Real Estate Investment Guide

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Table of Contents

1. Introduction....4
2. Residential real estate....5
3. Commercial real estate....8
4. Raw land....12
5. REITs....14
6. 10 Real Estate Investing Strategies....17
7. Real Investors Mistakes....23
8. How to Succeed in Real Estate Investment Goals....26

1. Introduction

Although there are many different kinds of real estate investments, the vast majority of them may be split up into two categories: Both traditional real estate investments, such as land and residential and commercial buildings, and alternative ways to invest in real estate, such as via REITs, are considered to be physical real estate investments.

Traditional, brick-and-mortar real estate may be a good investment if you're looking for a big return, but you'll need more money upfront, and the expenses may be higher on an ongoing basis. Because of the reduced financial barrier to entry presented by REITs and crowdfunding platforms, it is possible to invest in numerous kinds of real estate for a sum that is far less than what it would cost to invest in even a single conventional property. You won't even need to get dressed or leave home to get started with these alternative real estate investments; you can get started without putting on trousers or leaving the house.

Here are five categories of real estate that you may want to think about purchasing as an investment:

Residential real estate

Commercial real estate

Raw land

REITs

2. Residential real estate

What Is Residential Real Estate?

Single-family houses are the most frequent kind of residential real estate and fit the wide definition of residential real estate, which refers to any real property (land and any structures on it) that is utilized for residential purposes. In contrast, commercial real estate consists of land and buildings that are exclusively designated for use in connection with business activities (apartment buildings, office buildings, hotels, etc.). It should not be inferred from this that income from residential real estate cannot be generated. Homeowners have the option of either living in their houses and then selling them for a profit when the market value of homes rises or renting out their homes to generate passive income.

Common types of real estate in the residential sector

In the residential market, there are a few primary categories of real estate to choose from.

1. **Single-family detached homes:** Single-family detached homes, also known as standalone homes or single-family homes, are the most popular kind of residential property and sit on their own parcels of land.

2. **Townhouses** A townhouse, sometimes known as a townhome, is a kind of residence that is privately owned but often has many levels and shares one or two outside walls with the surrounding real estate.

3. **Condominiums:** A condominium, often known as a condo, is a residential unit that is privately owned and is located inside a community that also contains other residential units, such as townhouses, high-rise buildings, or a condo complex. As opposed to apartments, which are often managed by either a huge business or a property management firm, condominiums are typically held by a single individual who shares joint sovereignty with a condo owners organization (COA).

4. Multi-Family Buildings: Some examples of houses with multiple families living in them are duplexes and fourplexes, which are buildings with two and four separate units, respectively. Generally speaking, a piece of property is regarded to be commercial if it has five or more individual apartment units.

Key Takeaways About Residential Real Estate

When you are doing research on residential real estate, be sure to keep these things in mind.

1. The residential real estate market and the commercial real estate sector are two separate entities. Because the

demand for residential real estate does not necessarily parallel that for commercial property, your approach to investing in real estate may take on a completely different appearance depending on the sorts of properties you are interested in purchasing.

2. The local marketplaces are each unique. Get in touch with a local Realtor or real estate agent so that you can have an understanding of the local real estate market. Attend open houses in your area and go through real estate listings online to get a feel for the local market.

3. There are several different financing choices. It is likely going to be necessary for you to interact with a mortgage lender if you decide to buy residential real estate. Investigate the several loan alternatives that are open to you, and be sure to make a note of the interest rates, minimum down payments, and proof of income requirements.

3. Commercial real estate

CRE, or commercial real estate, refers to properties that will be used for business. CRE is best understood in relation to residential real estate, such as a single-family house, whether it is inhabited by its owner or leased out. The commercial property encompasses just about everything else.

That's a wide net that catches a lot more than just what comes to mind when you hear the term "commercial" in reference to asset kinds. It is a common misconception that commercial buildings only include places like hotels and office buildings. Even if we don't give much thought to it, commercial real estate is always everywhere in our daily lives. CRE encompasses a wide variety of establishments, from your corner shop to the apartment complex down the street to the facility where your Amazon parcels are sorted.

