

Introduction to Real Estate Investing

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Two hundred and twenty-eight *trillion* dollars.

That is the value of the world's largest asset class: real estate. Every property in the world was developed by someone, is owned by someone, is utilized by someone, and was bought or sold by someone. Along the way, those people have physically changed our planet, forged careers, and made money. In many cases, lots of money. Fifty of the 400 wealthiest Americans made their fortunes investing in real estate...and that doesn't even include the US President whose business wealth is based on property development.

But making money in real estate is not limited to billionaires. This is truly an industry in which *you* can significantly increase your wealth, whether you are starting out with millions of dollars or with nothing at all, whether you are a risk taker or a conservative investor, whether you are a finance expert or a complete neophyte. That's because "real estate" is a very broad term that covers a spectrum from highly risky, entrepreneurial, development all the way to investing in some of the safest, lowest risk, assets.

Let's begin our journey by discussing what makes real estate fundamentally different from other asset classes, walk through the life cycle of a property, explore the basics of real estate financing, and summarize more than two dozen ways to get involved in the industry.

Why Real Estate is different from everything else

It would be understandable to think about real estate as just one of many fields of business activity, such as computer manufacturing, grocery sales, or movie making. In fact, real estate is unique...so much so that there is a whole body of law that applies *only* to real estate, and a whole discipline of finance that applies specifically to real estate, because of its unique characteristics. Understanding these differences

is foundational to any type of real estate investment, so that's where we'll begin.

Real Estate starts with land

There are virtually unlimited types of property, from physical objects you can own, to government issued currencies, to corporate securities, bonds, and other financial instruments, to intellectual property such as copyrights, even to digital properties such as tokens and cryptocurrencies. But what all of those have in common is that they are not land, so we refer to them as *personal property*.

Land is a very special thing, whose unique attributes have caused it to be treated differently from every other type of property dating to as far back as the Persian Empire. Land means the surface of the earth at a particular point, extending down to the center of the planet and upward to infinity, including everything that nature has permanently attached to or included in it (such as boulders, trees, minerals, and water). Because land relates directly to the earth, (a) there is a finite amount of it, (b) every single piece of land is, by definition, unique, and (c) it is immovable. You can't say this about any other form of property.

Then we add the buildings

While the definition of land is a natural one, *real estate* means more than land: real estate includes land *plus* everything that is permanently attached to it, regardless of how it got attached. This is a fundamental and critically important rule to understand. Why? Let's say that I rent you a piece of land for 20 years and you build a house on it. For 20 years you happily live in the house, and at the end of your lease you move out. Logically you would think that while you no longer have the right to live there, I should buy the house from you, since it cost you a lot of money to build. But that's not the way it works! The minute you permanently attach that house to my land, it becomes part of *my* real estate. So once your lease on the property is up, so too is any right you have in the house. You can't even take the house down before your lease is up because it became *my* property as soon as it was attached, and you have no right to demolish what I own.

Real property is even broader

We tend to use the terms "real estate" and "real property" interchangeably, but they're different things. *Real property* is a broader

term, devolving down to us from British Common Law. It means real estate (ownership of the land and buildings) *plus* the whole bundle of legal rights that come with it. These include the right to mine for minerals under the ground, the right to lease the property to someone else, the right to build—or not build—something on the land, the right to quietly enjoy it, the right to sell or dispose of the land, and the right to bequeath it to someone else when you die.

It is important to clearly understand the full definition of real property because anything and everything you do to make money with real estate will involve somehow buying, selling, or using those rights.

The Life Cycle of a Property

Although there are several types of real estate investments and transactions that deal with unimproved land (things like timber stands or oil fields or farmland) most of the real estate you are likely to be working with will include both the land and one or more buildings that you or someone else have built, or will build, on top of it. Each of those buildings, like each of us, have a life cycle ‘from dust to dust’, and different real estate investment activities come into play at the different phases of a building’s life and the transitions between them.

Property identification

Every parcel of land is unique. An investor therefore begins by deciding on which specific parcel to focus. This can be done by working with brokers, walking the streets, doing online research or in myriad other ways. Many successful investors will tell you that the bulk of their real estate value creation has come from the initial selection of the property or site. As a century-old rule of real estate has long admonished, the three most important aspects of a property are “location, location and location”.

Title research

You cannot buy something that the seller does not have the right to sell to you, so an important piece of any real estate transaction is to determine who truly owns the property, referred to as the “title”. Every parcel of land within a country can be traceable back to its ownership by the government—which in turn originally acquired it through discovery, conquest, or purchase. The *chain of title* then goes step by step from the first time the government transferred the property to a

private owner by sale or grant, down the centuries to the present owner. This is critical (imagine spending \$100 million on a property only to find out that you don't really own it). Every property purchase is supported by *title insurance*, a specialized form of insurance for which the purchaser pays, to guarantee that what they paid for is what they get.

