

Making Your Money Work for You

Buying houses just one way to invest in real estate

By M. Anthony Carr



Most correspondence I receive inquiring about how to start investing in real estate start with the foreclosure. It's quite simply the easiest real estate investment strategy to figure -- buy low, sell high or buy low, rent high.

Everyone generally understands that as a real estate investor, the concept is to let someone else's rent payments pay for your mortgage and to hopefully come out with a positive cash flow at the end of the month.

There are plenty of ways to get started in real estate investing, and here are some one-line descriptions of how to do it and with the pros and cons listed.

Foreclosures

How it works: Purchase the property at a courthouse auction -- hopefully for less than it's worth. Fix it up, sell it or rent it out.

Pros: This is a common sense approach to getting started in real estate investing. If you can get the property for a wholesale price and then rent it out for less than your mortgage, you're on your way to building wealth one month at a time.

Cons: You get into the property and find out it has major problems costing a lot more than you'll ever recover. Ever heard of concrete being flushed down the drain (usually out of spite from the former owner)? It means having to remove all the sewage drains. Hidden defects can run costs up and give you a red ink bath before it's done. Since the bank/note holder is selling the property as is, there's not much recourse.

Fixer-Upper

How it works: Purchase a property that needs major repairs. This is not a property that just needs paint and carpet. This type of property usually has rot, flooring, roofing, basement and just overall problems. But that's what makes it so enticing.

Pros: For investors with their repair ducks lined up in a row, this can be a good money maker. The key here is to hammer on the seller early in the negotiating process. Get the house for as low as possible and know what your bottom line really is.

Cons: For those wanting to flip the property, if you can't make \$30,000 -- \$50,000 on the projected profit, then you may want to pass. Why? An unseen defect can run into the tens of thousands of dollars really quickly.

Retail Investment

How it works: Keep your eye open for under-priced properties in an area where rentals are brisk. This would be a house that really does just need paint and new carpet. Be sure you know what the rents are before going into the property. You want a positive cash flow before you even walk into the property.

Pros: A house that is in good shape can rent for years without any major expenses if it was taken care of early on.

Cons: Good rental properties (say, in a college town or near a military base) don't come on the market often, so you could be waiting a while before you find one. (Experienced investors usually scoop these up before the novices even know it's on the market.)

Paper Real Estate

How it works: This one is where you invest in the mortgages of real estate instead of the real estate itself -- financing second trusts, purchasing mortgages at a discount, wraparound mortgages, etc.

Pros: For those who have cash, this one can give major returns on your money. For example, if you can pick up a \$20,000 note at 12 percent for \$15,000, your return on the note jumps to 16 percent. This is not going to fluctuate like the stock market is sure to do.

Cons: Your mortgagee (the borrower) could skip town, leaving you to foreclose -- right behind the first-trust note holder who usually gets paid first in a foreclosure.

These are just a few of the ways you can get started in real estate investing. For more education, find a good agent to start working with who can show you the ropes and help you avoid the pitfalls.

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