Many commercial properties are held privately, making them attractive to investors. The companies behind the project, known as sponsors and developers, frequently tap into a community of private investors to help them amass the equity they need to get the job done. A potential investor may be interested in constructing a brand-new hotel (also known as development). And maybe they want to boost rents by renovating an existing apartment complex. As an alternative, maybe they are looking to

buy and run a profitable office property. Speculative possibilities exist in all of these contexts.

Why invest in commercial real estate?

Commercial real estate is valued at almost $16 trillion, making it the third biggest asset class in the United States after equities and bonds. The Harvard Management Company, which oversees Harvard University's endowment of $41.9 billion, is only one of the world's largest institutional investors in real estate.

There are many advantages to investing in commercial real estate, and these are just a few of the reasons why both individual and institutional investors have begun to take notice.

Real estate is a physical asset that can be touched and felt. Its worth is not directly related to the vagaries of the public stock market, like share values, which might be here today and gone tomorrow. Asset values, which include property values, are influenced by both global and local economic conditions. Hotels on the outskirts of Des Moines, for instance, provide a drastically different view than their Las Vegas counterparts.

The return on investment for commercial real estate can take the form of either regular cash distributions or a percentage of the property's eventual sale price. Fully leased properties with quality, long-term tenants

paying consistent monthly rents are more likely to distribute regular cash flow back to investors, while assets that require more work may mean less cash flow in the short term but could lead to a bigger payout after renovation and sale. The correct commercial real estate investment portfolio balance may be achieved by careful consideration of available options.

The term “passive” refers to the way in which an investor makes

Limited partners in a commercial real estate (CRE) transaction do not become landlords but rather enjoy the status of passive investors. Investing in commercial real estate (CRE) via a Corp or LLC can often provide investors with similar tax advantages that come with ownership of rental income property, such as deductions for depreciation and interest expense (depending on the entity’s setup), but without the hassles of direct ownership.

Commercial real estate investments are often played out over longer time frames than residential “fix-and-flip” investments. When compared to more liquid investments like equities or bonds, real estate is often illiquid because of the lengthy expected hold time (2 years or more for most projects) and the inability to sell on short notice. However, because of real estate’s extended holding periods, investors are able to weather economic storms.

Commercial real estate investments (and others) are only one part of a diverse and carefully structured portfolio

that can withstand economic downturns. For some investors, commercial real estate has historically been more resilient to economic downturns than the stock market and other investment opportunities, including residential real estate. How well an asset does in difficult times depends on a variety of factors, including its location, its goals, and the expertise of its sponsor.

Individual investors are just as able to profit from the same opportunities that draw in big investors. Commercial real estate opportunities were once available only to the extremely wealthy and politically connected; however, with the advent of new regulations and advancements in technology, ordinary investors can now diversify their portfolios to include commercial real estate and reap the long-term benefits of doing so.

How do you make money with commercial real estate?

Short-term cash flow from rental revenue and long-term capital appreciation are the two main ways in which individual investors hope to profit from their real estate holdings. To the degree that the property generates cash flow, distributions of income may be made on a monthly, quarterly, or yearly basis, whereas the prospect of payment from appreciation is fulfilled only once at the close of the purchase.

4. Raw land

Sell your land

This is the quickest and easiest method to generate income from undeveloped property you already own.

Don't change the condition of any land that is currently unoccupied. When other people take notice, you'll suddenly have access to funds that weren't there before!

If you're looking for a source of steady income that will last you at least a few years, consider offering owner financing. One of our specialities is the acquisition and disposition of undeveloped properties in the United States.

Use the land as boat storage

However, if you happen to live in a city or a very dense suburban region, you may find it challenging to locate a place to store your boat or another recreational vehicle. One excellent way to generate passive income from unused land is to rent it out as boat storage.

Make sure you have suitable storage facilities on the land before advertising it. Then, if there's enough demand, you may construct them.

