

Real Estate Considerations

May 2018

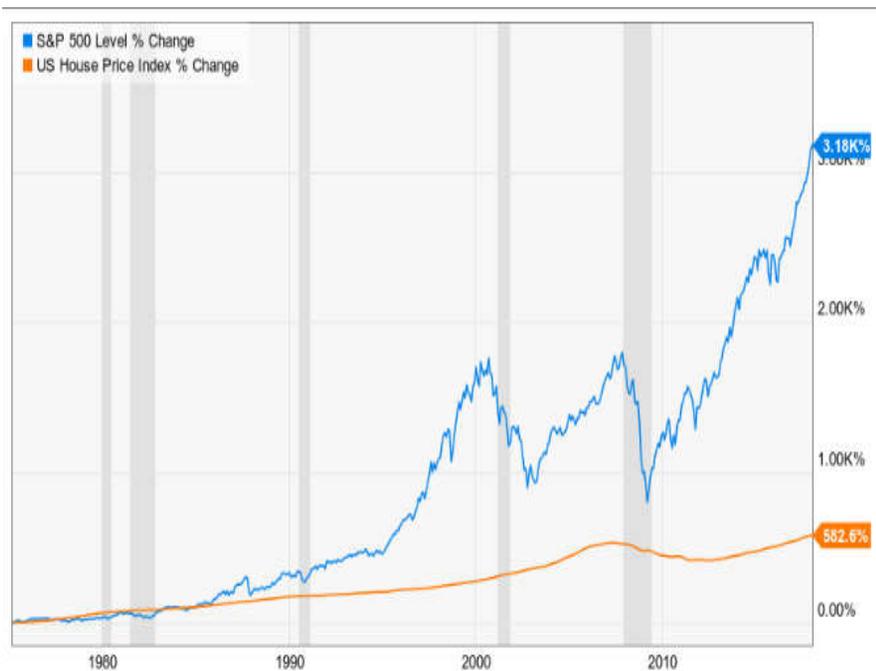


CANDOR ASSET ADVISORS

Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.

US stocks have outperformed US house prices over time

Stocks have appreciated greater than housing prices since 1975

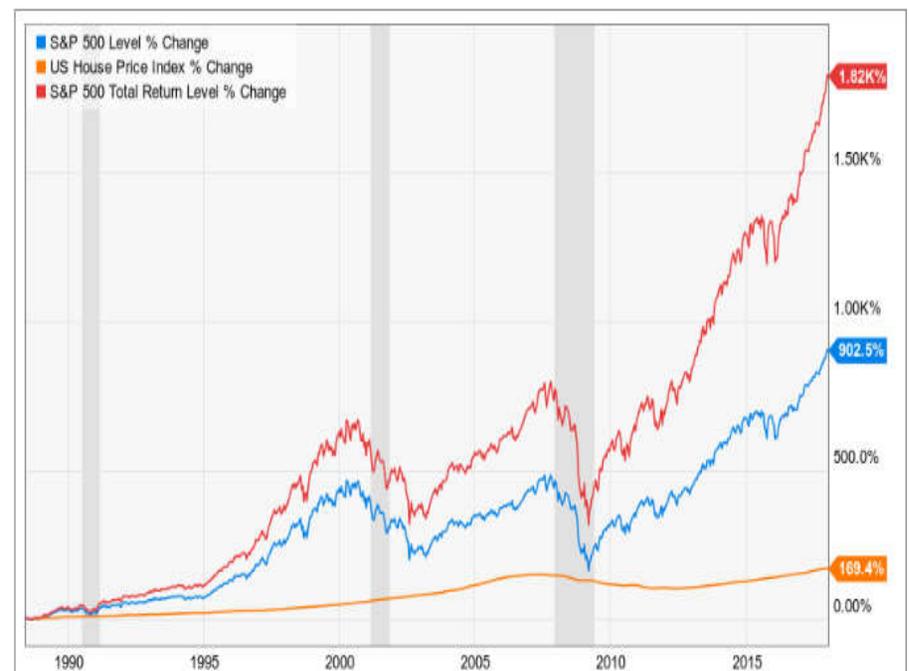


Source: Federal Reserve Bank of Dallas



May 10 2018, 3:02PM EDT. Powered by YCHARTS

The comparison is even more extreme when you compare buying a home and living it vs the total return from investing in stocks when investment income is taken into account (data available since 1988)



