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Building Your Real Estate Empire: **Borrower Basics 101**

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There are many ways to invest in real estate, from the long-term property ownership of a single-family home or residential/commercial rental property, to financially backing fix-and-flippers or developers, and everything in between. In this guide we'll examine some of the most common real estate investment strategies and provide insight into how to maximize your investment potential and make smart, informed investing decisions. After all, not every investment strategy is right for every investor – even if, at first glance, some scenarios may seem to produce higher returns.

Before getting involved in real estate investing, however, it's important to understand that there are a variety of ways to invest in real estate and what those differences are. Not each investment type is created equal – some may not have a return for a long time, but provide an immediate benefit (such as giving you a place to live), whereas others may provide a more immediate benefit, but require much more hands-on work.

TYPES OF REAL ESTATE INVESTMENTS

Long-Term Ownership

Primary And Secondary Residences

Long-term, property ownership is probably the most common form of real estate investing, and many people don't even realize they're already doing it! Your personal portfolio of property, including primary residences and vacation homes, count as investments and when held for the long-term can result in substantial returns, especially if you bought at the "right" time.

Residential Or Commercial Rental Properties

Owning rental properties, such as tenement buildings or commercial properties leased to businesses, is probably the most recognizable real estate investment strategy. For many people that are interested in building their net worth via real estate the very first thing they do is consider becoming a landlord.

Land Development

Buying land for the purpose of development can be a great investment strategy, but it's one that can take a lot of time. For starters, it's imperative that you properly research the lots you're interested in to see what they're zoned for, what utilities will need to be brought into the area, who will be responsible for paying for these services, and whether there is enough interest in new developments in that area to make the entire process feasible.

Fix And Flip

Thanks to popular reality TV shows, flipping houses is something that many people have a new-found interest in, but only some people are successful at. Fix and flipping is essentially purchasing a property in a desirable area that needs a bit (or a lot) of work, making the necessary renovations and updates, and selling it at a price that will generate a profit. This can be tricky, as generating a profit means that the purchase price needs to be below market value, and the work done – including all labor and materials – needs to be inexpensive enough so as not cut into profit margins, but high enough quality that prospective buyers will see a value. However, when done correctly flipping can prove to be quite lucrative, especially if you're working with a lender that offers a quick close and favorable rates and terms.

INVESTMENT PROS AND CONS

With so many types of real estate investment opportunities, it's probably obvious that not every option is right for every person. What's right for you depends on your long and short-term goals as well as your immediate resources, and the level of involvement you'd like to have with each property (or project, as the case may be).

Investment Type	Pros	Cons
Personal Property	The most obvious: somewhere to live or vacation	Provides no liquid assets until sold
	Counts as an asset toward total personal net worth	Must pay property taxes
		Selling before a certain period of time may result in capital gains taxes
Residential and Commercial Rentals	Provides liquid assets in the form of rent collection	May entail sweat equity for upkeep
	Counts as an asset in total personal/business net worth	May entail overhead costs for management or upkeep
		May be taxed on both business income and property taxes
		Selling before a certain period of time or under certain parameters may result in capital gains taxes
Land Development	Provides the opportunity to get in on the ground floor of developing new residential or commercial areas	Heavy investments are required to acquire and develop the property (clearing land, etc.)
	May count as personal asset or business asset depending on the manner acquired, thus increasing net worth	Must pay property taxes
		Selling before a certain period of time or under certain parameters may result in capital gains taxes
Fix and Flip	Provides the opportunity to be hands-on with a project	Doesn't necessarily count at all toward net worth due to the short duration of ownership
	Provides the opportunity to help revitalize a neighborhood	Must find and acquire a property that will show enough improvement to raise value, but not require so much investment that there won't be a profit
		Must manage construction and utility crews
		Must pay property taxes
		Selling before a certain period of time or under certain parameters may result in capital gains taxes

TYPICAL EXPECTED RETURNS

As with anything, the returns on your investment will also vary based on a number of factors including the type of investment you've made, the market conditions at the time of the initial purchase, the market conditions at the time of the sale, and any funds that went into the project for improvements or overhead.

For example, if you purchased a single-family home in 2010 when the housing market throughout the country was seeing all-time low prices and interest rates due to the market crash two years prior, you could turn around and sell it today for a pretty reasonable profit. If you made any improvements to the property during that time – such as a kitchen renovation or even upgraded some of the landscaping – you could see an even bigger return. However, if you had purchased that same home in early 2006, at the very height of the market, then it's possible that your home still may not be valued at the price you paid for it then, or it may just now be recovering its pre-crash value.

With each type of investment – personal property, rental properties, land development, and fix and flips, there are different timelines and expectations for when returns can reasonably be realized.

Long-Term Personal Property Ownership

For the most part, when you purchase a single-family primary or secondary residence, the expectation is that you'll hold this property for an extended period of time. If you've taken out a mortgage on the property, the interest rates often reflect that expectation, with a lower rate for a longer duration loan. And while you can, of course, sell a property at any time (just beware of capital gains taxes!), for the most part it's unlikely that you'll see a substantial return on your investment within a short period of time unless you managed to purchase your property at a time when that particular market was low and then experienced a significant turnaround within a couple of years - or you've completed a fix and flip (but more on that later!).

It's also becoming increasingly rare for homeowners to actually live in their homes for the duration of their 30 year loan, in fact according to Realtor.com most first-time homebuyers stay in their home for only 11 years, while second-time buyers stick it out about 15 years. That also, however, depends on the market. In some areas homes are turning over every seven years, regardless of whether it's a first time or repeat buyer.