Forest timber on the land

For many people, harvesting wood is a viable source of income. The United States Department of Agriculture is a good resource for determining the market value of your wood. If you're looking to earn money off of undeveloped property, the value of wood might vary widely depending on a number of things.

Invest in solar energy

Although solar farms may be quite successful in sunny regions, the initial investment is high. Furthermore, this would be passive income, which means you can sit back and watch the money roll in without making any additional effort.

5. REITs

A corporation that owns, manages, or funds real estate that generates revenue is known as a real estate investment trust (often abbreviated as REIT). REITs offer an investment opportunity similar to that of a mutual fund that not only enables regular Americans but also Wall Street, banks, and hedge funds to benefit from valuable real estate, presents the opportunity to access dividend-based income and total returns, and assists communities in expanding, thriving, and revitalizing themselves.

REITs make it possible for anybody to participate in portfolios of real estate assets in the same manner that they invest in other types of businesses: via the purchase of individual shares of a company's stock or through a mutual fund, exchange-traded fund, or another investment vehicle (ETF). The shareholders of a real estate investment trust (REIT) get a portion of the revenue generated by the REIT, but they are not required to personally invest in, manage, or finance any properties. What assets do REITs own?

REITs are able to invest in a diverse range of real estate properties, such as hotels, offices, apartment complexes, warehouses, retail centers, medical facilities, data centers, cell towers, and infrastructure. The vast majority of real estate investment trusts (REITs) concentrate on one specific category of property, while some REITs own many categories of real estate in their portfolios.

Assets held by listed REITs are assigned to one of the 13 different property sectors.

How Do REITs Make Money?

The majority of REITs follow a straightforward and simple business model that is straightforward and simple to understand. This model states that the company generates income, which is then distributed to shareholders in the form of dividends, by leasing space and collecting rent on its real estate. REITs are required to distribute to their shareholders at least 90% of their taxable income, though the majority of REITs distribute 100% of their income. In response, shareholders are responsible for paying income taxes on dividends received.

REITs, also known as mortgage REITs, are not directly involved in the ownership of real estate; rather, they provide financing for real estate transactions and generate income from the interest earned on these investments.

Why invest in REITs?

REITs have typically been able to deliver total competitive returns as a result of their high and steady dividend income, in addition to their capacity to rise in value over the course of a longer period of time. They are also excellent portfolio diversifiers due to the fact

that they have a very low connection with other assets. This may assist in lowering the overall risk of a portfolio and increasing the profits it generates. These are the characteristics that should be present in a real estate investment that is underpinned by a REIT.

Past Performance

When compared to the overall stock market as well as bonds and other assets over the course of the past 45 years, the track record of reliable and growing dividends that REITs have provided investors with, in conjunction with long-term capital appreciation through increases in stock price, has provided investors with attractive total return performance for the majority of periods.

Listed REITs are publicly traded companies that are professionally managed and have the goal of increasing the value of their shareholders through the management of their businesses. This requires them to position their properties in such a way that they attract tenants and earn rental income, as well as manage their property portfolios and buy and sell assets in such a way that they build value over the course of long-term real estate cycles.

6. 10 Real Estate Investing Strategies

1. Buy and Rent

When you acquire real estate with the intention of renting it out, you are purchasing properties with the intention of either managing them yourself or contracting with a property management firm to do it on your behalf. The majority of real estate investors choose to acquire single-family houses, condominiums, or townhomes in order to rent them out. It is essential to do research in the local area to determine what the majority of renters in the region want, and it is equally essential to determine whether or not the amount of rent you can charge will generate a sufficient level of profit to ensure a positive cash flow.

2. Buy and Hold

If you do not want to be a landlord but you do want to enjoy the appreciation of a property, the purchase-and-hold approach is a fantastic option for you. You start by purchasing properties at prices below their true market worth, then you do the minimum amount of necessary repairs in order to make the property suitable for renting, and last you advertise the rental unit on the market.

