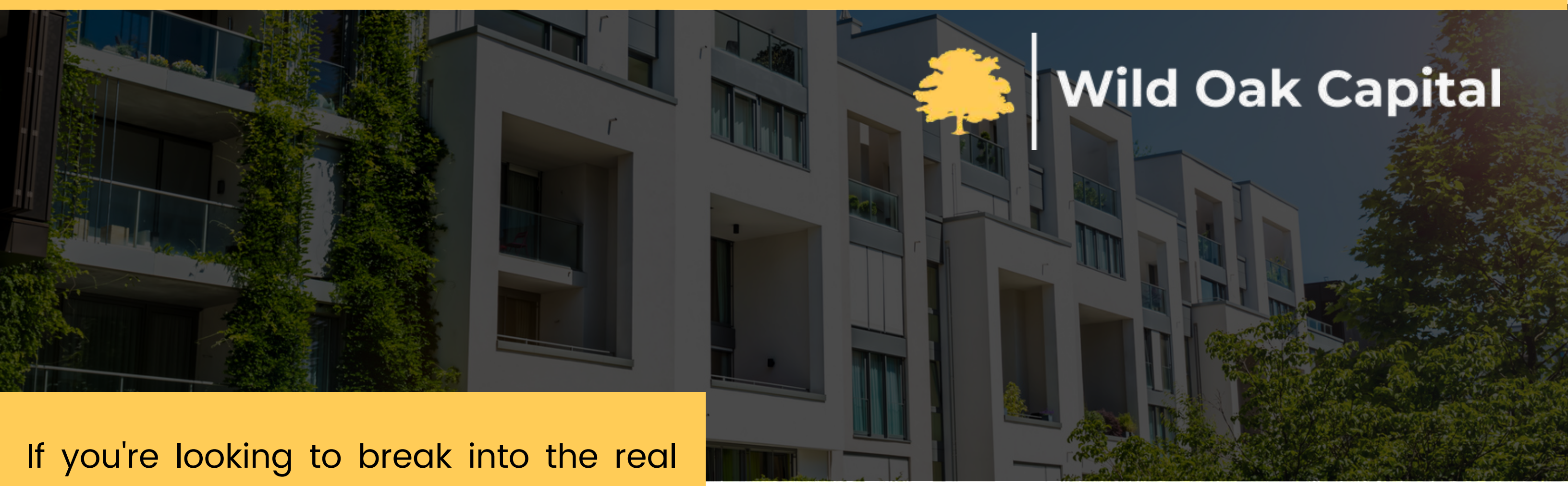
Passive Investing in

Syndication vs. REITS



If you're looking to break into the real estate game without breaking a sweat, two great ways to go are Real Estate Syndications and REITs - but don't mistake one for the other. While each provides access to the real estate market for investors, these investment vehicles have some significant differences.To find out which could best suit your needs, let's take a look at how each of them stacks up.

What is a Real Estate Syndication?

Real Estate Syndications are a way for investors to pool resources to purchase a real asset, while not having to participate in the day-to-day business operations. Syndications consist of a sponsorship group (often referred to as General Partners, or GPs) and a group of investors (often referred to as the Limited Partners, or LPs). The sponsor does the work of sourcing a deal and lining up funding, then brings the group of investors together to pool investment capital to purchase the asset.

The limited partners receive a partial ownership stake in the property, proportional to the size of the investment made. Unlike publicly traded investments (REITs, see below), the funds invested by individuals all receive an ownership stake in the company that owns the actual property. Once the funding is secure and the deal is purchased, the sponsor group is responsible for the day-to-day management of the property and implementing the business plan, providing regular updates and cash flow distributions to the investors.

What is a REIT?