Source: Federal Reserve Bank of Dallas



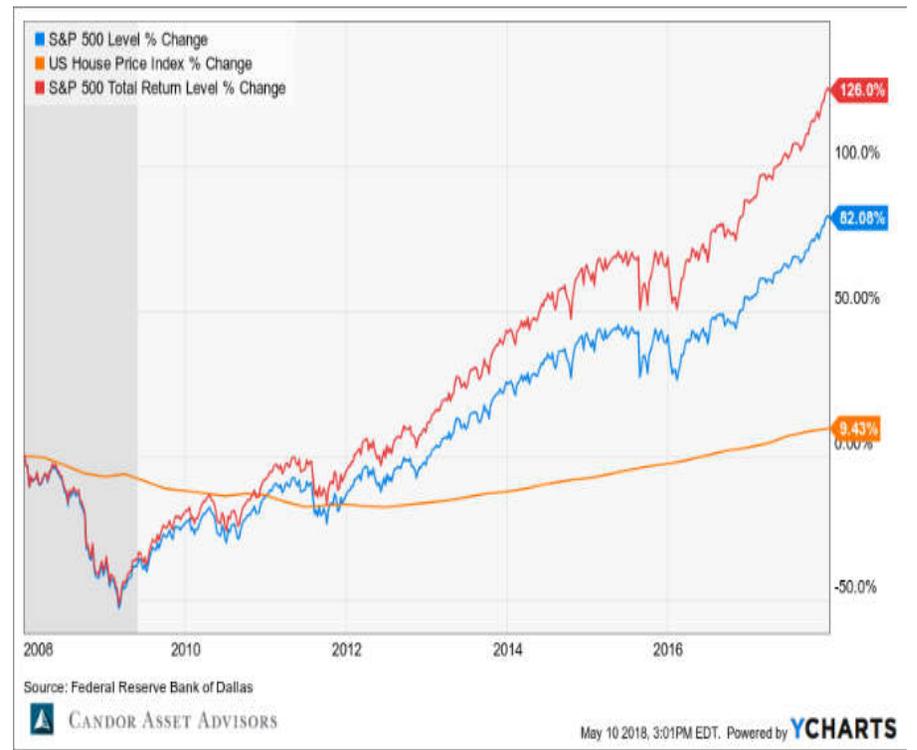
May 10 2018, 3:01PM EDT. Powered by YCHARTS

In recent years stocks have outperformed US housing as well

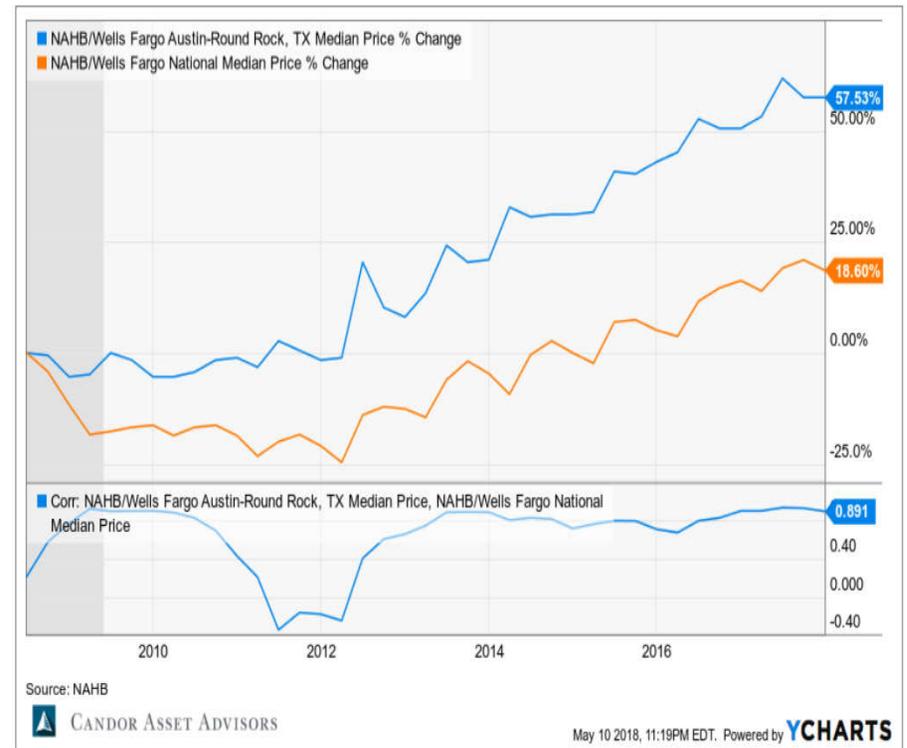
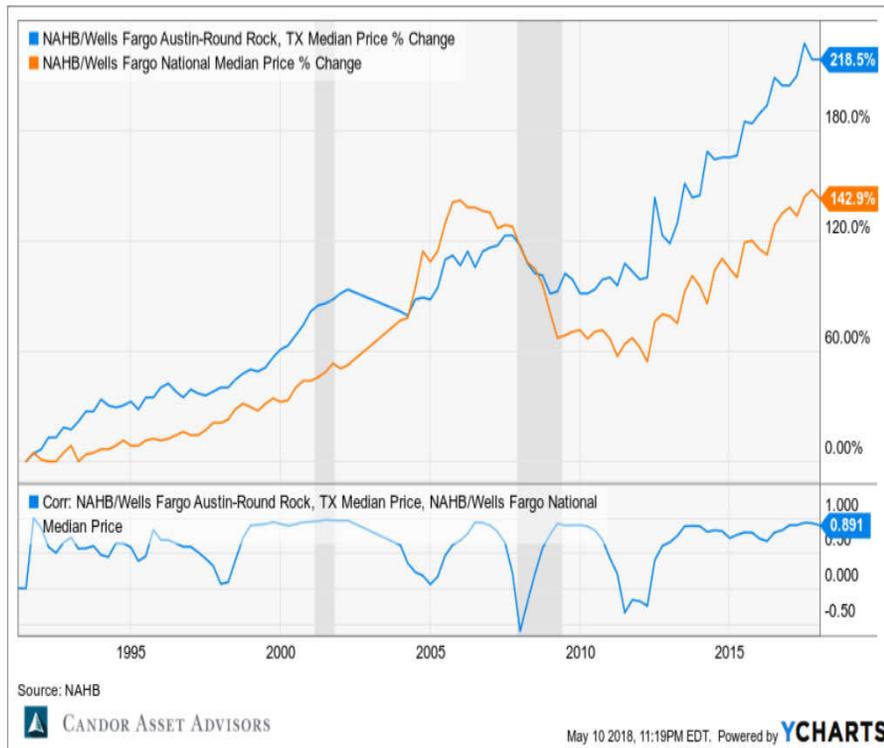
Since 2000



