

WHITEPAPER

Strategies for Pursuing Financial Independence: How Real Estate Can Light Your Path



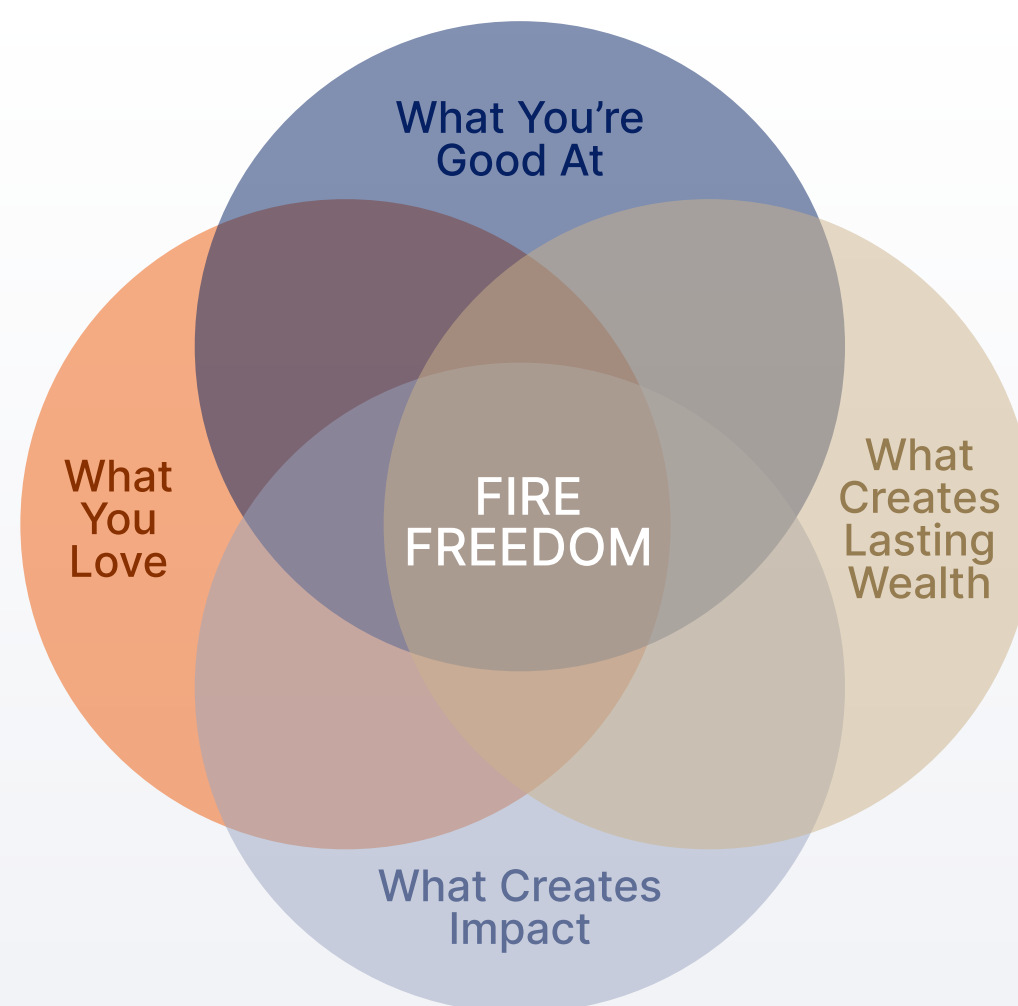
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Introduction

Why do we invest? Sometimes it's for our children; to fund an education and a more secure future. Sometimes it's for our legacy; to be able to contribute to worthy causes and leave something behind. It could be a combination of factors. But for most of us, the calculus is simple: *How can I be free of dependence on work-related income as fast as possible?* The idea of "financial independence" is not just about working less — indeed, many of us will go on working, or shift the meaning of "work" in our lives, after formal retirement.

Many of us charged into our careers at 22 (or later, following a postgraduate degree) with a few letters by our name and straightforward goals: maximize comp, sprint up the corporate ladder, start a family, buy a nice house with enough room for your family and a few cool toys. But real fulfillment — what the Japanese concept of "**Ikigai**" speaks to — is finding that sweet spot between your skills, your passions, what the market values, and what the world actually needs. *Financial independence gives you the freedom to pursue that intersection* without watching your Robinhood account like a hawk.



Financial independence is about achieving freedom through our investment choices.

Defining Financial Independence

Financial independence (FI) — or as many in the movement go on to call it, "FIRE" (Financial Independence, Retire Early) — is achievable with a focused investment strategy, and real estate can play a pivotal role in that journey. This whitepaper explores how a diversified real estate portfolio, built on different positions in the capital stack, can potentially help self-directed investors bolster their financial independence prospects:

- The general case for commercial real estate investments (as a less-correlated, income-generating asset class) as part of an “early retirement” strategy.
- Specific strategies for pursuing FI within a 10-20 year horizon, with private-market real estate as a pillar.

