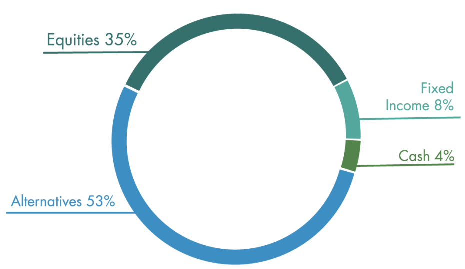
SIX MYTHS OF COMMERCIAL REAL ESTATE INVESTING

CROWDSTREET

UNLEARN THE OLD RULES OF COMMERCIAL REAL ESTATE AND INVEST LIKE A MILLIONAIRE

Modern Portfolio Theory seeks to maximize expected portfolio returns for a given level of risk by allocating capital across multiple asset classes, ideally with low correlation. Although the exact percentage may vary depending on who you ask, it's generally accepted that due to the pursuit of low correlation among holdings, between 10-30% of a high-net-worth investor's portfolio should be in alternatives, including commercial real estate. But unless someone wanted to buy a rental property and become an active manager, or had a personal relationship with a local developer, the easiest way for the average investor to incorporate real estate into their portfolio was to invest in a REIT.

University Endowments



Source: National Association of College and University Business Officers, January 2017

More than half of all endowments' assets are invested in alternatives, of which commercial real estate typically accounts for between 10% to 20% of the total.

"Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world."
— Franklin D. Roosevelt

CROWDFUNDING CHANGED ALL THAT.

With crowdfunding platforms, direct investment in commercial real estate (CRE) opportunities has become more accessible, transparent and efficient for investors. Instead of a REIT, which essentially is when an investor buys shares in a real estate company and their property portfolio writ large, direct investing allows for the investment in specific assets, personally chosen by the investor.

But even if modern technology has democratized direct CRE investing, there are decades of obsolete “rules” for investors to unlearn.

CRE IS NOT FOR THE AVERAGE INVESTOR; IT'S A GATED COMMUNITY

MYTH 1

When deals are done behind closed doors, it's easy for an unscrupulous sponsor to hide behind smoke and mirrors. But thanks to the internet bringing deals to the public marketplace, investors have unparalleled access to information about sponsors, their past offerings, their current financial situation and more. Not to mention the ability to educate themselves on the nuances of CRE investing. Investors can and should do their own due diligence, learn from other investors or leverage the expertise of CRE professionals to properly vet offerings and the sponsors behind them before investing. As more CRE moves online, more information is becoming available to investors than ever before. The opportunity is there for investors willing to do the work.

In the U.S., "24-hour" cities are essentially our major market cities–Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C. Ongoing CRE developments in these cities is a given, but they are not the only cities experiencing surges in population and development that drive demand for new and better properties. "18-hour" cities, also known as second-tier cities, like Denver, Austin, Portland and Nashville are cities with above-average urban population growth that offer a lower cost of living and lower cost of doing business relative to the major markets. These cities and their surrounding areas are experiencing their own urban renaissances, providing ample opportunities for investors to find quality CRE opportunities.

THE BEST OPPORTUNITIES ARE IN THE BIGGEST CITIES

MYTH 2

"Buy on the fringe and wait. Buy land near a growing city! Buy real estate when other people want to sell. Hold what you buy!"
— John Jacob Astor

Yes, there are global institutional investors that allocate $1B or more to commercial real estate, but the majority of CRE developments in the U.S. aren't the kind of projects institutional investors are interested in. Yet all these projects require funding. Sponsors in second-tier markets may be looking to raise $10-50M overall and only $2-10M in the form of equity which creates more opportunity for individual investors to participate, even for minimums as low as $25K. Accessing these types of deals is only possible en masse with the advent of crowdfunding platforms.

YOU NEED TO BE A MULTI-MILLIONAIRE TO INVEST IN CRE

MYTH

3

"Buying real estate is not only the best way, the quickest way, the safest way, but the only way to become wealthy."
— Marshall Field

MYTH

4

UNLESS YOU KNOW THE RIGHT PEOPLE, YOU DON'T HAVE ACCESS TO DEALS

Before commercial real estate investing came online with crowdfunding, most investor-sponsor relationships were built via interpersonal networking – over golf or dinner and through your high-net-worth friends who already knew a developer – which also meant investors and sponsors could typically only work with others in their local area. By going digital, access to CRE investing has been democratized and investors can connect and invest with trusted and well-vetted sponsors anywhere in the U.S.

> "Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth."
> — Theodore Roosevelt

MYTH 5

A HIGHER IRR IS ALL THAT MATTERS

Their target IRRs are quite different but the underlying risk gives them equivalent risk-adjusted returns. Typically a project targeting a lower IRR should have a lower risk of missing their target and, if we continue to lean on Modern Portfolio Theory, should have the same risk-adjusted return of the projects with a higher risk that targets a higher IRR. It's important to understand how to evaluate these differences in the context of what behavior you're looking for in your own portfolio.

It's tempting to see a high target IRR (internal rate of return) and start chasing returns. But it's important to understand a higher target IRR inherently comes with a higher level of risk. For instance, one CRE offering might be projecting 30% IRR, while another is projecting 15% IRR. However, the 30% IRR project may have a 40% chance of meeting their goal while the 15% IRR project has an 80% chance of hitting the target. Which is better?

ONLY INVEST IN MULTIFAMILY DEALS

MYTH 6

Historically, the most common kind of real estate investment available to the average investor was to buy and rent a multifamily property, perhaps eventually selling that asset in the future for a profit. But thanks to platforms like CrowdStreet, individual investors have access to a multitude of asset classes including office parks, medical offices, senior living, storage facilities and more. With direct investing, investors can pick and choose the right offerings that meet their criteria or they can access 30-50 with a single investment like the CrowdStreet Blended Portfolio.

"Buy land, they're not making it anymore."
— Mark Twain

For CRE investing to be truly democratized, we need to demystify the process. This requires putting to rest the old “rules” and traditional myths that no longer apply. The six myths here are just some of the most common that new and seasoned investors need to unlearn.

READY TO BREAK FREE FROM THE OLD MYTHS AND GET STARTED WITH CRE INVESTING?

Unprecedented access to direct investment opportunities is finally at hand.

Check out the three ways to invest with CrowdStreet or browse the Marketplace today.