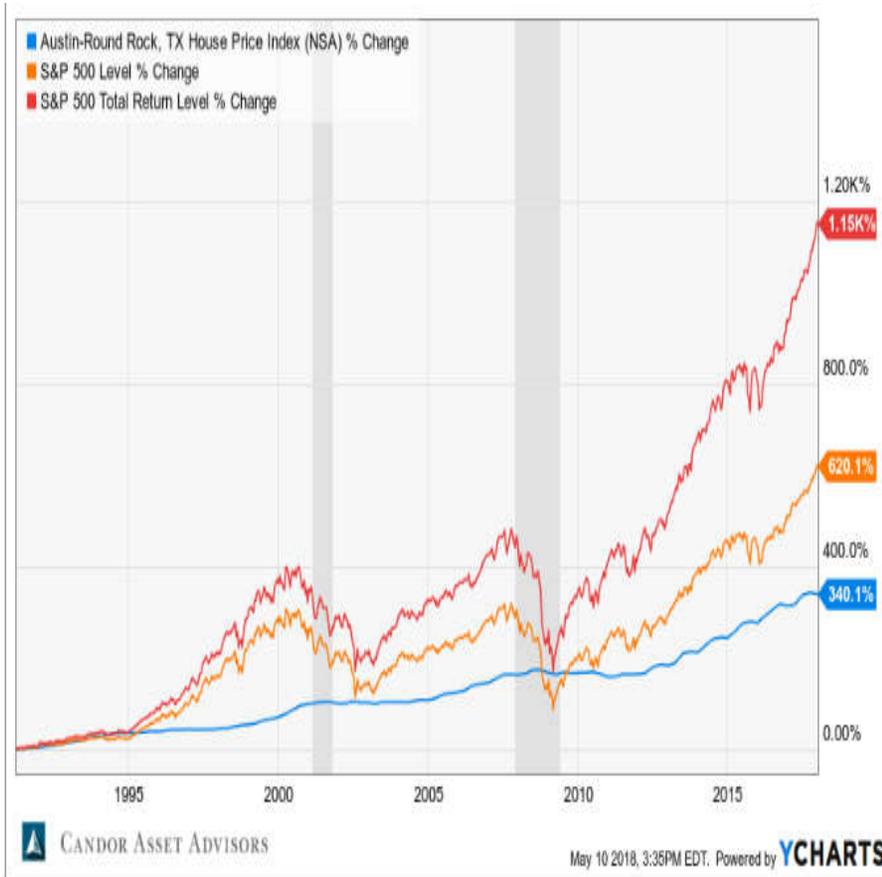
2008-2017



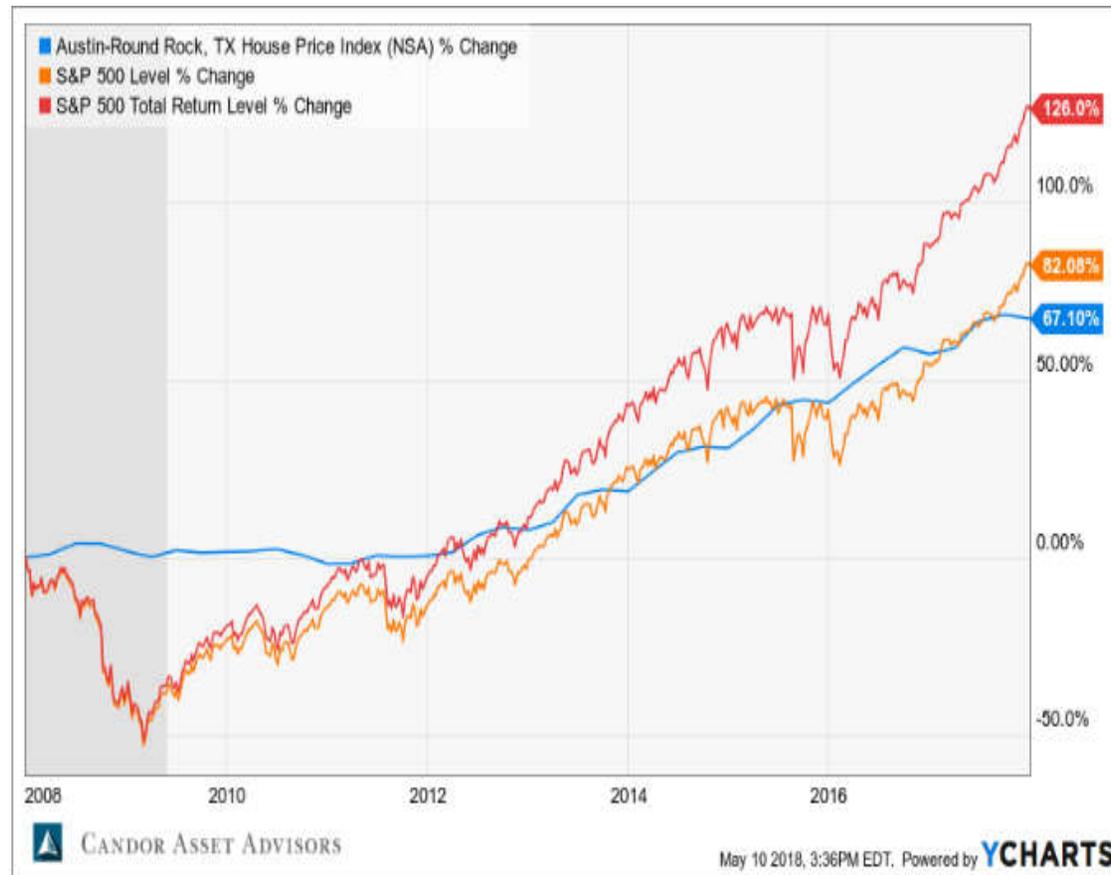
Austin and US national median home prices have generally moved together over time; Austin prices have appreciated at a greater rate over the last 10 years