Financing

Unlike other types of assets, real estate is permanent, can't be removed, and maintains its utility (and thus value) across the life of the property, which is typically measured in decades, if not centuries. For this reason, there is an entire industry built around the financing of real property. From simple home mortgages to complex hundred-year ground leases, a large part of the profit to be made from investing in real estate often comes from structuring the capital and cash flows related to a real estate investment. It is therefore a relatively unusual case when a purchaser simply writes a check for the full purchase price of a property, and much of the expertise in real estate investing involves understanding different financing options and negotiating to acquire the funds needed to acquire the property.

Acquisition

The unique characteristics of real estate result in an entire separate body of law that covers the sale, purchase, financing, and leasing of real property. There are also a whole set of state and local regulations with which you need to comply. It is therefore necessary to engage the services of a specialized real estate attorney to guide you through the process, whether you are buying, selling, building, renting, or lending. This can be costly (easily running into the multiple hundreds of thousands of dollars for a single large transaction), but the consequences of doing even one small thing incorrectly and invalidating a \$100 million investment can be so Draconian that even the most experienced practitioners would never dream of trying to close a real estate transaction on their own.

Entitlement

Even though you may own a piece of property, the government has the right to control what you can do with it. This power is held by the state, which in turn usually delegates it down to the town or county level, where *zoning codes* or other land use regulations clearly lay out

your permitted options. These rules can cover the use (residential, office, manufacturing), density (such as one house per ten acres of land, or seven times the floor area of the plot), design (height, façade, setbacks, even paint colors), and much more. For developers contemplating making changes to a property, or constructing a new building from scratch, enormous value can be created by working with the local government to increase the permitted development scale or uses.

Construction

Building a new structure on a property you own, in compliance with the relevant land use regulations, is the purview of the construction industry, accounting for over \$1.3 trillion each year in the US. Constructing a small, single-family house might be within the capabilities of a specialized homebuilder, who maintains an in-house, full-time, staff. Large projects, however, can often require the careful coordination of more than 200 different companies. It begins with the developer selecting an architect and engineer to design a building in conformance with the entitlements, and then bringing on a crew to physically realize the structure. This part is hierarchical, with construction workers such as carpenters and plumbers working for smaller firms serving as *sub-contractors* to a firm that manages the entire project. These can be companies that guarantee to build the building for a fixed price (known as *general contractors*), or companies that manage the process on behalf of the owner (known as *construction managers*), or even the owners/developers themselves.

Asset Management

Once a property is ready to be leased, and throughout its occupancy, someone needs to call the shots on behalf of the owner. This role is known as *Asset Management* and involves deciding on the terms under which the tenants will occupy the property, the physical maintenance of the buildings and land, and the day-to-day operations of the property. In many residential situations, the tenant typically pays a monthly rent to the property owner, who provides a standard level of property maintenance subject to the terms of a contract called a *lease*. This can be extremely simple (the tenant pays \$1,000 per month for 24 months), but for large, commercial leases the terms can be mind-numbingly complex, with leases covering decades and running to hundreds of pages covering renewals, escalations, profit-sharing, work-letters, Good Guy guarantees, and many other terms. The asset

manager, as the owners' representative, supervises the brokers, property managers, and bookkeepers, and provides advice to the owner on the programming, pricing and eventual disposition of the property.

Leasing

Once construction of the building has been finished, it can begin generating value, which ultimately comes from the people or entities who occupy the property and use it for residential, commercial, or manufacturing purposes. In the case of a single-family home owned by the resident, there is no rent being paid, but the value the property generates is the opportunity cost of what the resident would have been required to pay in rent for a similar home elsewhere. Finding a tenant to rent a property is the role of a *Real Estate Leasing Broker*, reporting to the Asset Manager, whose job it is to bring together properties and tenants. Brokers, and the real estate agents who work with them, are specially trained and licensed professionals who are familiar with the myriad rules that govern property transactions, and who only earn their fees once a transaction closes. Neither owners nor tenants are required to use the services of a broker, but it is an indication of the value they provide to all parties that in the United States 93% of residential sales and leases, and nearly 100% of commercial ones, are facilitated by brokers.

Property Management

The *Property Manager*, also reporting to the Asset Manager, is responsible for the day-to-day operations of the building and grounds. This includes collecting rent from the tenants on behalf of the owner, keeping the property in good repair, hiring and managing the building's service staff, and arranging for outside services such as snow and garbage removal. Property managers are compensated either by a flat fee per property or by receiving a percentage of the rents collected.

