How to Invest in Real Estate: The Ultimate Guide (2023) by Fiona

One of the most proven strategies to grow your wealth is investing in real estate.

In fact:

90% of all millionaires become so through owning real estate.

And in this post, I will show you how to start investing in real estate.

Let’s dive right in.

Accredited vs. Non-Accredited Investor

Before I begin, I want to make sure I cover 2 very important concepts:

Accredited investors vs. non-accredited investors.

Why is it important to know the difference?

You may be limited on the number of real estate investment choices you have if you are a non-accredited investor.

Here are the requirements to be classed as an Accredited Investor:

- Have a gross income of $200k+ per year (if single)
- Have a gross income of $300k+ per year (if married)
- Net worth over $1 million (excluding your primary residence)

Pro Tip: Although you may have more investment options as an accredited investor, the investment options don't necessarily mean they are better.

In fact, accredited investment options tend to be riskier.

How to Start Investing in Real Estate

Now you know the difference between accredited investors vs. non-accredited investors, let's dive into the real estate investing strategies!

#1: Real Estate Crowdfunding

Potential Return: 6% to 14%+
Time Commitment: 6 months to 21+ months
Minimum Investment: $10
Accredited Investors Only? No
Best Platform: Fundrise

Crowdfunding platforms have become very popular in the past few years as a means to diversify your portfolio and tune into some nice profits.

Real estate crowdfunding often uses platforms like social media to connect investors with real estate investment opportunities.

Crowdfunding gives people looking for loans access to capital and gives people with capital access to investment opportunities.

Essentially, crowdfunding is similar to a matchmaker platform:

You’re connected with people who may be looking for you.

With real estate crowdfunding, investors (like you) “pool” their money together to fund a project in the hopes of a future payout (and profit).

Unlike most real estate investments, where you’ll see a pretty high barrier to entry (ie – you’ll need $10,000’s or even $100,000’s to start investing), crowdfunding offers you insight into real estate investing without high minimums.

Pro Tip: If you’re a new investor, it may make more sense for you to start investing very small amounts into real estate crowdfunding since there is risk associated with crowdfunding investment opportunities.

The reason why many investors gravitate toward real estate crowdfunding is that crowdfunding diversifies your portfolio.

"Many crowdfunded deals achieve annualized returns of 15% or more."

Instead of just investing in stocks and bonds, real estate crowdfunding platforms give you the option to invest your money in opportunities you may have otherwise not been able to invest in.

Take a look at some of the pros and cons of crowdfunding:

Pros:

- High-profit potential
- Portfolio diversification
- Steady income and equity appreciation

Cons:

- Illiquid investments
- Long term investments
- Higher loan default rate

If you want to participate in real estate crowdfunding, you may want to consider investing with Fundrise.

⚠ Make sure you do your research first before you financially commit.

