

How To Invest In Real Estate For Beginners In 2022

Paul Esajian :: 10/26/2022

Key Takeaways

- [What is real estate investing?](#)
 - [How To Invest In Real Estate In 8 Ways](#)
 - [10 Traits Of Successful Real Estate Investors](#)
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If you've been looking for a guide on **how to invest in real estate**, you've come to the right place. Real estate represents a great investment opportunity, with numerous strategies available to begin making money. Not only can this investment vehicle make an excellent side hustle — it could one day be your main source of income.

If you have no idea how to get started, you're not alone. Real estate investing is a great way to achieve your financial goals, but it can be tricky to navigate the process as a novice. That's why we are offering tips, advice, beginner-friendly strategies, terminology, and mistakes to avoid. You'll want to keep this real estate investing guide handy.

Ep 48 | Lessons Learned From A Decade Of Real Estate Investing

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How Do You Invest In Real Estate?

Real estate investing is the purchase of real estate. To fully understand this definition, we must first define real estate. Real estate is essentially any piece of land and property attached to that land. Anything natural or man-made that is a part of this land, including trees, buildings, or fences, is considered real estate.

You might hear people use the words land, real estate, and real property interchangeably. However, there are slight differences between each term. The land is any natural surface and airspace — anything you could

attribute to being a part of Mother Earth. Real estate is this land plus any permanent man-made additions, such as a home. Finally, real property is the set of incentives and benefits from owning real estate.

Thus, investing in real estate is the act of purchasing a piece of land plus any man-made additions made to that land. There are several categories of real estate investing, and the most popular ones are residential, commercial, and industrial real estate investing.

Investing in real estate can seem expensive at first, but it is one of the most proven ways to build wealth. We discuss how you can make money by investing in real estate next.

How Does Real Estate Investing Make Money?

Investing in real estate is a tried and true method of making money, and you can make that money in various ways. The two main methods are value appreciation and rental income:

- **Value Appreciation:** Throughout history, property values have increased over time. We call this increase in value appreciation. Any expert would agree that location is the number one thing to base your investment upon. Property values go up along with the perceived desirability of a neighborhood. Have you ever heard the phrase, “buy the worst-looking house in the best neighborhood?” There is some truth to this. It’s better to buy a house you can fix up in a great neighborhood than an okay house in a bad neighborhood. You can also look into investing in an up-and-coming area.
- **Rental Income:** Some real estate investors will rely solely on value appreciation. For example, perhaps they live in the property or invested in a vacation home. However, many real estate investors like to grow their wealth by generating rental income.

By renting out the property you own, not only is that property appreciating over time, you’re earning a monthly income. Your level of involvement is up to you, but some landlords who work with a property manager can label this income as passive.

In an ideal situation, your renters would be paying for your mortgage and some profit to boot. (It’ll turn a pure profit once the mortgage is paid off.) However, be sure to factor repairs and maintenance into your budget.

How To Invest In Real Estate: 8 Strategies For Beginners

If you don’t already know how to invest in real estate, breaking into the industry can be intimidating. It can take several years before an investor feels comfortable and confident in real estate. That’s why beginner-friendly investing strategies are a great place to start. While they are suitable for investors with little to no experience, they can still be highly profitable when managed correctly.

Starting in a beginner-friendly investing niche is a great way to learn the ropes before taking on more complex investments. By starting with an accessible strategy, investors can get to know their local market, build a network, and learn how to raise capital without committing to a deal they may not be able to handle. Investors can then use their experience and profits to transition into other strategies down the line.