Residential And Commercial Rentals

Owning these types of properties often leads to a more immediate return in the form of regular rent checks, although depending on the purchase price of the property and the occupancy of the building it may take a while before the purchase price of the investment is completely made up and a true profit begins rolling in.

Residential rentals reside in a similar market to personal, long-term property ownership in that most people hold on to the property for an extended period of time without the intention of selling, and when they do it's because the market is at a place where they will be able to sell the property at or over the purchase price. In some areas - especially cities - the residential rental market is incredibly hot, with properties that are in good shape being purchased by new landlords very shortly after going on the market. In these areas, working with a lender that can move as fast as the deal requires and that can close quickly, can often give borrowers an advantage as they're submitting their offers.

Commercial property, however, is a much tricker place to cut your teeth when you're entering the real estate industry. For starters, while many people are looking to purchase homes or rent apartments, the number of individuals looking to rent office or retail space is significantly lower. Additionally, because those people know they'll be leasing the space, they often spend a much longer time searching for their prospective location, since they anticipate not having the freedom to make changes and renovations as they see fit. This means that commercial rental space can sit vacant for longer than a landlord might like - the National Association of Realtors (NAR) indicates that it can take upwards of six months to finalize a lease agreement on one commercial space. However, that doesn't mean that purchasing this type of space isn't a viable option - commercial rentals often have much longer lease terms than residential properties, which means once you have a tenant you can anticipate regular income with less turnover.

Overall, the return rates on rentals of both kinds vary. If you're able to achieve full occupancy – or nearly full occupancy with high enough rental margins, and low enough management and maintenance costs – then you may be able to realize a return immediately. However, realizing a return on the sale of these properties may take a bit longer, as they're considered a more niche market.

Land Development

Selling land is one of the trickiest things you can do, and if you purchase the land to develop it yourself it becomes even more difficult. Land sales and development have a few additional steps to go through that existing properties don't have to worry about.

For starters, you have to go through the municipality to see if what you're planning to do with the land is even allowed. If it isn't, the deal is off – or your plans will need to be amended. If it is, then you'll need to go through the various building and infrastructure departments to find out how to make sure that the land you're buying will actually be land that can be used. After all, there needs to be electricity and running water brought into the property, and possibly a sewage system (unless your municipality has septic), and of course there needs to be a means of getting to the property in the form of a paved road. Does that road require sidewalks or streetlights? Only the planning committee will be able to fill you in. Oh, and of course the land will need to be cleared and graded so that it's actually buildable All of that may end up involving a lot more work than it's worth if there isn't already interest in the development lined up. Which means you'll also need to be advertising the development and the proposed plans (which is, of course, an additional expense), in addition to working with architects and contractors to get the buildings – homes or commercial – up and ready for occupancy. For some lenders, purchasing land for development isn't something they're fond of doing since it can be a long, tricky process. Therefore, it's important to work with a lender that is familiar with the processes in your market and that is supportive of your project plans and long-term goals.

Fix And Flip

Flipping properties has become one of the most popular real estate investment methods in recent years, due in large part to many successful TV shows about the process that make it look fun, glamorous, and relatively easy. Hey, you've painted your bathroom before and picked out new kitchen tile – how hard could a flip really be? Unfortunately, it isn't always as easy as it looks on TV. First, while the folks on TV may look like Regular Joes, for the most part they all have years of experience either in real estate sales, contracting, or both. They aren't walking into this stuff blind! Second, viewers are seeing a months' long process condensed into 60 minutes of relatively painless work that goes without a hitch and results in a profit for the stars. That doesn't mean, however, that you can't expect to see strong returns from a fix and flip project - you just have to make sure you're going about it the right way and that you've surrounded yourself (and your project) with an excellent team.

Once you've found the appropriate property to flip, it's time to make an offer and close the deal. From there you've got to do your market research, plan and design the renovations, muster up your crew, stay on top of construction schedules, and then turn around and market and sell the house. For a team that's done this type of work before and who has a typical "style" that they like to stick with in a neighborhood that they know well and in a market that's hot, this could all take as little as two months. But if something delays the project or the market isn't as hot as they thought it was, that return begins to dwindle. Again, this is where the importance of having a strong team comes in - and that team should definitely include your lender. By working with a lender that's an expert in your specific geographic location, they'll have a strong idea right off the bat as to whether or not your project is likely to make money. They may also be able to point you in the direction of local contractors and vendors that they know do great work to help facilitate a smooth process.

Regardless of which investment option you select, one of the best ways to ensure that your investment is a smart one is to start with getting the proper funding. Working with traditional banks to take out loans may seem like the most obvious solution, but it isn't always the best when it comes to investment properties. For example, when time is of the essence to secure a great deal on a property you're planning to flip or develop, the typically weeks' long process at a bank could cause you to lose the deal if another interested party is able to close more quickly. Cash buyers are typically preferred in almost any transaction, followed by those who can close the quickest, and securing a hard money loan from Walnut Street Finance could cut your closing time from a month or more to two weeks or less.

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About Walnut Street Finance – A Private Hard Money Lender

Walnut Street Finance was founded in 1997 by Bobby Montagne, Jr. as a private real estate development company focused on well-located, infill sites in and around Washington, DC. After decades of success in residential and commercial property development, finance, and sales, the firm transitioned into a private hard money lender by founding Walnut Street Finance.

Walnut Street Finance provides short-term commercial loans to small and mid-sized independent real estate builders, developers, and investors in Virginia, Maryland, Washington, DC, and Delaware. Having “dirtied their boots” developing thousands of residential units and commercial properties, they work to ensure that all projects are on budget and stay on track. No other private hard money lender knows the market like they do.