



CAPITAL

The Untapped Potential: Unlocking Real Estate Investment Opportunities for Individual Investors

(A comprehensive white paper on Alternative Asset Advising)

Introduction

As the world of alternative investments continues to evolve, individual investors are often left on the sidelines, unable to access the lucrative opportunities that real estate offers. Traditional investment avenues, such as stocks and bonds, have long been the mainstay for many, but the potential for diversification and growth lies in alternative assets.

The Challenge: Logistical and Financial Hurdles Faced by Individual Investors

Investing in real estate has historically been a domain reserved for institutional investors and high-net-worth individuals. The complexities of property acquisition, management, and financing have created significant barriers to entry for individual investors seeking to diversify their portfolios. Furthermore, the capital requirements and regulatory hurdles as well as the current economic environment associated with real estate investments have made it challenging for individuals to participate in these opportunities.

The Solution: A Comprehensive Approach through Alternative Asset Advisory Firms

Alternative Asset Advisory Firms seeks to bridge this gap by providing individual investors with a comprehensive suite of services addressing these logistical hurdles and providing for sufficient aggregation of capital to achieve meaningful leverage, all while tailoring these services to the unique financial needs and goals of the individual investor. With teams of seasoned professionals with experience in not just real estate but also finance, banking, and private equity, among other verticals, they are well-equipped to navigate and help the individual investor take advantage of the intricate world of alternative investments.

Prequin reports that total assets under management in the alternatives industry should reach \$23.21 trillion by 2026, up from \$13.32 trillion in 2021. Goldman Sachs is equally bullish by noting that, “The market for assets that aren’t publicly traded has roughly doubled in the past five years to about \$10 trillion, according to data from consulting firm McKinsey & Co. and data provider Prequin. Private equity — including leveraged buyouts and venture capital — is the biggest chunk of that market, but it also includes infrastructure and private credit, and the money is flowing into everything from tech startups to buyouts to airports.” [1] [2]

Among the asset classes of real estate alternative investments, of late the most compelling has tended to be, warehousing, multifamily housing, and non-anchored tenant strip malls.

- *Warehousing: The Backbone of Modern Logistics*

The rise of e-commerce and the ever-increasing demand for efficient supply chain management have propelled the warehousing sector to the forefront of real estate investment opportunities. By investing in strategically located warehouses, individual investors can capitalize on the growing need for storage and distribution facilities, while benefiting from the potential for long-term appreciation and stable cash flows[1][3].

- *Multifamily Housing: A Resilient Investment Opportunity*

Multifamily housing has emerged as a resilient investment opportunity, offering stability and consistent returns even in fluctuating economic conditions. This asset class benefits from the enduring demand for rental housing, driven by factors such as urbanization, population growth, and changing lifestyle preferences. Unlike single-family homes, multifamily properties generate multiple streams of income from various tenants, reducing the risk associated with vacancies and tenant defaults. Additionally, multifamily housing often experiences lower turnover rates, ensuring a steady cash flow for investors. The scalability of multifamily investments allows for efficient property management and cost savings, further enhancing profitability. With the potential for both rental income and property appreciation, multifamily housing stands out as a robust and attractive option for individual investors seeking to diversify their portfolios and achieve long-term financial stability.

- *Non-Anchored Tenant Strip Malls: Revitalizing Retail Spaces*

Non-anchored tenant strip malls are revitalizing retail spaces by leveraging the resilience and adaptability of local businesses, fostering community engagement, and offering strategic advantages in location and tenant diversity such as service driven retail (beauty salons, blow dry bars, and restaurants). These factors not only contribute to the stability and growth of the strip mall but also present compelling opportunities for investors seeking to capitalize on the evolving retail landscape. As consumer habits continue to shift and the demand for convenient, local shopping experiences grows, non-anchored tenant strip malls are well-positioned to thrive and drive the future of retail real estate.

