Real Estate, Real Returns:
Getting Started in Online Real Estate Investing
Investing in Residential Real Estate

Real estate is one of the most immediately understandable investments. This asset class consists of the buildings we live and work in every day, offering a daily familiarity that most investors simply do not have with stocks, bonds, and other more exotic investment instruments. The investments are backed by real, physical assets that are a vital part of the economy. U.S. households currently hold more than $15 trillion in home equity, while the mortgage market is worth approximately $9.5 trillion.\(^1\)

In recent years, opportunities to invest have opened up with the creation of new, online platforms that make it easier for investors to add real estate into their investment portfolios in ways that were previously inaccessible. These platforms offer a wide range of investments, from equity opportunities in big commercial buildings to debt in the residential market. Here, we will take a look at some of the benefits investing in real estate offers an investor and then undergo a deeper examination of one specific type of investment: short-term debt for professionals who renovate and then resell residential homes.

Benefits of Investing in Real Estate

One of the primary reasons that investors put money in real estate is to diversify a portfolio from other investments. Diversification lowers the overall risk of a portfolio by spreading out investments across different asset classes and, within each asset class, across different investments, thus minimizing the effects of a loss from any one investment on the overall portfolio. Real estate has a low correlation with other asset classes like stocks and bonds, making it a popular choice for investors looking to diversify. Historically, investing in properties and buildings has offered strong returns with less volatility than stocks.

The benefits of investing in real estate are widely recognized—in a Gallup poll released in April 2016, Americans selected real estate as the most desirable investment opportunity available, above stocks, bonds, gold, and savings2. However, traditionally the barriers to investing have been high. This is beginning to change with online marketplaces offering solutions.
Directly investing in property requires significant information gathering and active management from investors. Minimum investments to buy an investment property directly are high, and investors often cannot diversify within the real estate investment class as a result. They are also generally restricted to investing in their own local geographic area because it is difficult to spend time in and gain enough knowledge about other areas to make informed investments. Once an investor has purchased a property, additional time is required to manage and run the investment.

A less direct option for real estate investment comes in the form of a Real Estate Investment Trust, known as a REIT. An REIT invests in income-producing properties, and makes its shares available to purchase on the stock market. REITs offer up the diversification benefits and potential high returns of real estate investment, but are professionally managed, removing the need for intense involvement by the investor that direct investing requires. Investments in REITs are also more liquid since they are traded on stock exchanges. However, most REITs charge high management fees, offer low levels of transparency into the actual investments being made, and since they are traded as stocks—are still exposed to overall fluctuations in the stock market.
Over the past few years, a new option for investing in real estate has gained popularity. Online marketplaces offer individual investors the opportunity to access investments that range from equity in commercial buildings to debt in residential properties, all with low minimum investments and minimal fees. These marketplaces eliminate the hyperlocal nature of real estate investing while also allowing investors to spread their money across numerous investments and diversify within the class.

Unlike REITs, most marketplaces offer information about specific investments online allowing investors to pick and choose their ideal portfolio. This ease of investment combined with fractional investing has brought the best of both worlds—direct access without the high minimum investment or significant time required on a direct real estate investment.
Opportunity in the Residential Flip Market

The residential market is made up of houses and buildings that people live in. An easy way for individual investors to enter into the real estate market is to provide short-term debt to professional real estate investors who buy, rehab, and resell residential homes, an activity sometimes referred to as “fix and flip." These flipped homes are currently filling a significant need in the U.S. housing market. New housing starts fell dramatically following the 2008 housing crisis, from a high of more than 2,000,000 in 2005 to a low of just 586,900 in 2009. As of 2013, over half of the $28 trillion worth of housing inventory in the United States was at least 35 years old.

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However, a 2012 Coldwell Banker study found that 81 percent of first-time homebuyers consider move-in conditions to be very important when choosing a home, and only 7 percent would consider buying a fixer-upper home. This disconnect between the age of the housing stock and the desires of homebuyers leaves an important gap to be filled by professional real estate investors who fix up properties that are older or in disrepair and bring them to an acceptable modern standard.

Following decades of suburban growth and urban population decline, over the past ten years cities have experienced renewed growth, a phenomenon dubbed the “great inversion” by urban scholars. A recent study found that the revitalization of urban areas is driven by the growth of high-wage employment downtown. As of February 2016, urban home prices were about 25 percent higher per square foot than those of suburban home prices. Due to the decades of urban flight prior to the recent change in trends, cities have an older housing stock than more suburban areas, creating a need for flippers to improve houses to suit the needs of new city dwellers.

