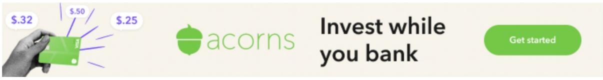

EARNING

How to earn passive income from real estate investments: To start with, 'you have to love houses'

"Most of the folks I know who've made a lot of money from housing love the thrill of the hunt."

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Twenty/20

Real estate investments can be a lucrative source of passive income: The additional income stream that they can bring in can help you build wealth. But it's not always easy to get started, especially in this ultracompetitive real estate market.

"You have to love houses," Redfin CEO Glenn Kelman tweeted during a recent Grow Twitter chat. "Most of the folks I know who've made a lot of money from housing love the thrill of the hunt, have an eye for design, and know enough about home-improvement to do the work themselves or manage the people who do."

During Grow's Twitter chat, Kelman and other real estate experts weighed in on what you should take into account before you jump into the real estate investment game. Here's their best advice.

Consider the maintenance costs in time and money

As Kelman pointed out, home improvement know-how is a valuable skill when it comes to investment properties. The maintenance can be both time consuming and costly. If you don't feel you have the time, you'd likely need to hire a property manager, says certified financial planner Jeffrey Levine, the chief planning officer at Buckingham Wealth Partners.

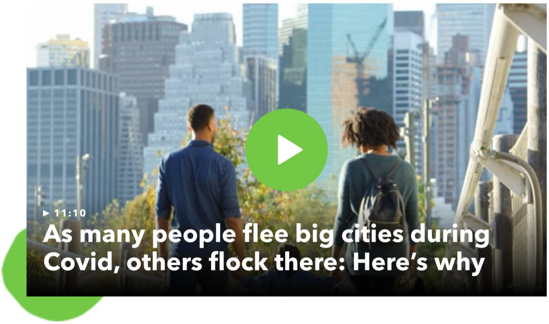
"Most people who've owned a home know how much time it takes to maintain it," he wrote. "The same applies to rentals!"

Choosing the right tenant is another way to help keep maintenance costs down, says Marguerita Cheng, a certified financial planner and CEO of Blue Ocean Global Wealth. "You don't just want any tenant," she wrote. "You want a tenant who pays their rent on time and treats your property with respect."

'Understand the math'

"If you want to be an investor you need to understand the math," tweeted mortgage originator Jennifer Beeston.

There are a number of questions you need to ask yourself before going all in on an investment property, she explains. "How much are the utilities going to cost? The property that you are buying, does it have deferred maintenance? How much is it going to cost you to get that house into a rentable manner? If you have a tenant that doesn't pay for a month, do you have the reserves? Do you have insurance set up to handle that?"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Homeowner's insurance and property taxes are additional figures to factor in.

Beeston also suggests getting a real estate agent who specializes in investment properties. They can break down "if it will actually cash flow, and that's key," she says. "This is an investment, so you have to put that business hat on."

'Begin with the end in mind'

Having a game plan is key, says Seth Williams, founder of REtipster.

"Begin with the end in mind," he wrote. "Understand what your long-term goals are and how each investment property fits into your road map. Even the best investment properties won't make sense for every investor. Figure out where you're trying to go and stick to the plan."

During another part of the chat, Williams pointed out that having a game plan helps you set a hard limit on how much you're willing to pay for an investment property, in a market where bidding wars are more common. "Rental properties are a business decision, not an emotional decision," he wrote. "If the deal won't have positive cash flow with your offer price, move on to another property."

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Figure out if real estate investing is a good fit for you

While real estate investments are often referred to as passive income, that doesn't mean generating that money is simple, warns CNBC real estate correspondent Diana Olick. You might find that a different side hustle or passive income stream is a better fit for your needs.

"Have a strong stomach. Being a landlord or a flipper is not easy," she wrote. "This is a VERY hot market now, so do your research, and do a little self analysis on whether the return is worth the stress."

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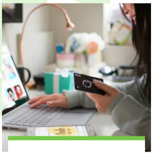

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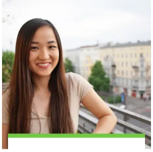

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