

My Rich Uncles Got Me Into Commercial Real Estate

For the past six months, we had been thinking that our next big move would be to pick up a 2nd rental property. We were pretty set that we would do this sometime between September of 2015 and March of 2016. Living in Southern California, we were looking at investing in something with a price tag between \$200K and \$300K.

This price range would require a down payment between \$40K and \$60K (assuming 20% down). Then you have closing costs which I would estimate at another \$3,000, which is a bit on the low end, but that's because we have friends and family in just about every step of the real estate transaction.

In order to make this happen on our own, we were going to have to look for properties on the lower end of our range at around \$200K. At one point we were considering an investment with friends that would allow us to expand our property choices. But after careful consideration, we decided that we would like to avoid doing deals with friends and family, due to the potential of ruining the relationship.

Then after months of consideration, I decided to look at other ways to get exposure to the real estate market. I looked at public REITs, mobile homes, and crowdfunding platforms like [Realty Shares](#) (which unfortunately require you to be an accredited investor). What I liked about these alternative options is that we didn't have to leverage beyond our current level. Between the house and the investment condo, we are already carrying \$509K in debt.

I think everyone has a different comfort level with leverage. It can be a great tool if you use it correctly, especially in your youth, when you are first getting going. The problem is that it can be a double-edged sword and most people take on too much debt. We saw firsthand during the financial crisis what happens when we over-leverage ourselves.

Personally, I'm probably a bit conservative in my use of debt. The amount of leverage I am comfortable carrying on our balance sheet is largely dependent on the interest rate. First, the only debt we carry is mortgage debt. As a rule of thumb, I like to keep the minimum service of all debt at around 25% of gross income.

Keeping that rule in mind, our minimum monthly payments related to servicing our two properties runs about \$3,400/month (inclusive of principal, interest, HOA, and property taxes). Based on a monthly income of around \$15K, this puts our debt service at approximately 23% of gross income.

By keeping this percentage low compared to gross income, it allows us the ability to max out retirement accounts, live a certain lifestyle, and still have plenty of excess income to make other investments. It also provides peace of mind if one of us lost our jobs as it would still be manageable on one income for an extended period of time.

Besides the desire to be completely debt free one day, this was one of the major reasons for such an [aggressive pay down of the mortgage on our primary residence](#). Especially since an additional property would take us beyond the 25% comfort level. An investment property of around \$200K after \$40K down would have added an additional \$1,500/month in debt service. This would have pushed us above 30% of gross income.

The goal with paying down the mortgage on our house was to get to 20% equity so that we could refinance one more time into another 5/5 ARM that would allow us to get a rate around 2.5% (our current rate is 3.675%). This would have dropped our payment by about \$350/month. We just really weren't sure if we wanted to add any more leverage to the balance sheet.

(Mr. CEO here - did you seriously just write all of those words to say, "So we're struggling with whether another piece of real estate is the right move for the house?" Geez GYFG, you'd think you were the English major!)

Maybe you're right Mr. CEO. But let's be honest, it's a big decision. So all of this back and forth with the wife has lead me to my [Rich Uncles](#)...

My Rich Uncles Provide Us a Solution by Allowing Us to Invest In Commercial Real Estate

(Mr. CEO again - so why are you writing about something that only you have access to? I don't have any [Rich Uncles](#) and I have a feeling most of our readers don't either.)

No, you're not getting it. I don't personally have any blood relatives that are [Rich Uncles](#), but I now have some internet [Rich Uncles](#).

Recently Vawt over at [Early Retirement Ahead](#) was contemplating a real estate investment and was looking for feedback and other ideas from his readers. In the comments, I suggested that he look at [Realty Shares](#). I made an assumption that based on being a CFO that he would likely qualify as an accredited investor. In his response he suggested I check out [Rich Uncles](#).

I am stoked that I took the time to check them out. They are a Commercial Real Estate Investment Trust (REIT). They are a public, non-listed REIT that requires governmental permitting and audited financial statements. [\(Mr. CEO here - so you're saying they are not traded in the stock market but are still required to be audited, right?\)](#) That's exactly right. The best thing about a non-listed REIT is that the value of your investment is determined by the value of the real estate itself.

Let's Meet The Rich Uncles

Who are the Rich-Uncles?

Proven Experts | Highest Integrity | Good Guys



Ray Wirta

Chairman

Ray is the Chairman of CBRE Group, Inc. (NYSE:CBG), a Fortune 500 and S&P 500 company that is the world's largest commercial real estate services and investment firm with 2013 revenues of \$7.2 billion. CBRE has approximately 44,000 employees, and serves real estate owners, investors and occupiers through approximately 350 offices worldwide.