Here are some real estate investment strategies for beginners to use as a starting point:

1. **Wholesaling:** This strategy allows investors to act as a middle man between sellers and buyers. Wholesalers will identify and secure a property under market value, and then assign that contract to an end buyer.
2. **Prehabbing:** Prehabbing is the process of positioning a property for resale by adding minor cosmetic updates. The property is then often sold to an investor who will complete a full rehab.
3. **REIT Investing:** A real estate investment trust (REIT) is a company that owns and manages income-producing properties. Investors can then purchase shares in REIT and benefit from the profitability of real estate without owning physical properties.
4. **Online Real Estate Platforms:** Online platforms help to connect investors with real estate developers. The investors help finance real estate projects in exchange for monthly or quarterly repayments, including interest.
5. **Purchasing Rental Properties:** Buying rental real estate is a great way to secure a monthly income stream, especially if you're ready to be a landlord. If you don't want to be a landlord, you can hire a property manager instead.
6. **Real Estate Syndication:** Real estate syndication is a form of crowdfunding, but with a team oriented approach. Investors pool resources and skills to buy large-scale properties and split the profits.
7. **House Flipping:** Flipping house is one of the most popular strategies to get started in real estate. In real estate, the term flipping refers to the process of buying, rehabbing, and then selling a property for profit.
8. **Real Estate Investment Groups (REIG):** A real estate investment group is a business that focuses most of its business on real estate. It pools capital from multiple investors to invest in multi-unit or commercial properties.

1. Real Estate Wholesaling

One of the fastest ways to get started in real estate is by wholesaling. This unique strategy involves securing a property under market value and assigning an end buyer to purchase the contract. Wholesalers never own the property and instead make money by adding a fee to the final contract.

The key to wholesaling lies in creating a strong buyers list. This is essentially a list of investors who may be looking for their next deal. Wholesalers will often run a lead generation campaign to identify potential buyers. This involves marketing their business, often through emails, social media, or direct mail, and then building a list of interested investors. To create a buyers list, you will need investors' names, contact information, type of funding, and buying criteria. This will ensure you know what kind of deals they are looking for and how to reach them once you've found the right property.

What makes wholesaling great for real estate investing for beginners is that it does not require significant capital to get started. While investors may need capital for successful marketing or payments of good faith, they will not be actually purchasing properties. Furthermore, wholesaling allows investors to build a reliable network and form a strong understanding of their market area.

2. Real Estate Prehabbing

Another great option for beginning real estate investing is through “prehabbing.” Unlike a rehab, which involves funds to make significant improvements, a prehab project requires only minimal upgrades. Investors will typically enhance a property just enough to entice other investors visually. Rather than making dramatic changes, prehabbing consists of improving a property through [sweat equity](#). A few prehabbing projects include:

- **Cleaning:** Taking the time to remove trash and debris from a property, including general cleaning, can have a powerful impact on its appeal.
- **Painting:** At minimal costs, painting provides an affordable way for beginners to improve the appearance of a property.
- **Landscaping:** If you can’t get people to like the outside of the property, they most definitely won’t be interested in taking the time to come inside. Believe it or not, curb appeal goes a long way in real estate, at very little cost.

Investors hoping to choose this strategy should know that not every property will be well suited for a prehab. Look for properties with structural integrity in need of an “easy” cleanup, avoid homes that could require pricey repairs straight away. Additionally, always keep location in mind when searching for prehab houses. Research your market and identify popular or up-and-coming neighborhoods.

The allure of prehabbing should be easy to see when learning how to invest in real estate. Not only does it involve minimal risk and minimal work compared to other investment options, but it will also produce a quick return on investment. Remember, the aim of prehabbing is learning how to sell the sizzle, not the steak.

3. REIT Investing

Real estate investment trusts (REITs) are a good jumping off point for those new to real estate. Equity REITs, which are the most common type, are essentially companies that own income-generating real estate. Investors purchase shares in these companies and generate income through regularly paid dividends. REITs are perfect for beginners who cannot pursue real estate full time because they can generate steady, passive revenue streams.

While REITs can be thought of similarly to investing in stocks, according to [The Motley Fool](#) REITs often pay above-average dividends. To get started, try researching publicly-traded REITs and evaluate their records yourself. Research the company’s anticipated growth and current dividends, as well as the funds from

operations (FFO). It can be a good idea to discuss with a financial advisor when selecting a REIT to invest in.

