16 Different Ways to Invest in Real Estate

[Editor's Note: The following is a republished post from Passive Income, MD. I love real estate, but not as much as PIMD does! In this post, he discusses a bunch of ways to invest in it. If you prefer a podcast format, he also covered this recently on a podcast with Financial Residency.]

"Invest in Real Estate."

I'm sure many of you have heard this tried-and-true advice. Maybe you even know someone who does just that and is doing quite well for themselves. I've heard it uttered countless times, but when I first started in my journey as a real estate investor, I barely knew where to start. I just knew that it could be a good source of passive income.

Well, it's taken time to learn about the many ways that one can profit off of real estate—and it's not just being a landlord. But you can't just pick one at random. The way I see it, choosing how to invest in real estate is very similar to the method by which you chose your medical specialty.

At some point in your life, you decided to be a doctor. But you probably didn't know what kind—at least, not at first. In fact, there were many, many medical specialties you didn't even know existed. It was only after you learned what they were, did some rotations, researched a bit, and talked to people that you eventually decided which specialty to pursue.

The same goes for real estate. The best thing you can do after realizing your interest is to educate yourself and immerse yourself in the different niches to see which one fits you best.

Different Ways to Invest in Real Estate

So what are the different "specialties"? Well, that's the main point of this post. If you've considered real estate investing for yourself, hopefully, some of the following ideas can get you on the right track.

Here are 16 ways to invest in real estate, along with a **plus** and a **minus** about each. I recognize there are many more pluses and minuses, but that's for their own separate posts.

DIRECT OWNERSHIP

Direct ownership of a property can be as a sole owner or as part of a group. This group can be a couple friends and be structured as a partnership or it can mean as a limited partner in a syndication. A syndication is a structure where there is a main sponsor or operator that puts together a deal to purchase a property and you invest as a limited partner and essentially buy a share of the deal.

1) Single-Family Homes

This one is probably the easiest for people to understand. Own a single home (or condo) and rent it out to a tenant.

Plus: Tenants in Single Family Residences (SFRs) tend to take care of the property better.
Minus: If it's vacant, you have no income coming in.

2) Duplex / Triplex / Quad

Simply more units under one roof, but again, the process is simple: find a tenant and collect rent.

Plus: Tend to have better cash flow, especially because if one unit goes vacant, you still have others bringing in rent.
Minus: Tougher to self-manage than SFRs because you have to deal with more tenants.

3) Apartment (Multifamily) Building

This usually applies to buildings with five or more units. Lenders and banks treat these buildings differently – the loan is considered a commercial loan and has a completely different set of lending standards, qualifications, rates, and terms. This is a favorite of syndications where investors pool their funds with professional operators who put together deals. Investors receive a monthly/quarterly dividend. The operators then add value to the building through good management and ultimately sell the building in 3-7 years and everyone hopefully gains a nice profit by the end.

Plus: Economies of scale and value of the property is based on income and that means there's an opportunity to dramatically increase the value of the building with good management.
Minus: More management intensive, and so makes sense to hire a professional.

4) Retail

Obviously what this looks like varies quite a bit, but it could be a strip mall with multiple businesses housed in it. It could also be a triple net lease situation where you own the building and land where a business like CVS operates.

Plus: Long-term leases, often minimum 3 years. If it's a triple net, could be a 20-25 year lease.
Minus: Not always easy to swap tenants. Can remain vacant for a while especially if it's not in a great area.

5) Mixed Use

This can also mean a lot of things, but it's typically a combination of residential, retail, office space, industrial, etc.

Plus: Can benefit from having varied income and length of leases.
Minus: Have to understand more than one niche to be successful.

6) Industrial

This is definitely not exciting by any standards but typically, these are warehouses that businesses rent for storage or manufacturing.

Plus: Known to be steady performing niche with little day to day management needed.
Minus: Usually a single tenant so not always easy to rent on a turnover and therefore may sit unoccupied for a while

7) Self-Storage Facilities

These days it seems that people have more and more stuff and need places to house it. As a result, self-storage facilities have popped up all over the place.

Plus: Don't have to deal with typical tenant-type problems (loud neighbors, overflowing toilet)

Minus: Very reliant on management who can make or break your investment. It’s very much a customer service business.

8) Mobile Home Parks

This seems to be quite a popular investment these days as well especially because they’re known to do quite well in times of economic stress. Why? Because it’s affordable housing and that’s obviously a bigger deal when the economy isn’t doing quite well (and people are predicting this to be the case soon). Directly owning it means you essentially own the land that the mobile homes sit on and are paid rent to have the homes housed there. However, I rarely see it owned solely, more as pooled investors like the mobile home park funds I’ve seen on crowdfunding sites like [RealtyMogul.]

Plus: Little tenant turnover
Minus: I’ve heard getting a loan for this is quite difficult and can be quite capital intensive (expensive), which is why people prefer to invest in these as part of a fund.

