

Commercial real estate investing can be much hairier than residential. This we know. Permits, zoning issues, equipment, and material headaches, contractor disputes—it can be a lot to deal with. Thankfully, [commercial real estate investing](#) returns are normally much higher than residential real estate investing returns, making the slog to selling a property worth it in the end.

But, commercial real estate investing doesn't need to be an active, all-encompassing part of your life. You don't have to necessarily deal with all the paperwork, problems, and people associated with purchasing and managing a commercial property. If this sounds like something you'd be interested in, let me tell you about passive real estate investing.

## **What is Passive Real Estate Investing?**

As an active real estate investor, you may be buying and rehabbing properties, managing tenants, handling maintenance, collecting rent, or any number of duties associated with managing a property.

As a passive real estate investor, though, you do little more than move money along from investment to investment. In passive investing, you do not actually work with the property you invest in, much in the same way people buying Coca-Cola stock do not gain employment at one of their bottling factories.

Passive real estate investors simply buy into a property as a silent partner. A real estate syndication company (more on them in a bit) handles the property, including selling, renting, and managing tenants. Passive commercial real estate investing, then (obviously), is passive investing principles applied to commercial real estate.

## **Why Passive Real Estate Investing?**

If you believe that time is the most expensive thing in the world (i.e., you can spend it but never get it back), then passive real estate investing may be the strategy for you.

With passive investing, you do not have to: slog through hours of permit paperwork, deal with unruly tenants, rush to find maintenance men capable of fixing a leak, or deal with contractual issues regarding a property's structural capabilities. The only thing you have to do is open your wallet in the right direction.

That doesn't mean you can be hands-off with your investment strategy. Investors still need

to practice due diligence when aiming for the right property. This means asking the right questions to the right people.

Another reason you should consider investing in passive commercial property is the high cost to enter. Commercial real estate is pricey, and if you're simply one individual attempting to purchase a property, you may find your money isn't long enough to play the game.

In this case, it's almost essential to partner with a commercial real estate syndication company. These companies pool groups of investors just like you into one massive investment fund to purchase a property you usually couldn't get on your own.

Additionally, if you have little knowledge of the housing and commercial real estate market, a syndication company may be a great way for you to dip your toes in the waters of commercial real estate investing.

As an outside investor, you won't be able to make major decisions regarding renovations and rental policies, for example, but you'll be privy to the syndication company's strategy. You'll get inside baseball on what works and doesn't work. Consider this your MBA in passive commercial real estate investing.

## **Real Estate Syndication Companies**

A real estate syndication company is funded by a group of investors, like yourself, who pool their money together to purchase a commercial property. The real estate syndication company manages the commercial property, and the investors act as the silent partners.

There are several types of real estate syndication companies. It pays to understand the differences between them before deciding which fits your lifestyle and budget better.

### **REITs**

Real estate investment trusts (REITs) are specialized syndication companies. These trusts are not taxable at the entity level. That means that you're taxed at the individual level at a much lower rate. If you invest in REITs, you reap the added caveat of tax benefits as long as the company complies with the requisite IRA rules.

There are two types of REITs: publicly and privately traded.

- **Publicly traded REITs** can be bought and sold by any investor with a brokerage account. The minimum investment is the cost of one share. These REITs are coveted by investors for their liquidity, low minimums, good returns, and passive income ability.
- **Privately traded REITs** offer the same tax advantages as publicly-traded REITs, but only “accredited investors” are welcome to purchase them. Accredited Investors must meet a minimum income, and net worth requirement before access to share purchases is unlocked.

## Private Equity Commercial Real Estate Investments

Private equity firms are similar to REITs in that they pool investor resources to purchase commercial properties. But, they do not have the same tax benefits as REITs. Private equity firms also are not responsible for distributing a high percentage of income and profits.

There are two kinds of private equity commercial real estate investing groups:

- **Funds** are contributed to by investors, but that’s where their input ends. The private equity company decides what property to buy while investors stand back and hope for the best.
- **Deals** are different than funds in that they include the input of the investors. Investors decide on the property first, then pool together their resources for the sole purpose of a commercial property purchase.

## Strategies for Passive Commercial REI

Here are a few tips and tricks for exploring a passive income commercial real estate investing strategy using a syndication company:

- **Utilize Facebook & Meetup.** [Facebook Groups](#) & [Meetup](#) are great places to find real estate syndication groups. Peruse top posts, rules, and past meetups to get a sense of each group’s flavor. Once you find one you vibe with, connect with the group’s leadership to ask how you can get involved in future deals.
- **Try public records.** [CoStar public record lookup](#) is a good resource for finding companies that own properties you prefer. Once you find the companies, you can Google their names to vet the list for companies you’d rather do business with.
- **Attend networking events and conferences.** Networking events ([online](#) and offline) are great ways to find like-minded investors already locked into a syndication company. Pick their brains on which company is best for you or jump into their shared fund and start reaping the rewards.

- **Ask questions.** Some of the questions you should be asking your potential real estate syndication company:
  - Do you have testimonials from previous investors?
  - Have any syndication deals underperformed and why?
  - What class of properties do you deal with?
  - What is the average ROI (return on investment)?
  - How many years of experience in underwriting commercial properties does the company have?
  - What is the company's investing model, and why?
- **Watch for warning signs.** There are a few red flags you should be on the lookout for when vetting syndication companies:
  - Comps are unreasonably distant from property
  - Set aside reserves are not budgeted
  - Decrease of population growth
  - Decrease of rental growth
  - Absorption rates are low
  - Revenue growth is unnaturally over 2% to 3%
- **Compare offerings.** When studying the "offering memorandum" of each company, compare fee and profit return structures. These vary from company to company. Asset Management and Acquisition fees should fall anywhere between 1% to 5%. Compare offerings, choose the company that best fits your pocket and financial personality, and off to the real estate races you go. Godspeed, young investor.