A variety of investors use REITs as a way to diversify their existing portfolios, they still serve as an excellent gateway to the real estate industry. As a whole, REITs are well suited for beginners because they allow investors who may not be ready or able to purchase properties the chance to benefit from real estate. Although there are variables that can influence the performance of REITs, this investment option is known for offering solid returns with relatively low risk.

4. Online Real Estate Platforms

Online real estate platforms, also called real estate crowdfunding platforms, help connect borrowers with investors. Developers will post deals and projects that they need financing for, and investors can then finance these projects through debt or equity. This creates a mutually beneficial arrangement; investors can enjoy the benefits of real estate investing without having to deal with ownership or labor. The developers can get the financing they need for projects.

Keep in mind that financing real estate deals can be just as risky and speculative as directly investing in real estate yourself. Always do your homework before you strike a deal. Investors benefit from receiving monthly or quarterly distributions, and they can choose to invest in standalone projects or a portfolio of projects. It's also a great way to diversify your real estate investments geographically. Potential downsides to using a real estate platform are that the funds can be illiquid with lockup periods, and investors have to pay platform membership fees.

5. Purchasing Rental Properties

Ready to become a landlord? Investing in rental properties can be a great way to secure a fixed monthly income. If you think you can handle the responsibilities of being a landlord, you will definitely enjoy earning income consistently.

If you buy a rental property at the right time and in the right market, you might even be able to cover your mortgage, maintenance, and repair expenses with your rental income. (Even better, you might even have some profit leftover!)

As a rental property owner, you can decide how active or passive you want this income stream to be. Landlords who prefer not to "landlord" at all can contract out their duties to a property manager. Some rental property owners choose to outsource just the maintenance and repairs, and others might do everything themselves to cut costs and maximize income.

When investing in rental properties, you might also consider something called house hacking. This means you will occupy one of the rooms in a property and rent the other rooms out. Alternatively, you could buy a multi-unit property and inhabit one of the units. This can help you qualify for a residential loan, even though you plan to earn rental income off of the property.

6. Real Estate Syndication

Real estate syndication is a partnership between real estate investors, with the common goal of identifying and buying properties. Typically, the responsibilities are split between a sponsor and other investors.

The sponsor is in charge of searching for potential investments and securing the contract. They may also be tasked with managing the property. Sponsors typically do not contribute capital to the investment, and instead, add value with skills and time.

Investors in a syndication deal fund the acquisition and cover any additional costs needed to renovate or repair the property. Investors play more of a passive role, and receive payment over time through monthly or quarterly returns.

The syndication aspect of the deal is completed after the exit strategy is accomplished. For example, once the property is renovated and sold. Sponsors will be paid an agreed-upon amount for their work in the deal.

7. House Flipping

If HGTV is one of the influences that inspired you to become a real estate investor, then you're likely already familiar with the concept of house flipping.

In essence, you identify a home that is being sold under market value. It usually needs some rehabbing and renovation. Once the property has been renovated, the property is then sold for a profit.

Investors who want to flip houses should understand the risks and be very careful in conducting their financial analyses. Several things can go wrong. For starters, if you spend too much on your renovation budget, you may not make any profit. You also run the risk of not being able to sell the house if the price or market conditions aren't right.

If you're brand new to the house-flipping game, consider bringing on an experienced partner.

8. Real Estate Investment Groups (REIG)

A Real Estate Investment Group (REIG) is a business that focuses on investing in real estate. It pools together investor money to buy multi-unit housing and commercial properties. They might even choose to buy, renovate, and sell properties for profit.

REIGs are a little different from Real Estate Investment Trusts (REITs) because their businesses are set up to be more flexible. They may change their investing strategy and leverage various strategies to diversify their sources of capital. REIGs often attract investors who want to enjoy the returns of the real estate market without having to deal with property management responsibilities.

Benefits Of Investing In Real Estate

There are numerous benefits of investing in real estate ranging from increased leverage to long-term stability. One of the most common perks investors talk about are the tax incentives associated with real estate investing. Real estate can be a great vehicle to offset your tax obligations due to a number of possible deductions. These include the depreciation deduction, business write-offs, and a pass-through deduction for LLC owners.

