# Beyond Rentals

*The Sophisticated Investor's Guide to Private Credit*

For accredited investors who've outgrown rental real estate

**BUILDUP CAPITAL**

Salt Lake City, Utah

# Beyond Rentals: The Sophisticated Investor's Guide to Private Credit

**For accredited investors who've outgrown rental real estate**

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**By BuildUp Capital**
**Salt Lake City, Utah**

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## Table of Contents

1. Introduction: Why This Guide?
2. The Real Estate Fatigue Cycle
3. What is Private Credit?
4. Asset Comparison Matrix
5. Case Study: From Airbnb Operator to Private Lender
6. Risk Management Framework
7. How to Evaluate Private Credit Opportunities
8. Common Mistakes to Avoid
9. Getting Started: Your First Investment
10. Next Steps

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## 1. Introduction: Why This Guide?

If you're reading this, you've likely built wealth through real estate.

Maybe you started with long-term rentals. Then discovered Airbnb. Scaled to multiple properties. Optimized pricing algorithms. Managed turnover, cleaners, maintenance, and guest complaints.

**And at some point, you realized: this is a job, not an investment.**

You're management-fatigued. Regulatory-risk aware. Market-volatility exposed. Illiquidity constrained.

You want **income without tenants, toilets, or market whiplash.**

That's where private credit comes in.

This guide will show you:

- Why successful real estate investors are reallocating to private credit
- How asset-backed lending compares to rentals, stocks, and syndications
- What to look for (and what to avoid) in private credit opportunities
- A practical framework for evaluating your first deal

**This isn't theory.** We've been on both sides—borrowers needing fast capital for time-sensitive deals, and lenders seeking predictable income with real downside protection.

We built BuildUp Capital because we wished this option had existed when we were managing our own rental portfolios.

Let's dive in.

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## 2. The Real Estate Fatigue Cycle

Most sophisticated real estate investors follow a predictable path:

### Stage 1: Discovery (Years 1-3)

- Buy first rental property
- Learn landlording basics
- Discover cash flow > appreciation (in most markets)
- Get excited about financial freedom

### Stage 2: Scaling (Years 3-7)

- Accumulate 3-10 properties
- Optimize systems (property managers, screening, maintenance)
- Discover short-term rentals (Airbnb/VRBO)
- Income increases significantly
- Complexity increases proportionally

### Stage 3: Sophistication (Years 7-12)

- Portfolio of 10-30 units (mix of LTR + STR)
- Revenue optimization (dynamic pricing, automation)
- Tax strategy implementation (cost segregation, 1031s)
- Realize you've built a business, not passive income

### Stage 4: Fatigue (Years 12+)

- Management overwhelm (even with PMs)
- Regulatory risk (STR restrictions, zoning changes)
- Market volatility (cap rate compression, rate sensitivity)
- Illiquidity stress (capital locked up, hard to exit)
- **Question:** "Is there a better way?"

**This is where most investors get stuck.**

They know they need to **reallocate** but don't know where. They consider:

- Syndications (passive, but same market risk + sponsor risk)
- Stocks (liquid, but volatile + no income control)
- Bonds (safe, but yields don't justify the opportunity cost)
- More rentals (no thanks, see Stage 4)

**What if there was a fifth option?**

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## 3. What is Private Credit?

Private credit is **lending directly to businesses or real estate projects, secured by assets, without going through traditional banks.**

Think of it as:

- **Being the bank** instead of the customer
- **Monthly interest payments** instead of hoping for appreciation
- **First lien position** on real collateral
- **Shorter durations** (6-24 months) instead of 30-year commitments

### How It Works (Simplified)

**Traditional Rental Investment:**

```
You buy property → Find tenant → Collect rent → Pay expenses → Hope for appreciation
Capital: $500K | Monthly cashflow: $2K (after expenses) | ROI: ~5-7% annually
Liquidity: Low (takes 3-6 months to sell)
Management: High (even with PM)
```

**Private Credit Investment:**

```
You lend to borrower → They use capital for deal → They pay interest monthly → They repay principal at matu
Capital: $500K | Monthly interest: $5K (12% annual) | ROI: 12-15% annually
```

```
Liquidity: Medium (recycles every 6-24 months)
Management: Low (underwriting up front, monitoring ongoing)
```

### Key Differences

| Factor | Rental Real Estate | Private Credit |
|---|---|---|
| **Income** | Rent (minus expenses) | Interest (contractual) |
| **Control** | Property management | Underwriting standards |
| **Downside Protection** | Property value | Collateral + personal guarantees |
| **Upside Potential** | Appreciation | Fixed (but predictable) |
| **Liquidity** | Low (3-6 months to sell) | Medium (6-24 month terms) |
| **Management** | High (tenants, maintenance) | Low (quarterly check-ins) |
| **Regulatory Risk** | High (zoning, STR bans) | Low (lending is protected) |
| **Market Sensitivity** | High (cap rates, rates) | Medium (rates affect demand) |

**Bottom line:** Private credit trades appreciation potential for predictability, reduced management, and shorter capital lockup.

