

Why Real Estate is a Great Alternative Investment



By Kerry Curry, B2R Contributing Writer

Wealth manager Richard DeNapoli bought a house in 2013 that has appreciated substantially.

Real estate, he says, can be a great alternative investment for one's financial portfolio as it can be highly leveraged in a low interest-rate environment. Residential real estate investments can provide predictable and steady income, tax benefits and long-term appreciation.

“Overall, real estate is an excellent alternative investment,” says DeNapoli, a real estate investor and chief trust officer for Coral Gables Trust Company, a wealth management firm in South Florida. “It is the alternative investment that most people are familiar with... and the prospect for long-term appreciation is good.”

DeNapoli formerly practiced law with a real estate and estate planning focus and also served more than six years as Florida's real estate commissioner.

Real estate offers low financial commitment, high returns

“Anybody who bought a house in 2009 to 2012 or 2013 is sitting on a pretty amazing gain right now,” he says. “I was one of those people.” DeNapoli says he also realized strong gains when he bought a condo in 2004 and sold it in 2006 before housing prices fell.

Real estate as an alternative investment is popular, in part, because investors can invest in it without a huge financial commitment.

“Real estate is an asset that you can leverage like no other,” DeNapoli says. “There’s a lot of borrowing ability to own the asset for very little out-of-pocket money.”

Lenders view real estate as a stable asset, and the volatility of real estate is typically lower than most stocks if you buy it right, DeNapoli says.

“Are you buying real estate at the right time? When is the best time to buy it? When it is cheap,” he says.

Buy cash-flow positive properties

Residential real estate was much cheaper from 2009 through 2012, when the market hit bottom, but DeNapoli says he considers most of today’s residential real estate to be fairly priced with deals that can still be found despite rising prices.

Real estate is an illiquid asset and there will always be owners who need to exit a real estate investment for a wide variety of reasons, from divorce to a death in the family. “When you can find those deals, you can find yourself in a very good position,” he says.

Investors, he admonishes, should only buy properties that can generate a positive cash flow immediately. They should not buy based on appreciation alone, he says.

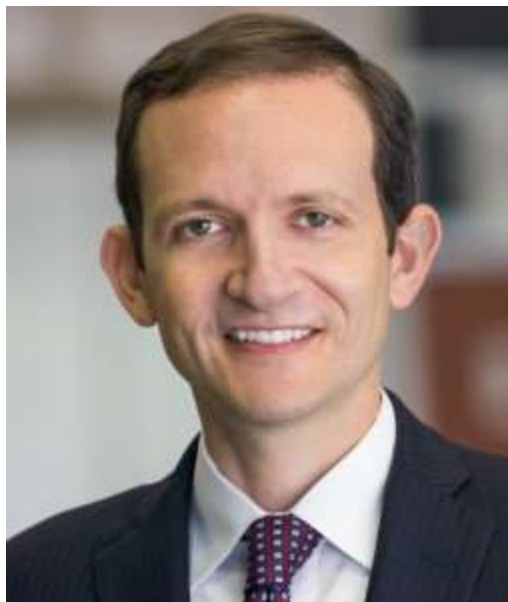
“You don’t want to start out losing money and having to feed the asset,” he says. When done right, real estate investment can provide a big payoff. “You can eventually pay down the debt on it and then it becomes a very large income source once you pay off the mortgage,” he says.

Realize that real estate is hands-on

Real estate, however, is more hands on than other alternative investments such as hedge funds, private equity, managed futures, gold, silver, coins or artwork in which an investment adviser may often handle the asset and the investor does little after the initial purchase.

“You don’t need to change a light bulb or fix the plumbing in a hedge fund. You don’t need to put a new roof on a stock,” DeNapoli says. “You’ve got to be ready to be a landlord. It takes time and a certain personality,” he says.

“I’d say, overall, it’s a great alternative investment. It has a lot of substantial benefits but you have to do your homework.”



Richard DeNapoli, Coral Gables Trust Company

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