

Guide to Real Estate

citizen mint



Real Estate:

Real estate is one of the most unique assets classes in the world given the distinctness of each property type. It is also considered by many as a prudent investment to be included in a well-diversified portfolio. The four main types of real estate are land, residential, commercial and industrial with numerous sub-categories for each. In this paper we will explore in-depth the different types of real estate categories. We will also look at both the benefits and drawbacks of real estate investing.

Real estate is defined by the following characteristics:

Distinctive:

Properties have unique characteristics and no two properties are the same.

Location & Use:

Real estate values are highly influenced by their location and ultimate use.

Scarce:

Land is a scarce resource and the scarcer the available land in a geographic region increases the value of land.

Permanent:

Real estate is a physical, permanent asset.

Types of Real Estate:

There are numerous types of real estate assets with each asset having defining characteristics that make it valuable.

Land

The first investment type is land which may have either geographic or physical attributes that make it desirable to own. Land can be utilized in many ways and can become highly valuable based on its geographic location or ability to change the use of the land for a specific purpose. In many cases, there is a capital investment necessary to increase the value of land. This could include preparing the land for building through the installation of water, sewer, electricity, drainage, etc. It could also include the addition of agriculture or trees.



01 Undeveloped Raw Land: Land that has no commercial or residential use at the time of purchase but could be developed

02 Farms & Ranches: This is land that can be utilized for the raising of livestock or producing agricultural crops.

03 Timberland: Value is based on the type and size of trees on the land. Timberland investments can be replenished over time as timber is cut and sold and new trees are planted and grown on the property.

04 Orchards: Orchards can provide consistent cash flow to long-term investors who plant desirable crops. In some cases, orchards may take time to mature to full production capacity.

05 Recreational parcels for camping, hunting, fishing: Land that produces cash flow through selling access to campers, hunters and fishers.

06 Lots in Subdivision: Lots can be prepared for building through razing and then installation of water, sewer, electricity, and drainage. These activities can create significant value to previously undeveloped raw land.

Residential

Residential real estate is utilized to house individuals. Residential real estate ranges from single-family houses to large condominium complexes to mobile home parks. Residential real estate makes up a large amount of the wealth of individuals in the United States given the cost to purchase a home and price appreciation over the time the individual owns the home.



01 Single Family Homes: Independent housing structure designed for a single family. Single family homes are usually very distinct from one another.

02 Condominiums: Condos are independently owned units in larger building complexes where users will pay a fee for upkeep of the building and common areas. Shared amenities could include pools, common rooms, and rooftop decks, etc.

03 Townhomes: Townhomes are single-family residences that shares walls with its neighbors. They are different from condominiums in that they do not have residences below or above.

04 Mobile Homes: Mobile homes are single-family housing structures that can be moved to different geographic locations. In most cases, mobile home owners lease the land where the mobile home is located.

Commercial

Commercial properties are used for general business purposes and generate income for investors.



01 Multi-family Apartment Complexes: These are properties that house more than one tenant. Value of these properties is usually determined by location as well as supply and demand dynamics of the region.

02 Office space including buildings, office parks and medical centers: Office space can be utilized by numerous types of businesses and can range from small office properties in suburban location to large skyscrapers in large cities.

03 Retail: Retail complexes are utilized for businesses to sell goods to consumers. They can range from malls to strip malls to large independent big box retailers like Costco.

04 Self-storage: This property type rents space to users on a monthly or yearly basis for the storage of goods. Size of rentals can be as small as a locker to large outdoor space for boats & RVs.

05 Parking Lots & Garages: Parking lots and garages can be strong investments if they are located near city centers or other locales where free parking is limited.

Industrial

Industrial real estate properties use can vary dramatically but in most cases are properties that develop, manufacture and hold goods and products.



01 Manufacturing: Manufacturing facilities are places where goods are produced and assembled. These sites can be hundreds of thousands of square feet to allow for bulk production of goods such as cars, semiconductors, boats and furniture.

02 Refrigerated Storage: A newer asset class that has gained popularity among real estate investors as a result of increased desire for fresh foods that are distributed to grocery stores as well as direct to consumers.

03 Storage Warehouses & Distribution Centers: Warehouses and distribution centers store finished goods that are sent to the end user of the goods. This could include building products for housing manufacturers or e-commerce goods that are sent directly to a buyer.

04 Data Server Farms: With the advent of cloud computing, companies have shifted most of their computing power to outsourced providers such as AWS, Azure and Google Cloud Services which has led to expansive building of data server farms. This class of real estate requires significant power and cooling but has shown consistent returns to investors with the increased demand of cloud computing services across all industries.

