# Types of Real Estate Investments

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There are a number of different ways to earn money through real estate investments – it is comparatively easier than investing in the stock market and it has the potential to bring greater returns. And with fewer restriction and rules, the real estate market offers a number of opportunities beyond purchasing a property or finding a trustworthy tenant.

As an investor, you want to be familiar with the various real estate choices available to you. Many real estate investment vehicles or strategies will require time to get the desirable return from real estate investment and support from trusted advisors, friends, family or co-investors to face challenges and competition. Learning how to successfully invest in real estate is about choosing one niche and becoming a master of it.

Here are some of the most common real estate investment types available to investors. Sit down with your trusted financial advisor or investment broker before you decide which type of investment is best for you and your financial goals.

# Types of Real Estate Investments

## Residential Real Estate

The most common real estate purchased by first time investors is the single-family home or other residential real estate property:

- Single-family homes

- A duplex
- Condominium
- Vacation homes
- Townhouses
- Apartment buildings
- College-area rental

These properties are relatively easy to buy, sell, rent and easy to finance, however, many do not offer large positive cash-flows or returns on investment. Investing in residential property also requires you to become a landlord – and in order to earn income, the owner assumes some legal responsibility and could be sued if something happens to a tenant or if you violate one of the fair housing regulations.

Vacation homes or rental properties allow you to make money from property you are not utilizing yourself. However, keep in mind that without regular tenant, steady rental income is rare and you must account for past tenant damages, utility expenses, insurance, taxes and off-season or unoccupied income losses.

Another residential real estate option – commonly referred to as *"Flipping"* – would be to buy a home in need of repairs or which is undervalued and then try to sell it at a profit after the market has improved or upgrades have been completed. That seems like risky business in this market – however, under the right circumstances and timing, any property can be sold for a profit.

# Commercial Real Estate

Commercial real estate is property that is leased to a business. Investments can vary dramatically in size, style, and purpose. Some commercial real estate investors rent to small businesses, while others rent to major firms and big box megastores.

- **Industrial Property** – auto garage, storage facilities, laundromats, etc. which generate income from those who temporarily use the facilities.
- **Commercial Property** – office spaces, data centers, manufactured goods operation, etc. which you may earn rent by leasing spaces out to small business owners and companies.
- **Retail Property** – strip malls, shopping centers, etc. in which you earn rent from store tenants.
- **Mixed-Use Property** – Diversified business and/or residential use spaces. This variety helps to mitigate risk of vacancies.

Commercial real estate is usually quite expensive and not usually recommended for the novice investor. While these properties often provide good cash flow and rental income (due to longer leasing periods), they may also experience longer vacancy periods than residential properties – often sitting vacant for many months or years.

Bear in mind that commercial real estate investors are often responsible for management, taxes, insurance and repair of the property. You may want to consider a professional property manager to assist with landlord duties leaving the owners to focus on taxes, finances, insurance and legal protections.

## Raw, Undeveloped Land

You can also invest in raw land. Land speculation involves purchasing large tracts of land with the expectation of an increase in value from a demand for residential or commercial developments. Think the next suburban area is right around the next hill? Or perhaps you know of a large plain ready to use for a bigger airport? Raw real estate investors work with a number of parties to rezone the land so that developers can build on it. And although time and taxes are a concern, raw land can bring great returns on investment.

## Tax Liens

When (commercial, residential or raw) property owners don't pay their taxes, their local, state or federal government can foreclose on the property, then sell the property or the tax lien certificate (ownership of the debt) to investors to recuperate the amount of taxes owed. Each state has their own laws concerning these sales and are complicated transactions which require lots of pre-purchase research.

Eventually, with more knowledge and experience, investors can turn decent profits from properties bought at a discount or from the earned interest (sometimes up to 10%) owed for carrying the debt of the property owner. Be sure to do your homework before investing in tax liens.

## Real Estate Investment Groups

Can't afford to become a real estate investor on your own? Start or join a real estate investment group in which several investors pool their money together. Each of the individuals in the group have direct ownership in the properties which are built, purchased, rented or sold. And depending on the situation, the group may choose to pay themselves or hire a professional property manager.
Note: Be sure you invest with people that you know or have researched. These investments may affect you credit and personal finances, so be sure you trust your investment group members.

## Real Estate Investment Trusts

Unlike a real estate investment group, real estate investment trusts (REITs) are a more passive way to invest in real estate. With REITs, mortgages and property are bought and sold as shares on a publicly traded market with a trust, corporation or association acting as an agent.

Just as many of you participate in mutual funds to purchase stocks, a REIT allows a large number of individuals pool their funds together to make big-ticket real estate investments – such as parcels of land for development, shopping malls, high rise apartments or skyscrapers. Profits are distributed to individual investors just as dividends are paid to stock investors, however, they are taxed as income instead of as a dividend.

You can buy shares in a REIT via your stock investment account, and the returns are usually quite high considering the little time and money needed to begin investing.

**Speak with your trusted real estate agent, financial advisor, investment broker and/or business consultant to ensure your choice in real estate investment type is in alignment with your current financial situation and future goals.**