



What is a Speculative Investment in Real Estate Terms?



In This eBook

- Speculative investment definition
- Signs to watch for
- Examples of speculative investments

About Us

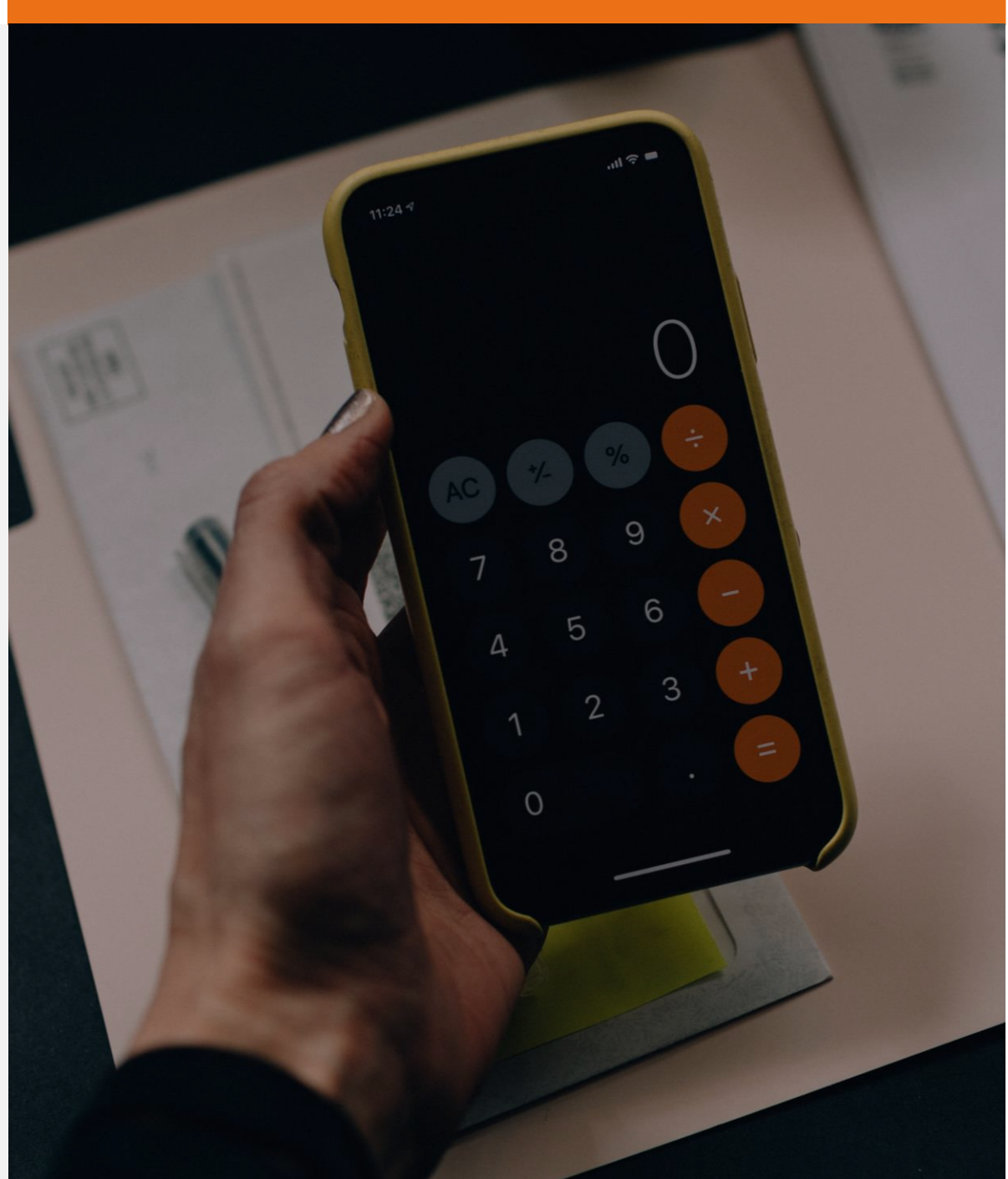
How to Buy USA Real Estate (HTBUSA) is a leading information and education site for savvy domestic and international real estate investors with readers from more than 100 countries.



