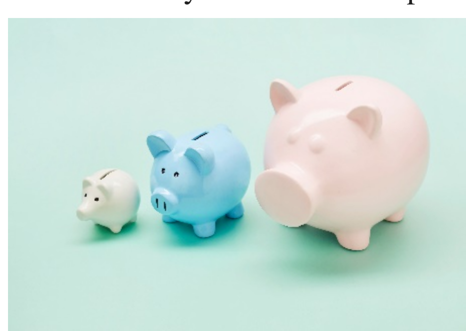
Five Ways to Invest in Real Estate

Five ways to invest in real estate include: Fix and Flip, Turnkey Rentals, the BRRR Strategy, Wholesaling, and investment in a Fund/REIT. For each of these, you need to look at effort, risk, risk mitigation, and the short and long-term return in order to choose which one is right for you.

Fix and Flip: for example, you buy a property for 40K, put 40K in rehab, sell the property for 100K, and make 20K profit (minus cost of capital, insurance, realter fees, etc.) The effort is high--you're always working, and you go from one deal to the other. The risk is linked to knowledge of the business (i.e., the roles of the people involved, the right way to rehab, which rehabs will get you the biggest bang for the buck, and your sales strategy). The market risk is low because buying and selling occurs within a short timeframe. Ways to mitigate risk include partnering with an experienced person, hiring a mentor, or becoming a wholesaler. The short-term return is good because you can aim to make between 10 to 20% of the value of the property. The long-term return is zero because you cash in immediately when you sell.

A Turnkey Rental is when you buy the property at full market retail and rent it out. These properties are typically not as upgraded as a fix and flip. The effort is low to medium because you must find the right property, deal with the tenants, and figure out which property manager to use. The short-term risk is liquidity. You could have a destructive tenant, you could have an eviction, or you could have conditions not initially discovered in the inspection that are discovered only once someone is living there. The mid-term risk depends on how the market is doing. Therefore, it's best to have a long-term view of this type of investment. To mitigate risk, you need about 10K to 20K in cash reserves to cover unforeseen repairs or damages. This could be in the bank or through a secure line of credit. The short-term return is zero, but the long-term return is good for several reasons: your rent over time will increase with inflation, your mortgage payment will stay flat, the property value will increase, altogether creating good cashflow and equity creation.

An example of the BRRRR Strategy (Buy, Rehab, Rent, Refinance, Repeat) is if you buy a property for 40K, put 30K into it for rehab, rent it out to a tenant, and then refinance it. You basically ask the bank to give you the 70K back. Now you get a loan on a 90K property and put 20K down, which you already earned without ever putting your own money down. You'll repeat this process over and over. You'll keep taking the money and reinvesting it in another 40K property, put another 30K of rehab into it, refinance to get your 70K back, etc. The



effort is medium--you're always looking for another property, however it's not as intense as the fix and flip. The risk is low. You need liquidity in the short term in case something goes wrong with the first tenant or two, but as the number of properties, and therefore amount of equity increases, you don't have to worry about this as much. Your risk mitigation would be in the form of some initial cash reserves, but eventually you'll have long-term cashflow and equity creation. The short-term return is immediate equity in the property. The long-term return with this strategy can be exponential—you'll have ever-increasing cashflow and equity on all properties, plus you can use increasing equity to keep buying more properties. You can even gain higher leverage with lenders as your experience level increases.

Wholesaling is when a person puts a property under contract for less than an investor would pay for it. They can then "assign" the contract, which means they sell the option to buy the property to another investor. Wholesaling requires no cash down, only paperwork. However, the effort is extremely high. Wholesalers need to work extra hard to find cheap properties. This could include cold-calling, driving the streets, and knocking on doors day-in and day-out. The main risk is time spent. Risk mitigation could come in the form of systems to help make the process more efficient, but these cost money. The short-term return can be modest, especially if you "hustle" for the properties. However, the long-term return is really the experience gained from the process. People that don't have a lot of money or credit will often start here and will get experience and gain a network of people in the business.

Fund/ REIT (real estate investment trust) is when you invest in a fund. The effort is low and more passive. The level of risk depends on how well the principal and the manager know what they're doing. You're putting your money in their hands. Ways to mitigate risk include asking for referrals, asking questions, and interviewing them thoroughly. The short and long-term return depend on the type of fund, the type of principal, the fund's track record, and the principal's goals. You need to ask a lot of questions, since funds can range from high risk, low liquidity, higher return to low risk, high liquidity, lower return and everything in between.