Disposition

At some point after a property has been developed or acquired, and then held for some time by the owner, the economic analysis that informed the original purchase will have fundamentally changed. This is caused by a combination of wear and tear (or improvements) on the property, changing market conditions, and changing economics. Depending on the specific situation, this change might happen in

anywhere from a few years (for a new development once it has been fully leased up and stabilized) to a few decades (for a recently renovated, fully stabilized property with long-term tenants). At that time, the property owner may decide to sell the property to a new purchaser and use the proceeds of the sale to acquire or develop another property, starting their investment cycle over again. As with leasing, the job of finding a purchaser for the property falls to a *Real Estate Sales Broker*, who is paid a commission by the seller once the transaction closes.

Renovation / Reconstruction

When a new owner acquires a property, they have often done so with the intention of undertaking a significant new investment in it. The money and effort they put in to renovate, upgrade, or even completely rebuild the property resets the economics of the investment and restarts the cycle for the property once again. Land (the basis for real estate) is permanent and not going anywhere, so this cycle continues in perpetuity. In the early cycles, it is usually feasible to ‘fix up’ the property and bring it to current market levels, but at some point, the original structure will have reached the end of its functional life, and the next purchaser will acquire the property with the intention of tearing it down and building a completely new building.

Careers in the Real Estate Industry

At each stage in the life of a property there are specialists involved in creating and preserving value. While ‘real estate investing’ usually implies buying a property with money and selling it for more than you paid, most people who engage in real estate as a career—often making lots of money from it—are not actually investors. As you look through the various ways to invest *money* in real property, you may also want to consider investing *yourself* by exploring one of the many careers in the industry that make direct real estate investing possible:

- Real estate developer
- Real estate broker
- Mortgage broker
- Real estate loan officer
- Home inspector
- Real estate appraiser
- Real estate agent

- Real estate attorney
- Title insurer
- Architect
- General contractor
- Asset manager
- Property manager
- Leasing agent
- Real estate marketing specialist

The Three Major Categories of Real Estate

While all real estate consists of land plus whatever is on it or in it, for investment purposes there are three major categories of real properties, with investors and industry professionals tending to operate exclusively in one of them.

Single Family, Owner-Occupied Homes

The large bulk of the real estate market consists of houses that are owned by the families that live in them. As of 2026 there are over 87 million owner-occupied homes in the United States, accounting for over \$48 trillion in value. These are what most people imagine when they hear the term ‘real estate’ and are where most real estate professionals and investors concentrate their efforts. It is quite possible to begin investing in single family, owner-occupied, homes with no money of your own, and scale your activities to many millions of dollars.

Commercial Real Estate

Commercial Real Estate, commonly referred to as CRE, consists of developed properties that are not owner-occupied homes, where one party typically owns the property and leases it to another party to use. CRE includes multi-family apartment buildings, office properties, health care facilities, retail stores, sports arenas, hotels, industrial buildings, data centers, self-storage centers, broadcast towers, and many other types of properties. This category also includes the rapidly growing sector of Single Family Residential rental properties (SFR) in which an owner controls multiple single-family homes and rents them out to families to occupy. In total, Commercial Real Estate accounts for over \$27 trillion of value in the US.

Vacant Land

The final category of real estate is that of raw land. While its total economic value of less than \$25 trillion is less than that of developed properties, its pure scale is breathtaking. In the US, 654 million acres of land are used for livestock grazing, 539 million for forests and timber, and 391 million for agriculture. Taken together (and not including *any* other uses of open land), that commercially used vacant land accounts for 85% of the surface area of the United States, and there is an active market in buying and selling it.

The Four Broad CRE Investment Strategies

In considering an investment in commercial real estate (that is, anything other than a single-family home you plan to sell, or a vacant piece of land), there are four broad strategies that encapsulate their risk and return profiles based on the type, quality, location, strategy, and risk profile of an individual property. Each strategy implies a particular level of future investment and hands-on involvement, so investors tend to focus on one, or at most two, of these strategies.

Core

Core properties are the top of the food chain in real estate, representing the highest quality, lowest risk, investments. They are the closest you can get to ‘set and forget’ if you are seeking a steady return, and therefore command the highest prices—and provide the lowest opportunity for value creation—of investments. Core properties, whether office or multi-family residential, are typically high-quality buildings, in high-quality neighborhoods, in high-quality regions, purchased with relatively low amounts of debt. They are fully leased, with high-quality tenants backed by high-quality guarantors, paying rent regularly on long-term leases. Their low risk is similar bond investments and generally provide similar returns with little variability.