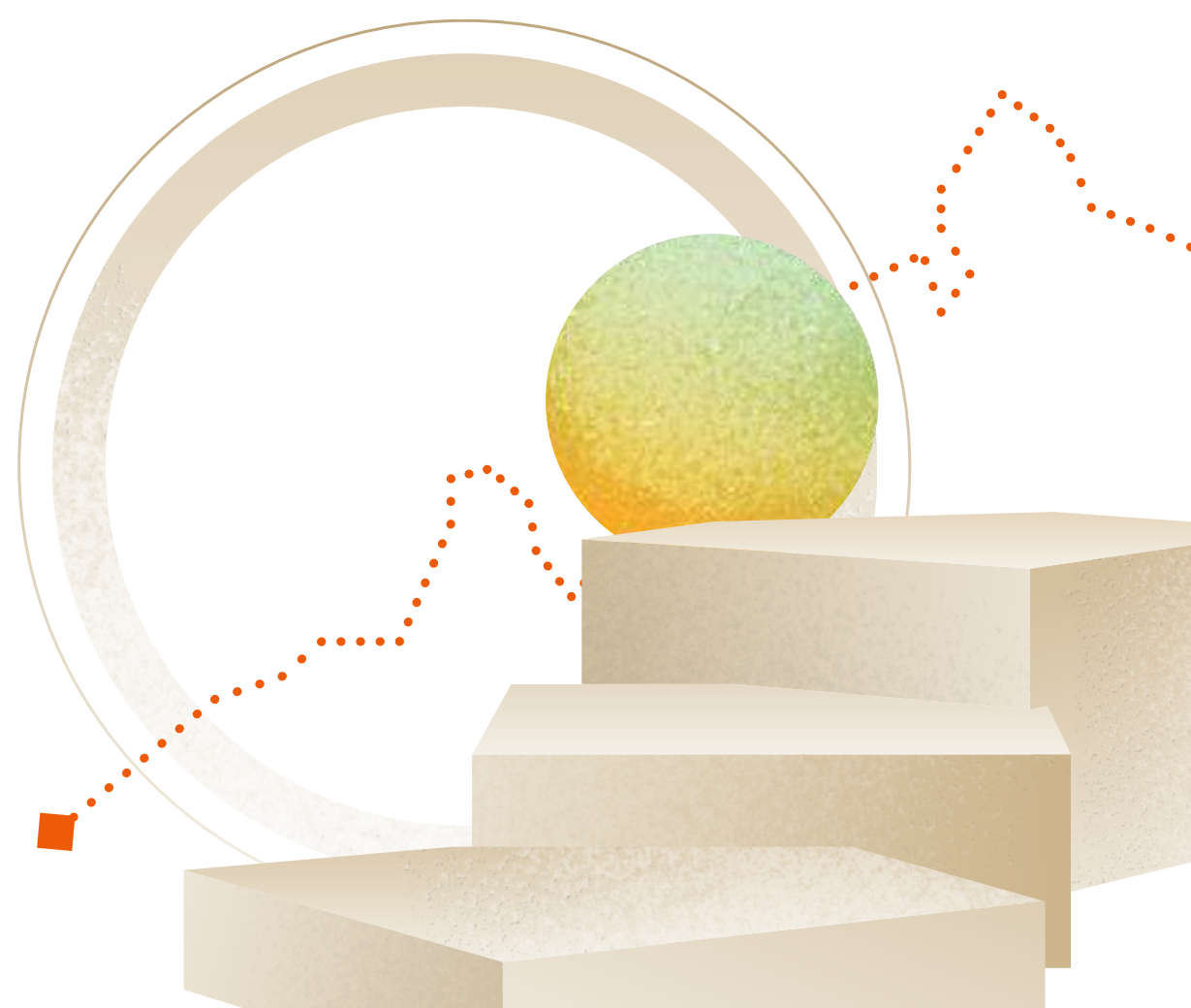
We will also take a look at some of the axioms of FI-minded retirement investing, and how those axioms serve investors today and going forward.

By leveraging EquityMultiple’s offerings across equity, preferred equity, mezzanine debt, and senior debt, you can align your portfolio with your retirement goals, scaling from growth-focused investments to a more income-oriented approach over time.

According to most thinkers in this “financial independence, retire early” space, financial independence is reached when passive income covers your living expenses indefinitely. There are various ways to quantify this scenario. And, since living expenses, passive income potential, and post-retirement years on this earth are all somewhat unpredictable, there is no perfect answer here.

Two back-of-envelope methods of defining this “early retirement threshold”:

- **Obtain a net worth of 15-20X your average annual income.** This ratio naturally captures your savings rate, and hence also reflects your cost of living. Notice also that this amount of savings would allow you to *replace your income from working with an annual rate of*



- *return of 5-6.67% from your savings.* For example, if your average annual income is \$300K and you want to retire at 50, you would need to amass a \$4.5M net worth to be at 15X your average annual salary. Your \$4.5M in net worth would then generate a \$300K “replacement income” at an eminently achievable 6.67% annual rate of return.

- **Obtain a net worth of roughly 25x your annual expenses.** This is a close cousin of the “4% safe withdrawal rate.” You’ll notice this is effectively a less conservative version of the first method. This thinking assumes that a “risk-free”

- rate of return at 4% will cover your expenses indefinitely once you reach this net worth threshold. We will unpack these assumptions in a bit.

In either case, achieving this level of net worth at a relatively young age typically involves building an investment portfolio *that balances growth potential and consistent income*. A real estate-focused strategy can potentially help achieve these net worth hurdles more flexibly, relying on appreciation, passive income, and the ability to scale down risk over time.

“Focusing on an earnings multiple instead of an expenses multiple is a vital shift away from a scarcity mindset and toward an abundance mindset.”

