7 Strategies for Raising Real Estate Capital

There are tons of entrepreneurs who plan on starting a business in real estate. That doesn't come as a surprise, given the industry's profitable nature. Don't believe it? Here's a fun fact for you: as rent rises, so will millennial home buyers. A Realtor.com survey revealed that increasing rent pushed millennial buyers to purchase their own homes instead of renting rental property. Forbes expects this to continue in 2020 as rent continues to spike, further motivating millennials to buy homes of their own. Before you think about closing deals with clients, concentrate on raising your capital first. Allow this article to show you how it's done.

How to Raise Real Estate Capital

The good thing about jumping into the real estate bandwagon is that anyone can join in. All you need are decent knowledge of real estate, a bit of due diligence, the right amount of passion, and capital. You can't invest in even the smallest property without that last component. Raising capital doesn't necessarily require you to shell out money from your own pocket. You can use other people's money to kick off your investments. Regardless if you're using your own money or not, you have to come up with strategies that can attract interested investors to fund your business. These 7 ways can get the job done:

Bank Loans

While technology has given birth to new capital raising methods, traditional tactics still have a place in this digital world. Getting a loan is among the most popular strategies in boosting capital across many industries. In fact, the Small Business Administration (SBA) says that around 75% of new firms go for business loans, credit lines, and credit cards as funding tactics. Before applying for a loan, you'll need to prepare and show loan requirements such as profit and loss statements, bank statements, and balance sheets. Prepare to reveal some personal information as soon, as that's an inevitable request by banks.

Private and Hard Money Lenders

The former refers to people who have the capital and are eager to make investments. On the other hand, the latter are semi-institutionalized lenders who licensed to loan money to people who need it. These two parties are quite popular amongst modern real investors for a good reason. Private and hard money lenders don't work for institutionalized banks. They work for themselves and actively seek out to lend their funds to people looking for them. They go for an asset-based approach, which is great for those who don't have great credit scores. Most private and hard money lenders ask for between 12 to 15% in interest. Although their rates are quite higher than that of banks, it's quite understandable since you're granted almost immediate access to their capital.

Wholesaling Real Estate

Unlike bank loans, wholesaling isn't a popular strategy. However, it's something worth looking into if you're an investor who wants to get funds fast. Wholesaling works like this: a seller gets contracted a property from an investor (aka the wholesaler). From there, the investor searches for an interested buyer and assigns the contract to them upon finding one. The endgame here is to get the interested buyer to purchase the property before the homeowner's contract expires. The wholesaler gets money by selling the property at a price that's a notch higher than the seller's initial quote. If you pull this off with no hitches, you'll get your funds within hours after a deal without spending anything.

Private Placement Memorandum

This one's a pretty unconventional strategy but it's effective nonetheless. A private placement memorandum is a disclosure document handed out to investors to get them to consider investing in your venture. Should you choose this strategy, the document should have the objectives and terms of your attempt at boosting your capital. It should also include information that interest investors want to discuss before they make any decision. Do this right and there's a high chance that a good amount of transparency gets exercised.

Self-Directed Accounts

Despite being an underutilized tactic, many real estate ventures nowadays find this reliable. By now, investors are aware that their individual retirement accounts (IRAs) and 401 (k)s aren't meant to lie around to collect dust. Luckily for them, the Internal Revenue Service (IRS) allows self-direction of savings into real estate investments without early withdrawal penalties for qualified entities. In this strategy, any profit investors make from their investments should return to their original accounts and are permitted to grow tax-deferred. While investors can't spend the money they've gained immediately, the tax shelters that come with it can inflate their profits.

Peer-to-Peer Loans

Peer-to-peer loans, or crowdfunding, is a growing favorite amongst real estate investors. The Allied Market Research projects the global peer-to-peer market to reach above the

$400 million mark by 2022. If you know someone who's looking to buy a house for investment purposes, you may want to talk to them about this method. This strategy works by getting crowdfunders to match lenders (who can be investors and individuals) through an online platform. Peer-to-peer loans are more affordable than typical mortgages because of low overhead costs. You don't have to worry if you don't have a perfect record score here; as long as your score is good, your loan can still gain approval.

Federal Housing Administration (FHA) Loans

Terms are friendlier in this strategy since the FHA itself is the entity insuring them. But before applying for one, your Fair Isaac Corporation (FICO) should not be less than 580. You also need to consider that FHA loans are typically reserved for properties that are currently occupied by owners, so think hard before getting one. FHA loans can be pulled off for investment properties if you use it to purchase a multifamily home. You have to live in one unit and rent out the other ones you've purchased. This allows you to gain rental income without paying any rent. You can move out of the unit you've resided in and rent the others after the time set by the mortgage lender has passed.

Does raising capital have to be a steep mountain to climb? Not necessarily. The great thing about this list of strategies is that you have a variety of options at your disposal for getting the money you need. If one method doesn't work out, you can always choose another until you hit the jackpot. Just stay persistent and resourceful as you figure out your moves.