Make Passive Income by Real Estate Investing: REIT (6 mins read)

Description

If you are searching for a way to make a handsome amount of passive income, you should opt for real estate investment. You may have heard that you need a massive amount of money to invest in real estate. It is not the case anymore. You can start investing in real estate with a small sum of money. There are plenty of ways to earn a good amount of passive income through real estate investment, and here we will discuss the best ones.

What is Passive Income?

The money you earn without actively working for it is passive income. It does not mean that you don't have to work at all. It means you will put all your work upfront at the start or do a little work regularly, unlike your regular job in which you have to work non-stop from 9 to 5.

How to earn passive income from Real Estate?

We will discuss the three best ways to earn passive income from real estate investment. Choose the one which you think best fits you.

1. Real Estate Rentals

Renting your property is a great way to earn passive income regularly from your real estate property. It can be commercial or residential property. Renting your property can be a source of regular cash inflow. You can meet your expenses and save a bit after covering your expenditures. You do not have to work actively to earn passive income by renting your property. Your tenet does that for you.

You might think that landlords do the maintenance work for their property, but it is not that big of a deal. These are tiny maintenance tasks that you can do regularly without putting yourself under the burden. It is the reason real estate rentals come under passive income sources.

Another benefit of renting a property is that the value of your property increases, and the ultimate capital after selling the property belongs to you. In the start, you might want to invest in small properties like townhomes and single-family homes. With time and experience, you can start investing in commercial properties to make big profits from rentals and selling the property.

Pros of investing in real estate property

- You can make a decent cash inflow regularly by renting your property. If you rent a property, not in use, you can use the rent to meet your expenses, pay the mortgage, and even save some leftover money.

- Real estate value increases with time. You can sell your property at a high-profit margin depending on your buying and selling price. Look for and invest in properties that you think might be of high value in the future. It can make you earn good profits on your real estate property.
- If you do not have enough money to invest in real estate, you can buy the property you think will be of high value in the future in installments. You will pay the down payment, and the rest you can pay with easy installments.
- A great benefit of having a real estate property is that it protects you against inflation. When the prices of other goods go high, the same happens with real estate property.

Cons of investing in real estate property

- A setback of investing in real estate is that your investment is not liquid. It means if you sell your property, collecting your whole capital can take up to or more than two to three months. In an emergency, you cannot sell your property and get your money back quickly.
- Earning real estate passive income can be risky and tricky. You must be willing to take risks and be smart enough to research and evaluate the property before investing.
- Investing in real estate requires a lot of research and experience. Without adequate research, you can end up with a property that is not worth the money you have paid to buy the property.

Know those 10 words of Real Estate that your agent will definitely avoid talking about.

2. Real estate investment trusts (REITs)

A real estate investment trust (REIT) is a company that owns real estate properties. You can invest in real estate by investing in these companies. REITs allow you to invest in real estate without buying any physical property. By investing in REITs, you can earn monthly payouts called dividends. Real estate investment trust also allows you to reinvest your monthly earnings into real estate if you want. You earn passive income through REITs without any problems you might face with physical and rental properties.

The Securities and exchange board of India (SEBI) is a central body developed to protect investors against possible fraud. SEBI lists trusted REIT companies and keeps checks and balances. So, if you want to invest in REIT, choose a company from the list approved by SEBI.

The properties that REITs own are mostly commercial. You can earn a good profit with a real estate investment trust because the trust distributes 90% of the profit to its investors.

Pros of investing in real estate investment trusts (REITs)

- The first and foremost benefit of investing in REITs is that you do not need to worry about how much you should invest, in which property, and when to invest. REITs take care of it from A to Z.
- You do not need to do research or management work while investing in REITs. REITs do all that for you.
- With REITs, you can invest in commercial properties with limited investment.
- REITs are not directly associated with the stock market. So any bearish trend in real estate stock does not necessarily mean that you are losing your investment.

Cons of real estate investment trusts (REITs)

- By investing in REITs, you become a silent investor. Your investment is under REIT’s control, and it is up to them to invest in properties that they think are the best.
- The REIT investors do not enjoy the tax benefits enjoyed by physical property owners. It is beneficial for physical property owners when their selling price falls below the buying price or