– Sam Dogen, *Financial Samurai*

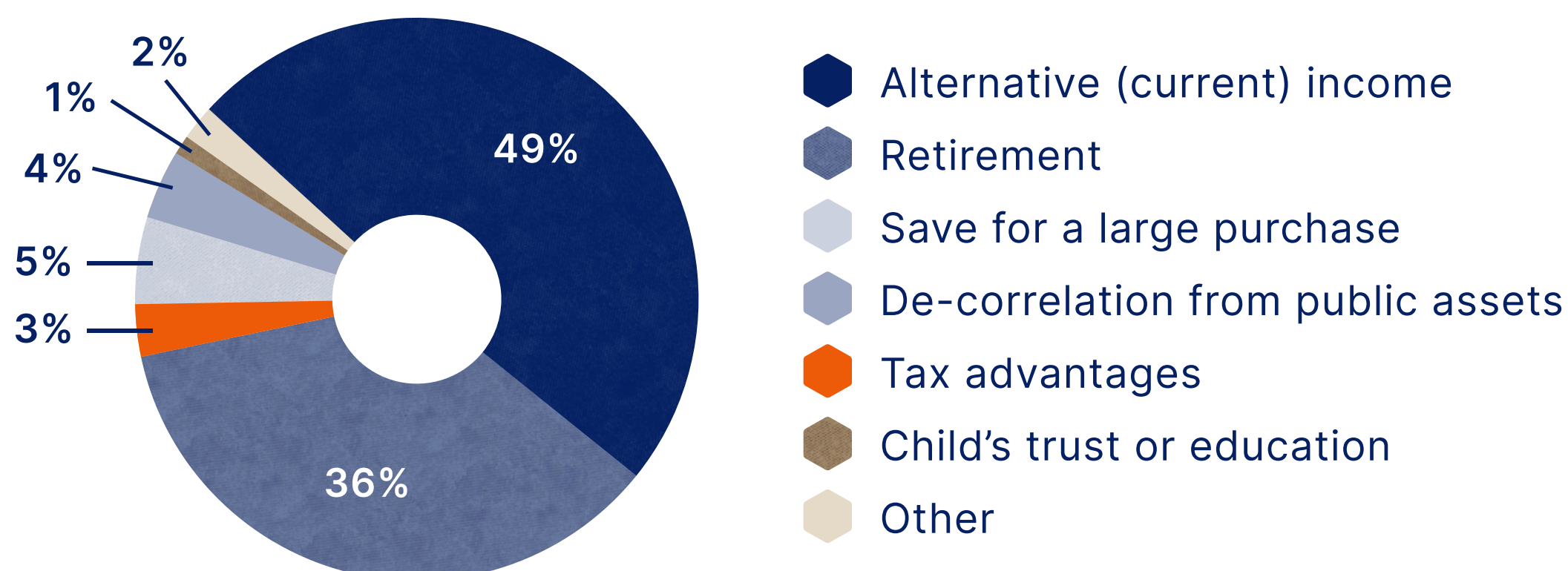


Table Stakes: Some Simple Math & Action Items for Pursuing FI

To be clear: real estate is not the only path to financial independence, and should not be relied on solely as an investment strategy. Some broader guidelines to keep in mind:

- **Max out the employee matching of your 401K.** If your employer matches up to 5%, contribute at least 5%. Anything less amounts to foolishly leaving free money on the table. You may well want to allocate more, perhaps up to the maximum amount allowed by the IRS (\$22,500 as of 2024). We will get into some scenarios for allocation in a moment.
- **Make a savings plan with the long run in mind.** Using fairly simple mileposts (like the 15-20X your annual income threshold) you can start working backward toward a savings plan. Critical to this effort is soberly assessing your expenses. For many high-income individuals, “lifestyle creep” can compromise disciplined spending and saving. Working backwards from your desired retirement year, you can come up with a plan for a savings rate, an investment allocation strategy for those savings, and embark on your path. Before this even starts, though, you must make a budgeting plan that facilitates this rate of saving. In most cases, this will mean paying off most, if not all, of your debt so that you can put your savings to work. If you aren’t there yet, that’s OK. Much of the material in this whitepaper will still be of use. But in this case, focus first on paying off debt, or at least achieving a manageable level of debt service where your interest rate is not much higher than the risk-free rate of return.

EquityMultiple Investors’ “Reason for Investing”



Modern Real Estate Investing: A Path to FI

Real estate is uniquely suited for FI goals because it offers cash flow, potential appreciation, and tax efficiencies. Traditionally, real estate investing required substantial capital and active management. Platforms like EquityMultiple now enable investors to diversify across multiple types of real estate with minimal management effort, opening up institutional-quality opportunities to individual investors. A few specific ways online real estate investing via a platform like EquityMultiple can potentially aid you in your FI journey:

Cash Flow

Unlike many other asset classes, real estate can deliver passive cash flow that may correlate less closely with public markets. This includes debt-based and preferred equity investments, which may have shortened terms and contractually obligated fixed rates of return in the form of monthly or quarterly distributions. This can potentially help a FI-oriented investor before and during retirement: building passive income streams to predictably grow toward a net worth goal, and providing supplemental passive income to sustain lifestyle during retirement.

Potential Tax Benefits

Vehicles like 401Ks and 529 plans offer certain types of tax benefits. Real estate potentially offers distinct and different benefits, including:

- **REITS** — Individual REIT shareholders can deduct 20% of the taxable REIT dividend income they receive (but not for dividends that qualify for the capital gains rates). This provision effectively lowers the federal tax rate on ordinary REIT dividends from 37% to 29.6% for a taxpayer in the highest bracket.
- **Syndications** — Investing in real estate private equity as a LP investor means you can potentially share in “pass-through” tax benefits that the sponsor realizes, such as depreciation and cost segregation. *Note that EquityMultiple does not provide tax advice. Please consult with a licensed professional when considering the tax implications of your investments.*
- **1031 Exchanges** — when realizing gains for investments in real estate, you can potentially roll profits into a “like kind” investment and defer taxes owed.

Unique and Diversified Return Profiles

Private-market real estate offers a variety of return profiles that can support a FI strategy. Debt and preferred equity investments can potentially deliver stable, fixed income and the opportunity to create ‘maturity ladders’ with relatively short-term investments. Joint-venture equity real estate investments offer upside and total return potential, potentially allowing you to accelerate growth of your portfolio via assets that historically bear lower correlation to public equities.

It’s worth noting as well that investing via a platform like EquityMultiple allows you to *share in the potential benefits of real estate while investing passively*. This means that, instead of dealing with “tenants and toilets,” you can invest more of your time in maximizing your career earnings, driving toward an early retirement target.



CASE STUDY

Your Financial Independence Asset Allocation Strategy

Now that you've established disciplined savings habits, and identified a target retirement date, what happens next? What are your options when it comes to a FIRE retirement portfolio? At this point, with your 401K maxed out, you are considering "taxable assets." There are plenty of investment options out there, from commodities to public REITs to exotic alternative assets like wine and collectibles.