Benefits of Real Estate Investing

Income	Real estate can provide consistent income to underlying investors through the generation of cash flow from these properties.
Capital Appreciation	Real estate can appreciate in value as a result of: • Local market appreciation: This is most likely the result of strong localized geographic drivers such as job growth. • Increased demand for the real estate asset: Examples of this could include increased demand for warehouse space or increased demand for self-storage facilities both as a result of population growth. • Value-add investments: Examples would include remodeling or changing the use of a property in order to increase the expected value of rents or sale price for the asset. • New construction: Significant value is added to a property through the construction of a fixed asset on the land. This could be a building, single-family home, warehouse, etc.
Diversification	While real estate values are likely to be impacted by broader macroeconomic factors, in general, real estate has a low correlation to most major asset classes. This can lower total portfolio volatility over time.
Leverage	Leverage of the asset class can increase returns to investors as lenders will provide capital for between 60-80% of the asset value. This is the result of holding a tangible asset that can serve as collateral.
Inflation Hedge	In general, inflation is the result of both GDP growth and the subsequent increased demand for real estate. Real estate can pass inflationary pressures to tenants through increasing rents.
Defensive	Certain real estate assets can be highly defensive during times of economic stress. These usually include mobile home parks, affordable/workforce multi-family housing and self-storage. More affordable real estate can be highly attractive during times of job loss or reduced wages making it an attractive investment during tough economic cycles.
Tax Benefits	Real estate investors can take advantage of the depreciation tax benefits of real estate, reducing taxable income from other income sources.

Drawbacks of Real Estate Investing

Illiquid	Real estate is illiquid which means that it can take considerable time, effort and expense to sell an asset.
Influenced by Geographic Factors	Real estate is highly correlated to localized geographic factors including population growth, job growth, and increased supply of similar properties being built.
Large Initial Outlays	Real estate takes significant capital to purchase or build, necessitating meaningful capital at the front end of the investment.
Can Require Active Management & Expertise	In many cases, real estate will need to be actively managed which may take specialized expertise.
Interest Rate Risk	Increases in interest rates can hurt the returns of real estate given the greater burden of interest cost on a property.
Supply vs. Demand Risk	Overbuilding of certain real estate assets may hamper future price increases and could negatively affect the valuation of an asset. Additionally, economic slowdowns could reduce the demand of certain real estate assets (i.e. less warehouses needed given waning e-commerce growth).

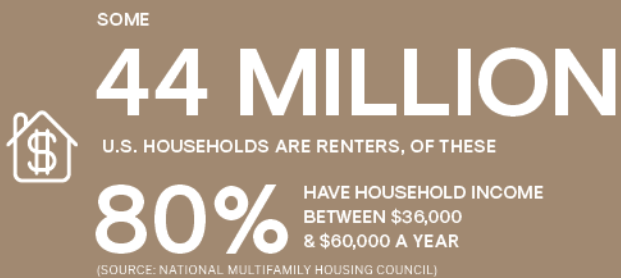
Impact Investing in Real Estate

There are numerous ways to invest in real estate that produces a positive impact on society or the environment. These include:

Affordable Housing

Underinvested in for decades despite strong growth in demand, we believe that quality affordable housing is both a prime investment opportunity as well as a way to help alleviate the US housing shortage. Our focus at Citizen Mint is finding those investments in the private markets that fund affordable housing – either through debt or equity – that are most likely to deliver a reasonable return on investment as well as quality housing for families.

FOR PERSPECTIVE:



ABOUT

25% OF U.S. HOUSEHOLDS WERE ALREADY LIVING IN SOME TYPE OF AFFORDABLE HOUSING IN 2019

AND WE BELIEVE THIS NUMBER HAS

INCREASED



SINCE THEN DUE TO A SURGE IN RENTS THE PAST TWO YEARS

(SOURCE: CENSUS BUREAU 2019)



FOR EVERY

100

LOW-INCOME HOUSEHOLDS, ONLY

37

AFFORDABLE HOMES ARE AVAILABLE & NO SINGLE STATE HAS AN ADEQUATE SUPPLY.

(SOURCE: NATIONAL LOW INCOME HOUSING COALITION (NLIHC))

Regenerative Agriculture

Regenerative agriculture is the process of managing farm land in a way that restores the soil for long-term use. This is done through limited tilling, covering exposed ground between crops, composting to increase the health of soils and crops, and planting diverse crops. The benefits of regenerative agriculture include:

- Healthy soil
- Increased water holding
- Reduced erosion
- Increase production
- Reduced air and water pollution from dust, manure, pesticides and other chemicals
- Increased sequestering of carbon

Green Building

Through new technologies, developers have been able to dramatically reduce the carbon footprint of buildings. This includes rain water collection systems that provide water for toilets and irrigation of onsite landscaping. It also includes solar arrays and on-site battery storage for power generation. More recently, cross-laminated timber (CLT) has been utilized to reduce the necessity for concrete and steel in certain buildings. Given the renewable nature of timber products, the reduction in concrete and steel can significantly reduce the carbon intensity of the building.

Case Study

The Unisphere in Silver Springs, Maryland



This 135,000 square foot building which opened in 2018, is the world's largest net-zero building. The building produces more energy than it consumes from 3,000 solar panels with the excess energy sold to the grid. Additionally, the building has extensive technology throughout to coordinate advanced heating and cooling systems.

Timberland

If taken care of properly, timberland is a highly renewable resource given the regenerative growth of timber over time. Further, through new technology such as cross-laminated timber described above, it has the ability to replace carbon intensive materials in new buildings.

Summary

As show in this guide, real estate properties can be highly differentiated from each other and provide a plethora of interesting investment opportunities including those that can have real and measurable positive impacts on society and the environment.

DISCLOSURE

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or longer. There is no guarantee that the amount of the initial investment can be received upon redemption. Due to the nature of the tax reporting that may be available from these types of investments, clients should expect to extend the filing of their tax returns.

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