How to Invest in the Real Estate Market

If you have the money to lend, then why not invest your money in the real estate market? You can use your money to buy properties way below the market value and get a high rate of return. Experienced or not, this is your guide to investing in the real estate market.

I. An Introduction to Investing

If you are looking into investing your money for long term growth or to add to your monthly income, there are a number of things that you need to be aware of before you take the first step.

First is that you need to make your investment portfolio as varied as possible. Others would put it as not putting all your eggs into one basket. The reason for this is that just in case one of your investments fails, you don't flush all your money down the drain. In other words, a varied portfolio minimizes your risk.

Another thing you need to be aware of is that the higher the risk involved in your investment, the bigger the gains you can expect in return. Knowing this helps you make the decision on whether or not you are willing to take the chance on a certain investment in order to see your money grow further.

Then finally, also learn how to buy low and to sell high. Be able to sniff out opportunities to buy cheap investments then sell it later on at a higher price. You will certainly make a lot of money using that simple investment formula.

Let's say you already have the money and you wish to multiply it even further by investing it. Where would you put your money? Again, make your investments varied, but if you're looking for a hot investment opportunity, then set your sights on the real estate market.

The real estate market? The market may be down right now, but you can use it to your advantage if you are willing to take a chance in buying thousands of houses that are not getting sold. Move on to the next section to learn more about the current real estate market in the United States.

II. The Current Situation of the U.S. Real Estate Market

Homeowners are having a hard time selling their homes nowadays. There aren't that many buyers either. Majority of investors in particular aren't that keen on buying homes for investment when there aren't any buyers around.

If you know your economics, you will immediately understand that when there's low demand for a product, in this case a real estate property, the price goes down as well. Investors who aren't willing to take a risk just wait it out until the market picks up again. That's when they go on a buying spree. But by that time, the prices of the properties would have already increased significantly. Imagine how big the profits they could have made if they invested on the properties when these properties were still cheaper.

That's what you need to look out for.

Like everything else in the market, the prices of houses do fluctuate occasionally. While this kind of situation is unfavorable to sellers, the opposite is true for potential buyers. In what's called a ‘buyer’s market’. You can be picky about buying properties in the current situation. What’s more, you can buy these properties at really low prices.

Why is that? The reason for this is that because sellers are having difficulty selling their homes, they would be more than eager to sell it off to the first interested buyer. Majority of these homeowners are not in it for the money, but rather for their peace of mind. They want to sell their homes in order to settle debts, or other matters that need quick cash.

The bright side in all these is that once prices become too low, the next obvious phase is for these prices to go up. It is therefore important that you learn to take the opportunity to buy low while you still can so that you can maximize your profits when you decide to sell a property later on. Wait too long and the demand and the prices of the properties you were after would have already increased.

That said, making investments on the real estate market is one of the soundest investments you will ever make, especially if you’re in it for the long run.

III. How to Invest Your Money Even If You Have No Investing Experience

But what if you don’t have an experience in investing your money? Don’t worry, because you can partner with companies that are into buying and selling homes. They can help you handle your real estate investment. Your role in this kind of partnership is to be the private lender.

These companies need money in order to buy homes, that’s why they look for investors like you who can put the money in so that they can buy properties and sell them. You then earn money from the interest that you make from your investment. Meanwhile, the sellers who previously cannot find buyers are now finally able to sell their property. It’s a win-win situation for everyone.

All you need to do is to invest your money, then the company will do the rest, including the marketing, looking for homes, as well as dealing with banks and sellers.

Again, if you’re wondering what’s in it for you if you partner with these companies, it’s that they help you invest your money in the real estate market regardless your level of experience on investing.

IV. How Becoming a Private Lender Works

In order to understand how it works, let’s put up an example.

A house is up for sale, and after negotiating with the bank, the company was able to purchase the property from the seller for $57,800. The company then borrows $90,000 from a private investor to purchase the property, and for the repairs and other costs that are associated with the deal. Later on, the company was able to sell the house for $98,000. The deal then enabled the company to pay the investor’s $90,000 investment plus interest and the company itself makes a profit.

This can be a pretty profitable investment for you. However, that can only happen if you work with the right company. We mentioned earlier that making an investment involves risks. What you need to do then is to minimize your risk while ensuring yourself big profits at the same time.

How do you do that?