9) Land

Raw land. This land can be improved, subdivided or split up. If you think it’s in the path of progress, some people like to buy up land they foresee being developed and wait for the area to improve. Then they’ll sell it off for a profit.

Plus: No real tenants to deal with.
Minus: If it's not desirable in any way, don't expect any appreciation and unfortunately it doesn't provide any cash flow unless you put a billboard on it or figure something else out.

10) Short-Term Rental / Airbnb

You can rent out an entire property you own or just a room similar to a hotel. There are many people who do this quite well and have figured out how to squeeze profit out of an unused room(s).

Plus: Often times you can make more per night than you would if you rented it out to a long-term tenant.
Minus: Constantly have to worry about who will be renting and for how long, although that can be mitigated some by having management.

REITs

11) Public REITs

Real Estate Investment Trusts (REITs) are very similar to a mutual fund for stocks. Could be good for someone who wants exposure to the real estate market, but wants the investment to be totally passive. They typically pay higher dividends than stocks.

Plus: Allows you to invest in high-end real estate (large commercial properties) with professional management.
Minus: As mentioned in this post, public REITs may tend to correlate highly with the overall stock market and so may not provide the diversification that people are looking for.

12) Private REITs

These are REITs that are not publicly traded. Same concept as public REITs where you are able to buy shares and benefit in the form of dividends.

Plus: Offer higher potential returns
Minus: Typically only available to accredited investors however that seems to be changing with real estate crowdfunding.

OTHER WAYS

13) Tax Liens

We all have to pay taxes as a homeowner. Well, if you don't pay them, the government can place a lien on the property, which is a legal claim for the taxes owed on the property. If those taxes go unpaid, then whoever owns the lien can essentially take ownership of the property. These tax liens often get auctioned off and savvy investors take ownership of these liens. It's then possible to ultimately acquire the property at a tremendous discount.

Plus: The potential for huge gains.
Minus: Understanding the due diligence on how to invest wisely in tax liens takes a good amount of knowledge and experience.

14) Notes

Investing in notes is like being the bank and having the borrower pay you monthly interest and principal. I was surprised to find that all home loans aren't always with the banks but sometimes owned in the form of private notes. There's a humongous market out there and there are people who specialize in buying non-performing notes, meaning that the borrower is late on payments. The owner of the note may be willing to dump it at a huge discount and this gives the opportunity for the buyer of the note to try to get the borrower paying again or take ownership of the property.

Plus: For a performing note, it can be an easy check every month.
Minus: Again, this form of real estate investing can get quite complicated, particularly with non-performing notes, and I believe it isn't for the faint of heart.

15) Hard Money Lending

This is very similar to holding a note where you act as the bank or lender and the borrower pays you back a certain amount of interest every month. The distinction here is usually the term of the loan and the interest rate. It tends to be for a shorter term like 6 to 18 months and at a significantly higher interest rate, often 8-15%. Who is borrowing in this case? A good deal of the time it's fix and flippers who can't get conventional lending but need the short-term cash to buy and try to turn a property around for a sale. This is typically what you see mentioned as "Debt" investing on real estate crowdfunding platforms.

Plus: Potential for significant, steady, passive returns.
Minus: May have to deal with foreclosures if borrower defaults.

16) Fix & Flip

This is what you see on HGTV all the time. You've seen those shows where a good looking couple finds and buys a fixer-upper, renovates it, and sells it for a nice profit. They make it look so easy! While it can be a lucrative business, realize it's not nearly as easy as they make it out to be. You're definitely at the mercy of supply and demand and the state of the housing market by the time you're finished with your project. I've never personally house flipped but I do enjoy playing House Flip by Chip and Joanna Gaines.

Plus: Can be an enjoyable project to fix up a place and make money at the same time.
Minus: Not as easy as HGTV makes it out to be, and a lot of people lost a lot of money in 2008-2010.

Summary

As we've seen, real estate investing isn't always just about buying a home and renting it out. The field is much more varied and diverse than that. That's why I always have a hard time with anyone simply trying to compare whether the stock market or real estate is a better investment. It's not so easy to do that.

Now, of course, this list isn't even close to being exhaustive. There are many more ways to invest, ranging from relatively passive to extremely active, and they run the gamut of risk profiles.

As for me, I've chosen to invest in several different niches including direct ownership of SFRs and apartment buildings. I own some of these solely, in partnerships, and as an investor in syndications. I do some hard money lending as well through real estate crowdfunding. These are the "specialties" that make the most sense for me, and as a result, I've found some success with them.

Personally, I don't know of anyone who invests in *all* of these ways. That may be too much for one person to handle. Most often, it seems that successful real estate investors choose a couple and get to know those niches extremely well. The hard part is deciding which ones suit you and your interests the best.

How about you? How many of these ways have you invested in real estate? Are there any real estate investment opportunities I may have left out?