When looking at leverage, real estate is a great way to build equity in an investment. Properties generally appreciate over time — allowing your equity to grow on its own in addition to loan repayments. This can be extremely beneficial if you need funds to purchase a new property or other investment type, as you can leverage your existing equity when seeking new financing.

Real estate represents a great opportunity to diversify an investment portfolio as well. While stocks are known to be risky, real estate is a stable investment type over time. Similarly, it generally performs well in times of market shocks (where stocks may be more susceptible to dramatic pricing changes). Real estate can also help investors hedge against inflation. This is because as the economy grows, demand for real estate often increases; thus, owners can benefit from increased appreciation, rental demand, and more.

Additional benefits of real estate include the long-term stability, which can be seen by looking at the historical performance of real estate over time. Further, this asset type can provide investors a source of passive income, especially rental owners who work with property managers. There is a diverse array of real estate investing strategies to choose from, allowing a great degree of freedom within the niche.

Top 10 Traits of Successful Real Estate Investors

As a first-time real estate investor, it can be easy to begin to doubt yourself and wonder if you have what it takes to succeed. However, no success story begins with perfection. As the real estate mogul Warren Buffett says, “the most important quality for an investor is temperament, not intellect.” It is entirely possible to learn from experience and reinvent yourself time and again. The following describes some common traits of successful real estate investors that you can start to channel today:

1. Passionate
2. Self-disciplined
3. Driven
4. Imaginative
5. Bold
6. Principled
7. Flexible
8. Economical

9. Team-oriented

10. Personable

6 Expert Tips On How To Invest In Real Estate

Many aspiring investors look to reality TV to learn how to invest in real estate. While watching HGTV is certainly a great source of general information, it can also paint unrealistic portraits of the real estate investing profession. Instead, new investors should create a solid strategy.

The following list will outline some of the best real estate investing tips for beginners:

[**Learning how to invest in real estate doesn't have to be hard!** [Our online real estate investing class](#) has everything you need to shorten the learning curve and start investing in real estate in your area.]

Networking Is Key

Aspiring investors should attend as many networking events and investment clubs as possible. This may sound uncomfortable at first, but anyone interested in breaking into the industry will need to form some connections. Try reading some networking tips online and attempt to identify a mentor after your first few meetings. By interacting with real estate professionals, you can hear specific stories on how to land deals and overcome certain challenges. Networking events in your area can even expose you to information specific to your market.

Not only will networking events be a great place to learn, but they are also where you can start building a contacts list. Regarding real estate investing for beginners, your connections will ultimately impact how you approach investments and uncover your real estate niche. Having the right team to count on will be crucial once you start closing deals.

One final note about networking: always keep your best judgment in mind when talking to other investors. Take in as much information as you can, but remember to do your homework on everything you hear. Just because a certain niche or neighborhood did not work for someone does not necessarily mean it will not work for you.

Draft A Real Estate Business Plan

A great place to start investing as a beginner is to [draft a business plan](#). This will allow you to identify your “why”. For example, maybe you want to save for retirement or help your family’s financial situation. The owner of Independent Property Group, Matthew Peden, gives this valuable advice: “If you are new to real estate investing, the best advice I can give you is to make sure you’re honest about your goals. As a new investor, you need to be honest about whether or not owning a home is just for living in or if it’s something that you see yourself being able to flip for profit. Make sure that even though you have better resources now than when you first started, the complexities of this type of investment are still manageable for you”. No matter what your reason is, visualizing your “why” before getting started will be a crucial source of

motivation. The next step to creating a business plan is to write out your specific business goals. It may seem foreign at first, but the purpose of a real estate business plan is to produce a roadmap for investors. It will help you identify and outline your goals, while also strategizing actionable steps to accomplish them. With proper planning, a real estate business plan can serve as a critical learning tool for real estate investing beginners.