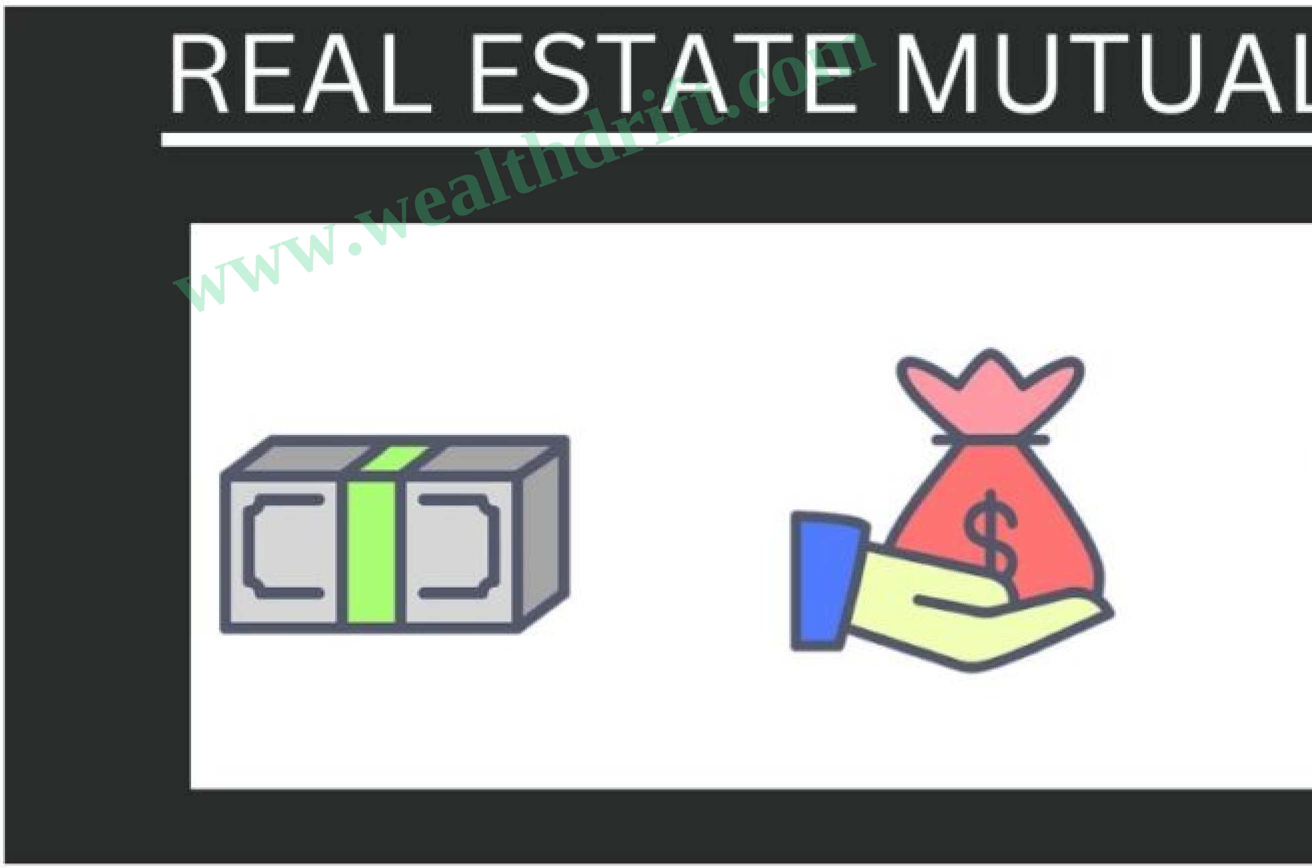
when they are at a loss.

3. Real estate mutual funds

Real estate mutual funds are somewhat similar to real estate investment trusts (REITs), but there is a slight difference between the two entities. Multiple REITs come under the umbrella of a mutual fund. A manager supervises and analyzes different REITs and chooses the best REITs to invest in to make maximum profits.

In real estate mutual funds, you do not decide where and when to invest, the same as for real estate investment trusts. The other thing to know is that real estate mutual funds are directly affected by the real estate stock market, so when the market goes up or down, so do the mutual funds.

Know 3 Best REIT Mutual Funds in India for investment.



Pros of investing in real estate mutual funds

- Most benefits of real estate mutual funds are similar to REITs, like no burden of managing physical property or rentals, monthly dividends, and ease of handling. But real estate mutual funds have some more benefits.

- Your money is always liquid. You can withdraw your money whenever you want at the current market rate. If you see the market crashing and fear losing your money, you can pull out your investment immediately.
- Real estate mutual fund investors have tax waiver on their investments until they withdraw their funds.
- You have the opportunity to reinvest your dividends into the funds and increase your assets.

Cons of investing in real estate mutual funds

- Real estate mutual funds have a higher minimum investment limit than REITs. You might need a minimum of INR1,50,000 to INR2,50,000 to invest in real estate mutual funds.
- If you invest in real estate mutual funds, you won't have any say in where to invest the money. Your profit margin depends on the mutual fund manager who makes all the investment decisions.

Things to consider while investing in Real Estate to earn passive income

Here are a few things worth considering while investing in real estate to earn passive income.

§ Specify a period for your investment

You should specify a time for which you can hold your investment in real estate. It is necessary because it determines which real estate stream you should choose. If you can hold up your investment for 4 to 5 years, you should invest in physical real estate property. You might need four to five years to earn a significant return on your investment from rentals and the overall capital of your property.

If you cannot hold your investment for long, you should invest in REITs or mutual funds because they are more liquid, and you withdraw your income whenever you need.

§ Your investment amount

Your investment amount will decide whether you should invest in physical property, REITs, or mutual funds. If you have millions of rupees, consider investing in physical real estate properties. And if you have a small amount of money, like INR 1 to 5 lac, you should invest in REITs and Mutual funds.

§ Control of your investment

If you own a residential or commercial real estate property, you have complete control over the rentals and other management work. But if you invest in REITs or mutual funds, you will not have any control over your investment. So it depends on you whether you want to manage and control your investment or want to be a silent investor without any troubles regarding your investment.

Conclusion

You can earn passive income from real estate, no matter how much money you have to invest. In the meantime, you will get experience and get ready to make large investments in the future. Whether it is REITs, mutual funds, or real estate rentals, you can make a handsome amount of money without working. You can have a regular passive income inflow from rentals and dividends. You can use that money for your expenses, pay your loans, or you can save that money.

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