How to Invest in Real Estate With Little Money

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1. “House Hacking”

While not for everyone, house hacking can be a great way to get started. With this strategy, you:

1. Buy a multi-family investment property and live in one of the units as your primary residence.
2. Then you rent out the other unites and cover your mortgage and property expenses on the entire property with rental income from the other tenants.
3. With the money you're not spending on rent, you can save up for a down payment for your next investment property.

Because you’re purchasing the property and using it as your primary residence, you can likely qualify for an FHA loan and put down just 3.5% to finance your house hack strategy. Whether you qualify for the FHA loan depends on the number of units (most lenders limit residential funding to four units or less) and other factors specific to your income, credit qualifications, and the property’s features and location.

With very little money out of pocket, you can purchase an investment property and house hack it as your primary residence. Ideally, you want to make sure the total rental income is high enough to cover all ownership expenses, including an allowance for vacancy, taxes and insurance.

2. Live-in, Then Rent

Another way to get started is to delay the purchase of your dream home and buy a less expensive property that will make a great rental instead. Live in your home for a few years and then turn it into a cash-flowing rental property.

A big advantage of this strategy is that since the home is your primary residence, you can likely qualify for an FHA mortgage with a very favorable interest rate (instead of the higher interest rate lenders charge on investment properties).

While a rental property usually requires 20% down and conventional financing, an FHA loan typically requires just 3.5% down. And if you're a veteran, you can buy a home with no money down using a VA loan.

Additionally, when you move on, you can keep the same FHA loan— placing tenants to cover your mortgage, insurance and maintenance expenses—and qualify for an FHA loan again on your next home if you make it your new primary residence.

3. Live-in House Flips

If you're the handy type and don't mind living in a construction zone, you can purchase a fixer-upper. You move in, make repairs and improvements, and sell the home for top dollar.

This strategy does require money: you'll need a down payment and renovation funds. But since you're living in the home, you're "investing" what you would spend on rent to build equity in the property. Your hard work can build up a lot of sweat equity.

Of course, you also need skills to do some of the renovation yourself (or you'll pay too much). You should also educate yourself about the market to ensure that the updates and improvements you make will pay off. The idea is to improve the house to sell, not put in top-of-the-line upgrades that appeal to you personally. With this in mind, you set yourself up to pull the maximum amount of equity out when you sell your property.

4. Real Estate Crowdfunding

Crowdfunding is another strategy that enables you to add real estate to your portfolio without a large amount of capital to invest.

Through online crowdfunding platforms, you pool your money with a lot of other small investors to invest in large commercial projects acquired and managed by professional real estate developers. It's a very passive form of fractional real estate investing where you're loaning money to a real estate developer for a particular project with a defined timeframe.

The minimum investment for many platforms has been dropping. In fact you can get started with just $10 by using a company like Fundrise. This crowdfunding platform invests in income-generating real estate and pays quarterly dividends.

Historically, investors have earned around 8-9% per year with Fundrise, and you pay 1% in annual management fees. Other companies like Arrived Homes and HappyNest also let you invest in real estate without much money just like Fundrise.

If that crowdfunding model isn't for you, you still have options. For example, you can even acquire and finance an entire turnkey rental property yourself through Roofstock's crowdfunding platform, all online.

5. Real Estate Investment Trusts

Real Estate investment trusts (REITs) are an alternative to buying real estate directly. Best of all, you don't need much money to buy into a REIT. Think of a REIT as a pool of real estate assets, which are managed by a real estate professional and traded freely on the stock market exchange. REITs offer some of the same attractive features of stock investing. You can often buy fractional shares and invest with small minimums. For example, Fundrise offers a REIT with a $500 minimum investment. REITs can be a low-risk choice for passive real estate investors, providing the ability to diversify across many property types and multiple geographic locations. There are REITs that pay dividends, so they can become part of your income portfolio. The idea behind REIT investing is to participate in the often higher returns of real estate assets without owning or managing any real property.

6. Borrow Your Down Payment, But Be Cautious

Borrowing 100% of the money you need to buy a home is risky, as anyone who lived through the aftermath of the housing bubble a decade ago may recall. Lenders will say you cannot borrow your down payment.

