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WHY USE AN INDEPENDENT REAL ESTATE INVESTMENT PROFESSIONAL?

Real estate is an asset class that should be a fundamental component of any diversified investment portfolio. The NCREIF Property Index for institutional owned commercial real estate of all types indicates a trailing 10-year average yield of 7.2% - and this is during the great recession! Investors can choose to invest in real estate in 2 ways.

Active Investor – This is where the investor actually runs the property, and is involved directly in the day to day decision making at the property level. This takes a specific skill set, level of experience, and above all hard work. It provides direct access to cash flow and profits, but also directly exposes the investor to operating losses and capital requirements to maintain the property. There are also risk management issues to consider, as well as the terrible “T’s” (Tenants, Toilets and Trash). Real estate management is hard work, and it is important separate the investment of the “Sweat Equity” and look at the real returns on the properties being managed.

Passive Investor – This is where the investor decides to invest with a real estate professional in a many different potential investment vehicles. There are publicly traded real estate stocks and real estate investment trusts (REITS), private REITS, investment funds (Some of which may be exempt from SEC regulation and limited to sophisticated investors), and individual property syndications. The investor is often relieved from the capital exposure from losses, and relies on professionals for the management of the real estate. In turn the investor will earn a yield that will be net of fees and expenses paid to the manager.

Whether you are an active or passive investor it is important to ask and answer several important questions with respect to your real estate investments.

1. How much money do you want to make? Any investor needs to understand their expectation for returns, and compare this to what is attainable in the market. This also becomes the baseline from which you will monitor your investment performance over the period the investment is held (Hold Period).
2. When do you need access to your capital? What is the period that you intend to hold the property or investment, and do you need this to be liquid and flexible or can this be a long-term investment? This is an important consideration. Real estate is cyclical and properties are typically purchased and held for a longer period of time from 5-10 years or longer. If you need to have your investment be liquid, you may want to consider a passive investment with a shorter hold period. But you also need to take into consideration that some real estate investments intended for a short hold period can also be subject to the greatest risk, such as development projects or second trust deeds.

3. How much money are you really earning on your investments? Active investors work hard to keep their buildings fully occupied and look at the cash in the bank. Passive investors get quarterly or annual checks and those are wonderful. Both investors need to understand the real return on their equity, and compare this to their investment goals. In real estate, there is an investment cycle. You purchase, manage and stabilize your cash flows, and sell to maximize the profit potential and complete the investment cycle at the point when the value is at its peak. Is it time to sell? Are there tax advantages measures to take advantage of if you sell to defer taxes and move into a new investment?
4. Are there estate planning issues you need to address? Many active investors have a passion for the real estate they own and enjoy running the properties. Even passive investors may have a special relationship with a sponsor that they cherish. This may not be the case in the event of a transfer to a younger generation. These considerations should be considered as a part of the estate planning process as well as the investment review. An investor would not be wise to miss a market peak in order to hold a property that the next generation may simply look to sell.

By working with an established real estate professional, you can answer the above questions for your portfolio and make certain you are on track with your goals. St. Clair Commercial Real Estate offers a full range of consulting services, working with a group of professionals who can answer all your real property needs. We are not brokers, nor are we looking to market an investment. We are active owners and operators of real property with three decades of proven performance that will place our experience alongside yours.

We are pleased to work with attorneys, CPA's and independent trustees. Please contact us through our web site at www.stclaircommercialrealty.com to arrange for a consultation.