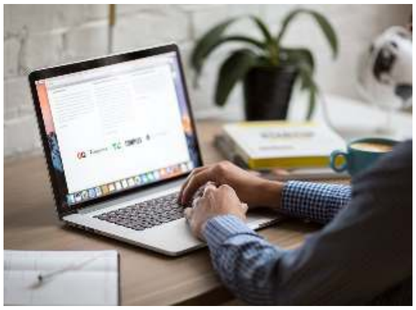
Alternatively, a Real Estate Investment Trust (REIT) is a publicly traded investment company that invests funds into income-producing real estate assets, most usually within a single or specific asset class (i.e. medical, office, or multifamily). Functioning similarly to buying stock in Apple or Starbucks, investors buy shares of this holding company on the open market. The REIT makes money by collecting rent from tenants, selling real estate properties when they appreciate in value over time, or through mortgage payments on loans that have been taken out against the property. Unlike a syndication, investors don't receive an ownership stake in the property, but rather a share of the REIT which entitles them to distributions from its profits. As with any stock market investment, this comes with the risk that it's value can increase or decrease depending on economic conditions and other factors

Important Differences:

The most important difference between a Real Estate Syndication and a REIT is the distinction of the specific assets that the investment is made in. As mentioned above, investors in a syndication gain equity in a specific property, and investors in a REIT own shares of a company that own properties. These differentiations can have significant implications for investors, including: level of control of the investment, tax implications, ease of entry/ liquidity, and overall return on investment.

Control Over Investment

Investing in real estate syndications provides investors with the opportunity to review individual properties and deals before committing investment funds.The deal sponsor will equip the investor with all the relevant information needed to evaluate a potential investment and additionally verify if the investor fits the criteria for that particular investment.



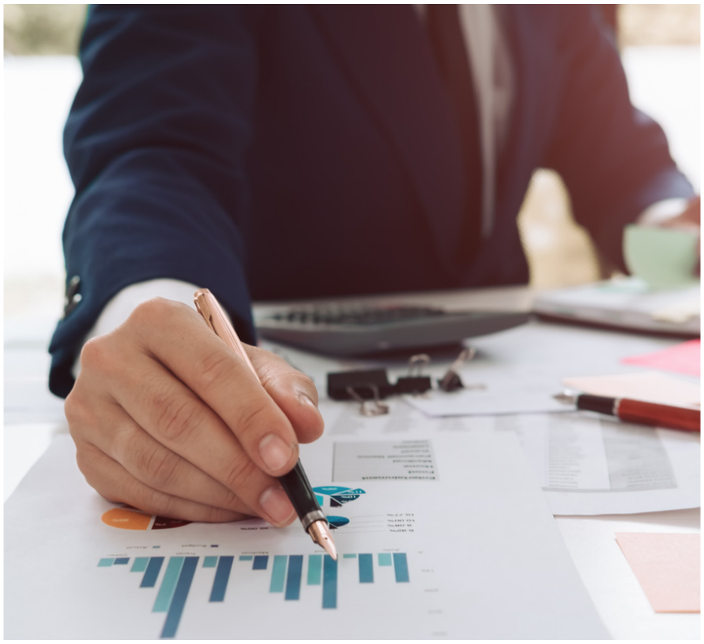
By contrast, when a person invests in a REIT, he or she is buying shares in the overall company and must rely solely on the experience of the company leasing or buying the different properties. While it is important to verify the credentials of the group, an individual does not have a say in which properties his or her investment goes toward.

Tax Implications

A key differentiating factor between a syndication and REIT is the tax implications. When investing in a real estate syndication, investors are owners, so these individuals have access to several tax advantages, including depreciation (and in some cases bonus depreciation). In many cases, the depreciation allocations surpass the actual cash flow distributions-- which results in a "paper loss" but still allows for positive cash flow for investors (and in some cases, this paper loss can offset other income). With an investment in a REIT, owners only own a portion of the holding company, and as such participate in the depreciation factor BEFORE the calculation of a dividend. Lastly, dividend income is taxed as ordinary income - which may actually add to an investor's tax burden.