For the purposes of this exercise we will consider *private-market* real estate versus allocating to a roboadvisor that offers a pre-built set of index funds and public-market assets for passive investors. Some pros and cons in the context of your retirement portfolio:

Roboadvisor

- **Pros**
 - Extremely easy to allocate
 - Highly liquid
 - Should track with the overall economy over time
- **Cons**
 - Exposure to systematic risk: while public market performance tends to be steadily positive over the long run, major swings could hurt your

portfolio value, especially over a concentrated, FIRE-minded time horizon.

- Lack of exposure to alternative income and total return channels

Private-Market Real Estate

- **Pros**
 - Alternative income and total return profiles that may correlate less closely with public assets
 - Potential tax advantages
 - An asset class that includes potentially defensive subasset classes, like multifamily, that can potentially outperform during volatile periods
 - The ability to reinvest cash flows to generate additional compounding and return potential
- **Cons**
 - Idiosyncratic risk: the need to understand asset-specific risks and get comfortable with the asset manager. More homework required on your part versus roboadvisors (though any quality platform should help you get comfortable with your investment choices)
 - Less liquid than roboadvisors

With this in mind, let's take a look at some hypothetical scenarios with two FIRE portfolio strategies, starting with the same building blocks but pursuing a different asset allocation:

The Starting Point:

- We assume a \$200K starting salary, which increased by 2% each year
- A 10% average public market annual rate of return
- A 4.5% return on “cash,” corresponding to the historical average of money market account rates
- A savings rate of 20% of your gross earnings
- A consistent strategy of maxing out your 401K (limit of \$22,500 as of 2024)
- A 5% employer 401K match
- A 32% federal tax rate (you may well increase to the highest tax bracket within this timeframe, but future changes to the tax code are difficult to predict)
- 32% is a rough estimate of average all-in effective tax rate for this level of income, though this will vary based on your state and other individual factors
- Other tax benefits (e.g. depreciation, being able to offset passive losses versus passive income) are not considered here. Incorporating this dynamic would potentially strengthen the case for allocation to real estate.

The Allocation Strategies

With our building blocks established, we start with allocations to “taxable assets” using the annual savings left over beyond the annual allocation to your 401k:

Allocation A

With a blend of roboadvisor allocation (furthering your broad diversification to public assets) and cash, as a low risk counterweight to your 401k and roboadvisor.

Allocation B

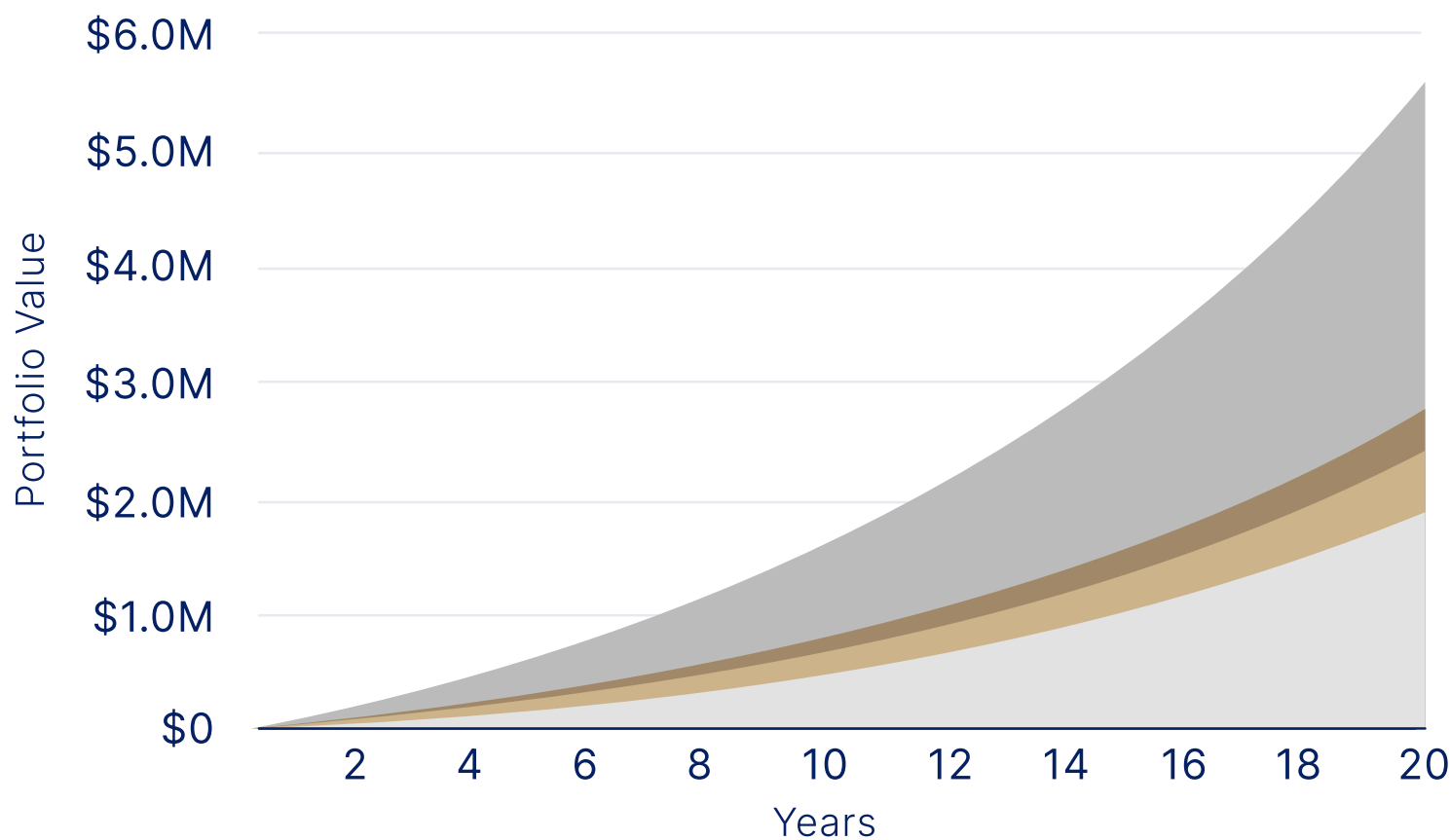
A robust allocation to real estate private equity and debt (e.g. the types of passive investments available on EquityMultiple on a fractional basis).

