

# TEAM TIPS from



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## The Pros and Cons of Real Estate Investment

There are many great advantages to investing in real estate. It can create streams of cash flow, and it can buffer you from the ups and downs of the stock market. But it's not the right investment for everyone. You might be surprised to hear that coming from a real estate agent specializing in investment. The truth of the matter is that investing in real estate has its benefits as well as drawbacks. I've highlighted what I consider to be the major pros and cons of real estate investment.

### Pros

- 1 You've Got Leverage.** The ability to leverage your investment is one of the greatest benefits of investing in real estate. Consider this: investing in the stock market takes \$100,000 to make a \$100,000 investment. But with real estate, you don't need \$100,000 to buy a \$100,000 duplex. You can get by with 20% down, 10%, 5% or even sometimes zero down. The appreciation is on the value of your real estate investment, which is \$100,000, yet you're only risking the amount of the down payment.
- 2 You Can Take it With You.** When you build up equity in a property, you have the opportunity of pulling out equity usually through refinancing the first mortgage and taking out equity as cash or adding a second mortgage or a home equity line of credit (HELOC). And the big benefit is that generally those funds are not taxable. On the other hand, if you want to take out equity in stock, it has to be sold outright, or you have a margin account, and the IRS will get you for that.
- 3 Your Loss is Your Gain.** In real estate, you can deduct up to \$25,000 passive income loss against taxable wages in the current year and the rest you carry forward, whereas with portfolio investments, you're limited to \$3,000 long-term capital loss yearly. And having a tax loss in real estate doesn't mean that you're not getting cash flow—you can simultaneously experience both. This barely scratches the surface of this complicated topic, so I suggest you consult a tax strategist to help sort it all out.

### Cons

- 1 It's a Waiting Game.** If there's anything to be said about real estate, it is not a get-rich-overnight investment. It takes time and patience. But with a small amount of investment at risk, within 7 to 15 year's time, the acceleration on your investment can be substantial.
- 2 You're Not Liquid.** Liquidity is the ability to convert an asset to cash quickly, and when you invest in real estate, your ability to cash out is severely restricted. And to make your real estate investment pay off, you've got to commit to staying with it for the long haul.
- 3 How Do You Know if You're Making the Dough?** Knowing exactly where you stand with your investments is pretty easy when it comes to something like stocks. All you have to do is look at your statement, and you can see you made 8%. But determining your yield or rate of return on real estate is much more difficult, because you've got to put the pencil to paper and actually calculate your return.



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