Fresh Invest: How to buy real estate without buying property
Season 2, Episode 8 Transcript

Alex Lieberman, Co-Founder and Chairman of Morning Brew Hey, everyone, I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is season two of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew.

Alex Today, we're going to talk about real estate investing—emphasis on the investing. We're going to go over ways to grow your wealth in real estate without the hassle of owning property. In a lot of ways, real estate is an attractive asset. It can be a source of stability in a portfolio when other parts are lagging. But buying a property yourself is a major commitment. Even if you don't plan to live in, being a landlord is at least a part time job that you may not want to take on. So how can you get in the real estate game without assuming all that responsibility? As it turns out, there are a few nifty ways to do it. That's what I talked about with Fidelity's Andy Rubin for our second episode on real estate investing: some tools you can use to get exposure to real estate without having to take calls about chip paint or clogged toilet at all hours.

Alex Andy, welcome back on the show.

Andy Rubin, Portfolio Manager at Fidelity Investments Thanks, Alex, great to be here again.

Alex those who missed the last episode, you just quickly introduce yourself, and explain what you do at Fidelity.

Andy Sure thing. I'm an institutional portfolio manager for real estate investment strategies within Fidelity's Asset Management business. Fidelity's dedicated real estate investing pursuits span the globe, as well as all major property types. And we actively invest in both real estate equity and real estate debt markets on behalf of our clients. And we've been doing this for decades. In my role, I'm tasked with maintaining deep knowledge of portfolio management philosophy, process, and construction, ensuring the portfolios are managed in accordance with our client’s expectations, as well as contributing to investment thought leadership, like this podcast.

Alex Last episode we talked a lot about real estate as an asset class, how we think about it as having a part of your portfolio, the correlation between more traditional assets. But I want to talk now at let's call it more of a micro level, which is: Let's say you want to invest in real estate, what are some of the potential benefits of investing in the asset class through a financial instrument tied to the asset rather than literally buying physical property?

Andy Yeah, it's a great question and obviously key to our discussion here today. So, you know, as I mentioned and you alluded, Alex, last time, I really feel strongly that one of the most effective and sensible ways for individual investors to get diverse real estate exposure is to do so through a professionally managed vehicle like a mutual fund, an exchange traded fund, or one of the various private funds or partnership structures that are available in today's market—many of which come with very modest investment minimums. Now, the underlying investment holdings within these vehicles, it varies. In most of them, I would say, you tend to find real estate securities holdings. And so that would include things like publicly traded real estate stocks as well as bonds. However, some of these vehicles do invest directly into properties. So whether it's a vehicle that invests directly into individual properties or if it's one that is comprised of securities, the primary benefits tend to be similar. And I think those include low investment minimums that allow individual investors access to these offerings, the diversification potential that is just such an attractive reason to invest in real estate in general, and then the liquidity that these vehicles bring as well. This contrasts in many ways to the original, let's say, form of commercial real estate investing, which was investment in a single asset as a single building. And that historically required significant capital, inherently it was undiversified because it's a single property, and generally that would also be considered an illiquid form of investment. So it contrasts a great deal, and these professionally managed vehicles really bring a lot of value to the table.

Alex I mean, if there's one word that comes to mind when you describe some of the advantages of investing in a mutual fund or an ETF that has securities or properties, obviously sitting within the security is approachability. It just quite literally, you know, things like REITs give a wider investor base the ability and approachability to get involved in this asset class. Could you define REITs? And also I haven't heard of a REIG. What is, how do you pronounce a REIG?

Andy Frankly, I, I was didn't know I was wondering the same thing. I would pronounce it a REIG.

Alex I've no idea what that is.

Andy Yeah.

Alex So as briefly as possible, could you define what a REIT is and how it is a viable investment option for investors.

Andy Yeah, absolutely. So real estate investment trusts or REITs, as it's commonly referred to, they're simply companies that own income producing commercial real estate across a diverse range of property types. Now, these companies, they have to meet various requirements to qualify as REIT, many of them, but not all trade on major stock exchanges. And so that's where the access to all investors comes. They allow anyone to invest in a portfolio of real estate assets the very same way we all invest in other industries through the purchase either of that individual company, that individual REIT stock, or through one of the professionally managed vehicles—the mutual fund or the exchange traded fund, or one of the others, that in turn invests in the REIT shares itself. The shareholders of the REIT, they earn a share of the income produced from the properties. And the beauty is that you get that income and all the other benefits without actually having to go out source by manage or finance a piece of property.

Alex So let's talk for a second about these new real estate investing upstarts and platforms. The ones where you have the ability to invest directly in properties, you see pictures of the properties. How do you think about these as options for investors?