Investors are increasingly recognizing the potential of non-anchored tenant strip malls as lucrative investment opportunities. The ability to acquire and enhance these properties through renovations, remerchandising, and strategic tenant placements can significantly increase their value and generate attractive returns. For example, adding new landscaping, updating signage, or expanding the property to include additional retail spaces can enhance the appeal and functionality of the strip mall, attracting more tenants and customers.

Portfolio Diversification Benefits

Alternative investments, such as real estate, private equity, and hedge funds, often exhibit low correlation with traditional asset classes like stocks and bonds. This means that their performance does not move in tandem with the broader market, providing a buffer against market volatility. For instance, during periods when stock markets are declining, real estate investments may remain stable or even appreciate, thereby reducing the overall risk of an investment portfolio. This diversification benefit is crucial for investors looking to achieve more consistent returns over time, as it mitigates the impact of market downturns on their overall portfolio performance.

- *Stable Income Stream*

Income-producing alternative assets like multifamily housing, warehouses, and retail properties can provide a steady stream of rental income and cash flows[4]. Investing in income-producing real estate assets, such as multifamily housing, warehouses, and retail properties, offers a stable and predictable income stream. These properties generate rental income, which can provide consistent cash flows to investors. For instance, multifamily housing properties benefit from high occupancy rates and stable rental demand, while warehouses are in demand due to the growth of e-commerce. Retail properties, particularly those with a diverse tenant mix, can also offer reliable income. This steady income stream is particularly attractive to investors seeking regular returns and can serve as a cushion during economic downturns.

- *Higher Return Potential*

Alternative investments, such as value-add real estate, have the potential to generate higher returns than public markets over the long run, albeit with more risk. These investments can capitalize on inefficiencies in pricing, leverage, and the ability to improve or reposition assets to enhance value. For example, value-add real estate projects, which involve renovating or repositioning properties, can significantly increase property values and rental incomes. However, these higher returns come with increased risk, requiring careful due diligence and management. [5][6][7][8].

- *Hedge Against Inflation*

Real estate investments can act as a hedge against inflation[9]. As the economy faces inflationary pressures, property values and rents tend to appreciate, preserving the purchasing power of investors' capital.

- *Potential for Value-Add Opportunities*

Economic uncertainty can create opportunities to acquire undervalued or distressed assets at attractive prices[8]. Investors with the expertise and resources can reposition or improve these properties, unlocking significant value appreciation potential.

- *Long-Term Appreciation*

Despite short-term fluctuations, real estate has historically demonstrated long-term appreciation, outperforming many other asset classes over extended periods[11]. This makes it an attractive investment for those with a long-term investment horizon, even during periods of economic uncertainty.

The current economic uncertainty and fears, both in the United States and globally, present a compelling opportunity for investors to consider alternative asset classes like real estate. With traditional markets experiencing volatility and low yields, alternative investments offer a way to diversify portfolios and achieve higher returns. Real estate, in particular, provides tangible assets that can generate stable income and appreciate over time, making it an attractive option for investors seeking to protect and grow their wealth in uncertain times. By incorporating a mix of alternative assets, investors can build resilient portfolios that are better equipped to navigate economic challenges and capitalize on emerging opportunities. However, it's crucial to conduct thorough due diligence, work with experienced professionals and align investments with specific goals and risk tolerance.

Key tax implications of investing in real estate through a special purpose vehicle (SPV) or fractional ownership model

It is not uncommon for real estate investors to use a special purpose vehicle (SPV) or fractional ownership models to effect their investments. A special purpose vehicle is a legal entity, often a limited liability company or a limited partnership, created for a specific purpose, in this case effecting and holding an investment in real estate. Similarly, fractional ownership is a collaborative investment strategy where multiple people share the cost of a high-value asset such as a real estate investment. Below is a cursory summary of some of the key tax implications of investing through an SPV or fractional ownership structure.

- *Pass-Through Taxation [12][13]*

SPVs and fractional ownership structures are typically set up as partnerships or limited liability companies (LLCs). This allows for pass-through taxation, where income, deductions, and credits flow through to the individual investors.