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## 4. Asset Comparison Matrix

Let's compare **private credit to other common investments** for sophisticated investors.

### Airbnb/Short-Term Rentals

| Pro | Con |
|---|---|
| High income potential (2-3x LTR) | High management (even with PM) |
| Appreciation + cash flow | Regulatory risk (STR bans) |
| Tax benefits (cost seg, bonus depreciation) | Vacancy volatility (seasonal) |
| | Illiquid (takes months to sell) |

**Verdict:** Great for wealth building. Exhausting for wealth preservation.

## Long-Term Rentals

| Pro | Con |
|---|---|
| Stable cash flow | Low yields (4-7% after expenses) |
| Appreciation over time | Tenant turnover, maintenance |
| Tax benefits | Illiquid (3-6 months to sell) |
| Inflation hedge | Cap rate compression risk |

**Verdict:** Solid foundation. But hard to scale without increasing complexity.

## Syndications (LP Positions)

| Pro | Con |
|---|---|
| Truly passive (no management) | Sponsor risk (manager competence) |
| Diversification (multi-property) | Same market risk as direct ownership |
| Professional operators | Illiquid (5-7 year lockup) |
| | No income control (distributions at sponsor discretion) |

**Verdict:** Good for diversification. But you're betting on operator skill + market timing.

## Stocks (Dividend or REIT)

| Pro | Con |
|---|---|
| Highly liquid (sell anytime) | Volatile (daily price swings) |
| Diversification (easy to spread risk) | No control over distributions |
| No management | Tax inefficiency (ordinary income on dividends) |
| | Correlation with broader market |

**Verdict:** Liquidity is nice. But volatility and lack of control are dealbreakers for income-focused investors.

## Private Credit (Asset-Backed Lending)

| Pro | Con |
|---|---|

| | |
|---|---|
| Contractual monthly income | No appreciation (fixed return) |
| First lien on real assets | Credit risk (borrower default) |
| Shorter duration (6-24 months) | Liquidity constrained during term |
| Low management (underwrite once) | Requires capital to deploy |
| Not correlated to stock market | |
| Regulatory protection (lending laws) | |

**Verdict:** Best for investors who want **income without management** and can handle **fixed returns** instead of appreciation.

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## 5. Case Study: From Airbnb Operator to Private Lender

**Meet Sarah (not her real name).**

### Background

- **Age:** 42
- **Occupation:** Tech executive (W-2 income)
- **Real Estate Portfolio:** 8 Airbnb properties (various markets)
- **Annual Revenue:** $450K gross | $180K net (after expenses, PM fees, capex)
- **Time Investment:** 10-15 hours/week (guest issues, maintenance coordination, pricing optimization)

### The Problem

Sarah was management-fatigued. She loved the income but hated:

- Guest complaints (noise, cleanliness, wifi issues)
- Regulatory uncertainty (2 cities threatened STR bans)
- Maintenance surprises (HVAC died twice in one year)
- Market sensitivity (occupancy dropped 20% during economic slowdown)

She wanted to **preserve her income without the operational burden.**

### The Transition

Sarah worked with BuildUp Capital to reallocate **50% of her portfolio** ($1.2M) into private credit.

**Year 1 Strategy:**

1. Sold 4 underperforming Airbnb properties ($1.2M proceeds)
2. Deployed capital into asset-backed loans (12-15% annual returns)
3. Kept 4 best-performing Airbnbs (stable markets, strong demand)

**Results After 12 Months:**

| Metric | Before (8 Airbnbs) | After (4 Airbnbs + Private Credit) |
|---|---|---|
| **Gross Income** | $450K | $420K ($240K Airbnb + $180K interest) |
| **Net Income** | $180K | $240K ($120K Airbnb + $120K interest after fees) |
| **Time Investment** | 10-15 hrs/week | 3-5 hrs/week |
| **Stress Level** | High | Medium |
| **Liquidity** | Low (all capital locked) | Medium (loans recycle every 18 months) |