Core Plus

Properties that are generally like Core, but in neighborhoods that are not quite as good, with solid-but-not-the-best tenants, where some fix up work may be required and where the property may have been financed with up to 60% of debt, are referred to as Core Plus.

These are not *quite* as secure as Core properties so the returns they provide need to be higher and generally have some variability.

Value Add

Investors who are prepared to put in time and money to improve a property after they purchase it look for Value Add properties. These buildings may have challenges with the actual property requiring a significant investment in renovation. They may have challenges with leasing rates or with tenants who are problematic. They may need to be repositioned and rebranded in the market. All of this makes these riskier investments than Core or Core Plus...but if the purchaser can deal appropriately with the issues, there is the potential for serious value creation and price appreciation. Value Add properties are often purchased with significant leverage of up to 80% but can provide significantly higher returns to compensate for the additional risk.

Opportunistic

Finally, the riskiest strategy in real estate investing—but the one with the highest potential returns—is in Opportunistic properties. These provide the opportunity for significant value creation by developing (or re-developing) a property from the ground up, using as much leverage as a bank will give you. The property will likely have no returns at all during the first few years when the development is happening, so investors in Opportunistic deals need to be patient, optimistic, and willing to take the risk that once the project is completed there will be a ready, willing and able market to buy or lease it at appropriately high numbers. This means that the track record and reputation of the developer (referred to as the Sponsor) is typically a very important factor affecting the investment decision. For those investors willing to risk it, Opportunistic investments typically target high cash-on-cash returns (known as the current yield), and even higher total returns calculated retroactively (known as the Internal Rate of Return, or IRR) once the property is resold at a higher price years in the future.

Where the Money Comes From

Real estate, with its high value, immovability, and long-term, cash-flowing characteristics, is a unique asset class, and most properties are not purchased with all cash, the way you might buy a diamond ring or a yacht. Instead, pulling together the total amount of

money necessary to close the transaction is one of the biggest challenges in real estate investing. The combination of all sources of funds used to buy a property is known as the ‘capital stack’ and can consist of up to half a dozen different components from many different participants.

Common Equity

This is the money that the buyer pays the seller from his or her own pocket, and in exchange gets ownership of the entire property. The good news is that if and when the property appreciates in value and is sold in the future, the Common Equity gets *all* of the profit that remain after repaying any loans. On a major property this can be a lot of money, and the Return On Equity is where most of the major real estate fortunes were made. The bad news, however, is that if the property does *not* appreciate in value the way the owner hoped, and if expenses rise while rents fall and the property begins to lose money—or is sold for less than the purchase price, *all* of the loss comes out of the pocket of the owner before anything else happens. Properties can be expensive, and equity cash is a risky investment, so active real estate investors will often bring in other investors (known as *limited partners*) to provide some or most of the risk capital to make up the Common Equity. In exchange for doing all of the work in pulling together the investment, the primary investor (known as the *sponsor*) will typically receive a *carried interest*—a percentage of the profits—in addition to whatever equity they purchase with their own cash contribution.

Preferred equity

Next up in the capital stack is a type of financing that is seeing increasing usage but is still relatively rare in real estate transactions. *Preferred Equity* is an ownership interest in the property like Common Equity, but with some very big differences. While Pref Equity (as it is commonly referred to) gets paid *after* all the loans are repaid (making it riskier than debt), it gets paid back *before* the Common Equity sees even a penny of return. However, the good news for the Common Equity is that regardless of how well or poorly the invest performs, the Preferred Equity receives back on sale only the same amount that it invested, plus a fixed dividend payment (equivalent to interest on a loan).

Mortgage

The bulk of the purchase price in almost every real estate transaction comes from a loan that the purchaser takes out from a bank or other lender that is secured by the ownership of the property through a *prime mortgage*. If the purchaser does not make timely payments on the loan, the lender can immediately move to foreclose on the mortgage, take over the property, and sell it to get their loan paid back in full. Banks are not interested in taking any risk—they only want to rent out their money and get it back with a fixed rate of interest. They will therefore be careful not to lend the purchaser the full amount of the property's purchase price, because they want to be sure they have a safety factor if the property sells for less than its purchase price. Typically, banks will lend no more than 80% of the purchase price but depending on the specific situation they may only be willing to lend as little as 50%.

Another type of mortgage is called a *Subordinated Mortgage* (colloquially known as “Sub Debt”). This is also a loan secured by a mortgage on the property, but the Sub Debt lender stands in line *after* the prime lender. That makes their position riskier, so the interest rates they demand are significantly higher.

One specific type of mortgage is when the lender is the prior owner of the property, rather than a bank. With *Seller Financing* the seller of the property agrees to take a large part (or all) of the purchase price in the form of a mortgage, meaning that the buyer doesn't have to put much, if any, cash down, and can pay down the mortgage, with interest, over time.

Ground Lease

Finally, one additional source of capital that can be used to fund a purchase is counter-intuitive and still relatively rare in the United States, but can make sense in some situations. You'll recall that the owner of real property owns the land, the buildings, and all the rights that come with such ownership. One of those rights is to lease out the land—along with all the subsidiary rights—to someone else to use, for a very long time...like 99 years. In this type of scenario, as long as the ground rent is paid on time, the lessee of the property can do absolutely everything they could if they owned the property outright, including building on it, leasing it out, selling it, and more. The only catch is that at the end of lease—or if the ground lease payments are not made—the lessor can take back the ground...along with everything (including the

building!) on it. That position is very secure because the minute the ground lease stops being paid, the lessor gets back the whole building even *before* any of the lenders...let alone the equity investors. Ground lease lenders are therefore typically willing to contribute up to 40% of the purchase price of the property, giving the investor a 99-year ground lease at a very low interest rate paid in the form of ground rent.

Common Equity
Preferred Equity
Subordinated Debt
Primary Mortgage
Ground Lease

Figure 1: Priority in the capital stack

Real Estate Investing Strategies

There are many approaches to investing money into real estate, ranging from active to passive, from ones available for anyone, to ones limited to Qualified Purchasers (people with over \$5 million in personal assets or \$25 million that they manager for others) and fall into three general groups.

Do it Yourself

For those looking for an active, hands-on, full-time, activity, they can directly engage themselves in buying apartments and vacation rentals to generate income, fixing and flipping single family homes for owner-occupying purchasers, purchasing properties with owner financing, wholesaling properties, or building single family homes from scratch. This can be lucrative, but it is a full-time job.

Retail Investors

For those with moderate amounts of capital seeking ways to invest it in real estate without having to do the work themselves, there are Real Estate Investment Groups (REIGs), publicly listed Real Estate Investment Trusts (REITs), Mutual Funds that invest in the real estate industry, publicly traded hotel and hospitality companies, and Exchange Traded Funds (ETFs) in the real estate arena.

Accredited Investors and Qualified Purchasers

Finally, there are many additional options that are available for those whose income and/or assets qualify them as **Accredited Investors** (over \$1 million in assets not including your primary residence, or \$200,000 in steady annual income—\$300,000 if you file your taxes jointly with your spouse—or those who have passed the SEC’s Series 7, 65, or 82 licenses). These include real estate crowdfunding platforms, non-traded REITs, sponsor-led real estate syndicates, commercial office properties, shopping centers, affordable housing, direct mortgage lending, Collateralized Debt Obligations (CDOs), PropTech venture-funded startups, large scale real estate development, and investing in fractional real estate.

All of those options—and some additional ones—are available to the highest level of investors, that of **Qualified Purchasers**. This superset of Accredited Investors. Under Section 2(a)(51) of the Investment Company Act, a person or entity is considered a Qualified Purchaser if they meet one of these thresholds:

- Individuals or married couples: Own at least \$5 million in investments, held for their own account or jointly with a spouse; not including your primary residence or operating business assets.
- Family-owned companies: Own at least \$5 million in investments.
- Other entities / institutional investors (e.g., investment managers, trusts, corporations): Own or manage at least \$25 million in investments for themselves or for other qualified purchasers.

USREM, the U.S. Real Estate Market

While there are many real estate investment opportunities available at each level of qualification, the largest range of private commercial real estate investments are available to Accredited Investors, with an additional superset of opportunities available to Qualified Purchasers.

The U.S. Real Estate Market is a platform designed for this last category of investors, providing structured access to significantly sized investment opportunities that have traditionally been only privately offered “off-market”. Combined with the potential for existing investors in such vehicles to offer their existing holdings for sale (with the approval of the property’s or fund’s sponsor), USREM is a unique new platform intended to unlock and increase liquidity in the world’s largest asset class.

If you meet the SEC requirements as a Qualified Purchaser, we encourage you to register at no cost with USREM, where we hope you will find some intriguing offers that are not readily available elsewhere.

Register with USREM at <https://usremsecurities.com>

(By the way, if you found this introduction to real estate investing useful, I'm delighted to let you know that it is taken from the first chapter of *The Real Estate Investing Bible: 25 Actionable Strategies from the Industry's Legends*, my new book that will be coming in 2027 from Wiley!)