**Why Real Estate Investing Makes (Dollars and) Sense**

**INTRODUCTION**

There are a lot of “gurus” out there who promise to teach you how to “get rich quick” through real estate investing. While much of what they’re selling are high-risk schemes, there is a way to make predictable, low-risk income through real estate investing. In this report, we’ll examine the tried-and-true tactics that can be used to increase your income, pay off debt … even fund your retirement!

**WHY INVEST IN REAL ESTATE?**

One of the basic principles of real estate investment lies in this fact: *everyone needs a place to live.* But there are other reasons why real estate is a great investment choice:

**1. Appreciation**

Appreciation is the increase in your property’s value over time. History has proven that over an extended period of time, the value of real estate continues to rise. That doesn’t mean recessions won’t occur. The real estate market is cyclical, and market ups and downs are natural. However, in the vast majority of markets, the value of real estate does grow over the long term.

**2. Hedge Against Inflation**

Inflation is the rate at which the general cost of goods and services rises. As inflation rises, prices go up. So the money you have in your bank account is essentially worth less because your purchasing power has decreased. Luckily, real estate prices also rise when inflation increases. That means any money you have invested in real estate will rise with (or often exceed) the rate of inflation.

**3. Cash Flow**

One of the big benefits of investing in real estate over the stock market is its ability to provide a fairly steady and predictable monthly cash flow. That is, if you choose to rent out your investment property to a tenant, you can expect to receive a rent payment each month.

If you’ve invested wisely, the rent payment should cover the debt obligation you may have on the property (i.e. mortgage), as well as any repairs and maintenance that are needed. Ideally, the monthly rental income would be great enough to leave you a little extra cash each month, as well. You could use that extra money to pay off the mortgage faster, cover your own household expenses, or save for another investment property.

**4. Leverage**

Leverage is the use of borrowed capital to increase the potential return of an investment. For example, if you purchase an investment property for $100,000, you might put 10% down ($10,000) and borrow the remaining $90,000 in the form of a mortgage.

Even though you’ve only invested $10,000 at this point, you have the ability to earn a profit on the entire $100,000 investment. So, if the property appreciates to $120,000 – a 20% increase over the purchase price – you still only have to pay the bank back the original $90,000 (plus interest) … and you get to keep the $20,000 profit. You’ve essentially doubled your money, even though the market only went up by 20%! That’s the power of leverage.

**5. Tax Advantages**

One of the top reasons to invest in real estate is the tax benefit. There are numerous ways a real estate investment can save you money each year on taxes:

*Depreciation*

When you record your income from a rental property on your annual tax return, you get to deduct any expenses associated with the investment, including depreciation, which is the theoretical loss your property suffers each year due to aging. While it’s true that as a home ages it will structurally need repairs and systems will eventually need to be replaced, we’ve also learned in this post that the value of real estate appreciates over time. So getting to claim a “loss” on your investment that is actually gaining in value makes real estate an appealing investment choice.

*Serial Home Selling*

Generally, when you own an investment property you pay a capital gains tax on any profits you make when you sell the property. However, when you sell your principal residence, you are exempt from paying taxes on capital gains (up to $250,000 for singles and $500,000 for couples). The Internal Revenue Service (IRS) only requires that you live in the house for two of the previous five years. That means you can purchase an investment property, live in it while you remodel it, and then sell it for a tax-free profit two years later.

*Section 1031 Exchanges*

In addition to profiting off of your personal residence tax free, it is possible to sell an investment property tax free if you do it through a 1031 Exchange. If structured properly, the IRS Tax Code enables an investor to sell a property and reinvest the proceeds in a new property while deferring all capital gains taxes.

*Tax-Deferred Retirement Account*

It’s a common misconception that you can only purchase financial instruments (i.e. stocks, bonds, mutual funds, etc.) through an Individual Retirement Account (IRA) or 401(k). In actuality, the IRS allows individuals to invest retirement funds in real estate and other alternative types of investments, as well. By purchasing your investment property through an IRA, you can take advantage of all of the tax savings these accounts offer.

Be sure to consult a tax professional regarding all tax matters related to your real estate investments. If structured correctly, the profits you earn on your real estate investments can be largely shielded from tax liability. Just another reason to choose real estate as your preferred investment vehicle.

**TYPES OF REAL ESTATE INVESTMENTS**

While there are numerous ways to invest in real estate, we’re going to focus on three primary ways average investors earn money through real estate. We touched on several of these already in the previous section.

**1. Remodel and Resell**

Commonly referred to as a “Fix and Flip,” investors purchase a property with the intention of remodeling it in a short period of time, with the hope of selling it quickly for a profit. Investors need to understand the risks involved and be prepared financially to cover additional expenses that may arise.

**2. Traditional Rental**

One of the more conservative choices for investing in real estate is to purchase a rental property. The appeal of a rental property is that you can generate cash flow to cover the expenses, while taking advantage of the property’s long-term appreciation in value, and the tax benefits of investing in real estate. It’s a win-win, and a great way for first-time investors to get started.

**3. Short-term Rental**

Platforms that facilitate short-term rentals, like Airbnb and HomeAway, are booming. Their popularity has spurred a growing trend toward dual-purpose vacation homes, which owners use themselves part of the year, and rent out the remainder of the time. There are also a growing number of investors purchasing single-family homes for the sole purpose of leasing them on these sites.

**GET STARTED**

However you choose to invest in real estate, make sure you’re working with a real estate agent who has knowledge of the investment market and can guide you through the process. While no investment is without risk, a conservative and well-planned investment in real estate can supplement your income and set you up for future financial security.

**If you are considering an investment in real estate, please contact us to set up a free consultation. We have experience working with all types of investors and can help you determine the best strategy to meet your investment goals.**