In both cases, we begin with a 70% allocation to the more growth-oriented portion — roboadvisors in allocation A, real estate private equity in allocation B — over a 20 year period, we shift allocation toward the more defensive positions: cash in allocation A, real estate private debt in B.

Over a twenty year period, the hypothetical outcomes are as follows:

- Allocation B (the real estate approach) has achieved a 15X multiple on average income over the period; Allocation A has achieved only an 11X multiple on average income.
- The total retirement portfolio value of Allocation B is \$3.66M, 31% higher than that of allocation B.
- Allocation B (the real estate approach) achieves a post-tax retirement income of \$237K, approaching the average gross income for the 20 year period.

Allocation A



Year 20 Portfolio Value

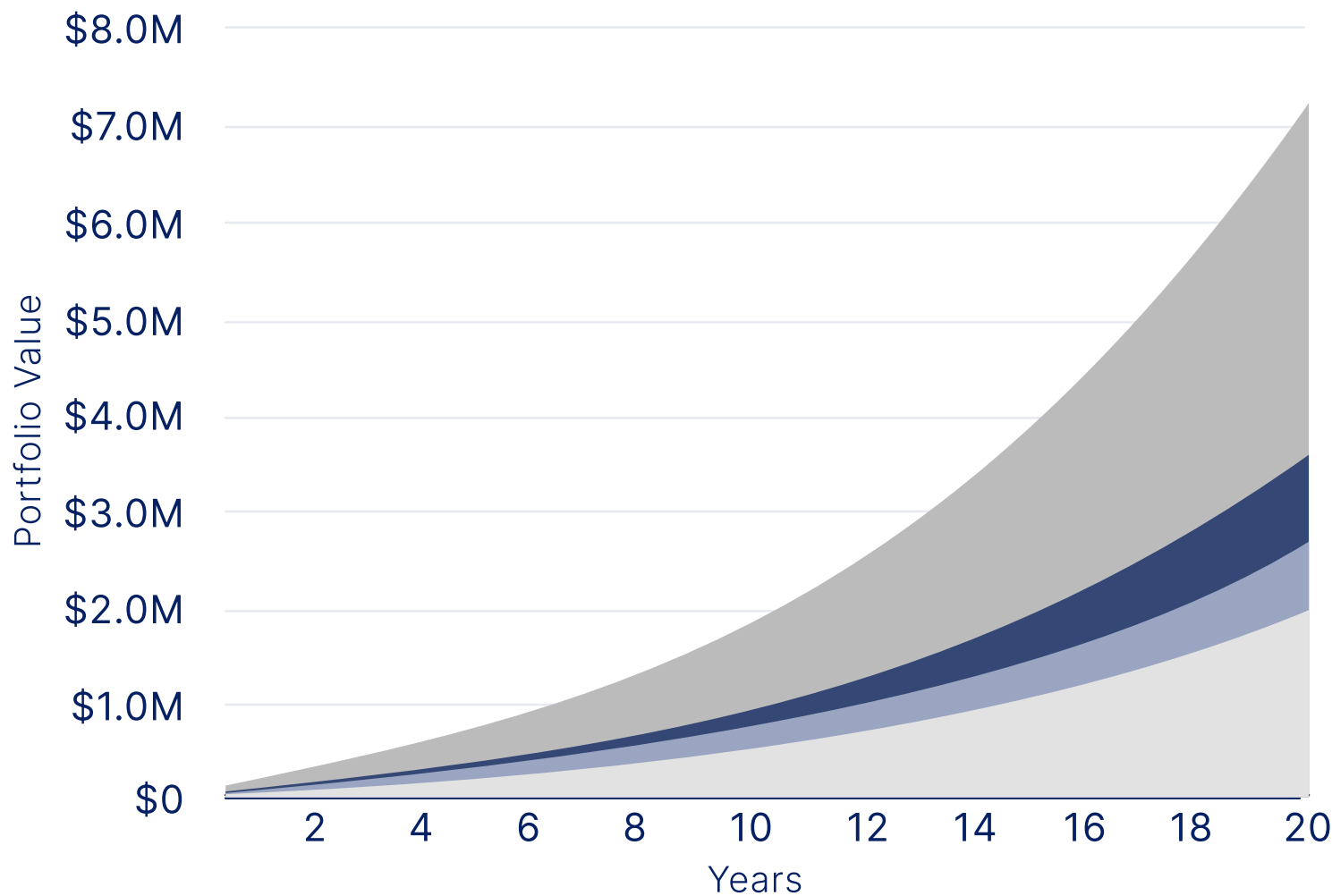
401K	\$1,943,882
Total Roboadvisor	\$487,291
Total Cash	\$358,477
Total	\$2,789,649
Multiple of Avg. Income	11

Retirement Investment Income

Gross	\$202,250
Post-Tax	\$137,530

401k Balance Total Roboadvisor Allocation Total Cash Allocation Total FIRE Portfolio Value

Allocation B



Year 20 Portfolio Value

401K	\$1,943,882
Real Estate Private Equity	\$603,631
Real Estate Private Debt/Pref	\$1,115,809
Total	\$3,663,321
Multiple of Avg. Income	15

Retirement Investment Income

Gross	\$348,016
Post-Tax	\$236,651

401k Balance Total RE Private Equity Portfolio Total RE Private Debt + Pref Portfolio Total FIRE Portfolio Value

This “retirement income” assumes 50/50 allocation to stocks, bonds, and cash, using the 10% and 5% historical averages of these asset classes. A retiree may want to shift from private-market real estate to more liquid public assets during retirement. However, one could continue to reinvest and pursue cash flow from real estate investments. A sizable percentage of EquityMultiple investors have retired from their primary careers and continue to invest in private-market real estate.