Of course it pays to know your way around investing. But if you're new to this, it's best that you partner up with a company that really knows the ropes around the real estate market. Or even if you're already experienced, it's still great to have somebody make your money work for you.

V. How to Partner with the Right Company

How do you find out that you're working with the right company? A meeting with them will help you do that. It is where you can ask them your questions about your investment, what's in it for you, and how they can assure you of profits in return.

Remember that to get the right answers, you also need to ask the right questions.

VI. Important Questions You Should Ask Before You Invest Your Money

The following paragraphs outline for you some of the questions that you need to ask and reasons why asking these questions are important.

Don't go into a deal without having these important questions answered first. Their answers will tell you if the company's the right fit for you and vise-versa. It also prevents potential headaches later on because of a bad deal.

Question 1. How does the company work?

Building a good relationship is partly about knowing as much as you can about your partner. The same rule applies even you're dealing with a potential partner in the real estate market. Therefore, you need to ask them how they work or how they operate their business.

Ideally, you would want to work with a company that works fast, one that can close deals quickly. The faster they close deals, the faster you also get returns in your investment. It's as simple as that.

Aside from speed, also find out how they look for sellers. You want a company that exhausts every possible means to find sellers. The more line up of sellers a company has, the steadier the profits you can get from your investment. So learn more about their marketing strategy. Do they advertise on newspapers, other forms of traditional media, and mix it with internet marketing? You're lending them your money so it's important for you to know how they will maximize your investment.

Question 2. How are investment opportunities structured?

The parameters of your investment should be clearly laid out. This will be your guide as to what you can expect in return for your investment, so asking this question is also important.

First, look into the range of the amount of investment that they offer. Is that within the amount that you are planning on investing?

Another thing to look into is the time frame. In most cases, you will be given a choice between a short term investment or a long one. A short term investment can range from 6-12 months. Long term investments can be as long as 5 years. Your choice of time frame depends on your goals, whether you want to make big money in a short time, or if you are in for the long term growth of your money.

How about the rate of return? This is basically the return of your investment. Find out how much you can expect to gain from your investment after a certain period, usually after a period of one year. A bigger rate of return is obviously attractive.

It's also great if you can choose the payment terms of your investment. Many companies will only do that on an annual basis. However, good companies will let you choose whether you can receive payments monthly, quarterly or annually, or let the interest accrue. Your decision depends on whether you want to receive regular income or let your money grow until you actually need it.

Question 3. What are my funding options?

You may invest with cash that you have in hand, but if you're after better flexibility, look for a company that allows you to invest from various sources. Some of your options include your Individual Retirement Account or IRA, or your home equity. If you are also investing in the stock market, you can use your stocks as collateral and invest the stock money with the company.

Professional companies will tell you about these options. In case a particular company does not bring this up, make it a point to ask them anyway. Again, this is if you are after having more flexible funding options for your investment.

Question 4. How do I deal with taxes?

Also ask your potential partner about tax issues.

For starters, your interest income is just like any other income that you make. Just remember that your interest income will not be taxed until you have received it. So for example you have chosen to receive monthly payments from the interest on your investment, you will then receive a monthly interest income. Meanwhile, if you have chosen to receive your income annually, you will only be taxed once that year when you receive it.

It would also help to ask your accountant for more details about this.

Question 5. What about the paperwork?

When dealing with transactions such as investing in real estate, it is always mandatory to put everything on paper. Make sure that the company you're dealing with provides you with a note that will outline all the terms of investment. That will ensure that both parties (that's you and the company) know what's expected from each of them.

A mortgage may also be included in your deal. This mortgage will secure your investment by tying it to a specific piece of property, such as a house or a piece of land.

Keep in mind that if they don't mention something that you would like to know more about, just ask. It is always better to know what you're getting into before jumping in rather than getting burned in the end.

VII. Summary

If you are looking into making your money grow quickly or for the long term, investing your money on the real estate market is one of the best ways to do it. There are currently a lot of sellers who simply want to get their homes sold, making it a fantastic way for you to buy houses for under the market value.

You can do this by yourself if you have the time and experience. Otherwise, you can leave it to the hands of companies that specialize in buying and selling homes. When looking to partner with a company, always make sure that they can provide you with a high rate of return, flexibility on payments, and of course, security of your investment. Investing in the real estate market is risky, but you should at least minimize the risks involved in your investment.