



# UNLOCKING THE POTENTIAL OF PASSIVE REAL ESTATE INVESTING

In the world of investing, passive real estate remains an overlooked but powerful asset class. On their most recent episode of "20 Minutes of Clarity," Jason Noble and Andy Merchant, discuss the benefits of utilizing passive real estate to aid in creating a well-rounded investment strategy. Read on to discover why this is a potentially ideal investment strategy for those wanting the benefits of real estate without the time commitment associated with it.

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## WHAT IS PASSIVE REAL ESTATE?

Passive real estate investing allows you to earn income through properties without the day-to-day hassles of being a landlord. It's essentially putting your money to work in properties. This is done by leveraging other people's expertise, like property managers and real estate professionals. It can help create a source of income, as well as help diversify your portfolio across different markets— all without the stress of active property management.

## TERMS TO KNOW

Before getting started here are some key terms in understanding a conversation around real estate:

- **Depreciation:** This is a tax deduction that allows investors to recover some of the property's cost over time. For example, when you purchase a property, it has a roof. The roof has a lifespan. The tax code allows you to use a formula to deduct it, giving you little drips of tax benefits.
- **Bonus Depreciation:** This tax benefit allows you to deduct a percentage of the amount of a depreciable asset in a single year. It's essentially a way to get a little bit more tax benefit today, which frees up cash flow on a very strong income producing property. *Important to note: This benefit has scaled back from 100% in 2022, to only 60% in 2024.*
- **Cost Segregation Study:** Also known as cost seg, this strategy helps investors get granular in solving for depreciation by breaking down properties into components. For example, you will have tenants utilizing everything from the appliances to the floors, and that's important to factor in for the lifespan of a property. It can help with maximizing tax benefits, ultimately enhancing your cashflow.
- **Recapture Tax:** This is the process of paying taxes on depreciation benefits when the property is sold, and it's not the same as a capital gains tax, it's higher. So, you'll want to make sure you have an exit plan when you decide to sell. Understand that anytime you get a tax benefit upfront, you're probably going to have to recognize it somewhere or have some strategy to continue to defer it. Remember, there is no such thing as a free lunch.



## BUILDING YOUR TEAM

The complexity and knowledge base needed in passive real-estate investing can bar many from participating. However, a team of experts can help fill gaps in knowledge, as well as help secure the long-term gains possible in passive real estate. Some key players you'll potentially want on your team include:

**Real Estate Agent:** Essentially your eyes and ears in the market. A knowledgeable real estate agent can help you find properties that meet your investment criteria and negotiate the best deals.

**Property Manager:** Crucial for passive real estate investing, a reliable property manager handles day-to-day operations, tenant issues, and maintenance, which ultimately helps free up your time.

**Accountant:** A good accountant, or CPA, who understands real estate will help you maximize tax benefits, such as depreciation, and help ensure your financial records are in order.

**Attorney:** A real estate attorney confirms all your transactions are legally sound and will help you navigate complex legal issues involved in real estate.

**Mortgage Broker:** A mortgage broker can provide you with some of the best financing options and help you understand the terms of your loans, an essential in maintaining a positive cash flow.

Your team will be a huge factor in your success. Since these are the folks who will be doing the leg work for you, you'll want to make sure they have a proven track record alongside expertise.

## STRATEGIES FOR SUCCESS

To get the most you can out of passive real estate, you'll want to know these common approaches used to maximize profitability and utility:

**1% Rule:** A guideline for determining rent. It suggests rent should be set at 1% of the property purchase price. This means that if you buy a property for \$300,000, you'll want to set rent at \$3,000. This will help with stabilizing cash flow and budgeting. If you want to be more aggressive here, you can bump that to 2%.

**Types of Rental Properties:** This includes single-family, multi-family, duplexes, triplexes, quads, and short-term rentals. Shifting between property types will help you diversify your portfolio, and each rental type offers its own benefit as well. Single-family homes may offer stable, long-term rental income, while multi-family properties can provide higher cash flow through multiple rental units.

**House Hacking:** This is when you live in a property while renting out rooms or units to generate income, i.e. getting a roommate for the single-family home you purchased to offset the cost of your mortgage.

**1031 Exchange:** A strategy to defer capital gains taxes by reinvesting in similar properties. This allows you to sell a property and immediately exchange it for a like type property. For example, maybe you're tired of being on one side of the town and you want to make a move, or you want to go from a single-family real estate to a multi-family to help diversify revenue. It's allowed, you're just going to take the proceeds of the sale of your first property and exchange it for another property, continuing deferral. The best part is you get a restart depreciation all over again.

Your team will assist in determining which strategies will work best for you and the market you are looking to enter, helping ensure you make informed decisions for long-term success.

While passive real estate investing demands more expertise and groundwork than other investments, the long-term rewards can potentially transform your portfolio. The right knowledge, strategies, and team will assist in reaping the long-term gains without the fuss of direct, active property management.

If you're interested in exploring more about passive real estate investing, listen to the full episode of ["20 Minutes of Clarity" here](#).



Want to talk with a professional about how you can leverage passive real estate?

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