I learned a number of years ago that when I started investing in real estate, my first investment was indeed a speculative real estate investment. The fact it took me many years to actually be aware of the fact, sheds a big light as to why so many investors struggle to make money in real estate investing. It is about managing the type of investment to the current market conditions that makes for a successful purchase.

Based on my many conversations, I felt there was a big need to create clarity as to the types of investments that are best suited to accomplish particular goals. To do this, of course, requires understanding of the different investment types.

The one we are talking about is speculative real estate investing so let's break it down.



Speculative investment (*definition*): to speculate+ to anticipate a great return. This is the most risky and possibly the most rewarding investment and as the saying goes, the bigger the risk the bigger the reward. This statement gives fuel to the greedy as well so beware...in absence of a successful set of circumstances the opposite can happen.

The bigger the risk the bigger the loss.

Speculative investing works best when a market is positioned at the rebound stages of a seller's market. After a market goes through a buyer's market phase and the market is transitioning to a seller's market will provide the upswing necessary to capitalize on as speculation.

This is where location comes in AGAIN. At any given point in time, there are markets that are better positioned to accommodate this speculative investment than others. It is imperative to find markets that are transitioning from a buyer's market to a seller's market.





Things you will want to watch for:

- new construction is starting to get abundant
- financing is easier to obtain
- businesses and jobs show signs of improving
- demand and prices of construction is edging upward
- speculators are buying

When a market is positioned correctly, the speculator has the best chance of capitalizing big-time on a speculative investment. These speculative investments can come in many forms and all of them are betting on one primary objective. Buy a property at a low price with anticipation of selling in a short amount of time for top dollar.



Here are a few samples of speculative investments that seasoned investors find lucrative:

- **Buying new construction at the beginning of Phase 1 to the new development.** When a large development is underway, speculative investors cash in big by buying early. They rent for a short amount of time, 6 to 12 months, and as the development builds out into its second, third and possibly fourth phases, everyone now wants a new house in this subdivision. Prices have gone up considerably from Phase 1 and new buyers are eager to get moved in. Many do not want to wait for a new house to be build and will find your home to be of great interest to them.
- **Purchasing raw land is another favorite of the speculator.** Using the above example, if the developer allows the purchase of a plain vacant (unimproved) lot this can be huge. Often a seasoned investor will purchase the land. This is a much smaller investments and as the lots get sold off, the demand will become stronger and stronger for the remaining lots. The Investor can then sell his/her lot at an increased price. This, believe it or not, was my first investment strategy at age 15. It worked like a charm and I made a 50% increase to my purchase price in 3 years time.



Here are a few samples of speculative investments that seasoned investors find lucrative:

- Of course, **buying acreage that is sought after by a developer can be even more lucrative.** When you acquire a larger parcel of land and the demand for new housing is strong, you will want to market this to a developer. To increase your payout, you will want to do the legal work of getting zoning approval and change the use of the land from its existing status to the status of multiple residences per acre. This is a tactic that is highly profitable and one that should only be done with proper guidance and experience. If this sounds interesting you, you will want to do your diligence and learn more about the process of zoning changes. The diligence upfront may generate massive rewards.
- **Another popular speculative investment property is the infamous fix and flip.** Many investors do well by buying a distressed property, repairing the damages to the house and selling for a profit. Where most new investors go wrong on this strategy is when they try to perfect the house to the standards they would want to live in. The fact is, you will not live in it so do not waste your money putting in the extras that will not generate a large return on the investment. You want to make the home move in ready. Start with the outside to make it look great and grab the attention of the people who frequently drive by the property. Then put a for sale sign on it. Finish up the inside to make it move in ready, and by the time you are finished, you should have found a ready willing and able buyer that can give you a nice profit.

