How to Invest in Real Estate: 5 Ways to Get Started

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Nerdy takeaways

- There are ways to invest in real estate without owning physical property, including REITs and real estate platforms.

- REITs are securities you purchase through a brokerage account, similar to investing in mutual funds.

- Online real estate platforms connect investors to real estate projects.

- Investing in real estate directly can be more lucrative, but it requires more time and often more cash flow.

If you've ever had a landlord, you probably don't dream of being one: Fielding calls about oversize bugs and overflowing toilets doesn't seem like the most glamorous job.

But done right, real estate investing can be lucrative — even now that we've shifted to an environment of higher interest rates. Investing in real estate can also help diversify your existing investment portfolio and be an additional income stream. And many of the best real estate investments don't require showing up at a tenant's every beck and call.

The trouble is that many new investors don't know where or how to invest in real estate. Here are some of the best ways to make money in real estate, ranging from low maintenance to high.

Best ways to invest in real estate

1. Buy REITs (real estate investment trusts)

REITs allow you to invest in real estate without the physical real estate. Often compared to mutual funds, they're companies that own commercial real estate such as office buildings, retail spaces, apartments and hotels. REITs tend to pay high dividends, which makes them a common investment in retirement. Investors who don't need or want the regular income can automatically reinvest those dividends to grow their investment further.

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Are REITs a good investment? They can be, but they can also be varied and complex. Some trade on an exchange like a stock; others aren't publicly traded. The type of REIT you purchase can be a big factor in the amount of risk you’re taking on, as non-traded REITs aren’t easily sold and might be hard to value. New investors should generally stick to publicly traded REITs, which you can purchase through brokerage firms.

For that, you'll need a brokerage account. If you don't already have one, opening one takes less than 15 minutes and many companies require no initial investment (though the REIT itself will likely have an investment minimum).

You can also gain exposure to a more diversified selection of real estate investments by buying into a fund that has interests in many REITs. You could do this through a real estate ETF or by investing in a mutual fund that holds shares of multiple REITs.

2. Use an online real estate investing platform

Real estate investment platforms connect real estate developers to investors who want to finance projects, either through debt or equity. Investors hope to receive monthly or quarterly distributions in exchange for taking on a significant amount of risk and paying a fee to the platform. Like many real estate investments, these are speculative and illiquid — you can’t easily unload them the way you can trade a stock.

The rub is that you may need money to make money. Many of these platforms are open only to accredited investors, defined by the Securities and Exchange Commission as people who've earned income of more than $200,000 ($300,000 with a spouse) in each of the last two years or have a net worth of $1 million or more, not including a primary residence. Alternatives for those who can't meet that requirement include Fundrise and RealtyMogul.

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3. Think about investing in rental properties

Tiffany Alexy didn’t intend to become a real estate investor when she bought her first rental property at age 21. Then a college senior in Raleigh, North Carolina, she planned to attend grad school locally and figured buying would be better than renting.

“I went on Craigslist and found a four-bedroom, four-bathroom condo that was set up student-housing style. I bought it, lived in one bedroom and rented out the other three,” Alexy says.

The setup covered all of her expenses and brought in an extra $100 per month in cash — far from chump change for a grad student, and enough that Alexy caught the real estate bug.

Alexy entered the market using a strategy sometimes called house hacking, a term coined by BiggerPockets, an online resource for real estate investors. It essentially means you’re occupying your investment property, either by renting out rooms, as Alexy did, or by renting out units in a multi-unit building.

David Meyer, vice president of data and analytics at the site, says house hacking lets investors buy a property with up to four units and still qualify for a residential loan.

Of course, you can also buy and rent out an entire investment property. Find one with combined expenses lower than the amount you can charge in rent. And if you don't want to be the person who shows up with a toolbelt to fix a leak — or even the person who calls that person — you'll also need to pay a property manager.

"If you manage it yourself, you'll learn a lot about the industry, and if you buy future properties you'll go into it with more experience," says Meyer.

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4. Consider flipping investment properties

This is HGTV come to life: You invest in an underpriced home in need of a little love, renovate it as inexpensively as possible and then resell it for a profit. Called house flipping, the strategy is a wee bit harder than it looks on TV. It's also more expensive than it used to be, given the current higher cost of building materials and mortgage interest rates. Many house flippers aim to pay for the homes in cash.

"There is a bigger element of risk, because so much of the math behind flipping requires a very accurate estimate of how much repairs are going to cost, which is not an easy thing to do," says Meyer.

His suggestion: Find an experienced partner. "Maybe you have capital or time to contribute, but you find a contractor who is good at estimating expenses or managing the project," he says.

The other risk of flipping is that the longer you hold the property, the less money you make because you may be paying a mortgage without bringing in any income. You can lower that risk by living in the house as you fix it up. This works as long as most of the updates are cosmetic and you don't mind a little dust.

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5. Rent out a room

Finally, to dip the very edge of your toe in the real estate waters, you could rent part of your home. Such an arrangement can substantially decrease housing costs, potentially allowing people to stay in their homes as they continue to benefit from price appreciation on their property.

Adding roommates can also make a mortgage payment more attainable for younger people. But if you're not sure you're ready, you could try a site like Airbnb. It's house hacking for the commitment-phobe: You don't have to take on a long-term tenant, potential renters are at least somewhat prescreened by Airbnb, and the company's host guarantee provides protection against damages.

Renting out a room feels a lot more accessible than the fancy concept of real estate investing. If you've got a spare room, you can rent it.

Like all investment decisions, the best real estate investments are the ones that best serve you, the investor. Think about how much time you have, how much capital you're willing to invest and whether you want to be the one who deals with household issues when they inevitably come up. If you don't have DIY skills, consider investing in real estate through a REIT or a crowdfunding platform rather than directly in a property.

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