Brandon Averill ([00:04](https://www.rev.com/transcript-editor/shared/GZKbSO7zPTENpA0TV9CKugf_HEuGF25LPpbpRzFl40w3UbkyotGhhsbFTJTpEPeleRPCN700fc8Q5yGu4rGwF2b-zQs?loadFrom=DocumentDeeplink&ts=4.11)):

Hey, everybody. Welcome back to another episode of AWM Insights. We got the ringer in here today, Mena, and as you guys know, I'm Brandon. I took a hiatus for a while, but we're mixing it up again today. Excited to bring you a topic that's certainly come up in a lot of discussions I've had with clients lately, and it's just a powerful part of your investment portfolio when you really think about multi-generational wealth. It's a topic that everybody seems to love because it never goes down. Right, Mena?

([00:35](https://www.rev.com/transcript-editor/shared/tzPs0cQe53evQy9BgPSGgvtsu8rYuLfLtT5ZVLghqFzmA80KtCXd6raEUy0AD07ImxVRQ7j_F95JRUB8_utj3lKrdHU?loadFrom=DocumentDeeplink&ts=35.91)):

What are we talking about? We're talking about real estate. I say that it never goes down kind of tongue in cheek, but people love real estate and for a lot of good reasons. There's huge tax benefits to be able to invest in it if done right. A lot of people unfortunately don't always take that into account and sometimes that tax bullet will actually destroy their return.

([00:59](https://www.rev.com/transcript-editor/shared/WafDTcmvl7q-Dli43nm-AfRyjgY-ADIy9mrj8ep5Du-UbdkBPdvhFaH3dGJVAvAgkYSFEDAA4DSbgf4wEV_-1NRQyc0?loadFrom=DocumentDeeplink&ts=59.88)):

We're just going to walk through a little bit today for you guys. Some of the considerations we really think about when looking at real estate as an asset class within your portfolio, what are some of the benefits, what are some of the trade-offs, all those types of things.

([01:14](https://www.rev.com/transcript-editor/shared/A9dsm5tqaa_SNROmvt8zeZ8flUQ7Y--89VD4a6Iue-hryUG_lXwzEKEJtle20QggzVRZZwJx82PzfD1hQVBf0M8v3rI?loadFrom=DocumentDeeplink&ts=74.13)):

I think, Mena, it'd be great for you to hit on just coming out of this, when we think about real estate, let's start at the very top end. How do we think differently about real estate in the public markets versus the private markets? Do they play different roles? How do they intertwine with one another?

Mena Hanna ([01:30](https://www.rev.com/transcript-editor/shared/2iPF_5sDVEViEKFahhTEYtt1ij5YKaXd3BCh55Kw4V6YQl50xh-2Wgqj4Pf-4BHvRUppVZhv2oK54hU2rIOXPjiGZ9A?loadFrom=DocumentDeeplink&ts=90.15)):

Yeah, and even taking a step back. The way we look at real estate is it's an asset class. It's one of many asset classes. It's not the only asset class.

Brandon Averill ([01:39](https://www.rev.com/transcript-editor/shared/4gVsX8_MDeVWcdC_MHjrVOVJVlC_wEf3mwS16aMYDPdLvkte5e4pOPUeOaoenwwDuw72nFGp9D66XeuXkxiLmQpI23s?loadFrom=DocumentDeeplink&ts=99.72)):

Right.

Mena Hanna ([01:40](https://www.rev.com/transcript-editor/shared/dtV92wwdpJHT0sUsr-DNN-i9CmovPR8ZJrMQK-HiXRxCThkTg8E059gg2JNfbYVPd175wh0LVAZ_jqwce2XHs9v62uk?loadFrom=DocumentDeeplink&ts=100.74)):

As an investor, you're investing to grow your wealth in a multi-generational sense, and it's very, very hard to do that if you only limit your universe to just one asset class. Start there. Private and public real estate have their trade-offs, obviously. Public real estate is a lot more liquid, it's easily accessible, it has a lot more market fluctuation because things are being priced individually.

