



## ***Investing in Real Estate versus Stock:***

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Real estate investing can be an amazingly profitable and a simple investment vehicle. It can be markedly better than other investments. Think about it, banks and lending institutions work very hard to lend you money for real estate and do not do the same for stock purchases, or most any other appreciating assets. Why?

Imagine you have \$100,000 in cash to invest and you're looking at the stock market versus rental properties. You can buy \$100,000 worth of stock, unless you buy on margin. The reality is, most investment houses only allow margin purchases with certain stocks and up to about 30% of the value. If stock goes down in value, you get a "margin call", and you must pay a portion of the lesser value, so your % of debt-to-value remains acceptable to them. For the purpose of this illustration, let's say that most stock market investors pay entirely with cash, just like you do, so most of the time, \$100,000 in cash buys you \$100,000 in stock.

You can pay all cash for a rental property, but remember, mortgage lenders strongly encourage you to borrow money from them. You can borrow 90% of the value of the property, and the renters will generate rental income for you to breakeven, or receive a positive cash-flow, depending upon your personal investment strategy and how wisely you invest.

Mortgage lenders consider real estate a safe and secure investment. Interest rates are lower for real estate loans than for business loans or credit cards because there is less perceived risk in real estate. And, lenders will lend you most of the cost of the purchase. Banks think real estate is a safe investment. Do you? Let's compare a little more.

With your \$100,000 in cash, you can buy a \$1 million worth of real estate. The advantage is **LEVERAGE**. If both stocks and real estate go up 10%, your stocks would make you \$10,000 with a 10% return on investment, versus \$100,000 gain in real estate with a 100% return on investment.

\$1 million in real estate assumes you did your Due Diligence, and did not buy a property that is actually worth less than what you paid, and that you did not get a bargain price, although both are possible. Banks will not lend you money to buy a property that, after appraisals and inspections; proves to be of lesser value than the value of the offer you made. The contingencies in your contract, if written well, can protect you from having to follow through and buy the property without financing if the appraisal and the inspections don't bring in the value.



What about control over the value? To increase the value of your real estate, you can do hundreds of things to dramatically increase the value, by improving the look and feel, such as paint, remodel, replace existing landscaping, install air conditioning, and so on. There is little you can do with a stock to increase its value.

What if you want to use some of the increase in value in your stocks? You must sell them and pay capital gains tax (check with your CPA for your particular situation). Selling some of your portfolio will decrease the amount of value invested that may create future gains. You don't have to sell real estate to use the gain in value. If you do a **cash out refinance**, you will still own the property and the full value may appreciate again. You may continue to **receive passive income** from your renters (if that is your personal investment strategy), and you won't pay capital gains, because the cash is not income. You may still make money with **amortization** because the renter's payment, may pay down your loan balance, and you may be able to write off **depreciation** (check with your CPA).

Real estate is a far better investment than other investments. You can use **leverage** from the mortgage lending institutions. You have **control** to make improvements to your real estate to increase the value, more than the cost of the improvement, and you don't have to sell, to use the increase in value. Real estate may be great vehicle for you to achieve financial freedom, so you may pursue your dreams!

*This is a simplified example of how real estate can work for you. It does not include all of the costs related to both stock and real estate transactions. It is meant only to get across key concepts.*