

# What to Keep in Mind if You Are Considering Investing in Real Estate



By: Carol Evenson, guest writer

The lure of making a substantial profit with very little work draws people from all walks of life into investing in real estate. If you have been thinking about taking the plunge, there are a few things you should keep in mind as you get started. Exercising good judgment and caution can help you avoid some of the more common pitfalls associated with real estate.

## Know Your Investment Options

You need to [know that real estate investing](#) isn't a one size fits all field, so get started by learning about the actual options open to real estate investors.

## Rental Houses and Home Hacking

Buying a rental property is one of the surest ways to develop a nearly passive stream of income. In its purest sense, you will purchase a single-family home and rent it out. You can choose to perform the property management aspects yourself, or you can outsource them to a local real estate company or contractor.

Home hacking is a term used to describe buying a home and

renting part of it out while living in the other. It can be a duplex, a house with an accessory dwelling, or maybe you're just taking on a roommate to help cover the costs. This means you can take advantage of mortgage programs for primary residences while still earning some extra money from your tenants.

**Multi-Family Units** If you are looking for a more complex situation with a potentially larger payoff, multi-family units and apartment buildings are an attractive option. Because you must be prepared to handle the requests from multiple tenants at any given time, it can be a good idea to have a facility or apartment manager nearby.

## **Flipping Fixer-Uppers**

Maybe you've seen the television shows about buying run-down houses, fixing them up, and selling them for a profit and thought "Hey, I could do that." If you have the time, energy, and money to invest in this type of project, it can be a good way to earn a sizeable return on your investment. Make sure you know what to look for in a house you want to flip, since expenses can add up quickly in older or severely dilapidated houses.

## **Real Estate Funds**

If those ideas all sound a little too risky or expensive for your tastes, then you might want to look into [real estate based investment funds](#). There are plenty of them available, and a good broker can point you toward funds that complement the rest of your investment portfolio.

## **Understand How You Can Make Money in Real Estate With Each One**

Knowing what your options are is a great first step, but you should also understand how, exactly, each one can provide

income. This is important because you want your investment to meet your income goals.

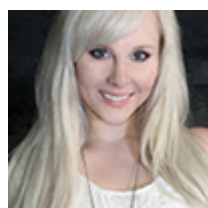
Consider that rental properties can take a long time to pay off. Sure, they are investments that can provide a steady income, but it can take many years to recover your initial investment. Apartment buildings may provide a larger monthly payout, but they will require a huge investment of capital and time, and possibly even hiring a manager to oversee the day to day operations.

If you are looking for a quicker return, house flipping can be a good choice. You may even be able to get started with little or no money out of your own pocket. Just keep in mind that you won't see any profit until after renovations are completed and you close on the sale for each house.

## **Identify Your Investing Personality**

Define your risk tolerance before you make any decisions. This will help you match your choices to your investing personality. If you don't want a large chunk of money tied up for long periods, you may want to stick with fairly liquid mutual funds. You should also consider other investments and find a real estate solution that allows for a properly diversified portfolio.

Real estate is an attractive investment vehicle for many people. Finding as much information as you can and following some basic steps can help you find the right strategy to meet your financial needs while accommodating your personality.



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