Brandon Averill ([02:09](https://www.rev.com/transcript-editor/shared/srai2VlXTmGRPdy1gcJVWOKsTaUnlvpG_sxf7laoIYKF-0t7RTzrUwCVTzUtflmrWT1rQXSkC28kQWVxvmUeYYA7No0?loadFrom=DocumentDeeplink&ts=129.36)):

You can actually see it.

Mena Hanna ([02:10](https://www.rev.com/transcript-editor/shared/z6WTpM_A2fywfGPTIEB3tBcuFpnGDW4moOh8Kis1CA_kN1aFtWSw_CTuIFbkZniTi2WDqqiyXIibzti_X5JsDDTSCyQ?loadFrom=DocumentDeeplink&ts=130.56)):

Yeah. Exactly. While private real estate obviously is more concentrated, you can't see when values are taking swings, and it is a lot more segmented just in the type of investment you make, whether it's multifamily, residential, commercial. There's a lot of different segments, so it depends on what you actually invest in as well.

Brandon Averill ([02:36](https://www.rev.com/transcript-editor/shared/5GtCUcvZl-WXJjccdDEIWq_1sr_JEDlmC5dQCK1V_UZyewWiTm8XJ4vmsWETxbANtTXS1PDG1u7jowkUYfM7BquFnzk?loadFrom=DocumentDeeplink&ts=156.69)):

Yeah, and I think you hit on a couple key things there. One is really the valuation and being able to see things versus not. Sometimes there's a behavioral aspect. If you're an emotional person that gets caught up in looking at the values of your portfolio every day, there's a benefit to some of this private stuff where it's not getting marked every day.

([02:58](https://www.rev.com/transcript-editor/shared/W0ZY0yGnc-1Rwa_Kr5EIGUMZM3gzj1EmjDBAiS1_mcVuHnTLWom1Tw8CI8cHQDxEgMNe7Z5J_jhKGUtPcLmMmmVmhy0?loadFrom=DocumentDeeplink&ts=178.35)):

I talk people quite a bit about this, is it's just like if your home, if you were able to look up the value of your home on a daily basis, everybody goes, "Oh, my home went from 100,000 to 200,000 over 5 years. It's like, "Well, what did it do in between?" If you looked every single day, it would look just like the stock market. It would be up and down and all over the place.

([03:21](https://www.rev.com/transcript-editor/shared/-wBYhu4HICRV3i_9nR3TnHWU1IXOnV1TsYGM60_ZmfyDn0BKUaV9HGKsIsh_VCprlBb7qylYJKfqJYROaR811a3QAx8?loadFrom=DocumentDeeplink&ts=201.72)):

There's that mental side of this game that also sometimes cuts the other way. That's one big thing. But I think it brings back that higher level point too, of what is the goal? The goal is going to drive so much of whether we invest in public or private or what our expectations are. When you think about the goal, the goal might be liquidity. Actually, you brought this up. I need to get the money out. If it's tied up in a home, in a private asset, we all know this, it takes 30 days to close on average. It's going to take you at least 30 days to get your money out. That's if you get an offer day one accepted. That could be a goal. There could be a goal that, hey, this is tangible.

([04:09](https://www.rev.com/transcript-editor/shared/dgFe8UMn5mbFin7AslG5dNHF_4itURGk2N7Wj0JonBIaEhjUTUSl2tvwJ8pfz-ypg4mzx5uewxp7yBEHiORREkUmD20?loadFrom=DocumentDeeplink&ts=249.84)):

I like the fact that I can go to a building and I own this building. That's a goal. But there are trade-offs. Figuring out, hey, I want this to be, and I loved how you said it, it's just another asset class because we can decide to use money in different ways, and if we want to maximize our return, our risk adjusted return, we shouldn't fall in love with an asset class. We should just look for the best place to put our money to work.

([04:37](https://www.rev.com/transcript-editor/shared/T9CCzZqSb_lTyjGIOx-mqskbZdF5L_RZT7vhtCezllfwN139y80h1h-MNtUi7vfRdSazcOIQ3YmblBvivl3K4acyF0w?loadFrom=DocumentDeeplink&ts=277.53)):

Maybe thinking about that a little bit, Mena, just as far as the actual return goes, how would you weigh those differences, or how would you advise somebody, hey, yeah, real estate, this real estate project seems great, but here are some of the trade-offs you may be giving up?