Ray has a passion for cutting-edge real estate strategies, which led to the creation of Rich-Uncles

An avid cyclist, on weekends Ray can be found on his mountain bike exploring the great outdoors.

Harold Hofer

CEO

Harold is a seasoned real estate expert with \$2 billion in transactional experience and co-founder of REITbid.com, an online auction platform that facilitates the re-sale of existing real estate investment interests. Over the past 30 years Harold has sponsored numerous real estate funds for individual investors in the form of Limited Partnerships, Limited Liability Companies, and Real Estate Investment Trusts. It was long before Crowdfunding was in vogue that Harold began helping wealthy investors enjoy the kind of opportunities Rich-Uncles offers you today.

Harold's sunrise surf sessions set a positive tone for the rest of his day.

Howard Makler

President

Howard is a successful entrepreneur creating businesses ranging from Excess Space Retail Services to Howie's Game Shack. Howard has served for over a decade as Professor at the International Council of Shopping Centers' School of Leasing at the Wharton School of the University of Pennsylvania. In 2003, Howard was the recipient of the prestigious "Rising Stars 40 Under 40 Award" by Chain Store Age. The media frequently seeks his opinions - he has been featured on ABC, Fox News, CNN and The Wall Street Journal.

Every Sunday Howard provides Pastoral Care to patients at Hoag Hospital in Newport Beach, CA.

Now you are probably wondering why they decided to name their company "[Rich Uncles](#)," aren't you? It really has to do with how they define a "Rich Uncle":

1. A Rich-Uncle is a person in your life that you can count on for prudent advice-financial or otherwise.
2. A Rich-Uncle is someone who is available to lend a helping hand and provide guidance and information, all from a trusted person who has "been there."

I don't know about you but these are definitely the kind of people that I want looking out for me.

What is the investment strategy of this REIT?

First and foremost the REIT only invests in Commercial Real Estate and they are currently only set up to invest in California based properties. Only California residents are able to invest at this time. There are 8 major criteria that each property must pass in order to be considered for inclusion in the portfolio:

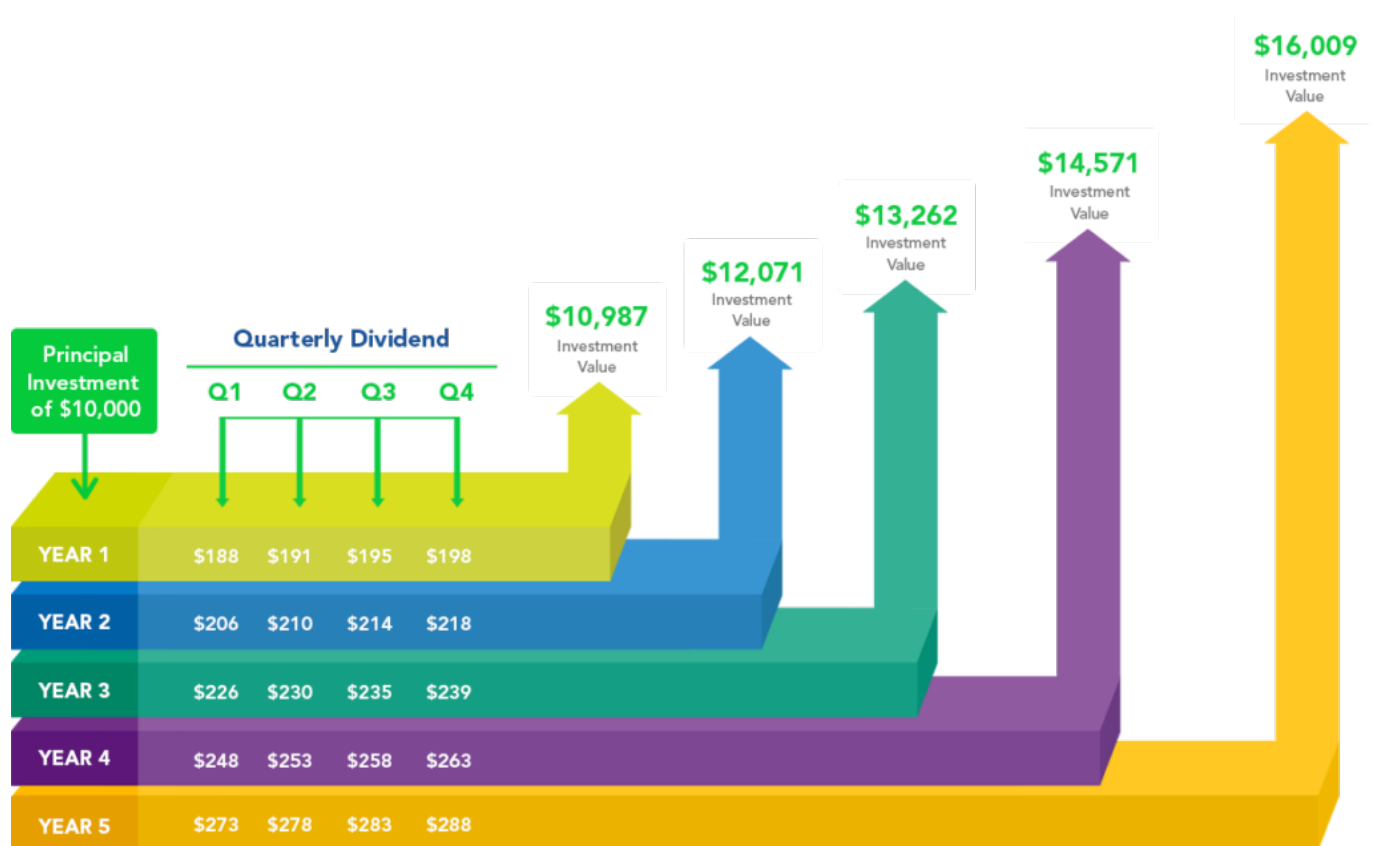
1. Single-Tenant Freestanding
2. Strong Tenants – large, recognizable, creditworthy companies (Chase, Del Taco, Chevron).
3. Long Term Leases
4. No Management Responsibilities
5. No Leasing Costs
6. Not Responsible for Property Taxes
7. Not Responsible for Insurance
8. Not Responsible for Maintenance and Utilities