Austin has fared better than the national average vs stocks



Austin has fared better than the national average vs stocks since 2008

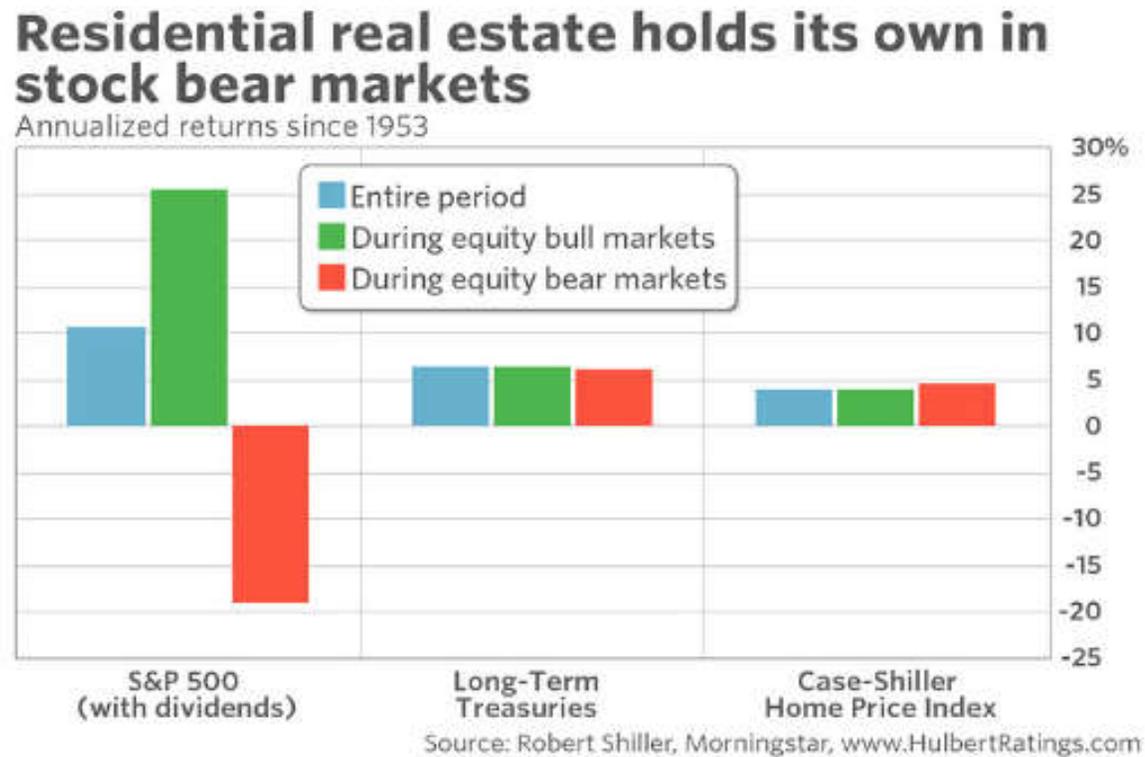


Investment considerations

- Residential Real Estate as Your Primary Residence
 - Illiquid
 - Trading costs can be expensive. Traditional real estate agent commissions are 3-6% of the purchase price
 - Closing costs to buy and sell the property
 - Non-diversified investment
 - Taxation
 - Property taxes average 2% in Texas
 - First 250,000 (single), 500,000 (married couple) of appreciation at sale are exempt from taxes provided you lived in the house two of the last five years prior to selling it
 - Mortgage interest deduction – usable if you itemize. Interest is deductible on the first \$750,000 (single and married couple) of your loan balance.
 - Maintenance costs
- Stocks
 - Liquid
 - Trading costs are relatively low.
 - Depending on who you trade through \$0-20 per trade for low cost brokers.
 - Often a diversified portfolio
 - Taxation
 - Capital gains
 - Short term taxed at ordinary tax rate
 - Long term taxed at 0-20% depending on your tax rate
 - Dividends
 - Qualified (most common) dividends are ordinarily at a 0-20% tax rate
 - Investment management fees if you hire an advisor (~1% annually on average)

Consult real estate and CPAs professionals for more details and advice on investment considerations.