Read About Real Estate For Beginners

If you truly want to start a real estate business, learning as much about the industry as possible is crucial. There are countless investing books, blogs, and magazines that are a great place to start. While there are a ton of options out there, try not to overwhelm yourself at first. Instead, try grabbing a few investing books or subscribing to a real estate newsletter and designate just 15 minutes a day to reading something new. One thing all successful real estate investors have in common is that they never stop learning. This continual education mindset will serve you well throughout your career as an investor. Check out this list of [real estate investing books](#) for a few recommendations to get you started.

Get Started

Finally, the single best way to learn the real estate business is by doing it. If you aren't quite ready to go at it alone, try shadowing a real estate professional in your area on your next deal. You may need to assist on a few errands to make their time worthwhile, but after networking with other professionals you should have no problem finding a connection to shadow while you learn the ropes. Knowing how to make offers and negotiate with a real seller will be invaluable as you set up your own real estate business. Additionally, walking through properties with other professionals will give you an idea of what to look for when you are ready to start buying. First-hand experience, especially when it comes to real estate investing for beginners, will pay dividends in the long run.

Real Estate Investing Mistakes To Avoid

There is not one set path to get started in real estate investing. However, as you begin your journey there are certain things you should *avoid* doing to be successful. Take time to learn from the mistakes of others, noting scenarios you may one day encounter on your career. Your mentor and other connections can be a great source of knowledge. Additionally, here are some common real estate investing mistakes to avoid:

- **Following the herd:** When first starting out, it may be tempting to follow the herd. However, one of the worst real estate investing strategies for beginners to follow is relying on speculation and crossing your fingers that a property will appreciate in value.
- **Buying at market value:** Purchasing a property at market value leaves very little room for profit potential. Real estate investors specialize in finding great deals or purchasing distressed properties that are well below market value.
- **Getting emotional:** It is easy to become emotionally attached to one of the first potential deals that you come across. However, keeping a level head and maintain a business-like approach is of utmost

importance. No matter how good a deal might seem at first, one should always mind their due diligence.

- **Forgetting to mind due diligence:** Elaborating on the point above, minding due diligence is a determining factor for selecting a great investment deal. Investors must remain vigilant about crunching the numbers in detail, no matter how great a deal might seem at first. This might include forecasting cash flow, estimating the cost of repairs, and buyer demand in the market.
- **Investing too much of your personal funds:** Using too much of your own money for your investing endeavors can put you and your business at risk. Investors are wise to separate their personal finances from their business finances and maintain a reserve fund as much as possible.
- **Not having multiple exit strategies:** Investors should always stay prepared for when projects do not go as planned, which is bound to happen from time to time. Because of this, experienced investors have multiple contingency plans in place. For example, if a house flip goes awry, have a backup plan, such as a wholesaling or a buy-and-hold strategy.
- **Going solo:** Although some may consider real estate investing an autonomous operation, nothing could be farther from the truth. Some may even argue that real estate investing boils down to being a “people person” business. To be successful, investors need a strong network of professionals to rely on, whether it be for finding their next deal, creating a partnership, or asking for expert advice.

5 Books On Real Estate Investing For Beginners

If you are interested in adding a few books to your current reading list, there are numerous titles on real estate investing. These books can provide information on the basics of investing, industry terminology, key strategies, and more. Here are a few books to help you get started:

1. ***The Book on Investing in Real Estate with No (and Low) Money Down* by Brandon Turner:** The goal of this book is to start thinking like an investor. Turner’s insights help readers learn how to use other people’s money to make deals and how to make the most out of your finances.
2. ***Building Wealth One House at a Time* by John Schaub:** This book is all about methodology. If you are interested in learning how to buy properties, earn money, and replicate the results, this is a great read. With over 30 years of experience in real estate investing, Schaub’s book is a great starting point for beginners.
3. ***The E-Myth Real Estate Investor* by Michael Gerber** This is the backbone of real estate investing. The E-Myth teaches beginners to look at investing from a new perspective. The book provides an overview of strong business practices and investing frameworks to help you get started.
4. ***The Real Estate Rehab Investing Bible: A Proven-Profit System for Finding, Funding, Fixing, and Flipping Houses Without Lifting a Paintbrush* by Paul Esajian:** If flipping houses is the strategy that interests you the most, consider starting here. Esajian outlines the best systems for

slipping houses for profits and provides advice on how to fund each deal. The book contains important formulas for analyzing deals that investors of all experience levels will find valuable.