Items 5-7 are possible because of “Triple Net” leases, where the tenant pays all property related expenses. The fund only purchases properties that they can put at least 60% cash down, keeping leverage to a manageable amount.

The fund has a planned exit date of 2020 in which they are planning for a liquidation event. Currently, when you invest in the fund you will earn 7.5% in dividends quarterly with an expected annual return of 12% over 5 years. When the fund is liquidated the priority of payment is as follows; return of your original investment, then reinvested dividends, then your share of property value appreciation.

Like I mentioned above, the exit plan is targeted at 2020, but there is a way to get your money out sooner if needed through the share repurchase program.

Below you will find an example of \$10,000 invested. It assumes a 7.5% dividend and a 2% property appreciation as well as dividend reinvestment. I don't know why, but I really dig the graphic they put together to represent this.



When I spoke with one of the account executives over at [Rich Uncles](#) he informed me that they have paid over 7% for 9 consecutive quarters now. However, it is good to keep in mind that the dividends are determined by the board of directors and depend on the cash availability and project cash requirements. They are required to distribute at least 90% of taxable earnings in order to maintain qualified to operate as a REIT.

What am I doing?

Well if you haven't already guessed by the prelude, I am making a pivot. Instead of investing in a 2nd residential property and taking on more leverage, we are instead going to invest in this public REIT. This will give us exposure to the commercial real estate market that we would not be able to get on our own and will provide a really nice 7.5% dividend.

I have only made an initial investment of \$500 to test the waters and get familiar

with the platform, which is 100% online. So far the experience has been great. The platform is really easy and intuitive and the follow-up call from Harry, one of the account executives, **was great!** Best of all [Rich Uncles](#) is headquartered in Newport Beach and they have invited me to come down to the office for an interview that I then will get to share with all of you on this blog (so think of some questions).

Beginning in May we will start investing \$1,000/month into this fund (as this goes live, we now have \$1,500 invested). We may do some lump sum investments in July and January, which happens to be bonus time for me. Although we were willing to put \$40K down on a \$200K property, it is likely that we will only allocate a maximum of \$20K to this REIT.

I look forward to sharing my experience with you guys. Oh, and if you invest with them, don't forget to tell them that Gen Y Finance Guy sent you ☐

- Gen Y Finance Guy

p.s. When you sign up you have the opportunity to earn 5 bonus shares by giving a testimonial. (I just received mine)

p.s.s You can get 5 bonus shares for each person you refer that results in a shareholder (with a minimum \$500 investment)

p.s.s.s If your referral invests \$5,000 or more than you get 10 bonus shares.

p.s.s.s.s Here is a [link to a recent article from the OC Business Journal](#).



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y

Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)