Ease of Entry and Liquidity

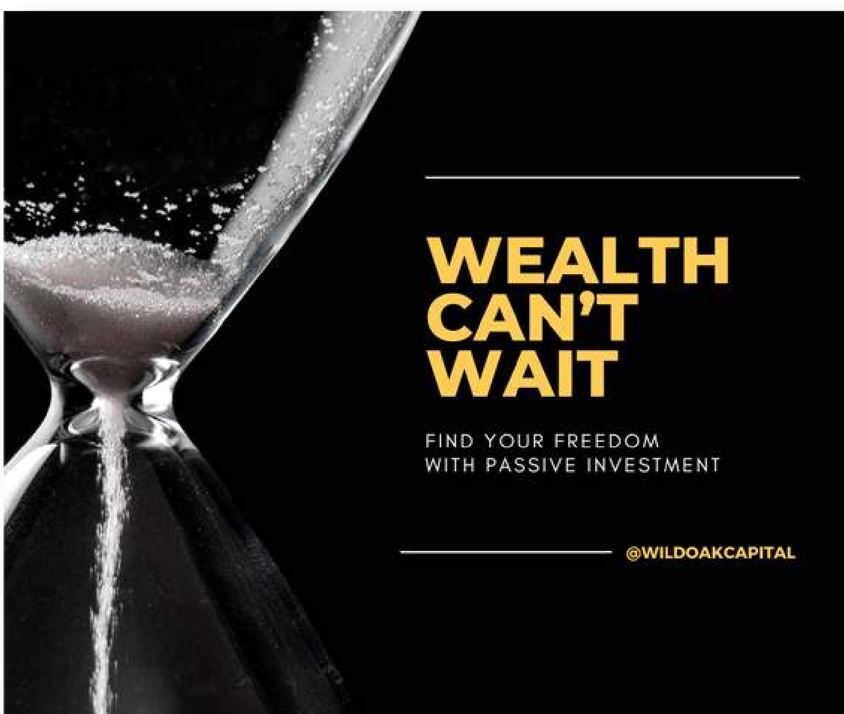
The minimum required investments for REITs or real estate syndications can vary greatly. For example, minimum investments for REITS are typically lower than that of a typical real estate syndication. The minimum investment in a Real Estate Syndication is usually around $50,000, while a minimum investment in REITs is typically around $500 - $2,000 (although these vary widely). Additionally, similar to stocks, an investor can buy or sell shares at any time at the current listed price. This allows an investor to remain fairly liquid and keep access to capital in the short term. Syndications, however, are a purchase of a real asset. Much like buying a single-family home, buying and selling take much longer, and the business plan for most syndications plans for hold periods numbering in years, not months. This means an investor's capital is illiquid for that time period.



Overall Return on Investment

Finally, when deciding between a real estate syndication and REIT the potential return of the investments should be considered. It must be mentioned that returns can vary widely based on timing of investment, volume invested, type of asset, etc. That said, historically syndications have outperformed REITs, and both have a historical advantage against the stock market. Investigating the historical returns of both a REIT and a syndication sponsor is a crucial step in making an informed investment decision (see our guide: "55 Questions To Ask Before Passively Investing in Real Estate Syndications": HERE).

Investment in real estate syndications and REITs both offer potential benefits for investors. When considering an investment in either type of investment vehicle, an investor should carefully consider the investment minimums, what resources are available toward building a portfolio, overall return on investment, and direct ownership of the asset when making an informed decision. It is entirely possible that an investor just beginning the investor path will invest a smaller amount in a REIT to build up capital to later invest in a syndication. Equipped with a thorough understanding of the investment type and strategy, investors can become well-equipped to make investment decisions that align with his or her investment goals.



Interested in learning more?

If you are interested in learning more about building real wealth through passively investing in real estate, join our Facebook Group "Wealth Can't Wait" HERE or reach out to us directly.

We love speaking with investors and look forward to the conversation.