

How To Invest In Real Estate

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There are an endless variety of ways to invest in real estate, from taking out a home mortgage to building a property empire that spans the country. While the latter is probably out of reach for most of us, there's no shortage of other options. Here are five strategies for adding real estate exposure to your investments.

1. Real Estate Investment Trusts (REITs)

If you'd like to invest in real estate immediately, with as little money as possible, take a look at real estate investment trusts ([REITs](#)).

These public companies raise funds by selling shares of stock and issuing bonds, and use the proceeds to purchase and lease out real estate assets like shopping malls, office buildings, apartment buildings and warehouses. REITs are required to pay out nearly all of their after-tax profits to their investors as [dividends](#).

Real estate investment trusts take the fuss out of owning real estate. Management handles all of the ownership and rental logistics—you just sit back and collect dividends, which are frequently higher than many stock-based investments.

You can buy and sell shares of REIT stock in the market via a [brokerage account](#), like any other public company. This makes REITs about the most [liquid](#) real estate investment available. In addition, you can buy shares of exchange traded funds ([ETFs](#)) that own shares of many REITs. New investors without a lot of money can invest in [fractional shares](#) of REIT ETFs via investing apps like Stash, M1 Finance and Robinhood.

2. Crowdfunding Real Estate Platforms

Investors who'd prefer to take a more hands-on approach should check out crowdfunding real estate investing platforms. Many of these online platforms let you invest in specific real estate development projects, rather than large, generic portfolios of properties.

Real estate crowdfunding platforms pool money from multiple investors to fund development projects. They generally require investors to commit to real estate investments for longer periods of time, five years or more in many cases. You may be able to access some of your money before then, but it'll be up to the platform's discretion and you may face early withdrawal penalties.

The platforms may charge fees. Be sure to look out for any fees or additional management costs, which can diminish your returns.

Keep in mind that you may not be eligible to participate in all online real estate platforms. Most require minimum investments, ranging from \$500 to \$25,000 or more. Some require you to be an accredited investor—meaning that you own \$1 million in assets other than your primary residence or you make more than \$200,000 a year.

[Fundrise](#) and [Crowdstreet](#) are two popular platforms that offer a range of different options from real estate funds to individual real estate projects.

3. Invest in Your Own Home

Primary residences are the most common way most people invest in real estate. You take out a mortgage, make your monthly payments and gradually build ownership in your home. With luck and strong demand in your local market, you can cash in on the equity when you sell your home.

While investing in your own home can help you build wealth over the long term, average annual returns are less than you might expect. From 1994 to 2019, homes only increased in value about 3.9% annually, according to a report from industry analyst Black Knight.

While there are areas of the country where home appreciation is much higher, on average the house you live in is unlikely to dramatically grow in value, especially once you figure in costs like maintenance and repairs, insurance, property taxes and the interest you pay on your mortgage.

Other real estate investments, like REITs, have seen average annual returns as high as 11.28%, according to Nareit—even a vanilla S&P 500 ETF has provided average annual returns of about 10% long term.

This isn't to say you should never buy a home or think of it as an investment. Government support for the mortgage market generally, in addition to programs that [support first-time homebuyers](#), help you buy a home at a much lower price than would be possible with other real estate purchases.

4. Invest in Rental Properties

If you're looking to make a major commitment to investing in real estate, consider purchasing rental properties. Rentals can offer steady cash flow as well as the possibility of appreciation over time, but they are one of the most labor-intensive methods of real estate investing.

There are two main ways to make money with rental properties:

- **Long-term rentals.** These properties are generally designed to be rented for at least a year and in theory provide a steady monthly cash flow, though this depends on your tenants being reliable. You might buy a multi-unit property or a single-family home that you rent to others.
- **Short-term rentals.** These properties cater to rotating tenants whose stays might be as short as one night, like Airbnb. You might list your entire home or apartment when you're away, or you could invest in a separate property meant only for short-term rentals.

While investing in real estate with rental properties offers greater profit potential, it also requires a great deal of effort on your part. You need to find and vet tenants, pay for ongoing maintenance, take care of repairs and deal with any other problems that arise.

You can reduce some of these headaches by hiring a property management company, but this will cut into your returns. When it comes to financing rental properties, the resources and low interest rates available to primary residences may not be available. This can make buying rental property more expensive.

5. Invest in Real Estate by Flipping Properties

You don't have to buy rental properties to maximize your profit from real estate investing. Buying and flipping properties is a common strategy, although like rental properties, flipping takes lots of work. It means renovating homes and learning to identify up-and-coming neighborhoods that will let you sell your purchases at a premium.

If your home flipping strategy involves renovation and construction, it means taking on extra risk and high out-of-pocket costs. Long story short, it's not as easy as it may look on HGTV. You'll need building permits for renovations, and remodeling costs may run higher than you expect, especially if you hire contractors or outsource other work.

To minimize the amount of effort in flipping properties, look for homes that don't need major renovations in up-and-coming areas. This can be even more lucrative if you rent the property while waiting for home values to rise. Just remember, the neighborhood you think will become trendy might never catch on, leaving you with a property it's hard to recoup your investment on.

Should You Invest in Real Estate?

Real estate investing can offer robust long-term returns that are not entirely correlated with the stock market. But costs and risks can run high when you invest in physical property, which may make REITs the best choice for those who have limited money to invest or who aren't looking for a primary residence.

If you do decide to purchase rentals properties or start flipping homes, make sure you're fully aware of the risks you're taking on and have a plan on how you will earn back your investment. Remember: Real estate can be very illiquid in the short term, which means it can be a big financial commitment. If you have any questions about getting started with real estate investing, talk to a [financial advisor](#).

Thank You for your feedback!