5 http://edq.sagepub.com/content/early/2016/03/18/08912424.16638932.refs
6 https://www.zillow.com/research/urban-suburban-rural-values-rents-11714/
Driven by the ever-increasing gap between existing and desirable housing stock, house flipping increased by 75 percent in 2015, and nationwide gross flipping profits were at a 25-year high. Flippers add value to homes that are aging or in disrepair by undertaking renovations that make homes desirable to people looking to buy and live in them. Flipping houses can also add value to neighborhoods and to other homes in an area by improving homes that were previously vacant or unsightly. By renovating homes, flippers can help revitalize communities.

Over half of the $28T U.S housing inventory is 35+ years old
When Eduardo Axtle renovates houses in Oakland, California, his goal is to create the nicest house in any given neighborhood. Eduardo grew up in East Oakland and has a vast, deep knowledge of the city. He started investing in real estate as a hobby and eventually built a business from his investments. He now plays a major role in revitalizing Oakland’s urban neighborhoods by fixing up homes that had fallen into disrepair.

Eduardo bought a property on West Oakland’s Chestnut Street in 2014 from a family trust. He purchased the home in cash and then refinanced with LendingHome. The house was unlivable at the time of sale, with a frame that had been burned at its center and a destroyed interior. To start the renovation process, Eduardo’s team had to remove seven truckloads of trash from the house. They then set about completing a full reframing job, work that Eduardo says will make the house last another 100 years.

Eduardo regularly has several construction projects underway at one time in different parts of Oakland. While the Chestnut house is being renovated, work
is also underway across town in East Oakland at a duplex. The previously dilapidated property used to have rusted cars in its front lawn and faded siding, all of which are now gone. Soon, a young family will likely move into the duplex as a starter home.

In order to get the best value for his projects, Eduardo carefully sources everything from the neutral paint he uses to construction supplies, buying in bulk so that he can keep his prices low and deliver a high quality product. Back on Chestnut Street, the formerly rundown home that Eduardo’s team has been working on is now a four-bedroom, two-bathroom house with smart wood floors and sparkling modern appliances. He has been able to sell the house before work is finished to new owners who will move in and take care of their home, adding value to their community. The purchase price will set a new standard for comparable values in the neighborhood.
Investing in Residential Flips

Real estate professionals who flip homes often use short-term mortgages known as Bridge Loans to purchase and rehabilitate those homes, opening up an opportunity for investors to finance this market. These mortgages have short durations of just 6 to 12 months that last until the homes are resold. Interest rates can range from 7 percent to more than 12 percent, well above those of more traditional long-term residential mortgages. Bridge Loans help real estate professionals grow their businesses while simultaneously offering strong returns to the investors who fund them. Each mortgage is backed by a real asset, and borrowers are required to put up a percentage of the purchase price with their own funds (as is typical with the down payments experienced by most homebuyers).

Individual investors can fund these loans via online marketplaces like LendingHome, investing alongside some of the largest credit funds in the world. These investments offer up a unique combination of short durations and strong returns. Treasury bills offer similar short durations but with much lower yields, while many other marketplace real estate investments provide high returns but with longer investment terms. Previously, the Bridge Loan market was highly fragmented, but new marketplaces now make investing accessible and easy.
Investing in the Residential Flip Market with LendingHome

If you’re looking to diversify your portfolio with real estate and are attracted to the high returns and short durations that come with the Bridge Loan market, LendingHome offers high-quality investment opportunities through its online mortgage marketplace.

LendingHome has originated more than $675 million in loans to date and has returned over $305 million in principal and $30 million in interest to its investors. Its mortgage platform is trusted and utilized by institutional investors thanks to high quality and strong returns, which average more than 10%.

Every mortgage funded by LendingHome undergoes an extensive underwriting process. Mortgages are offered to investors as fractional notes, allowing investors to diversify their portfolio even further across a number of loans. Investors can either pick their own portfolio through LendingHome or choose to use AutoInvest, which does all the work and spreads out investments over a variety of notes that suit an investor’s chosen criteria. And LendingHome funds the mortgages prior to offering them out on the platform, meaning that investors can start earning interest from Day 1.

To learn more about investing on LendingHome’s platform, visit www.lendinghome.com/invest