

Real Estate Investment 101

by Broderick Perkins

It could be a good time to invest in real estate, given the abundance of foreclosures and other distressed properties with reduced prices.

It could also be a bad time to invest in real estate, if you don't know what you are doing.

There's the rub.

"It's a good time to invest, but it is difficult. Now when you go out to invest you are competing with a dozen offers. The investors are back," says Chuck Cryder, the broker for Century 21 A Property Shoppe in Salinas, CA.

Just like buying a home to live in, taking the real estate investment plunge requires taking stock of your financial goals, planning and lifestyle before taking the plunge.

Pretty much like buying any property.

If you've got the time, the money and the lifestyle that lends itself to managing a real estate investment, you are just about half way there.

However, both halves are pretty big halves.

The National Real Estate Investors Association says you've still got a lot of work to do.

Here's how much.

- **Buy your own home first.** The general rule of thumb is that buying your own home will not only put a roof over your head, but also background you in the full experience of buying and owning property -- financials, market conditions, maintenance and real estate professionals you'll need along the way.

What's more, your first home could later become your first investment property, a property in a market with which you are familiar.

"You could maintain your current residence as a rental and move up into a larger home or better location yourself. This keeps the basis on your original property intact, but gives you an opportunity to move should your life dictate," says Kim DiBenedetto, president of the Monterey County Association of Realtors in Monterey, CA.

There is one exception to the buy-your-own-home-first rule says Cryder.

"If you live with Mom or the cost of your rental housing is low, stay there and purchase investment properties first. If you can rent way below market value, I wouldn't disturb that," said

Cryder, who has been an investor since 1968, when he purchased his first property.

However, in today's market, an existing stake in a home can have a down side.

"You will be required to put more money down, most likely a minimum of 25 percent and also have several months in reserves. If you are upgrading from your current residence, your lender will require a minimum of 20 percent equity in your current residence before they will loan to you for another property," said DiBenedetto, also an agent with Coldwell Banker Del Monte Realty in Carmel.

- **Go back to school.** Turn to the Internet, reputable books, successful investment groups, college and university level courses, even your state's real estate license program. You don't have to actually get a license, but you can become just as educated as a licensed agent. Individual real estate investors, salespeople and others who you've met on the way to investing are also valuable educational resources.

- **Get professional help.** The same way you find any competent, trustworthy and honest professional is the same way to look for a mentor, investment partner with prior knowledge or investment group. Seek referrals from friends, family, professionals with whom you already conduct business, co-workers and others you trust who've had a satisfactory, successful real estate investing experience.

"Now, more than ever, you need the experience of a competent realtor and lender to guide you through the process," said DiBenedetto.

- **Learn your investment market.** One market's bubble could be one investor's boom and another investor's bust. A home in one market could give you vacation rental income in a half year sufficient to cover the cost of principal, interest, taxes, insurance, home owner association dues, upkeep and other costs, but still not appreciate. Another home in another market may not bring you sufficient rent in a year's time to cover the cost of owning the property, but might appreciate more than enough to make up for your carrying costs over the long term.

The variables are endless and you'll need to measure your capacity for risk against market conditions.

- Finally, while some experts say you'll also need to develop an **exit strategy** in terms of unloading properties when they are no longer viable investments, Cryder says if you buy right and stick it out over the loan haul you won't need an exist strategy.

"When you've got the goose that lays the golden egg, be satisfied with the golden egg," he says.