

Investing in Real Estate

Various strategies can be used on the road to real estate wealth. In one, investors "flip" properties by buying a house, renovating it in short order and selling for a profit. In another, investors purchase the property with the intent to hold it for many years.

A common approach is to purchase an income-producing property such as a single-family home, an apartment building, an office or retail building or farmland with the intent to rent the property or units within it. By having tenants, investors benefit from not only any appreciation over time, but also the rental cash flow. There's also some inflation protection because as operating costs increase, rents can increase as well.

The downside: Investment in real property -- unless you're buying shares in a real estate investment trust -- isn't as liquid as putting money into the stock market. And real estate markets are often cyclical in nature.

In fact, those adverse to the risks involved with purchasing property may consider a REIT instead to add real estate to their portfolios. A REIT takes the management issue out of the equation, provides more liquidity, can spread risk geographically and also is income producing -- REITs, publicly traded companies that own and manage real estate, are required to pay out at least 90% of their taxable income as dividends.