Some other assumptions in play here:

- Reinvestment amounts (from net profits at exit) and annual cash-on-cash returns are conservatively estimated per EquityMultiple’s aggregate track record.
- To further build in conservatism, we apply a 15% “risk quotient” — a haircut rate by which exit capital is discounted each year to capture potential idiosyncratic risk.

What accounts for the outperformance of the real estate allocation in these scenarios? It is important to state here that past performance does not guarantee future results, and that these portfolio returns are indeed hypothetical.

That said, there are some fundamental attributes of the real estate asset class that may help to achieve this kind of performance:

- Consistent cash flow from real estate can help to achieve compounding,

- alternative to the compounding effect of public market returns.
- The potential for sizable profits at exits (for real estate private equity) means accelerating opportunity for growth. Wins early in an investing timeline can have an outsized effect over the whole period as compounding occurs.

To build the case further, these scenarios do not capture one of the primary potential benefits of a strategy like Allocation B: *the potential de-correlation of asset classes and return potential through diversification*. By achieving cash flow and total return potential that is less subject to systematic risk, i.e. the swings of public markets, you can potentially de-risk and add more stable return potential to your retirement portfolio.

A Note on Salary Level

Given the assumptions used in constructing these hypothetical portfolios, changing salary alone does not change the retirement target much. This is because, in this construct, the target retirement threshold is expressed as a *multiple of average income*. This convention bakes in the idea that your retirement income should replace your average income level.

That said, higher levels of income may be able to achieve higher rates of savings, accelerating the process. The [companion workbook](#) for this whitepaper contains a tab showing a \$400K starting salary, with a higher savings rate (30%) and factoring in the higher tax rate (35%) that this salary would be subject to.

Building a Capital Stack Strategy for FI

Now that we've established the potential benefit of including real estate in a FIRE portfolio, let's delve into some specifics of types of real estate positions you may consider.

A diversified real estate portfolio can be structured around different positions in the capital stack—equity, preferred equity, mezzanine debt, and senior debt—to balance risk and income potential. As the FI target date approaches, the portfolio can be adjusted to reduce risk and emphasize cash flow.

Equity Investments

Description: Joint venture real estate private equity investments represent direct ownership, offering high potential returns through property appreciation. Equity investments on EquityMultiple typically project to a total net return (IRR) of 18-30% with a typical target hold period of 3-5 years. (In practice, the historical average hold period of EquityMultiple equity investments, from close to exit, is 27.6 months.) This means that large windfalls from equity exits can potentially occur on a rolling basis, amplifying portfolio growth. *Note, however, that equity investments entail the highest degree of uncertainty in the capital stack.*

Role in FI Strategy: In the early stages (Years 1-5), equity investments provide growth. As they reach maturity and exit

(typically after 5 years), the proceeds can be reinvested into lower-risk, income-generating assets. While there is no guarantee in terms of total return, equity investments have the potential to deliver *uncapped* return. This means that real estate private equity can serve as an alternative to your stock market allocation in terms of potentially delivering big wins that can accelerate your retirement timeline. Later on in your investing timeline, it may be wise to shift away from JV equity investments because of the longer, less certain hold periods.

Example: Given EquityMultiple's historical 1.26x net multiple on equity investments, an initial \$30,000 equity investment may yield a \$37,800 payout after a few years (principal plus \$7,800 of profit). This growth could be rolled into another equity investment or into preferred equity or debt, depending on your risk tolerance and timing versus your target retirement date.

Preferred Equity Investments

Description: Preferred equity has priority over common equity, offering contractually obligated cash flow. Many preferred equity investments also offer a "kicker," or accrued

preferred return component, at exit. Typical current preferred returns range from 7-12% annually, with total preferred return (including accrued) typically amounting to 10-14%. Preferred equity positions sit above all debt in the capital stack, meaning preferred equity investors are paid back after debt investors, corresponding with the added return potential of preferred equity.

Role in FI Strategy: Preferred equity is ideal for the mid-stage investor (Years 5-10), combining income with moderate risk. It helps stabilize the portfolio as the FI target approaches.

Example: A \$50,000 investment in preferred equity with an 8% annual *current* return provides \$4,000 in annual income, compounding or supporting lifestyle needs as FI nears. If this same investment entailed a 4% accrued preferred return, the investor would receive an additional \$2,000 at exit which could be reinvested.

Mezzanine Debt

Description: Mezzanine debt is a hybrid position in the capital stack, delivering regular income through interest payments while retaining some growth potential. Expected returns are generally 8-14% annually. Mezzanine debt is subordinate to senior debt, corresponding with the enhanced return potential.

Role in FI Strategy: Suitable for both the mid and later stages, mezzanine debt provides consistent cash flow with

moderate risk. It serves as a bridge between higher-risk equity and lower-risk senior debt investments.

Example: A \$40,000 mezzanine debt investment with a 10% annual return generates \$4,000 per year, adding stable income to the portfolio.

Senior Debt

Description: Senior debt is secured by the property, offering the lowest risk and providing regular interest income. Typical returns are in the 7-12% range.

Role in FI Strategy: In the later stages (Years 10+ of your target investing timeframe), senior debt is essential for income-focused investors nearing FI. With a high priority on repayment, senior debt can potentially stabilize cash flow and preserve capital.

Example: A \$60,000 investment in senior debt at a 8% return yields \$4,800 per year, supporting a reliable, lower-risk income stream in retirement.