US housing is less volatile than stocks and is modestly correlated to stocks and negatively correlated to fixed income



Investing in real estate outside of your primary residence

- Options
 - Real Estate Investment Trusts
 - Direct Commercial Investments
 - Rental properties

Real Estate Investment Through Equity REITs

- ▶ Equity REITs are companies that own, manage, and lease investment-grade, income-producing commercial real estate

- ▶ REITs must be in the real estate business
 - ▶ At least 75% of assets must be real property
 - ▶ At least 75% of revenue must come from real estate

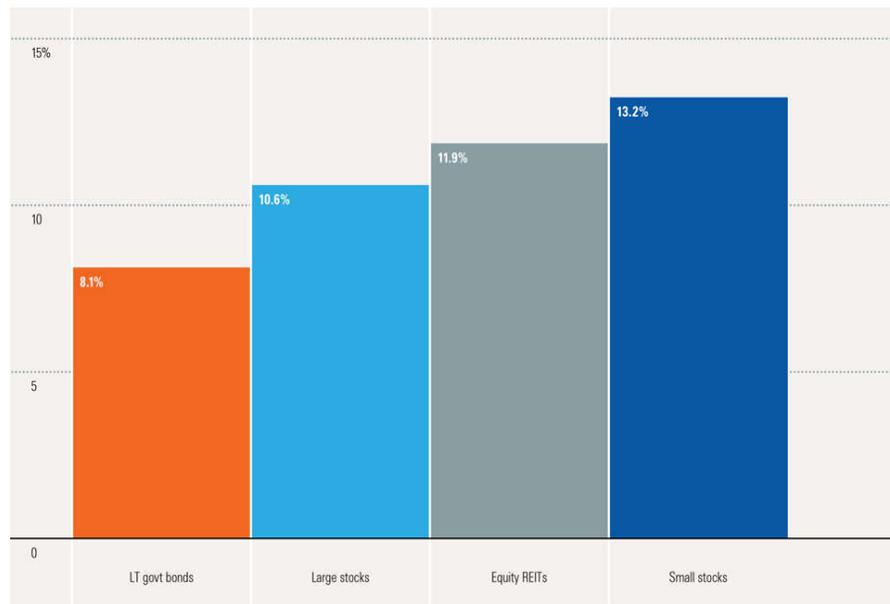
- ▶ At least 90% of taxable income must be distributed annually to shareholders

- ▶ Company receives a dividends paid deduction

- ▶ Taxes are paid at the shareholder level

REIT returns have competed well against other asset classes

Consistent Long-Term Performance
Compound annual returns 1972–2017



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.



Bonds in this example are represented by the 20-year U.S. government bond and large stocks by the Ibbotson[®] Large Company Stock Index. REITs are represented by the FTSE NAREIT All Equity REIT Index[®] and small stocks by the Ibbotson[®] Small Company Stock Index. An investment cannot be made directly in an index.