Mena Hanna ([04:53](https://www.rev.com/transcript-editor/shared/j_FNkuoTQ683anXieEA5-b7-n8pDG71ik1WiHEfoqXQruSOTbUnXKNyu39dG_uyfQmxu1Ib3-xemM9Mwou7C0AgKdBo?loadFrom=DocumentDeeplink&ts=293.73)):

Yeah. If done right, real estate still has its trade-offs. There's the transaction cost piece of it where to buy and to sell. There's inherently a fee, a large fee that goes to brokers, to closing companies. Actually settling the transaction is very, very expensive compared to public markets where you pay pretty much no transaction fee. That's an element of it.

([05:22](https://www.rev.com/transcript-editor/shared/J2bSAeBdgroI0zh_FnAiRSvKzR8U1UMnKz692h3d4bvhRQr2gNgsJ6-cX_6X2dSLIyxiMQZ1UsBasriB4XkinJdbrxA?loadFrom=DocumentDeeplink&ts=322.11)):

There's also the costs in terms of managing the property. A lot of times investors don't properly account for them. There's obviously financing costs, but there's maintenance costs, and usually people just take those as regular expenses and don't actually factor those into their total return.

([05:44](https://www.rev.com/transcript-editor/shared/rLF-Maw3ZfQMNFz4gxvDcC6uycDV1n7__0BIlG4iT2XZz0MTc0bYwcutwIy6mT4dvFoa_92ljCJCDtjpmudfqzfRFhM?loadFrom=DocumentDeeplink&ts=344.88)):

If you actually do do the math properly and do invest in real estate properly, your expected return is actually a little bit lower than public markets and private markets definitely with the illiquidity premium. That's really optimizing for everything, and that's not taking also into consideration the tax consequences of income if you aren't structuring your property to pick up on some of the tax benefits that real estate can pick up on.

Brandon Averill ([06:15](https://www.rev.com/transcript-editor/shared/P-OYBL7CqIsCLC6RGcZef6Ki9tTUZ7aJqjOvV2VAl12uh1PaejB4MHm2KG7yjOQ5HnVFW9hC68cMKqcehPWDe5gNwJE?loadFrom=DocumentDeeplink&ts=375.3)):

That is one of the big benefits, especially in the private markets. You have a lot more control over those things. From a cost standpoint, from a leverage standpoint, you can make sure that you're controlling how much debt you're putting on the property, et cetera. Then, especially from a tax standpoint, you can make more individualized moves on deferring taxes down the road and making sure that you're impacting the income or what type of projects you're going into. We talk about this with clients a lot is for most of our clients that are in the highest tax brackets, income actually isn't all that attractive. That immediately, the way that it's taxed, it chops our return significantly so that the impact or to get excited about a real estate income producing real estate project is not something we get super excited about, because after tax returns, which is all that matters, is what ends up in your pocket, it's really difficult. You get more into the development phase, you get this more capital appreciation, maybe you can 1031, exchange a property into a future one and defer tax down the road, becomes a lot more interesting and you have a lot of control, potentially, in the private markets, correct, with that.

Mena Hanna ([07:34](https://www.rev.com/transcript-editor/shared/KRRa3RRwqw3zRMWUL0rf8LhtsBOB3isLJN2sG986psXs_pQ0uK7UZ2jsF_FxWhoGzc8EE39DtLTsnfXx36X8eeGg-vo?loadFrom=DocumentDeeplink&ts=454.5)):

Yeah. Yeah. I guess to touch on some of the benefits of real estate, there's obviously that control of taxes of when you take depreciation, when you potentially could take income. There's a hedge against inflation for real estate. Real estate correlates very highly with inflation, so it's a good way of protecting your money. There is a little bit of what you talked about, the predictability of income. Sometimes that's not in the interest of our clients. Sometimes it is. But yeah, those are some of the benefits as well to not just have a negative tone. My bias and the reason that I view real estate as just one asset class, and I do see the negative side, potentially, as my parents bought their first home in 2007. It was a very stressful time in the Hannah household. Real estate is a risky asset class. It does fluctuate. People do see it as risk-free, but that's definitely not the case. If done well, it could be very beneficial and a great part of your portfolio. But you have to do it well and it has to be part of a larger financial structure.