5. ***The Real Estate Wholesaling Bible: The Fastest, Easiest Way to Get Started in Real Estate Investing by Than Merrill***: Wholesaling is often thought of as the best strategy for beginner real estate investors. This book outlines how you can turn this beginner-friendly side hustle into a full-blown real estate business. Merrill's advice includes advice on how to find funding for beginners and how to break into tough markets.

6 Real Estate Terms Beginners Should Know

When learning how to invest in real estate, one of the first things you might notice is the abundance of industry-specific jargon and acronyms. Although there are many, it is imperative to know at least the basics of real estate terminology so that you can speak the same language as your new real estate colleagues.

Here are some terms to help you get started:

- **Capitalization Rate**: Capitalization rate, or “cap rate” for short, is a formula used to calculate the value of an investment deal. Expressed as a percentage, the cap rate is always calculated using the current market value of a property.
- **Cash Flow**: Cash flow is a concept used in business and personal finance that describes the inflows and outflows of cash. For example, a rental property investor will often calculate the monthly cash flow, which is all the rental revenue generated by the property, minus all expenses. Investors will search for properties that will provide a positive cash flow every month.
- **Net Operating Income (NOI)**: Net operating income, or NOI, goes hand-in-hand with the cash flow calculation. Once you have subtracted all the monthly expenses from the monthly rental revenue, the leftover dollar amount is the net operating income. In layman's terms, this is the ‘profit’ portion of the operation.
- **Real Estate Investment Trusts (REITs)**: Real estate investment trusts (REITs) are firms that typically own and operate portfolios of income-producing real estate properties. Some REITs will specialize in specific niches, such as residential or commercial. Investors who prefer to take a more passive role in real estate investing might find REITs to be great options.
- **Real Estate Owned (REO)**: Real estate owned, or REO, properties have been reclaimed and owned by lenders, typically banks. After a property has been foreclosed upon, a lender will usually remove liens and expenses from a property so that it can be sold faster. REO properties provide a great option for investors looking to purchase property below market value.
- **Return On Investment (ROI)**: The most common way to measure an investment deal's relative success is the return on investment (ROI). ROI is determined by the ratio between the net profit and how much capital was used for the investment. The higher the ratio, the better the gains.

Should You Invest in Real Estate?

Deciding to invest in real estate is a highly personal decision. The investing strategy of your choice may come with a lot of risk, but can also offer the potential of high rewards.

Over time, real estate investing has been proven to offer strong, long-term returns. Further, the performance of the real estate sector is not necessarily correlated with the stock market, and it can serve as a great way to diversify your portfolio.

Real estate is also a type of investment that is highly functional. For instance, you can live in your starter home while renovating it for profit. You could also invest in a great vacation rental that not only pays for itself but allows for your personal use on occasion.

If you decide to invest in real estate, know that you won't necessarily enjoy short-term returns. It is a big financial commitment, but can bring you tremendous rewards in the long-run.

Summary

Real estate has proven to be a highly successful investment vehicle time and time again. However, the challenge of breaking down *how to invest in real estate* is one of the most considerable barriers to entry. The great news here is that anyone can learn how to invest in real estate – you just need to dedicate the time to educate yourself. That's why we put together this guide just for beginners. No matter what your starting point is, there is no reason real estate should be off-limits. Several investing strategies can serve as a gateway into a successful career in real estate. Take some time to learn about real estate investing for beginners and find the right strategy for you.

Interested in learning more about today's most lucrative real estate strategies?

Whether you're brand new to investing, have closed a few deals, or are a seasoned investor— our new online real estate class reveals the best real estate strategies to get started with real estate investing in today's market. Expert investor Than Merrill explains how these time-tested strategies can help you to profit from the current opportunities in real estate.