Still, there are ways to do it. You can tap into your 401(k) and borrow against your own retirement savings. Because you are essentially acting as the creditor when borrowing from yourself, most lenders don't count the payment against your overall debt burden when qualifying you for a mortgage. Of course, borrowing from your 401(k) reduces your retirement savings and if you leave your employer, you may have to pay off the loan in full and/or face tax penalties.

With advance planning, you may be able to get around the lender's requirements and borrow your down payment. You could, for example, take out a personal loan for emergency cash and drop it into your checking account. Let it sit in your account for a few months and then apply for your mortgage. The lender is going to consider what's in your account as "yours" if it's had time to "season." Those borrowed funds could become your down payment.

7. Wholesale Properties to Investors

Think about the amateur-looking signs on the side of the road that say, “we buy houses” or the postcard you get in the mail pitching, “a lump sum cash payment for your home in 30 days with no showings or closing costs.” As a wholesaler, you find motivated sellers and promise to buy their house for cash in 30 days—but you’re not the one ponying up the cash.

Instead, you negotiate a cash price in “as is” condition and provide them with an “assignment” contract which allows you time to get a cash buyer to purchase the house for the price you promised the seller (plus your fee) and “assign” the contract to them.

To be successful, you need to know what cash price will make the seller happy while allowing enough “spread” for a rehabber to make a profit after he pays the acquisition price, renovations and repairs, holding costs and selling costs. To do that, you must recognize what rehab needs done, know the local markets, be able to accurately estimate the numbers (such as repair costs, property market values before and after repair, closing costs, etc.) and be a good negotiator. Wholesaler fees between $5,000-$15,000 per deal are typical. Some wholesalers make $25,000-$30,000 per deal.

To be successful, you need a lot of hustle and you will need a budget for advertising—most wholesalers find motivated sellers through direct mail and cold-calling.

8. Bird Dog (Sniff Out Deals for Others)

You truly need no money to “bird dog,” and you don’t take on any of the risk associated with buying an investment property yourself.

This term comes from hunting. Hunters use dogs to help them spot and retrieve birds after they’ve shot them. As a bird dog, you look for, or spot, investment opportunities. This is sometimes called “driving for dollars.” You drive around a lot, scouting for properties that look vacant or in need of repair.

You do some preliminary analysis, take a few exterior photos of the property and the neighborhood, and hand off the leads to wholesalers or fix and flip investors in exchange for a finder fee. The fee is negotiable of course and—depending on where you live, how much analysis you do and other factors—you could pocket around $1,000 each time an investor can turn your lead into a deal. While you don't need money to get started, you do need to cultivate a network of investors to pass your leads to and negotiate your fee with each one.

9. The BRRRR (Buy, Rehab, Rent, Refinance, Repeat) Method

This is a real estate investment strategy that involves acquiring a property that needs substantial repair (at a discounted price) and renovating it to rental standards. You then place tenants to cover the acquisition and ownership costs, and refinance it into a loan at the after repair value (ARV) so that you can pull out funds to purchase another distressed property and do it again. You buy, rehab, rent, refinance and repeat the process until you have your desired size portfolio of rental properties providing passive rental income each month.

It sounds easy enough, right? There's a lot to learn before you jump in: what to rehab and how much to pay, how much rent you can charge, what a good deal looks like, how to determine the ARV, etc. The strategy also requires a sizeable chunk of start-up money—you'll need a down payment to purchase your first distressed property and you'll need money to do the rehab. Since traditional lenders won't typically finance a home that needs a lot of work, you'll need to find alternative financing, like hard money, which is more expensive and needs to be factored into your budget.

If done correctly, the BRRRR method can provide reliable, mostly passive income and a revolving method for endlessly purchasing additional rental properties. In Maryland, it's tough to make the BRRRR method work because property transfer and deed recording taxes are so high and the BRRRR method requires you pay them twice (when you acquire the distressed property and when you refinance).

Do your research before jumping in to confirm this is the best strategy for where you live. It's better in areas with no price inflation and favorable tax laws.