Performance: Stocks, Bonds, Bills, and REITs
1972–2017

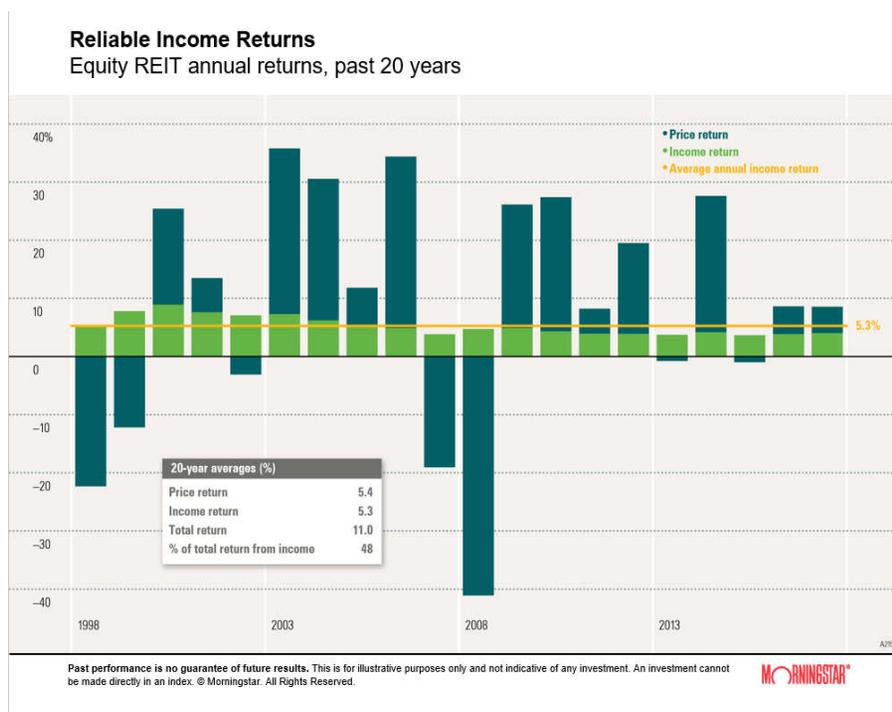


Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

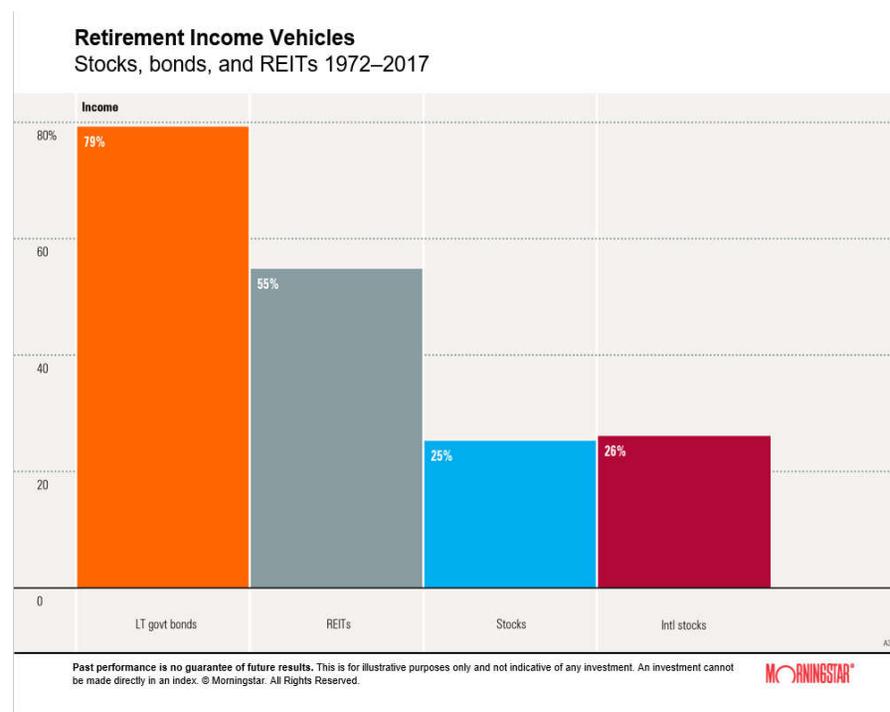


REITs are represented by the FTSE NAREIT All Equity REIT Index[®], stocks by the Standard & Poor's 500[®], which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general, international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE[®]) index, bonds by the 20-year U.S. government bond, and Treasury bills by the 30-day U.S. Treasury bill. Inflation is represented by the Consumer Price Index. An investment cannot be made directly in an index.

REITS provide steady income and a greater % of total return comes from income than stocks