Depending on the approaches you take to investing, buying and holding an asset may be done either for

the short or the long term. For instance, many people who invest in real estate purchase properties and then improve them in order to achieve capital appreciation. Then, when they sell the property, instead of accepting the money in the form of cash proceeds, they use the 1031 exchange law to reinvest it in another investment property so that they may avoid paying taxes on the capital gains.

3. Wholesaling

Real estate wholesaling is a terrific investment strategy if you have the ability to identify properties that are priced below market value and if you have a network of other real estate investors who are ready to make purchases. It is not a kind of passive income, and in order to make it work, you will need to have the ability to network on both the purchasing and selling sides.

When you wholesale real estate, it implies that you enter into a contract to purchase a property, but then you quickly assign that contract to a buyer that you've already found. The agreement that you reach with your buyer will be for the purchase price of the property in addition to your commission for locating the buyer.

You are the one who acts as the go-between in the deal since you wholesale real estate. You identify a property for real estate investors who don't have the time to look for it themselves, and then you charge them a "finder's fee" for your services.

4. Flip and Sell

Buying an underpriced property, improving it, and selling it again are required if you want to follow the flip-and-sell method. You may put the repair and flip technique to action by purchasing a house solely for the purpose of making improvements to it, or you can perform what's known as a live-in flip, in which you purchase a property, move in there while you make improvements to it, and then sell it.

In any case, the purpose of the renovations is to raise the value of the property so that you may realize a profit when you finally decide to sell it. It's a different take on the classic investing technique of buying cheap and selling high.

5. Live-In-Then-Rent

Rent is merely the act of occupying a home with the intention of converting it into a rental property. This indicates that the house has to be suitable for both living in and using in the future as an investment. On the other hand, in contrast to house hacking, you do not rent the property while you are living in it.

Implementing this tactic a few times is an excellent method for constructing a modest investment portfolio. And unlike home hacking, you do not need to live in close proximity to your renters.

6. Real estate investment trusts (REITs)

Real estate investment trusts, more commonly referred to as REITs (pronounced “reet”), are corporations that function similarly to mutual funds for real estate investors. These corporations give investors the opportunity to invest in real estate without actually owning any of the properties in which they invest. Shares of real estate investment trusts (REITs) are purchased by investors in the same way that stocks or shares in a mutual fund are, and the trust then distributes dividends to its owners.

All dividends that are distributed to shareholders of a REIT are entitled to be deducted from the REIT’s taxable corporate income. According to the Office of Investor Education and Advocacy of the Securities and Exchange Commission, the majority of REITs send at least one hundred percent of their taxable revenue to their shareholders, and as a result, they are exempt from paying any kind of corporation tax.

7. Real estate investment groups (REIGs)

A real estate investment group, often known as an REIG, is a group of private investors that collaborate by pooling their resources and knowledge in order to invest in real estate utilizing a variety of different tactics.

On the other hand, real estate investment organizations are subject to the restrictions of private agreements

rather than those of government agencies. REIGs are characterized by their adaptability due to the availability of a wide variety of structures, membership fees (if any), and levels of involvement. Investors who wish to have a stake in actual physical real estate may find that joining a real estate investment group is the best option for them.

8. BRRR: Buy, rehab, rent, refinance, repeat

The techniques of Buy, Rehab, Rent, Refinance, and Repeat (BRRR) are very common in the realm of long-term property investing.

The plan comprises purchasing a piece of real estate, preferably at a price that is lower than the current market value, rehabilitating it, renting it out to fund the mortgage, doing a cash-out refinancing, and then utilizing the proceeds to purchase more properties and continue the cycle.

This is not a method that is appropriate for inexperienced investors but rather for more seasoned ones. This is due in part to the fact that it includes the identification of fantastic bargains, which are properties that need some maintenance but are also a good investment.

Because the investor will continue to pay the mortgage while the property is being rehabilitated, it is very important to get an accurate estimate of the expenditures associated with the renovations that must be carried out before the rental property can be considered appealing

to prospective tenants. Improving a property's exterior appeal is vital to increasing its value, and kitchens and bathrooms are the areas that often provide the biggest return on investment.