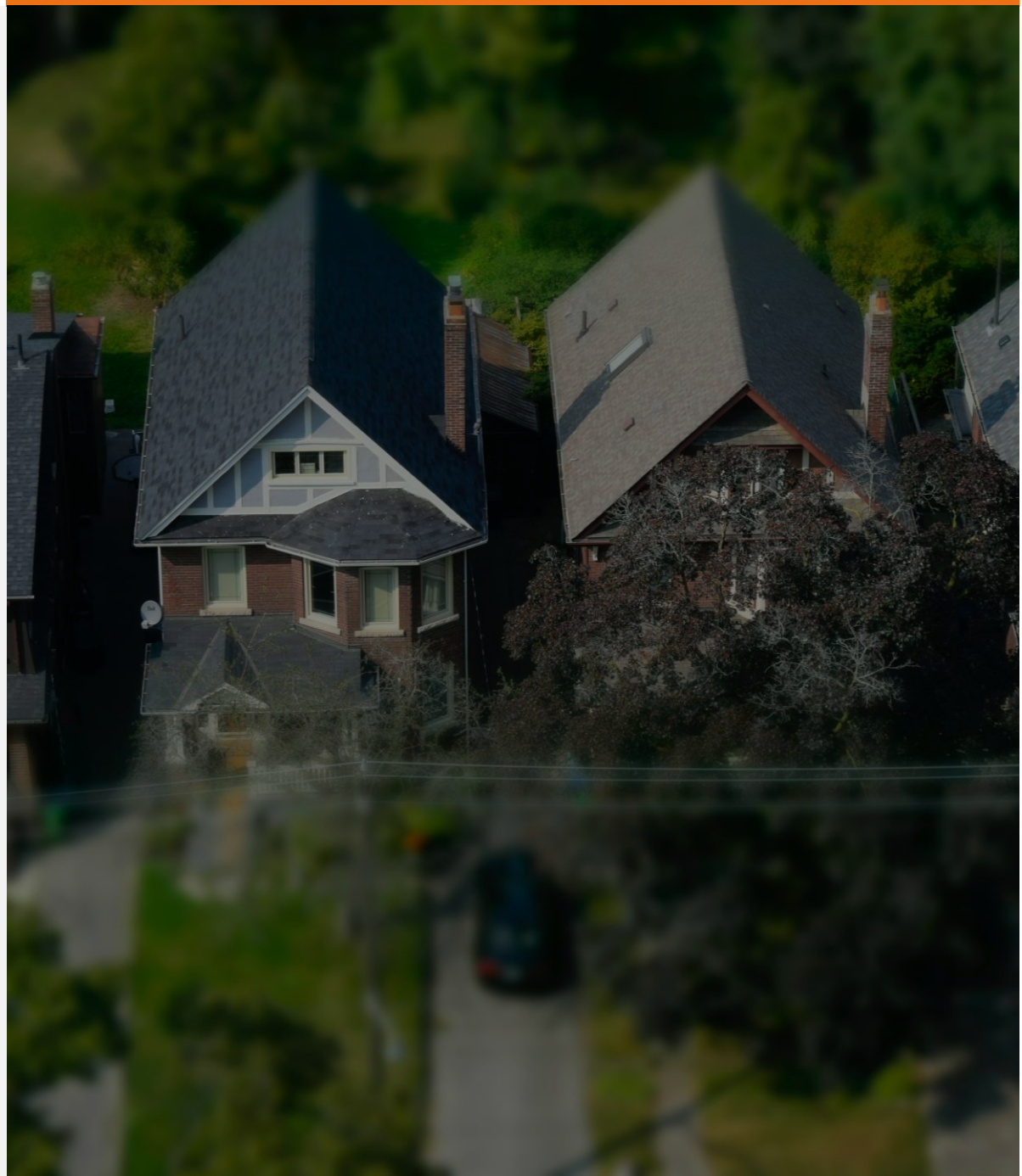


On a personal note ...

There are many examples that I could give on speculative investing but I believe this illustrates them well. When being purposeful, you can see how the proper location at the proper market positioning is key to capitalizing on the speculative investment. All too often, investors want to invest month in and month out doing these same types of investing.

The most dangerous aspect of real estate investing is NOT paying attention to the changing tide.

Real estate markets are always changing and the risk comes from not changing with the markets.





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