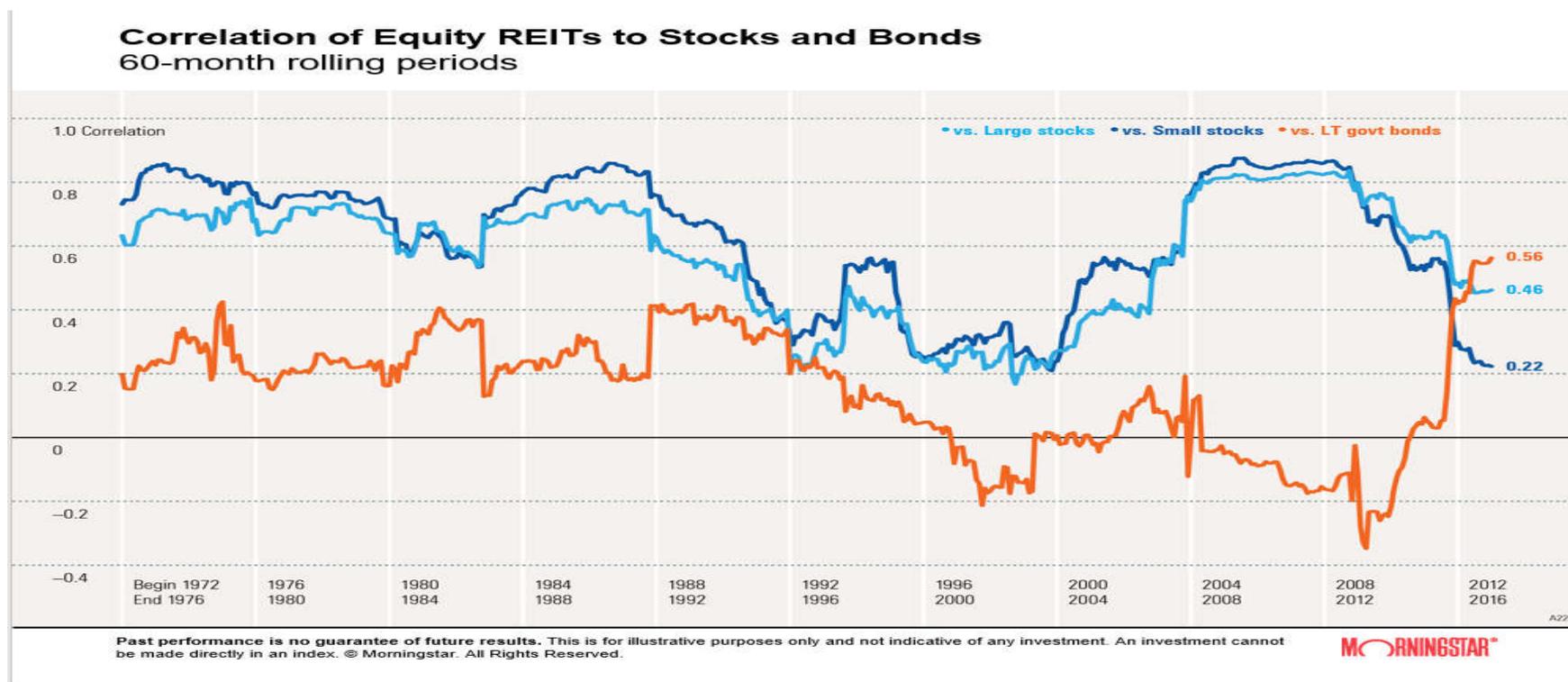


REITs are represented by the FTSE NAREIT All Equity REIT Index[®]. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.



REITs are represented by the FTSE NAREIT All Equity REIT Index[®], stocks by the Ibbotson[®] Large Company Stock Index, international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE[®]) index, and bonds by the 20-year U.S. government bond. An investment cannot be made directly in an index.

REITs are positively correlated with stocks and weakly to negatively correlated to fixed income



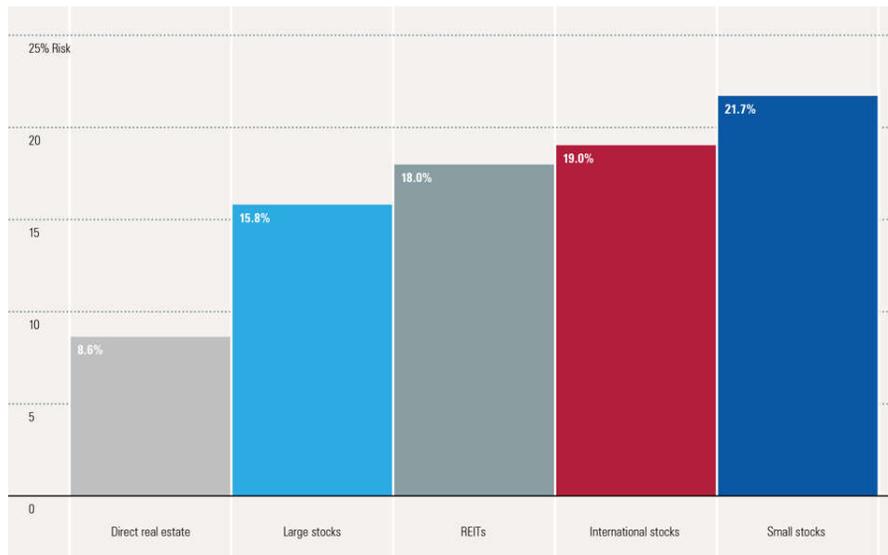
Large stocks are represented by the Ibbotson® Large Company Stock Index. Small stocks are represented by the Ibbotson® Small Company Stock Index, government bonds by the 20-year U.S. government bond, and REITs by the FTSE NAREIT All Equity REIT Index®. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Direct Commercial Real Estate

- ▶ Unlike REITs, direct investment in real estate is not traded on an exchange
- ▶ Traditionally part of the asset-allocation strategy for pension funds and large institutional investors
- ▶ Direct control
 - ▶ Ability to select individual properties
- ▶ Investment performance characteristics
 - ▶ Competitive risk-adjusted returns
 - ▶ Low volatility of returns
 - ▶ Low correlation with other investments

Direct commercial real estate is less volatile and earns lower returns relative to stocks and REITs

Risk Levels of Real Estate Versus Equities
Standard deviation 1985–2017

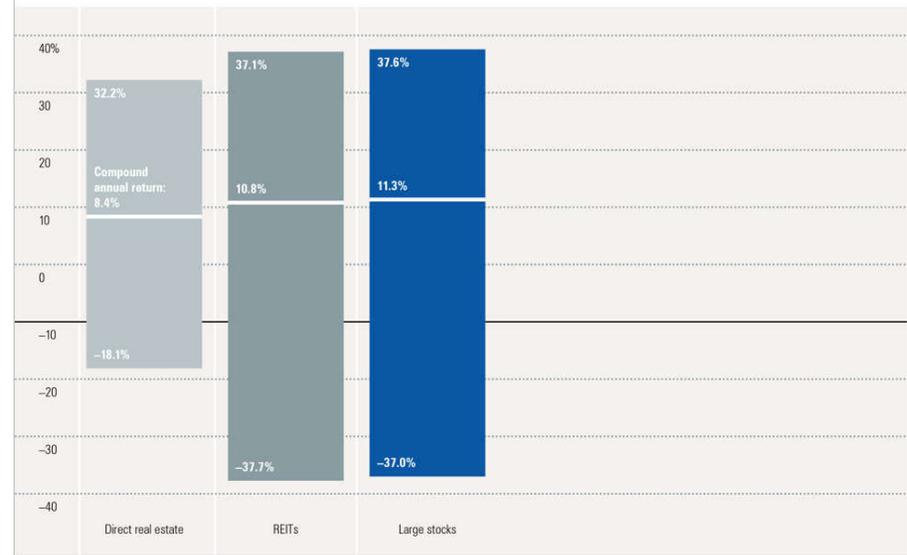


Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.