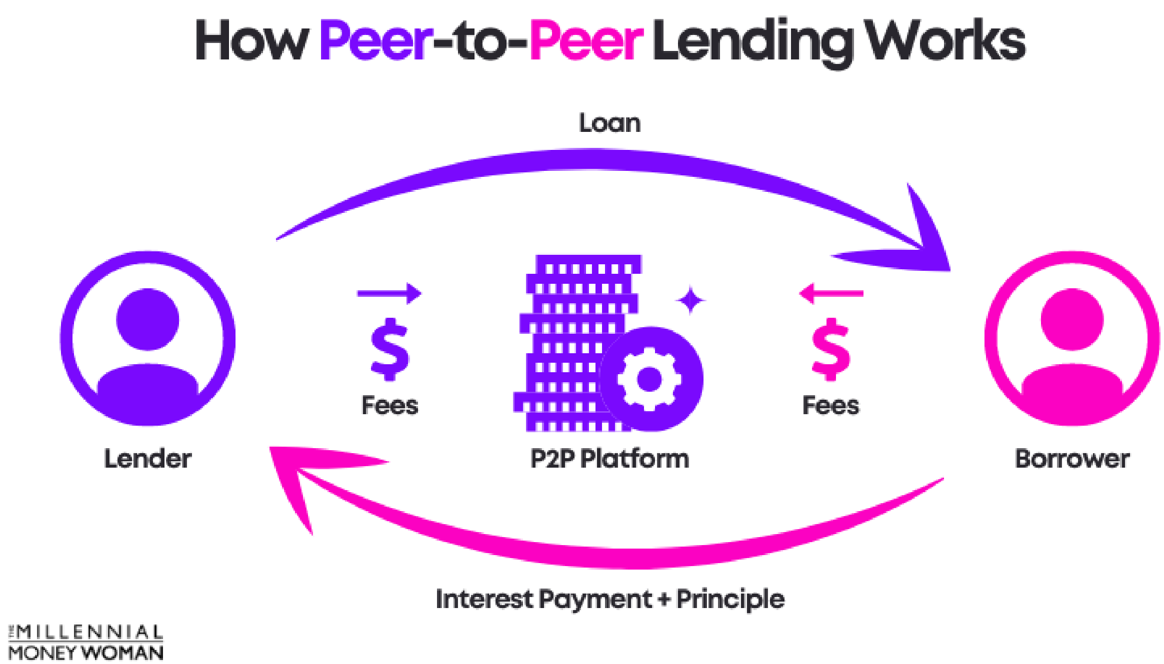
#2: Peer-to-Peer Lending

Potential Return: 10%
Time Commitment: 6 to 18 months

Minimum Investment: $10+
Accredited Investors Only? No
Best Platform: [Groundfloor]

In recent years, peer-to-peer lending has become a popular investing trend for investors, especially those who can handle the higher risk and higher reward relationship.

Peer-to-peer lending (aka P2P) is an alternative financing method that connects borrowers directly with lenders and avoids having to go through a middleman (aka a bank or other financial institution).



Essentially, P2P investors buy debt in the hopes of having their investment repaid and making a profit.

As a P2P investor, you'll have the opportunity to choose the loan that you want to invest in.

Pro Tip: Keep in mind that most of the borrowers on P2P platforms who are looking for investors like yourself, could have bad credit and may have been declined by banks to obtain traditional financing.

For this reason, becoming a peer-to-peer investor can be a risky business.

"Roughly 26% of Americans said they used a P2P lending service."

The reason why P2P lending could be an attractive option for some investors is that it's a savvy way to diversify your portfolio.

In fact, it is estimated that by 2025, the peer-to-peer lending industry will reach $150 billion or more.

Below are the pros and cons of peer-to-peer investing:

Pros:

- High-profit potential
- Portfolio diversification
- Source of potential passive income

Cons:

- Illiquid investments
- Long term investments
- Higher loan default rate
- Few industry regulations, due to young industry age

If you're a more experienced investor and if you're willing to take on higher risk (for a higher potential return), then you may want to check out the P2P platform Groundfloor.

⚠ Make sure you do your research first before you financially commit.

#3: Real Estate Investment Trusts (REITs)

Potential Return: 8.96%+
Time Commitment: 1 to 5+ years
Minimum Investment: $5,000
Accredited Investors Only? No
Best Platform: Streitwise

Real estate investment trusts aka REITs (pronounced ree-ts), are a very popular way to invest in real estate without actually having to do the work.

A REIT is a company that owns and operates income-producing real estate typically across a diverse range of property sectors (such as hospitals, apartments, nursing homes, etc.).

There are 2 main ways to invest in REITs:

- Buy into private REITs
- Buy into publicly-traded REITs (on the stock market)

The neat thing about REITs is that you can own real estate and you don’t have to do any of the work – the REIT does it for you, you just collect the money.

Pro Tip: If you’re a new investor, it may make more sense for you to invest in a publicly-traded REIT (such as those on the stock market).

There is typically less risk involved with publicly-traded REITs than with privately traded ones.

The reason why many investors gravitate toward REITs is that REITs diversify your portfolio.

Instead of just investing in stocks and bonds, a REIT allows you to invest in real estate – and chances are, even during a recession, you'll still collect income from the REIT because people will likely pay rent.

Take a look at some of the pros and cons of REITs:

Pros:

- Portfolio diversification
- Steady source of passive income
- Could outperform stocks during a recession
- Easy way to invest in real estate without doing the work

Cons:

- Typically high fees
- Sector-specific risks
- Long-term investment focus
- It often takes time to access money

If you're a bit more experienced when it comes to investing – and if you're willing to take on higher risk (for a higher potential return), then you may want to check out the REITs offered on Streitwise.

⚠ Make sure you do your research first before you financially commit.

#4: Buy a Rental Property

Potential Return: 10.7% to 12.2%+
Time Commitment: 5+ years
Minimum Investment: $0
Accredited Investors Only? No
Best Platform: Roofstock

If you're someone who has extra cash and is serious about real estate investing, you may want to consider buying a physical property and renting it out.

Now, there are many pros and cons to buying an actual home and renting it out.

Arguably, this real estate investment option is one of the riskiest but likely also one of the most rewarding, especially if you can occupy your home with reliable, rent-paying tenants.

Pro Tip: If you are truly considering buying a rental property, you will want to take enough time to properly vet your tenants before signing a contract.

The worst-case scenario would be if your tenants can't make the monthly payments, you have to go through the legal process of evicting them and then you have to go through the process of finding new tenants.