- *Ability to Offset Active Income [13]*

Losses from real estate investments held through an SPV can potentially be used to offset other active income earned by the investor, subject to passive activity loss rules.

- *Depreciation Deductions [13]*

Investors in an SPV can benefit from depreciation deductions on the real estate assets, which can help shelter income from taxes.

- *Potential for Lower Tax Rates [13]*

Depending on the investor's income level, income from an SPV may be taxed at lower rates than ordinary income, such as the preferential rates for qualified dividends and long-term capital gains.

3.0 Capital and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

Future of Alternative Asset Investing

The future for private individuals looking to enter alternative asset investing looks to be promising, with increasing access and opportunities for the following reasons:

- Growth in Alternative Assets [14][16]

The alternative asset management industry is expected to grow significantly, with assets under management projected to increase from \$13.32 trillion in 2021 to \$23.21 trillion by 2026. This growth is being driven by factors like fluctuating interest rates, demand for diversification, and technology enabling easier access.

- Democratization of Access [16][18]

Alternative investments, which were previously accessible mainly to institutional investors and ultra-high-net-worth individuals, are becoming more available to retail investors. Regulatory changes, such as the broadening of the accredited investor definition by the SEC and the introduction of new investment vehicles like long-term asset funds (LTAFs) in the UK, are opening up these opportunities.

- Retailization of Private Markets [18]

Retail investors are now the fastest-growing segment of the alternative investments market. Alternative investment firms and fintech startups are actively working to meet the pent-up demand from retail investors by lowering barriers to entry and providing access to alternative asset classes like private equity, private credit, and real estate.

- Portfolio Diversification [15][17]

Alternative investments offer valuable diversification benefits due to their low correlation with traditional asset classes like stocks and bonds. This can help mitigate overall portfolio risk and volatility, especially during market downturns.

- Potential for Higher Returns [16][17]

Alternative investments, such as private equity, have historically outperformed public equity markets, offering the potential for higher long-term returns. Private credit and real assets like infrastructure can also provide attractive yield generation opportunities.

However, it's important to note that alternative investments often come with higher risks, including illiquidity, complexity, and limited transparency [16][18]. Proper due diligence, selectivity, and working with experienced professionals are crucial for individual investors navigating this space. [14][15][16][17][18].

Potential risks associated with investing in real estate during periods of economic uncertainty.

- *Market Risk [19][21][22].* Property values and rental rates can decline due to changes in the overall economy or local real estate market conditions during an economic downturn. This can impact the profitability and returns of real estate investments. Unforeseen increases in real estate taxes, insurance and other carrying costs can also adversely impact profitability and returns.
- *Difficulty Obtaining Financing [22].* Lenders may tighten lending requirements and reduce availability of financing during recessions, making it harder to secure loans for property acquisitions or refinancing. Higher interest rates can also increase borrowing costs and affect cash flows.
- *Decreased Rental Demand [22].* Low consumer confidence and job losses during recessions can lead to reduced demand for rental properties. This can result in higher vacancy rates and lower rental income for investors.
- *Liquidity Risk [23].* Real estate is a relatively illiquid asset class, making it difficult to quickly sell properties

during economic downturns when there may be fewer buyers. This lack of liquidity can pose challenges if investors need to access cash quickly.

- *Tenant Risk [23]*. Economic hardships can make it difficult for tenants to pay rent on time or at all, impacting rental income for property owners. Increased vacancy rates and turnover can also lead to higher costs for landlords.
- *Legal and Regulatory Risk [23]*. Changes in laws, regulations (e.g., rent control, zoning), or voter-approved measures can negatively impact the profitability of real estate investments during uncertain times.

To mitigate these risks, investors should work with professionals who focus on diversification, thorough market research, maintaining liquidity, implementing risk management strategies, and working with experienced professionals [19][20][21][22]. Patience and a long-term investment horizon are also crucial when navigating economic uncertainties in real estate.

