An All-Weather Strategy to Real Estate Investing

Despite some positive stirrings in real estate in various parts of the country, it's wise to take cautious steps when strolling back into the investment property market that was so overheated just a couple of years ago.

A good first step is consulting with a tax or financial adviser, such as a CERTIFIED FINANCIAL PLANNER™ professional, who can help you assess your own financial situation before you begin. Getting your own financial house in order first is critical.

Some thoughts:

Remember that real estate investment is part of an overall financial plan. Investing in real estate requires specific tax, spending, budgeting and people management advice. Based on your other assets and your overall financial plan, investment property might be a worthy goal, but only if it fits your investment strategy and if you're willing to put the time and effort into creating a successful business.

Don't spend until you study: If you don't have an intimate knowledge of neighborhoods, rental rates, commercial traffic or any of a dozen more factors that make real estate investments a particular success in one community and not in others, don't even start. The most successful people in real estate investment have taken the time to learn about the properties they're buying, sensible ways to borrow and economical ways to manage the buildings they have. Make sure you assemble a good advisory team around you starting with your financial planner, your tax adviser and an attorney knowledgeable about real estate transactions. They'll teach you and keep you from making serious mistakes.

A slower market doesn't mean a bargain market. Even though the gains of the past 15 years aren't what they used to be, keep in mind many sellers aren't terribly desperate to sell and they're not dropping their prices all that much. Make sure you take the time to study a particular market not only for gains in price, but for stability in rent and overall quality of the property and neighborhood you're examining. You might hear about a downtrodden neighborhood ready to "turn," but that rotation might take years – start slow and pick properties with the best chance of appreciation.

Home ownership is not real estate investment. If you're thinking about leapfrogging from one residence to a new one in hopes of huge gains when the market returns, give yourself a reality check. An investment is something you can sell when the moment is right without any hesitation. Is that something you can really do with a home you've grown comfortable in? When the market goes up or down, we don't necessarily think of dumping our principal residence. There are emotional ties as well as physical ties to a home – whereas real estate bought as an investment must produce income during ownership or a profit at the time of sale without exception.

-more-

Real estate is not an automatic ticket out of financial trouble. Some people have gambled their way out of debt by buying distressed properties and reselling them at a profit. They're the lucky ones – and after hearing so much about the "flipping" phenomenon, many of those success stories might be apocryphal. Be aware of your risk tolerance at all times.

Enter the foreclosure market carefully. With all the reports of subprime borrowers losing their homes in recent months, don't think those foreclosure numbers will automatically provide you with a can't-miss opportunity in real estate. Taking advantage of the foreclosure market is both a learning exercise and an emotional one. It takes time to learn all the correct avenues in a community toward investing successfully in failed properties, and actual contact with families losing their homes can be wrenching even if you do know what you're doing. Foreclosure and pre-foreclosure investing is not for the faint-hearted.

Cash is king. During the white-hot real estate market, people were buying and selling property for little or no money down because lenders were willing to take that risk. Today, in a higher rate environment, that's definitely changed. While many successful real estate investors choreograph borrowing seamlessly into their strategy, cash is an important decision for down payments and covering ongoing expenses. This is where your advisory team comes in.

Keep your credit report clean: Only borrowers with the highest credit scores will find the best lending deals if they need to borrow. Make sure your credit report is clean before you enter the market.

-30-

This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Angel McCall, CFP, a local member of FPA. You will find additional informative articles at www.AngelMcCallCFP.com .