You can’t make money without tenants.

To ensure you receive a steady stream of income with your rental property, there are several ways you can invest:

- Manage the property yourself
- Use a property manager (takes about 10% of your monthly rent)
- Use platforms like Roofstock where you buy a home with tenants already inside the home
- Invest in a multi-family complex and live in one of the buildings yourself to better manage the property

The main reason why many investors tend to gravitate toward real estate is simply that real estate diversifies their portfolio.

I know people who swear by real estate investments and refuse to invest in stocks because they want their money to be invested in something tangible (like property).

...But I think it’s also important to not be what is known as "Cash poor and asset rich."

Avoid falling victim to being cash poor and asset rich.

In other words, make sure you don’t use all of your spare change to buy a rental property – you still want to leave a majority of your assets invested in the stock market.

Take a look at some of the pros and cons of investing in rental property:

Pros:

- Property appreciation
- Portfolio diversification
- Potential for passive income stream
- Increased opportunity for financing

Cons:

- Illiquid
- High entry costs
- Maintenance costs
- Long term investment

If you’re someone who is starting to consider investing in rental real estate, I would suggest you think long and hard before you actually buy a property to rent out.

Pro Tip: Make sure to vet each tenant properly and carefully (by performing background checks, for instance) – regardless if you already know them.

If you have a large chunk of cash, have invested in the stock market, and want to buy a rental property with tenants to earn some passive income, then check out the platform Roofstock.

What I like about Roofstock is that you have income the second you close on the house, since tenants already occupy the home.

What I don't like about Roofstock is that you don't know the quality of the home, the quality of the neighborhood, etc.

So, you might be very lucky – or you might be very unlucky.

That's why this investment is a higher risk.

⚠️ Make sure you do your research first before you financially commit.

#5: Commercial Real Estate Investing (aka CRE Investing)

Potential Return: 7.5% to 19.7%+
Time Commitment: 3 to 10 years
Minimum Investment: $25,000+
Accredited Investors Only? Yes
Best Platform: CrowdStreet

If you're an accredited investor, then you may want to consider commercial real estate investing.

Keep in mind that commercial real estate investing is only good for you if you are:

- A Long-term investor
- A real estate investor
- An accredited investor

Commercial real estate investing platforms have become very popular in the past few years, as a means to diversify your investment portfolio and tune into some potentially savvy profits.

In 2020, post-COVID, the commercial real estate industry did take a pretty massive hit, but it is expected for the industry to recover.

Let’s take a look at the definition of commercial real estate investing below:

Commercial real estate investing is when investors either purchase or pool their funds to develop real estate properties that will house commercial tenants, who use the property for work purposes and not living purposes.

The downside to most commercial real estate investment opportunities is that the barrier to entry is pretty high (ie – you’ll have to shell out between $25,000 to $35,000 just to get started).

So, it’s a pretty exclusive club.

Pro Tip: Even if you have the cash to start investing in these commercial real estate deals, make sure you won’t be “asset rich and cash poor.”

If you do want to invest in these higher-risk real estate deals, then I’d only invest a minimal amount of your net worth and keep the rest invested in the stock market.

Below are the pros and cons of commercial real estate investing:

Pros:

- High-profit potential
- Portfolio diversification
- Passive income opportunity

Cons:

- Illiquid investments
- Long term investments
- A larger initial investment is required

If you want to invest your money into commercial real estate deals, then I would suggest looking for a platform that is 100% dedicated to this type of investing like CrowdStreet.

⚠️ Make sure you do your research first before you financially commit.

Closing Thoughts

As you can see, many moving parts go into figuring out whether investing in real estate is the right next step for you.

Pro Tip: If your current investments are concentrated only in the stock market (in other words, you're in stocks and bonds), then it might be a good idea to consider investing in alternative options like real estate.

Investing in real estate doesn’t necessarily mean you need to buy a house and start renting it out.

There are many creative ways to invest in real estate:

- P2P
- REITs
- Crowdfunding
- Vacation rentals
- Rental properties
- Commercial real estate

Consider your options today.

Diversify your investment portfolio.

Your bank account will thank me later.

Caution: Never invest more than you are willing to lose - and thoroughly do your research before investing money.

Signing off now.

Your friend,

- Fiona

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P.S. If you enjoyed this guide or have any questions / comments, shoot me a message on Twitter and let me know 🙂

P.P.S If you need a mentor to help you build extra income streams, like:

- Starting a blog
- Starting an agency
- Renting out properties
- Investing in real estate
- Building a personal brand
- Investing in the stock market
- Starting your own ecom store
- Making money on social media
- Buying cash-flowing businesses
- Starting a vending machine business

Then check out our community, Prosper.