**Key Insights:**

- Net income **increased 33%** ($180K → $240K)
- Time commitment **reduced 70%**
- Stress **decreased significantly** (no more 2 AM guest emergencies)
- Capital **recycles faster** (18-month loans vs. multi-year property holds)

**Sarah's Quote:**

> *"I wish I'd discovered private credit five years ago. I'd have saved myself hundreds of hours of headaches and made more money with less stress."*

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# 6. Risk Management Framework

Private credit isn't risk-free. Here's how to think about risk intelligently:

## Primary Risks

**1. Credit Risk (Borrower Default)**

- **What it is:** Borrower can't/won't repay
- **Mitigation:** Conservative LTV (60-70%), first lien position, personal guarantees, proven borrower track record

- **Probability:** Low (with proper underwriting)

**2. Collateral Risk (Asset Value Decline)**

- **What it is:** Underlying asset drops in value below loan amount
- **Mitigation:** Conservative LTV, stable asset classes (no speculative land), regular valuations
- **Probability:** Low (unless catastrophic market event)

**3. Liquidity Risk (Capital Tied Up)**

- **What it is:** Can't access capital during loan term
- **Mitigation:** Stagger maturities, keep 10-20% in reserves, shorter loan terms (12-18 months)
- **Probability:** Medium (this is expected, not a bug)

**4. Interest Rate Risk (Rates Rise)**

- **What it is:** If rates rise, your fixed-rate loan becomes less attractive
- **Mitigation:** Shorter terms (so you can reprice), floating-rate structures, or accept fixed for predictability
- **Probability:** Medium (macro-driven)

## The "Downside-First" Approach

At BuildUp Capital, we underwrite **the way out before we fund the way in.**

Every loan must answer:

1. **If this goes wrong, how do we get repaid?**
    - Collateral sale value (conservative)
    - Personal guarantees (enforceable?)
    - Alternative exit paths (refinance, partner buyout)
2. **What's our margin of safety?**
    - LTV < 70% (30% equity cushion)
    - Debt Service Coverage Ratio (DSCR) > 1.3x
    - Borrower skin in the game (20%+ equity)
3. **What's the worst-case scenario?**
    - Default + foreclosure + asset sale at distressed pricing
    - Can we still recover principal?
    - If not, we don't fund.

**This is boring. And that's the point.**

## 7. How to Evaluate Private Credit Opportunities

Not all private credit is created equal. Here's your evaluation framework:

### The 5-Point Checklist

**1. Collateral Quality**

- ☐ Real, tangible asset (real estate, equipment, inventory)
- ☐ Conservative valuation (verified by 3rd party appraiser)
- ☐ First lien position (you get paid before everyone else)
- ☐ Stable asset class (no crypto, no spec land, no collectibles)

**2. Loan-to-Value (LTV)**

- ☐ LTV ≤ 70% (30% equity cushion)
- ☐ Based on **current** value, not projected/pro forma
- ☐ Verified by independent appraisal
- ☐ Includes all senior debt (not just your loan)

**3. Borrower Quality**

- ☐ Track record in this asset class (3+ years)
- ☐ Personal guarantee (skin in the game)
- ☐ Credit check (no major red flags)
- ☐ References from other lenders (did they perform?)

**4. Deal Economics**

- ☐ Interest rate > 10% (compensates for risk + illiquidity)
- ☐ Points/fees included (origination, exit, etc.)
- ☐ Term ≤ 24 months (shorter = less risk)
- ☐ Monthly payments (not balloon at end)

**5. Legal Structure**

- ☐ Promissory note (enforceable contract)
- ☐ Deed of trust or mortgage (perfected lien)
- ☐ Personal guarantee (from principals)
- ☐ Reviewed by attorney (no loopholes)

**If any of these are missing or weak, walk away.**

## 8. Common Mistakes to Avoid

We've seen (and made) plenty of mistakes. Learn from ours:

### Mistake #1: Chasing Yield

**Scenario:** 20% interest rate sounds amazing compared to 12%.

**Problem:** Higher yield = higher risk. Always.

**Fix:** Accept market rates (10-15%). If someone offers 20%, ask **why no one else will lend to them.**

### Mistake #2: Ignoring LTV

**Scenario:** Borrower seems great, asset is solid, but LTV is 85%.

**Problem:** No margin of safety. If asset drops 15%, you're underwater.

**Fix:** Max LTV = 70%. Period. No exceptions.

### Mistake #3: Skipping Legal Review

**Scenario:** "The borrower is a friend, we don't need lawyers."

**Problem:** Friendship != enforceability. If things go wrong, you need legal recourse.

**Fix:** Always use attorney-reviewed documents. Worth the $2K upfront.

### Mistake #4: Funding Spec Projects

**Scenario:** Developer wants to build luxury condos in an unproven market.

**Problem:** You're taking development risk (construction delays, cost overruns, market demand) + credit risk.

**Fix:** Only fund **stabilized assets** or **proven projects** with guaranteed takeout financing.

### Mistake #5: No Reserves

**Scenario:** Deploy 100% of capital into loans immediately.

**Problem:** When opportunities arise (or emergencies happen), you have no dry powder.

**Fix:** Keep 10-20% in reserves. Always have liquidity buffer.

## 9. Getting Started: Your First Investment

Ready to dip your toe in? Here's a practical roadmap:

## Step 1: Assess Your Capital (Week 1)

**Questions to answer:**

- How much liquid capital do you have available? (Not locked in illiquid assets)
- How much can you allocate without affecting your lifestyle?
- What's your time horizon? (6 months? 2 years? 5 years?)

**Recommendation:** Start with 10-20% of liquid net worth. Don't go all-in immediately.

## Step 2: Education (Week 2-4)

**Learn the basics:**

- Read "The Intelligent Investor" (mindset)
- Study LTV, DSCR, and basic lending terminology
- Review actual loan documents (ask lenders for redacted examples)
- Join private lending forums/communities

**Goal:** Understand what you're reading when you see a deal.

## Step 3: Find a Partner (Week 4-8)

**Options:**

1. **Direct Lending (DIY):** You source, underwrite, and fund deals yourself
    - **Pros:** Full control, higher returns (no middleman)
    - **Cons:** Requires expertise, time, and deal flow
2. **Co-Lending:** Partner with experienced lender on individual deals
    - **Pros:** Learn from expert, lower risk (they have skin in game)
    - **Cons:** Slightly lower returns (they take a cut)
3. **Fund/Platform:** Invest through managed fund or lending platform
    - **Pros:** Diversification, professional management
    - **Cons:** Less control, higher fees, fund-level risk

**Recommendation for beginners:** Start with co-lending or vetted platform. Learn the ropes. Go direct later.

## Step 4: Underwrite Your First Deal (Week 8-12)

**Use the 5-Point Checklist:**

1. Collateral Quality → Real asset? First lien? Conservative value?
2. LTV → ≤70%? Verified appraisal?

3. Borrower → Track record? Personal guarantee? References?
4. Economics → 10-15% return? Monthly payments? ≤24 months?
5. Legal → Attorney-reviewed docs? Enforceable?

**If all 5 check out, proceed to funding.**

### Step 5: Fund & Monitor (Ongoing)

**Initial funding:**

- Wire funds to escrow (never directly to borrower)
- Verify lien is recorded (county recorder confirms first position)
- Set up monthly payment autopay

**Ongoing monitoring:**

- Review monthly payments (on time? Full amount?)
- Quarterly check-ins with borrower (project on track?)
- Annual asset inspection (if warranted)
- Document everything

**At maturity:**

- Borrower repays principal
- Lien released
- Recycle capital into next deal

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## 10. Next Steps

You've read the guide. Now what?

### Option 1: Learn More

- Download our **Private Credit Glossary** (free)
- Read case studies on our blog
- Subscribe to our quarterly investment memo

### Option 2: See a Live Deal

- Review a redacted example loan (LTV, DSCR, terms)
- Understand what we look for (and what we avoid)
- Ask questions (we reply to every email)

### Option 3: Schedule a Consultation

- 30-minute call (no obligation, no sales pitch)
- We'll review your situation
- Honest assessment: Is private credit right for you?
- If yes, we'll show you how to start

**We're not trying to sell you. We're trying to help you decide if this fits.**

If you've been successful in real estate and you're looking for **income without management**, private credit might be your next evolution.

**But it's not for everyone.**

If you want:

- Maximum appreciation potential → Stick with rentals
- Hands-off everything → Stick with syndications
- Daily liquidity → Stick with stocks

If you want:

- Contractual monthly income
- Real asset backing
- Minimal ongoing management
- Capital that recycles every 12-24 months

**Then let's talk.**

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## Contact Us

**BuildUp Capital**
Salt Lake City, Utah

**Website:** buildup.capital
**Email:** info@buildup.capital
**Phone:** [To be added]

**Schedule Free Consultation:** buildup.capital/contact

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