The Benefits of Investing with Alternative Asset Advisors

By partnering with the right Alternative Asset Advisors, individual investors gain access to a wealth of expertise and personalized service, enabling them to navigate the complexities of alternative investments with confidence.

1. **Diversification:** Real estate investments offer a powerful diversification tool, reducing overall portfolio risk and enhancing returns.
2. **Potential for Appreciation:** Well-selected real estate assets have the potential for significant appreciation over time, providing investors with long-term capital growth.
3. **Cash Flow Generation:** Investments in income-producing properties, such as multifamily housing and non-anchored tenant strip malls, can generate steady cash flows, providing a reliable source of passive income.
4. **Tax Advantages:** Real estate investments often offer favorable tax treatment, including deductions for depreciation and the potential for deferring capital gains through like-kind exchanges and investments in opportunity zones.
5. **Professional Management:** Their team of experts handles all aspects of property acquisition, management, and disposition, allowing individual investors to benefit from their expertise without the burden of day-to-day operations.

By leveraging the right Alternative Asset Advisor's comprehensive approach, individual investors can unlock the untapped potential of alternative real estate investments, diversify their portfolios, and gain exposure to lucrative opportunities that were once out of reach.

Citations:

- [1] <https://www.enterprisecommunity.org/resources/repurposing-underutilized-strip-malls-create-multifamily-housing>
- [2] <https://www.goldmansachs.com/intelligence/pages/can-private-markets-resist-the-bear-market-in-stocks.html>
- [3] <https://www.enterprisecommunity.org/sites/default/files/2023-10/Repurposing-Underutilized-Strip-Malls-White-Paper-Final.pdf>
- [4] <https://www.hawaiilife.com/blog/fear-doubt-uncertainty-your-real-estate-decisions/>
- [5] <https://aspenfunds.us/benefits-of-investing-in-alternatives/>
- [6] <https://www.forbes.com/sites/forbesfinancecouncil/2022/10/03/ten-reasons-some-investors-consider-investing-in-alternative-assets/?sh=58d298981623>
- [7] <https://www.preqin.com/academy/lesson-1-alternative-assets/why-invest-in-alternatives>
- [8] <https://www.investopedia.com/articles/financial-advisors/092515/alternative-investments-look-pros-cons.asp>
- [9] <https://www.trulyengaging.com/blog/navigating-the-real-estate-market-during-economic-uncertainty>
- [10] <https://www.propertiesandpathways.com.au/the-top-6-fears-that-prevent-investors-from-investing-in-commercial-property>
- [11] <https://cre.org/external-affairs/2022-23-top-ten-issues-affecting-real-estate/>
- [12] <https://fnrpusa.com/blog/reits-vs-fractional-ownership/>
- [13] <https://trionproperties.com/news-and-articles/reits-vs-partnerships-understanding-the-tax-differences-for-private-real-estate-investments/>
- [14] <https://www.yieldstreet.com/top-alternative-investments-trends/>
- [15] <https://time.com/personal-finance/article/alternative-investments/>
- [16] <https://www.forbes.com/sites/fredhubler/2023/04/18/why-alternative-strategies-represent-a-new-frontier-in-investing/>
- [17] <https://privatebank.jpmorgan.com/nam/en/insights/markets-and-investing/case-for-alternative-investments>
- [18] <https://www.seic.com/wealth-asset-managers/our-insights/evolving-distribution-models-alternative-investments-us>
- [19] <https://rcncapital.com/blog/investing-in-uncertain-times-managing-risk-in-real-estate>
- [20] <https://www.trulyengaging.com/blog/navigating-the-real-estate-market-during-economic-uncertainty>
- [21] <https://rewbcon.com/navigating-real-estate-investments-in-uncertain-economic-times>
- [22] <https://www.rentastic.io/blog/real-estate-investing-recession>
- [23] <https://www.gatsbyinvestment.com/education-center/risks-real-estate-investing>