5 Ways Value-Add Real Estate Investing Fits into a Portfolio

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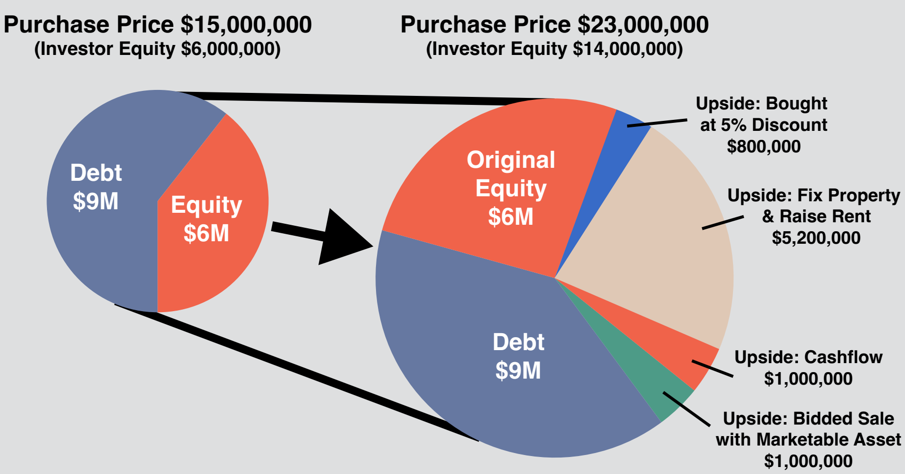
What is Value-Add Real Estate Investing?

This is a strategy focused on buying assets with untapped value. It aims to add value to the asset through various improvements. Because these assets generally have in-place rents below current market rent due to mismanagement, much of the added value comes from bringing those rents up to market.



While the strategy does harvest cash flow, it is more focused on high total return. Typically, value-add assets double the invested capital while generating an annual internal rate of return (IRR) of 15–17%+. This is because value-add investing is an active value creation strategy, not just passively collecting rent.

In layman's terms, value-add investing is like your favorite house-flipping show turned up. Both strategies unlock the asset's value and fix it up. But unlike small-scale house-flipping, value-add investors invest in cash flowing assets and have a specific strategy they execute quickly to generate the most value and the highest returns as quickly as possible.

1 A High-Return Strategy

Value-add real estate investing is designed to be a high total return generating part of a portfolio, typically yielding 15-17% IRR (annual internal rate of return) or higher. This is because the strategy focuses on active, controlled value creation versus passive ownership. Most of the value creation comes through actively growing net operating income (NOI, which is EBITDA for real estate).

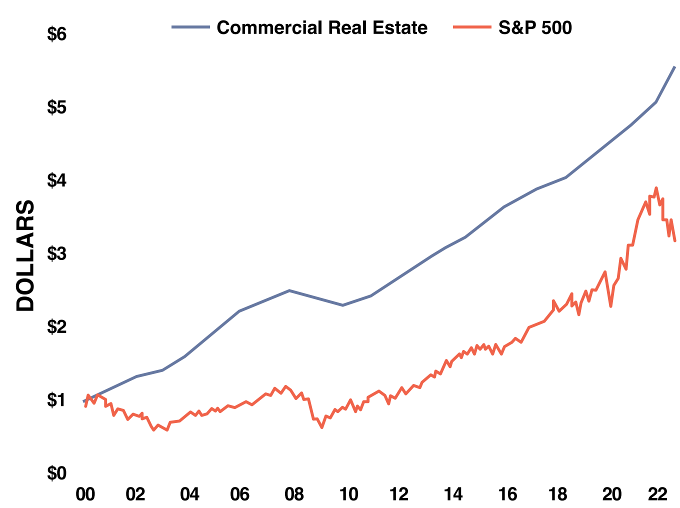
Typically Graceada Partners purchases properties with in-place rent that is 15-40% below current market rent, allowing the ability to quickly grow NOI and value. Once NOI has been raised as much as possible, the asset it sold to achieve the highest total return possible.

2 Low Correlation and Volatility

Historically private real estate (not publicly traded REITs) have exhibited low correlation to the stock market and low overall volatility. Private real estate is one of the least correlated investment classes to the stock market, providing for portfolio diversification that does not move with the stock market. In contrast, REITs (publicly traded real estate) are highly correlated to the stock market and do not provide diversification away from the stock market.

Private real estate is also significantly less volatile than the stock or bond markets. Rather than the large peaks and valleys in stock prices, real estate pricing moves more consistently and predictably. Consequently, value-add real estate investing provides equity-like returns without the volatility. In addition, rental income increases with inflation providing a strong hedge against inflation.

Commercial Real Estate Returns Less Volatile Than Stocks



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3 More Control, Less Risk

Value-add real estate investing is an actively-managed investment strategy that actively creates value in any market cycle. The investment is not reliant on passive, external market forces to create value. Instead, the investment manager actively increases net operating income (equivalent to EBITDA) and value through a hands-on management strategy. Consequently, income can increase in any real estate market cycle. When the real estate market is up, returns go up; when the market is down, value-add properties retain their value better than others.

Real estate has intrinsic value that is preserved over time. It is a physical asset and, as the saying goes, “they’re not making any more land.” In addition, cash flow from rents (which are brought up to market rate) help provide a safer investment regardless of market cycle.

Finally, Graceada’s approach is a low leverage (debt) strategy. Portfolio leverage is typically around 55%, which provides cushion against market declines.

4 Institutional Real Estate Access

Investing in value-add real estate also gains access to institutional sophistication and execution. Today, smart investors are able to access value-add real estate strategies that had historically been the purview of sophisticated institutional investors (pensions, endowments/foundations, and family offices). Firms that operate in this space tend to be highly competent and experienced investment managers with a history of generating high returns and lasting value with low risk. They operate at a larger scale and with a higher degree of expertise and sophistication than a private real estate investor.

Graceada’s strategy typically involves acquiring properties in an “off market” manner, meaning the property was not listed or widely marketed to prospective buyers. Instead, these properties are bought before they are listed or after a listing or marketing effort has grown stale.

5 Passive Investment

As a passive investment, value-add real estate affords investors all the benefits of direct real estate ownership: depreciation (tax loss), appreciation and and the intrinsic/retained value of a hard asset.

Meanwhile, passive investors in a value-add real estate fund avoid the big three challenges of traditional real estate ownership: tenants, repairs, and vacancy. While handling these challenges, the investment manager also creates value by actively increasing income (rather than simply collecting rent).

Consequently, value-add real estate investing combines the benefits of passive investing with the benefits of active value creation.

Why Graceada Partners?

Unique Strategy

- Asset Types with Long-Term Demand and Low Risk
  1. Multifamily and multi-tenant industrial assets
  2. Shorter leases allow for maximum inflation hedging
  3. Acquiring existing assets means no development risk
- Markets with Growth and Opportunity
  1. Long-term positive population growth
  2. Highly inefficient markets with limited institutional

Opportunistic Returns

- 17%+ IRR (annual return) and +2.0x multiple

Control of Investment Outcome and Risk

- 15+ years working in these markets
- Fully integrated investor
- In-house property management, construction management, and asset management
- Acquiring properties with in-place rent 15–40% below current market rent

Seamless Wealth Management Integration

- Special economics for clients
- Integrated on the Schwab platform
- Easy integration onto the Fidelity platform
- Experience with feeder funds and proprietary funds