Andy Yeah, so from my experience, like anything, there are good platforms out there, Alex, and others that might not be so good. Like any investment pursuit, my advice is that you'll want to conduct basic due diligence on the sponsor or the manager, as well as the specific investment offering itself. Now, as your question indicates, many of these platforms are new, and so that suggests they have little to perhaps no track record. And an investment in one of these, in that case, can be a bit of a leap of faith. So, again, my suggestion, if those who may have an interest in these, do your homework. I would focus on the offerings that are available to you or perhaps are endorsed by the financial institution where you maintain your investment accounts. That way, you can have some level of confidence that professional level diligence has taken place and that the platform has been properly vetted. I think paying close attention to fees is of critical importance, particularly within alternative asset classes or alternative investments, which real estate certainly is part of, offerings of various nature often charge lofty fees. Those can greatly erode the net returns that investors are left with at the end of the day. So I think an acute focus there is real important.

Alex Great, so being cognizant of fees and also just doing due diligence, especially on any investment, but especially these newer platforms that just may not have the track record of more proven investment opportunities. Next, I'd love for you to tell me how our listeners should be mentally differentiating between two types of properties: properties they've purchased as investments or income producing properties versus properties that are used in their personal life to live in. How should we be thinking about these differently?

Andy Yeah, it's a great question and one I spend a lot of time responding to and engaging on. In its simplest form, any form of income producing real estate can be defined as commercial real estate. That does include types of real estate that might be residential in nature, such as a single family home rental or an apartment rental. Right? Those are residential in nature, however, they generate this recurring income. So to the owner, that's no different than owning a retail asset, an industrial asset, an office asset. That is the key, is that income production really defines what is commercial real estate. And as I commented on in the last episode, Alex, the primary potential benefits of investing in that income producing commercial real estate are things like its potential to diversify portfolios that are comprised of the traditional asset classes, mainly stocks and bonds, the income generative qualities of commercial real estate and the increasingly important potential to protect against inflation. Now, the risks or weaknesses, of course, to commercial real estate is that there is that economic sensitivity, and it varies depending on the type of asset, or the property type. And so like any investment, there is downside potential, and commercial real estate investors are generally striving to mitigate that downside risk. Residential home ownership on the other side of the coin is that different animal. While your home is likely your most valuable asset, I try to discourage homeowners from thinking about it as an investment, but rather as your primary source of shelter that will hopefully retain its value over time. And in an ideal world, its value might appreciate over time.

Alex And just to expand on that a little bit more, could you share why it is that you discourage people from thinking about it as an investment rather than just a source of shelter that they'll be able to, you know, have that money and retain their wealth for later in life? Why do you create that distinction?

Andy Well, I think generally, as I said, it tends to be people's most valuable asset, so it's occupying a disproportionately high percentage of your wealth to be viewed, in my opinion, as an investment. So I don't think most people would put, you know, 80% of their net worth into a single stock or anything, right?

Alex Yeah.

Andy Exactly. So it's sort of that simple in my in my view.

Alex That makes total sense. So one last question that we have from one of our listeners. How should this real estate bubble inform my investment strategy?

Andy I've heard the bubble term recently, and, you know, so it's the questioner is, I guess, agreeing with that. I tend to disagree with that notion. I don't see excess or signs that we are in a bubble in any way. Now, my suspicion is that the listener is referring to the single family home ownership market, which has certainly experienced the really robust price appreciation over this Covid period. That's been well chronicled. Interestingly, in just recent days, we've seen some data that suggests there could be a sign of a slight cooling in the housing market. I saw some August data that appears to show a moderation in the rate of price increases and a slight reduction in sales volumes. I think that's very healthy. I think at this point in time that should be expected, just given the run that we've seen for about a year and a half at this point.

Andy Having said all of that, I think the case for housing overall and the fundamental story remains quite strong. Whether it's owning your own home or owning a income producing piece of real estate that is residential in nature, I think there's plenty of reasons to be to be optimistic about the future fundamentals and demand profile in general. And I think a reflection of that view is if you were to look at how many of Fidelity's dedicated real estate investment strategies are positioned, they reflect that sanguine view on on the future prospects for housing and the different forms of residential real estate. As a general proposition, we we do have a shortage in this country of of affordable housing. So, yeah, that I hope I answered the listener's question. And thanks for sending that one in.

Alex Awesome. That was great. Andy, as always, thank you so much for your time and thanks for joining Fresh Invest yet again.

Andy I really enjoyed it, Alex. Thanks for having me.

Alex That was awesome. It is so interesting how people come up with different ways to derive value from an asset in ways that can accommodate different levels of commitment and risk. It also goes to show how the category of investing really encompasses a whole universe of different methods of buying things whose value can appreciate over time—like when you make a big purchase and justify it to yourself by saying it's an investment. Thanks so much for listening in today. I really hope you learned something.

Alex And make sure to tune in next week. We'll get into all things options.

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