Direct real estate is represented by the Transactions-Based Index of Institutional Commercial Property Investment Performance (TBI) from the MIT Center for Real Estate from 1985 to 2010 and the NCREIF Transaction Based Index (NTBI) thereafter. REITs are represented by the FTSE NAREIT All Equity REIT Index[®], large stocks by the Ibbotson[®] Large Company Stock Index, small stocks by the Ibbotson[®] Small Company Stock Index, and international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE[®]) Index. An investment cannot be made directly in an index. Risk is measured by quarterly annualized standard deviation, which measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Real Estate Has Experienced a Narrower Range of Returns
Range of annual returns: 1985–2017



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

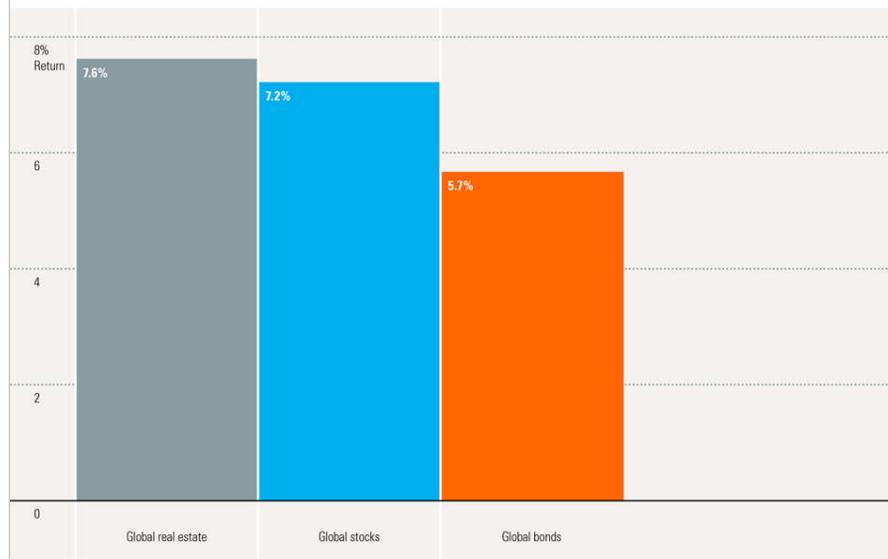


Large stocks are represented by the Ibbotson[®] Large Company Stock Index. REITs are represented by the FTSE NAREIT All Equity REIT Index[®]. Direct real estate is represented by the Transactions-Based Index of Institutional Commercial Property Investment Performance (TBI) from the MIT Center for Real Estate from 1985 to 2010 and the NCREIF Transaction Based Index (NTBI) thereafter. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. The average return represents a compound annual return.

Global real estate can help you diversify your portfolio and earn solid returns

Global Returns

Stocks, bonds, and real estate 1990–2017



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Global real estate refers to global developed real estate. © Morningstar. All Rights Reserved.



Global stocks in this example are represented by the Morgan Stanley Capital International World Index, global government bonds by the Barclays Capital Global Treasury Series, and global real estate by the FTSE EPRA/NAREIT Global Developed Real Estate Index*. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. All values are represented in US dollars.

Regional Real Estate Correlation Comparison

1990–2017

Correlation matrix	Large stocks	Small stocks	Intl stocks	LT govt bonds	T-bills	North American RE	European RE	Asian RE
Large stocks	1.00							
Small stocks	0.74	1.00						
Intl stocks	0.76	0.65	1.00					
LT govt bonds	-0.24	-0.34	-0.45	1.00				
T-bills	0.05	-0.13	-0.15	0.16	1.00			
North American RE	0.50	0.67	0.44	-0.04	-0.03	1.00		
European RE	0.39	0.39	0.70	-0.27	-0.22	0.56	1.00	
Asian RE	0.49	0.56	0.81	-0.21	-0.12	0.56	0.72	1.00

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Regional real estate refers to developed real estate in that region. © Morningstar. All Rights Reserved.



Large stocks are represented by the Ibbotson® Large Company Stock Index. Small stocks are represented by the Ibbotson® Small Company Stock Index, bonds by the 20-year U.S. government bond, Treasury bills by the 30-day T-bill, North American real estate by the FTSE EPRA/NAREIT Global Real Estate Index North America series, European real estate by the FTSE EPRA/NAREIT Global Real Estate Index Developed Europe series, and Asian real estate by the FTSE EPRA/NAREIT Global Real Estate Index Developed Asia series. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Real Estate Investment Summary

Summary of Characteristics

	Competitive returns	Low to moderate correlation	More public information	Ability to target desired properties	Lower volatility	More liquidity
REITs	X	X	X		X	X
Direct real estate	X	X		X	X	
Global real estate	X	X				



CANDOR ASSET ADVISORS

1250 Capital of Texas Highway South
Building 3, Suite 400
Austin, Texas 78746

512 522-8501

www.candorassetadvisors.com

Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.

Disclosures

- Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.
- Past performance is not a guarantee or predictor of future performance.
- Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly.
- Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes.