Real Estate

Real estate is an alternative investment that allows investors to diversify their portfolios away from equities, bonds, and cash. Contrary to popular belief, there are many different options for investors to put their capital into places that are not physical properties. Real estate can include these physical properties such as land, residential homes, and commercial properties. Owners of these properties have benefits such as cash flow from rentals or leasing the properties, capital appreciation of the asset, and tax benefits from being able to write off certain expenses with these assets.

Real estate can also include Real Estate Investment Trusts (REITs), where investors can purchase a company that operates multiple real estate assets on the secondary market. REITs are traded the same as stocks, but investors can expect to see higher dividend yields as these companies must pay out at least 90% of their taxable income to shareholders in the form of dividends every year. This allows for the REIT to pay little to no corporate income tax, as the majority of income is being passed along to investors as dividends.

Compared to the rest of the market, REITs typically pay a higher dividend because of these regulations that they are forced to comply with. Dividends from REITs are typically classified as “ordinary”, which is a bit different than “qualified” dividends that other companies distribute to investors. Ordinary dividends will be taxed the same as the investor's ordinary income, while qualified dividends will get favorable treatment and will never be taxed at a rate higher than 20%. REITs can also distribute capital gains to investors if they sold a property for a gain from their portfolio. This allows investors to participate in consistent cash flow from dividends as well as appreciation from properties in the portfolio when they are sold.