

## **Benefits of Investing; Investing in Real Estate 101**

The **Purpose** of this outline is to give the potential buyer an overview of what they need to understand before they decide to become a Real Estate Investor. Some of the information in this paper is intentionally truncated. Full discussions and notes are available in the client version of this document. Buyers who want more information should make the decision to become a client of ours, and take advantage of the business discussions and resources available to all our Buyer Clients. Clients sign a simple Buyer Representation Agreement and agree to use Tony and Marti as their Real Estate Agents.

### **Overview**

Is now the right time to buy?  
Population – It has already happened  
Depreciation – the Best part  
Tome value of real estate investment  
Where will my investments lead in 10 years  
Pay less tax  
Maximize cash flows and returns

### **Is now the right time to buy?**

The only worse time to buy is five years from now  
Will Property prices STOP appreciating  
Is owning/managing property worth the trouble? Evaluate your priorities!

### **Six ways Profits increase**

Appreciation  
Mortgage pay off  
Increasing flow of income  
Property improvements  
Instant equity (if purchased right)  
Tax benefits

### **Why invest in property**

Validated by economics and demographics  
Social security? Not  
Stocks/401K – Uncertain  
Get in the profit generating game!

### **Why will rents increase?**

Population growth: during the next 20 years, the projected population growth in the US will increase from 280 Million to 330 Million

### **Echo Boom**

Since 1978, US births increased from 3.5 million to approximately 4.1 million PER YEAR

Echo Boomers (30-somethings) will be competing for their first homes over the next 10-15 years

### **Can the stock market provide 50 million Americans the income needed for retirement?**

Look at 2008

### **Property Appreciation**

Value = NOI (net Operating Income) over R (capitalization rate)

### **Breaking it down**

Net Operating Income (NOI)

Gross income minus all expenses. Includes PITI, repairs, management company, etc.

Prevailing Rate of return ( R )

Approximately 6-9% (or whatever it is today)

Selling Price (Value)

R is a circular computation based on all the advantages on slide 6

### **How does this apply to me?**

1. Investors get closer to the age that cash flow is more important
2. Too many investors will chase good properties
3. Sellers will force buyers to accept lower yields (in a good market)
4. Cap rates will decrease
5. Property values will continue to increase (over the long term)

### **Examples of falling yields**

25000 (NOI)/.09 (R ) = 277,777 (v)

25000 (NOI)/.08R = 312500 (V)

25000 (NOI)/.07R = 357,143

25000 (NOI)/.06R = 416.667 V

25000 (NOI)/.05R = 500000 V

### **Why should I buy now?**

Choose to buy NOW before R bottoms out and receive the appreciation bonus

Buy today and receive the two for one bonus. Enjoy the echo boomers competing for their first place which will drive rents and prices up of starter homes

### **Example**

1. Jim buys a quad this month for 230k
2. 5 years pass, rents go up
3. Yearly NOI went from 20k to 24k
4. Yield dropped from 9 to 7
5. Property now worth \$343k

24000 NOI/.07 R = \$342,857 V

**What about interest rates? They go up and down!**

Interest rates go up

Less people can qualify for a mortgage

Demand goes down to purchase homes so prices stay dormant, however, Rents Increase!

Interest rates go down

Most people can qualify for a home

Demand goes up to purchase homes and less people want to rent, however..

Your property value increases!

**Get off the sidelines**

You or someone you know wants to get in the game. How do you know if your are ready to take the plunge?

Internal assessment questions:

Do I live below my means?

Do I borrow and spend or save and invest?

Am I looking for a “get rich quick” program?

**Questions to ponder**

What is the ROI?

1 yr, 5 yrs, 10 yrs?

Will it increase in value?

What is the opportunity cost?

Where will the money be invested if not this property?

How much will I pay in taxes this year?

**Tax benefits of depreciation (using IRS numbers)**

**Determine your tax Basis (IRS)**

**Basis (IRS): Defined**

Must be some logic in determining basis

**Recovery period: defined**

**How does depreciation help me?**

**IRS**

[www.irs.gov](http://www.irs.gov)

Pub 946 How to depreciate property

**What if you computed annual depreciation of \$4,000 per house**

1 house = 4,000

2 houses = 8,000

...

10 houses = 40,000

**Tax time with \$100,000 rental income from 10 houses all renting for 833 per month**

**Tax time with 50k income and 5 rentals**

**Selling the property**

Depreciation recapture

IRS Pub 544: Sales and other disposition of assets.

**Work smart:**

Write down your goals

Make 1, 5, 10 year plans.

Does this decision coincide with your plans?

**Disposing of properties**

Avoid capital gains taxes

Additional rules and requirements

Qualified intermediaries

**Return on Investment ROI**

**Most investors leverage their purchases with a mortgage**

How does this impact your ROI?

**Impact of different down payments – year 1 only**

Example of ROI

**Considering 1.5 months w/rent and w/o mortgage – year 1 only**

Example of ROI

**Now add 4% appreciation – Your property value – year 1 only**

Example of ROI

**The example as it applies to RE agents**

**Equity IS NOT money!**

cash flow is, and its' implications.

**How to find investment monies???**

**Cautions:**

Does R.E Investing suit your goals and temperament?

Do the Math FIRST, look for houses last.

What is the Math Part?

Understand how to take title, benefits of the corporate veil, tax advantages of incorporating

**I'll show you how to evaluate a property**

But YOU must understand the numbers above

Who's going to do your repairs and staging?

How do you evaluate your repairs and estimate fix up expenses?

Build in marketing time and expenses

Don't buy a property if you have to get a higher than market rent per month to make the numbers work. Figure out what's about right. Do an area rental rate study, may take a couple weeks or a couple minutes.

Do all your homework before you look for a property.

**Miscellaneous notes:**

Evaluation tools for the Palm

Fixup expenses

ROI

Where does the IRS deduction occur on the forms? Does it affect only your rental income or does it offset your total income, including pension and social security? Go look at the 1040!!!

How you take title to protect yourself, from lawsuits, from privacy.

What is the upper income limit for taking depreciation?

How does the 2/5 rule for cap gains exclusion apply to selling a house per year?

Recent tax ruling of 1031 exchange changes as it applies to funding a vacation home.

Visit your candidate property immediately during/after a rain to check basement and roof for leaks. Tile floors may indicate a moisture problem. Is a painted floor proof of a moisture problem?