

Real Estate Investing: Should You Follow the Crowd?

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Charitable causes, medical expenses, honeymoon funds, movies, startups – those are just a *few* of the things you can put your money into these days thanks to crowdfunding. It's *everywhere*, and it's morphing into more than just a way to support a friend, give back or see your favorite TV show become a movie. Ideas are turning into legitimate, money-making businesses thanks to investors across the globe. According to crowdsourcing.org, crowdfunding platforms raised an estimated \$5.1 billion dollars in 2013.

It's not just new companies and projects that are taking off. Real estate investing is exploding on the crowdfunding front. A number of recent media stories have highlighted a real estate crowdfunding website that lets people invest in properties for as little as \$100. The company raised \$31 million in Series A funding and boasts more than 20,000 members. But just because everyone else is doing it, does that mean it's a good idea for you?

What's the risk?

Real estate crowdfunding can seem attractive because you invest in multiple properties, such as hotels, for little money. But a smaller investment doesn't mean a smaller risk. Each individual property carries its own risk. The only way to mitigate that is by doing several crowdfunding investments – somewhere in the neighborhood of at least 10 deals. The risk is high because you could run into a lot of problems with real estate:

- What's the long term strategy for the property? How do all of the investors agree?
- Who's responsible for taxes and property insurance?
- What if you need to refinance the debt on the building? You could end up losing your equity.

When you purchase or invest in a building, and you are valuating it, how much income is it going to generate? Debt and equity can make the deal look very attractive, if, for example, the yield is 7.25%. But, something is going to have to happen with that in five to ten years, or the property has to be sold. Then when the debt comes due, what does the real estate market look like? If we are in a recession, that can really damage the amount of equity you have.

Dealing with tenants is another issue that could have a huge impact on your investment. If you have a piece of property with a great tenant in the beginning, but then they go out of business or leave the building two years later, who is responsible for finding the new tenant? How are you going to agree to terms? With so many people factored into the decision making process, you have no control. That's a dangerous place to be. Or, what if money needs to be spent to fit a new tenant, who pays for that? Are you going to do a capital call and ask investors to put in more money? As you can see, there are a lot of what ifs to consider.

Do your research

If you really want to get involved with real estate crowdfunding, do your research first. You should ask and get answers to all of the following questions:

- Who is asking you to invest in this building and what are their credentials?
- Do they have a long track record of success in the real estate business?
- What's included in the lease? Is it triple net?
- What are the other covenants in the lease?
- Are there forms of collateral?
- Are there rental increases on an annual basis?
- Who is the tenant? What is their credit quality, financial standing and ability to pay?
- When was the property built and where?
- What's the long-term plan for this investment?
- When is the property going to be sold, and to whom?
- Are there any liquidity provisions?
- Is someone able to provide the money if I want to get out?
- Can I sell my shares to someone?

You basically want to know everything about the financial standing of the person who is asking you to invest. It's also important to make sure this is a transaction where there's no self-dealing.

Other crowdfunding avenues

Crowdfunding at its core is a way to give you access to something unique, but when it comes to real estate, it would be very difficult to find a deal that is undiscovered. There is no one sector or area that is going to offer you any kind of guaranteed success on your investment, but there are other crowdfunding avenues that offer more potential than real estate. If you want high growth, go with a new product or technology that has the possibility to make a meaningful difference to a group of people, businesses, or the economy.

When deciding where you want to invest, use your own personal experience and belief systems to judge what is a good investment for you. You want to go with something you have an understanding of or, even better, a passion for. Finally – the big take away with crowdfunding – even when you find a deal that you love, make sure the amount of money you decide to invest is money that you can truly lose.

(Note: Crowdfunding is not a concept that we promote or can facilitate as a Rep. with IFG.)

Who is Wealth Management?

Founded in 2005, Wealth Management, LLC has become one of the fastest growing independent investment advisory firms in Arizona by remaining true to its founding principles and core strengths. The firm started out as Carlin Wealth Management Group (CWMG), providing individuals with investment management and financial planning characterized by careful due diligence and market monitoring that produced superior results; however, past performance is not indicative of future results. CWMG became affiliated with Henry & Horne, LLP in 2008 and changed the name to Wealth Management, LLC.

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