9. Rental debt snowballing

This is a strategy for paying off the mortgages and other loans on many investment properties so that you may own them free and clear. The bestselling author and financial expert Dave Ramsey made it famous as a strategy for paying off personal debt, and it may also be used for investing in real estate.

7. Real Investors Mistakes

Putting your hard-earned money into real estate is, without a doubt, one of the most common and secure investment options available. As long as there is a need for decent places to live, there will always be a market for investment properties, and if you acquire one, you can expect solid returns on your money. Having said that, it is essential to have a solid understanding of the most typical as well as the most significant errors in financial planning that real estate investors often make when they are purchasing a new home. Being aware of these errors will not only assist you in arriving at the best choices for your situation, but it will also protect you from any potential financial damages.

These are some common blunders made by investors in real estate:

Not Conducting Adequate Research

This is a common blunder committed by inexperienced property buyers despite its easy avoidance. Before investing in real estate, it is essential to do your homework and understand the market conditions, as well as the pros and cons of the locations you're considering. This includes learning about the average property rates, land value, civic amenities, nearby facilities, and average rental income that can be earned in the chosen locations.

If you don't know the area well, it's easy for brokers and agents to take advantage of you.

All By Yourself

There is a great deal of effort involved in purchasing an investment property, from conducting a thorough inspection to organizing the necessary documentation. Most purchasers make the mistake of thinking they can handle the whole transaction on their own. Trusting in professionals and delegating tasks to them may make the massive process of real estate investment more manageable. Some of the largest investment blunders might come back to bother you years later, but with the support of professionals like house inspectors, handymen, insurance reps, professional property managers, and lawyers, you can avoid making such mistakes.

Overpaying

Overpaying for a piece of investment real estate is a common mistake. You might get into a lot of debt if you stretch yourself too thin. This means it might take a long time before you make back your initial investment and begin making a profit. Instead, you should look for affordable real estate in the area of your choosing.

Lacking a Plan for Financial Success

Lacking a well-considered investing plan is a common error made by inexperienced real estate investors. Determine if you want to invest in residential or commercial property initially. You shouldn't rush into an investment without first carefully considering the long-term effects of buying residential vs commercial property.

Failing To Take Into Account The Requirements Of Locals

Curious as to which investor is guilty of a frequent blunder in the financial markets. That person who wants to rent out a property for profit but can't find one in a desirable location (near a beach, for example, or a mountain). Your prospective tenants are an important consideration when purchasing a rental property as an investment. Renting to college students or young couples, for instance, necessitates convenient access to public transportation and, most likely, a lively nightlife scene in the immediate area.

8. How to Succeed in Real Estate Investment Goals

As a real estate investor, it's easy to succumb to the "shiny penny syndrome": We focus on the latest and greatest deal without seeing how this shiny penny fits into our long-term goals. Many successful real estate investors use the "SMART" goal system to plan their pursuits.

In the SMART system, goals must be specific, measurable, attainable, reasonable and timed. Using the SMART technique can help any investor narrow their focus and get the most out of their real estate investments.

Goals Must Be Specific

The word "real estate investing" refers to a wide variety of real estate types as well as investing strategies (such as "fix and flip," "wholesale," and "turnkey investing") (single-family, multi-family, commercial). Setting concrete objectives may assist an investor in remaining on track despite the existence of a wide variety of alternative courses of action. Setting objectives in real estate may be approached in the following particular ways:

Non-specific goal: "I want to make money investing in real estate." This objective does not give any guidance on the means by which or the locations of potential financial gains.

Specific goal: “I want to purchase 10 single-family rental properties in the next 36 months that generate enough cash flow to replace my current annual income.” This objective is really clear, and it includes a timetable for when it will be accomplished.

Goals Must Be Measurable

It should go without saying that everyone desires to increase their wealth via their investments. Investors should not expect to incur losses on their investments. A measurable aim is one that can be measured or counted in some way, such as the exact number of homes or other properties that will be acquired or the rate of return on investment that an investor plans to achieve.

