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Investment Properties 101

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Summary:
Late night TV is convinced that investing in real estate is the best way to make a million. Many investors are looking at big returns with no money down. While that is unlikely, it is possible to make money in real estate.

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Article Body:
Late night TV is convinced that investing in real estate is the best way to make a million. Many investors are looking at big returns with no money down. While that is unlikely, it is possible to make money in real estate.

But you have to know that this is simply an investment, and with investments come risk. If you don't know what you are doing, you could loose a lot.

Investing in real estate takes forethought and preparation. It could be broken into two parts: choosing your investment and exiting your investment.

Choosing your investment

Beginning investors should start with a small project. For example, Justin has been involved in real estate for over ten years now, and has invested in many commercial and residential properties. He has found that the key to his investments are to purchase in a good location.

Justin started with a simple duplex, which he later refinanced to buy a four-plex. He painted and made a few changes to the four-plex, and sold it for a seven-plex. He also bought another four-plex. He renovated the units and made minor repairs and sold it for a decent return.

He found that fixer-uppers really work well if you live nearby and can do most of the work yourself. This cuts your expenses. Justin learned with each investment and learned to be conservative. Don't let the dollar signs rush you into anything.

Whether you are looking to buy a house, a duplex or an apartment complex, you need to carefully review the property's economics. Are the rents you plan to charge reasonable? Are your expenses correct? Can you live with the cost of the mortgage? What happens when a unit is empty? Do you still have enough income?

You may not want to be a landlord and prefer to buy a house, fix it and flip it. While you can make a lot of money if you are wise, there are still a lot of issues involved. You have to look at the neighborhood, the market and the budget you have for repairs. Do you have enough money to pay the mortgage if the property does not sell quickly? What if you have to go over budget on necessary repairs? What if things are uncovered that devalue the home? What will you do then?

Large cities tend to be better investment areas than small towns because there are more tenants and buyers. Communities on freeways are attractive as investments due to the access to metro areas. Vacation areas and towns are also fairly stable.

Exiting your investment

Things happen. The economy, interest rates, job opportunities and construction trend impact every real estate investor. You need to watch the trends and keep in touch with local brokers, appraisers, investors and real estate attorneys.

No matter what you are investing in, you need an exit strategy. You need to know when you will sell, if you will take money and pay taxes or complete an IRS 1031 tax deferred exchange. Does your plan include enough money for your retirement? Will you pay off the property or refinance it and use the proceeds to buy another investment? What if the value of the home drops?

A weak economy is something you should watch. You need to know if a depressed market will pull out of it or last. This tells you when to exit. If you can't find buyers when you are ready to sell, what will you do? Can you restructure your mortgage or have it assumed by a buyer. Check out what loan assumption costs are and if financing terms change with an assumption. You should research your financing options before you make any decisions, paying attention to more than just interest rates.

You need to think well into the future. Plan for the best and the worst. If you invest with a friend, what will happen if they need to pull out? Do you have enough money to handle emergencies or will you need to liquidate the real estate?

Your exit strategy is vital in making your decisions for the future. Plan with your goals in mind. The key is to take your time, pick the right property and live with what happens. In the worst case, the market goes away from where you expect and the value of the home goes down -- at least you can have the tenants pay for the mortgage.