Rebalancing for Risk

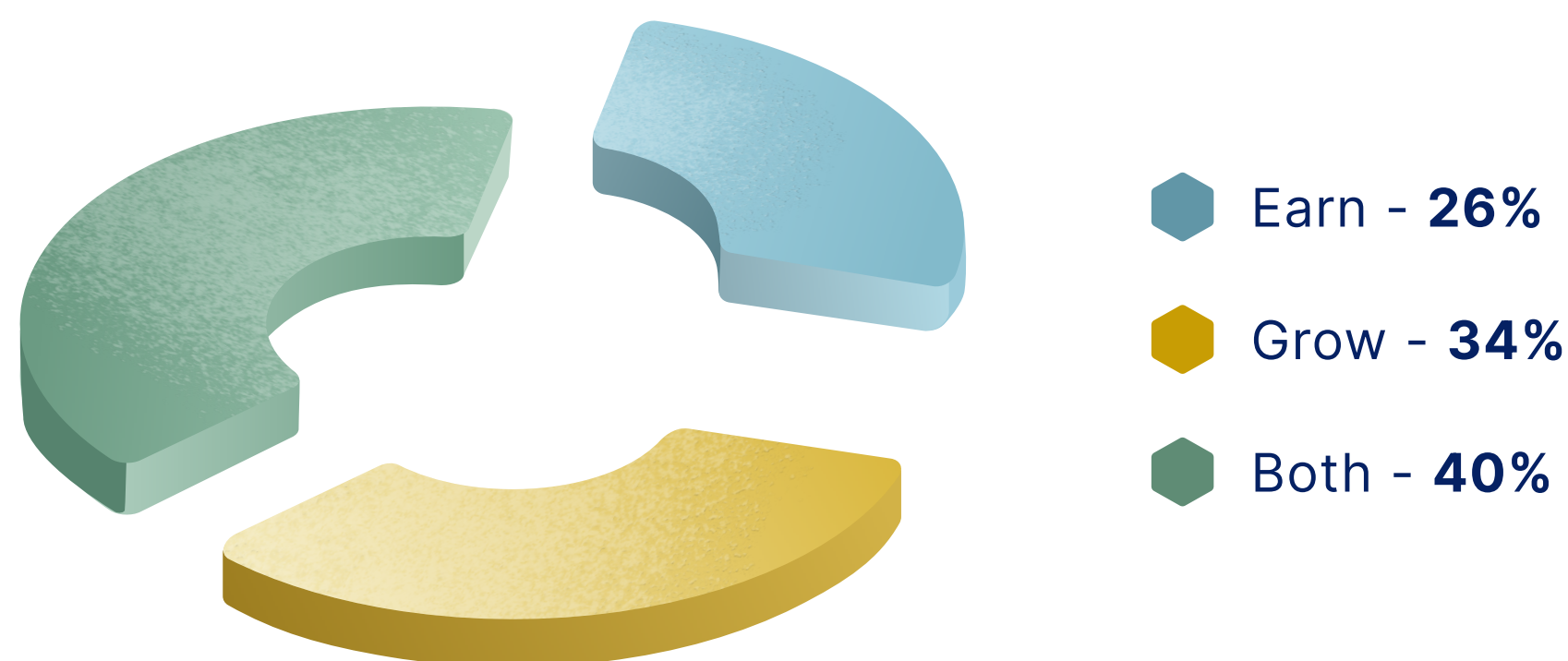
The “100 minus your age” rule in traditional portfolio construction states that you should gradually reduce your exposure to public equities (stocks) and correspondingly increase your exposure to bonds as you near retirement. This is to mitigate the probability of any major correction rapidly devaluing your portfolio, and to pursue stable performance during your retirement years.

Similarly, your FIRE real estate portfolio should shift toward relatively income-focused positions with built-in protections

as you near retirement. In other words, begin with a focus on real estate private equity and shift toward CRE debt, preferred equity, and/or private funds with redemption options (a high degree of liquidity). We will take a look at simplified hypothetical scenarios shortly.

Irrespective of rebalancing through the period, many investors seek to diversify *across the real estate capital stack* over time in order to balance total return potential and income.

EquityMultiple Investors’ Allocation Choices



Note, in EquityMultiple's nomenclature, 'Grow' investments are JV equity; 'Earn' investments are Debt, Mezzanine Debt, or Preferred Equity.

Tax Efficiency and Wealth Preservation

401Ks offer a clear and well-established tax benefit for retirement portfolios. Real estate, as a “taxable asset class” offers a few other potential tax benefits that can

help maximize post-tax earnings and reinvestment amounts, while giving you options to defer your tax burden.

The specific tax advantages of real estate can further accelerate a FI strategy:

- **Depreciation:** Reduces taxable income,

- especially relevant for equity positions.
- 1031 Exchanges: Defers capital gains, enabling ongoing growth without tax burdens.
- Self-Directed IRAs: Enables tax-advantaged growth for real estate investments.
- Qualified Opportunity Zone Investments: Enables any windfall to be invested tax-free in real estate. This can include wins from your stock portfolio.

While EquityMultiple can potentially help you tap into these strategies, note that we do not offer tax advice, and recommend consulting with a licensed tax professional when investing in real estate.