Unmeasurable goal: “My goal is to become the most successful real estate investor in my region.” This objective can’t be measured since it doesn’t really imply anything, to begin with. One definition of a successful investor is one who has the most monthly income or who has completed the most transactions overall.

Measurable goal: “I want to buy four investment properties that each have an annual rate of return on investment of 8% or greater,” you say. “But how can I do that?” The fact that this objective seems to be so straightforward exemplifies the value of setting a target that can be measured. The goal here is to establish a standard by which to judge future performance. When

an investor establishes their objectives, it is simple for them to evaluate whether or not they are on course to achieve those objectives.

It is impossible to achieve one's objectives if they are not quantifiable in some way. If you establish a goal that can't be assessed, you may as well set one that's unrealistic and impossible to reach; in both cases, you're doing more damage than good.

Goals Must Be Attainable

A buddy in real estate investing is someone who is ambitious. It's the quality that separates successful entrepreneurs from those that fail. However, real estate investors must bear in mind the importance of maintaining objectives that are attainable. By setting objectives that are impossible to achieve, an investor is merely setting themselves up for definite failure, which may reduce their motivation to attempt again in the future.

Unattainable goal: "I want to earn $100,000 on my first transaction in real estate." Even if it is feasible to earn $100,000 off of a single real estate deal, it is not always achievable, particularly for someone who is just starting out as an investor. This objective may be affected by factors such as the demand in the market or the availability of properties. Setting your real estate goals

with a singular concentration on “the big number” is not an appropriate strategy.

Attainable goal: “I want to obtain a property that has the potential for appreciation as well as good cash flow.” Because an investor has control over both the location of their purchases and the amount they pay, it is possible to achieve this objective.

Goals Must Be Realistic

When goals are not achievable, they might be detrimental to investment. Unrealistic objectives are a lot like impossible ambitions. On the other hand, an unreasonable objective goes beyond being “out of reach” and into the area of being “impossible.”

Unrealistic goal: “I want to manage all of my rental properties and fix-and-flip homes to cut down on expenditures while still working a full-time day job.” No matter how driven an investor in real estate may be, there just aren’t enough hours in the day to get everything done. This objective, which is to develop a real estate investment firm without the assistance of any outside parties, is not achievable under any circumstances.

Realistic goal: “I aim to maximize my revenues by teaming with the greatest team of property managers.” Working with property management does not exclude the possibility of generating positive cash flow for

investment. If the math works out, an investor may still enjoy a positive cash flow even if they hire a property manager to handle the day-to-day operations of their investments.

When participating in goal-setting for real estate, sensible investors should first take stock of their resources and then create objectives that are commensurate with the amount of time and money they currently have available to them.

Goals Must Be Timed

Since many real estate investors are sole proprietors, setting realistic time objectives is essential. Investors are able to confirm that they are progressing toward their objectives by conducting check-ins at predetermined intervals.

Untimed goal: "I want to call as many leads as I can, but there is no time limit on my aim. " This objective does not have a time limit since there is no specific completion date. Is this a goal to be accomplished once a day, once a week, or once in a lifetime? This objective does not have a time limit and, therefore, cannot be measured in any way.

Timed goal: "I want to call 20 leads before the end of the month." This objective earns bonus points since it is both quantifiable and time-bound. The best approach to divide up all of the labor that comes along with real

estate investment is to establish a monthly quota for the number of leads you need to generate.

The importance of timed objectives cannot be overstated for investors who collaborate in teams. They provide a sense of organization to the often chaotic world of real estate investment. A lot of people go into real estate investment with the intention of achieving financial freedom and independence over the long term, and scheduled objectives provide a road map to get to that destination.

Goal-Setting For Real Estate Investing Success

Taking the time for real estate goal-setting can feel tedious, but it is crucial to being successful. The process of goal-setting is only the first step for a real estate investor to begin making headway. Once goals are set, investors need to develop a strategy to accomplish their goals. Build on from here with the next step of creating a business plan to keep your investment goals on track.