

Real Estate Investing 101

A recent television show about investing featured a panel of expert investors from different fields. The ones that caught my attention were from the fields of real estate and stock market investing. And they were sharing information with the studio audience about their secrets to making money. However, there were a few items that needed further clarification about the true potential of real estate investing, since they were seemingly swept aside on the program. And these lessons are helpful for anyone making a decision about getting into the real estate market with financial gain in mind.

Before the stock market guru enthusiastically persuaded the audience to put their money into individual stocks, he stated that the Real Estate Market was in disarray and that even in good years Real Estate would only appreciate at single digit percentages. While the latter is often true, I was surprised at how blatantly this gentleman overlooked the other key aspects of a Real Estate investment and wondered if the general public saw the benefits as narrowly as this man. There are at least four key issues worth mentioning in regards to that perspective. And while there are several ways to invest in Real Estate, this particular rebuttal will list some of the advantages of owning rental property.

1. "The Buy"- As is the case with any investment, the goal is to buy low and sell high. Today's Real Estate market offers plenty of opportunities for a savvy consumer to purchase a home for 80 to 85 cents on the dollar. My mentor agent of The Williams Home Team in Rochester MN always says, "You don't make money when you sell a house, you make money when you buy it!"
2. Cash Flow – If the rental income on your property is greater than your mortgage, which is often the goal, than you are making additional income. It is important to note that this income has not yet been taxed.
3. Principal Reduction – Allowing someone else to make the payments on your house is a beautiful thing. Just like the mortgage on your personal residence your investment mortgage is going to be amortized with most of the interest on the front end of the loan. Time is very powerful in this regard. And you can keep your money in other investments, earning you interest over the long run.
4. Tax Savings – Your mortgage interest as well as all operating expenses and improvements to your property are tax deductible. This is also a great savings over time.

When investing in stocks, the industry goal is to beat the benchmark of the market as a whole, which appreciates at an average rate of 10-12%. While the aforementioned gentleman was accurate in saying that typical Real Estate markets only appreciate at single digit percentages, when taking into consideration these overlooked aspects one can often times see far greater returns. Talking with a financial adviser or real estate agent may also prove beneficial in your endeavor to secure a financially viable real estate investment property.

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