Conclusion and Next Steps with EquityMultiple

Financial independence is not an easy achievement. Individuals who want to accelerate their retirement date into their 50s or even 40s must:

- Plan carefully with the ultimate goal clearly defined
- Be highly disciplined in their budgeting and saving
- Build a thoughtful asset allocation strategy

Private-market real estate stands out as an asset class that can help self-directed investors in their quest for financial independence and earlier retirement. This

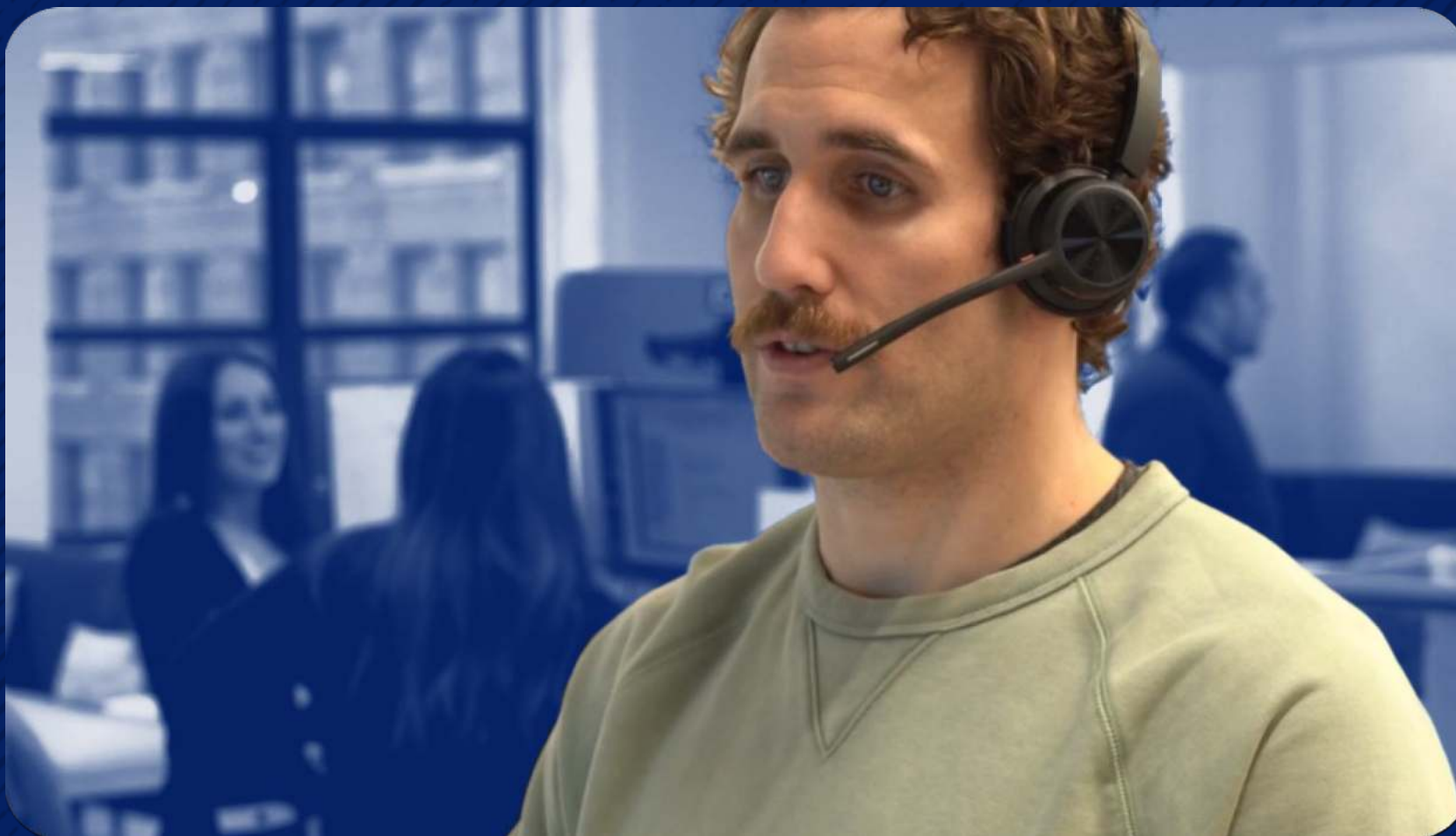
is because real estate potentially brings alternative sources of income and total return that may be less correlated with public markets (the assets held in your 401K).

Achieving financial independence involves building a balanced, diversified portfolio that can shift from growth to income generation as needed. EquityMultiple enables you to invest across the capital stack, creating a real estate portfolio that meets your specific financial goals. To explore investment opportunities and tailor a strategy that aligns with your FI plan, visit [EquityMultiple's platform](#).

“Financial independence with real estate isn't solely about building wealth — it's about building optionality. When your portfolio works for you, you gain the freedom to work on what inspires you. The true value of financial independence lies not in the capital accrued, but in the purposeful life it enables.”



If you have any questions, or would like to discuss your asset allocation strategy within EquityMultiple, please don't hesitate to reach out to Investor Relations at ir@equitymultiple.com, or [schedule some time](#) to speak with the team.



Hypothetical Returns: This material describes hypothetical net returns that may be earned by an investor in this offering for illustrative purposes only. These returns have not been achieved by any investor. In certain cases, the described returns are a function of the contractual interest rate or preferred return associated with the investment. In other cases, the forecasted net IRR or equity multiple is a hypothetical return derived from assumptions regarding the future operating performance of the property. The assumptions involved in such forecasting include growth of market rental rates in the market, achievable market rental rates based on current and future property conditions, growth rate in property operating expenses and prevailing cap rates upon future sales of the property. These assumptions are derived from comparable properties, market reports, broker opinions, industry underwriting conventions and prior Sponsor/Borrower experience. While EquityMultiple believes that these assumptions are reasonable, due to various risks and uncertainties, actual events or results or the actual performance can differ materially from those reflected or contemplated.

These investments have a high degree of risk, and there can be no assurances that any of the assumptions will be true or that the investment's actual performance will bear any relation to these hypothetical illustrations. The particular assumptions used to evaluate the return potential of this investment should be reviewed prior to investment. To access them click the "View Offering" button above in this email and download the Financial Overview available on that page.

Hypothetical performance is subject to inherent limitations, is prepared with the benefit of hindsight, and should not be relied upon in making an investment decision. Additional information regarding the projected performance metrics presented herein is available upon request.