

Managing Your Risk in Real Estate, Part I

When investing in real estate, there are several steps involved in the process - from perusing local listings in the area where you want to invest to the time when you decide to sell your property. Real estate investing requires quite a sizable dedication in time and money, and there are several actions to take in order to ensure that you make well-informed and profitable investments.

You first must determine how much capital you have readily available to you, the current housing market trends, and your personal level of experience in investing. In order to do these things effectively, you need to get familiar with the law. Federal and state regulations and codes will determine much of what you can and can't do as far as financing a home mortgage loan or operating your investment as a business activity.

Investigating the market will involve becoming familiar with local price points of the type of property you'd like to purchase, as well as whether you are in the midst of a buyer's market or seller's market. This will give you great insight as to how much profit can be made on a property in the short or long term.

Ask yourself if the general economy is heading up or down, what the unemployment rate is doing, and how many new homes are being built. Five-year periods should be assessed, as this is the longest time you will probably want to be tied up into a short-term property holding. You need to determine if property values will decline, rise or stay approximately the same during that time.

After choosing and purchasing your property, there are several safety nets you can put into place to ensure it doesn't go bust. Larger down payments will lower your financial obligations to your home loan financing company. At least 10% will provide a safe haven should the value fall; you'll also qualify for a lower rate and have immediate equity in your property.

However, making a larger down payment will decrease the amount of money you have on hand for unforeseen expenses and repairs. You'll simply need to remember that few other investment options will offer the same level of return, appreciation and low risk that your new investment property will possess.

Finding the best home loan rate will also be determined by the type of funding you need. What will the home be used for, and how long do you plan on keeping it? Adjustable rates may offer a lower rate upfront and be a great option for short-term investments. If you plan on turning it into rental income and possible retirement funds, a fixed rate is probably best.

Another way to greatly increase your equity in the home no matter what the market does is to make one extra full payment each year – perhaps when you receive your tax refund. This one action will take years off of the life of the loan, and create more wealth for you and your family.