The Benefits of Passive Apartment Investing

Regarded as an alternative asset class when compared to bonds and stocks, real estate is an excellent way to create wealth. Real estate investing can be categorized under two broad categories: active and passive investing. While active real estate investing requires the investor's knowledge and participation, passive investing takes a more laid-back approach that does not require the investor's hands-on effort.

Although an unchartered territory for most investors, passive real estate investing is quickly starting to gain popularity. The minimal investor effort required in this type of investing makes it an ideal choice for most people looking for a passive income stream.

Here, we discuss some of the benefits you can get through passive apartment investing:

1. Portfolio Diversification

Passive apartment investing allows for portfolio diversification. While most people cannot access the high acquisition prices of most real estate investments, passive investing will enable investors to pool capital and invest as a group. This offers portfolio diversification through several ways, which include:

- Investing in multiple asset classes
- Investing in multiple properties
- Investing in multiple locations
- Investing under different investment strategies
- Varying investment durations

Adding passive real estate investing to a portfolio of diversified assets can lower the portfolio's volatility. Reduced volatility leads to a higher return per unit of risk.

2. Appreciation

Real estate, unlike stocks and bonds, is a tangible asset that has value. Over time an apartment investment appreciates through land and property improvements. As a passive apartment investor, you'll earn through appreciation, rental income, and profits from property-dependent business activity. As the prices of real estate properties increase over time, a good investment can earn you profits by selling when the time is right. Rent income also increases over time, in turn increasing the cash flow.

3. Increased Purchasing Power

Passive apartment investing helps you build your equity and wealth. As a property's mortgage is paid down over time, you build equity- assets that form part of your total net worth as an investor. As your equity increases, you get the leverage to purchase more apartment properties. Increased purchasing power increases your cash flow and wealth even more.

4. Tax Break and Deductions
Compared to investing in the stock market, when investing in the stock market, the investor does not physically own any stock. There is no tangible item that can depreciate in value, meaning it cannot be written off. However, in real estate, the exact opposite is true.

The IRS allows you to deduct any business items with a shelf-life from your taxable income. When it comes to real estate, landlords generally have a great deal of “business items” that depreciate in value – including the property itself.

Understandably, the building itself along with other parts of the property will deteriorate over time if not maintained. The IRS knows this and allows this to be used as a tax benefit for real estate investors.

The lifespan of a property varies depending on the property type. For commercial real estate, the lifespan as determined by the IRS is 39 years. For residential property, the lifespan is classified as 27.5 years.

This is a great incentive for passive investors – especially those in residential real estate. Suppose your residential property is valued at $1,000,000. Because the IRS classified the lifespan of residential property at 27.5 years, this is the number you will divide the property by to determine depreciation.

In the above example, $1,000,000 divided by 27.5 years equals roughly $36,363. This is the amount you would be able to deduct from the income of the property each year.Essentially, this allows the investor to show lesser profits from the property each year, thereby reducing the amount owed in taxes.

5. Passive Income Stream Passive apartment investing allows real estate investors to generate money through rental income and asset appreciation. Through real estate investments trusts (REITs), real estate investors are offered the chance for a hands-free investment. With eye-catching return on investment (ROI), passive real estate investing provides investors with multiple income streams.

6. Cash Flow Cash flow can be described as the net income of a real estate investment after deducting operating expenses and mortgage payments. A good passive apartment investment will provide a reliable and predictable cash flow stream. Over time as the mortgage is paid down, the cash flow is only likely to strengthen and help you build equity. While receiving a constant cash flow stream from any investment is very rewarding, it is even more satisfying when you do not have to spend your time managing the investment.

Need help setting up a passive apartment investment?

Crown Capital Management LLC will help you set up a passive apartment investment plan complete with an exit strategy. Led by founder Kevin Greer, a multifamily real estate investor, Crown Capital Management helps working professionals and their families invest in apartment communities. Passive investment in apartments creates a passive income stream and tax benefits without the hassles of directly managing tenants. Passive investing allows you to stop worrying about paying for life's adventures and simply start enjoying them.

At Crown Capital Management, LLC, we partner with working professionals and everyday investors in multifamily real estate syndications to create passive income and unrivaled tax benefits. Our conservative, value-add and turnkey offerings preserve investor capital while still outperforming the stock market. Call us today to set up a free consultation, and we'll walk you through the journey of passive apartment investing!