Brandon Averill ([08:46](https://www.rev.com/transcript-editor/shared/uN6OrxDXgzUkup3Dwl2BFNir9xU5cRWTz7Fd255ctqTrjeFOxk8wRDFW05OH4_qqjwfqX04faUNMAec2nrYsWKahheE?loadFrom=DocumentDeeplink&ts=526.77)):

Yeah, I think that's well said. In the last week I've had a conversation with a client that wants to buy this commercial building, loves real estate, hasn't quite thought through all the pieces yet, and so we're working on that, and then another client that his father advised him the only place I've ever lost money was in real estate. It's kind of a bipolar asset class to an extent.

([09:11](https://www.rev.com/transcript-editor/shared/A-TR58o83WkWhan3wI25Tg0OlSWn6uUBLeKQ__vOph2ebaCUlJDMb3psoREGQDewbHa7Jbwex38yMWkLbECNeNVp7Ac?loadFrom=DocumentDeeplink&ts=551.79)):

I think the big thing that hopefully everybody listening takes away from this is we think it has a place in your portfolio. Absolutely. We think that you need to be very thoughtful about how you go through the decision making around it. What makes real estate oftentimes super powerful is something called leverage. Actually putting debt onto the real estate. If you think about that, if we came to you and said, "Hey, we're going to take loans out to put money in the stock market," you probably think we're crazy, but that's actually what you're doing with real estate. Because of some of the tax benefits, it sort of offsets some of that risk.

([09:46](https://www.rev.com/transcript-editor/shared/O7LAAYLuGXhF5raQ5rEATl0QFp2F1htNDg7qyEmiPu9y_kUppTrTmfcY5E2614O7X-6NFgS8zwI8MaxN0jCB_A20-3U?loadFrom=DocumentDeeplink&ts=586.98)):

But the point being is it's not as simple as just going and buying a home, renting it out to some teammates or friends, making enough to cover your mortgage. When you do that, on the surface, I get it. The simple math, you're like, "Oh, great, there's no cost." But what you're losing out is all the opportunity costs. There's so much that goes into it.

([10:08](https://www.rev.com/transcript-editor/shared/6p80Z7xRKdu86mW-hd3EzbbpPL9dO1n1r63fCyrqKg6FoVLj29RyKgR4qdjG2WHsozrOrCVy72pJ6CMWMxFpwTyhVso?loadFrom=DocumentDeeplink&ts=608.82)):

Again, the takeaway hopefully you're getting from this for everybody is we like real estate. We think it fits in your portfolio, has to be done right, has to be done in the financial structure that you're putting together. You have to take the time, you have to do the due diligence to really understand what you're getting yourself into.

([10:28](https://www.rev.com/transcript-editor/shared/plG2jaqvbNQQi3JmFQ2yh0CZL2yE1Y693bTAdwSERcSCmIPfC4ekrLMyfDR85MIrfbyBAlOQ0ONxPrK4Jq7gZhP5DAc?loadFrom=DocumentDeeplink&ts=628.65)):

If this was helpful, hopefully you liked it, shoot us some questions. We'd love to hear from you, love to answer more questions around this topic. You know the number, 714-504-7689. We'd love to hear from you. But until next time, own your wealth, make an impact, and always be a pro.

([10:49](https://www.rev.com/transcript-editor/shared/JH9_x0QM8XkOIua_Xuyvxy49tkegC3g956TMFvGJW3oBilo-7YjE4mTFjHwKhI9SAgSsLXwgzaLIFeE0cTkRkjLmwbU?loadFrom=DocumentDeeplink&ts=649.68)):

Sweet.