Beginner's Guide to **Real Estate Investing**

Reasons to
Invest in Real Estate

Let's get one thing really clear up front: **ANYONE can own an investment property**. This isn't some pie-in-the-sky aspiration that's only available to the super rich. The problem for many people isn't that investment properties are out of their reach; it's that they don't know how to get started.

Well, that stops now. First, let's dive into the reasons you may want to own an investment property.

1 Earn Money

Like this wasn't going to be the number one reason. It's true, though. The income you collect by renting out your property can be used to cover mortgage payments and/or property-related (operational) expenses. **It's kind of great to have someone else pay your mortgage, isn't it?** Anything left over can be put toward whatever you like—even another investment property! Not bad for a passive income investment.

2 Tax Breaks

Uncle Sam has a soft spot for real estate investors. **Investment property can come with tax advantages** and deductions related to mortgage interest, property taxes, insurance, maintenance costs, and even depreciation.

3 Inflation Hedge

There's no arguing that the cost of living—including rent—is going up. Owning an investment property allows you to raise rents and potentially benefit from increased cash flow. Plus, locking in a **fixed-rate mortgage ensures that while other costs may rise, your monthly mortgage payment never will.**

4

Watch Your Asset Appreciate

Real estate tends to appreciate over time. Do your research, understand the market, secure the best deal terms and hopefully you'll **watch your investment property appreciate** as the investment capital grows. You can increase these odds by renovating, upgrading, or modernizing your investment property. Not only can these activities increase the value of your home, but they may increase your rental stream.

5

Diversify Your Portfolio

A solid investment portfolio is a diversified investment portfolio that typically includes a variety of assets, like stocks, bonds, and real estate, including investment properties

6

Rent It out Multiple Times

Airbnb is like the golden goose for investment property owners who offer short-term rentals. If you're lucky enough to own a property in a hot tourist destination or a bustling city, you can **cash in on the demand for temporary stays** with **higher rental yields and more flexibility.**

Types of
Investment Properties

Investors have many choices when it comes to creating their ideal investment property scenario.
See which ones resonate with you.

Single-family homes

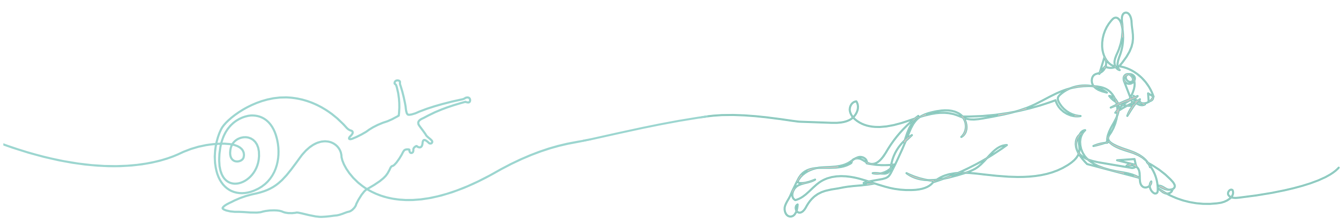
Townhomes

Duplex or multi-plexes
(ie: duplexes or apartment buildings)

Condominiums

The Long & Short of It

You will also need to know how long you want tenants to stay on your property, because it will affect everything from your mortgage to insurance and even location, depending on that area's rules.



Long-Term Rentals
typically last six months or longer

Short-Term Rentals
last anywhere from one night
to a few months and everything in between (ie: Airbnb)

Niche Investment Properties

Most people think about your typical long-term or short-term renter when they picture buying an investment property. You should know, however, that there are other options catering to specific individuals or functions that can be very lucrative as well. These include:

Student Housing, which specifically accommodates students near colleges and universities. The dwellings can be any of the above-mentioned property types.

Senior Housing encompasses independent living communities, assisted living facilities, and nursing homes.

Affordable Housing is aimed at providing housing options for individuals or families with lower incomes.

Creative Ways to Rent

Buying an asset with the explicit intent of renting out the entire property 24/7 is only one option, but there are other ways you can earn income on these dwellings.

Co-living Spaces offer shared living arrangements, often with private bedrooms and shared common areas.

Single-Room Rentals offer up a spare bedroom in your home.

Vacation Homes are properties purchased for personal use and can be rented for up to 14 days a year.

Short-Term Rentals: Yes or No

PROS

Higher Rental Income

Short-term rentals often generate higher rental income compared to long-term rentals. This is **especially true for desirable locations or in peak seasons** when demand is high and you can charge premium rates.

Use it Yourself

Why rent an Airbnb when you already own one? Enjoy your property all you want when it's vacant. You can even **use this perk as a "gift" to others.** Not having to worry about a wedding gift is a wonderful benefit of having an investment property in a desirable location.

Raise Prices as You See Fit

Short-term rentals allow you to easily adjust pricing based on a variety of factors, including **market demand,** seasonality, and special events in the area. Plus, if you're getting numerous reviews that mention "what a steal" this house was, you can always raise your prices!

CONS

More Effort

Short-term rentals require significant time and effort. **Every review matters**, so marketing, answering questions, cleaning, key exchanges, and more **always need to be on point**. That's why property management companies were invented, but their services come at a price.

Unpredictable Occupancy

While short-term rentals can have higher incomes, they're also susceptible to fluctuations in demand. Off-peak seasons or unforeseen events (hello, COVID) can lower occupancy. So **always account for seasonality** and market disruptions.

Regulatory Challenges

Many vacation areas have been flooded with short-term rentals. This brings on competition and some communities are enacting limitations on rental properties. It's crucial to research and comply with the legal requirements…and **be prepared for potential regulation changes.**

Insurance Considerations

There are additional insurance requirements for short-term rentals, including liability insurance. It's always a good idea to **consult an insurance professional** before purchasing a short-term investment property.

Long-Term Rentals: Yes or No

PROS

Stable Rental Income

Predictability and stability are the names of the game with long-term rentals. By signing lease agreements with tenants for extended periods, you have a **locked-in monthly income**, regardless of seasonality or anything else happening in the world.

Less Effort

Compared to their counterparts, long-term rentals require much less day-to-day management. You **do a little work upfront** to ensure you secure a reliable tenant. Once you've found them, you can sit back, relax and enjoy a more hands-off approach, though **regular property maintenance** and repairs will still be needed.

Lower Tenant Turnover Costs

Tenant turnover costs are typically lower for long-term rentals. That's because **these costs don't pop up as frequently** as every few days. When you compare the cumulative totals of turnover costs, you'll certainly save in the long run with a long-term tenant.

CONS

Lower Rental Income Potential

As noted above, long-term rentals don't boast the high returns of short-term rentals.

Limited Personal Use

You can certainly occupy your investment property when it's empty, but those periods tend to be few and far between. Some landlords choose to stay in their property when it's between tenants, but that time is typically used to get the place ready for the next occupant. This is certainly **not as fun as blocking off a week on the Airbnb calendar** and sweeping your family off to the short-term rental.

Long-Term Commitment

Stability and predictability go hand in hand with commitment. A long-term lease means you're agreeing to house this tenant(s) for an extended period of time. This **may limit your ability to adjust your investment strategy**, remove the tenant (unless there's cause for breaking the lease) or regain occupancy. These actions can wander into the legal world real quick, so you want to think twice before you sign that lease.

6 Steps to Buying your **First Investment Property**

A trusted **loan officer can help you** gather this information and **create the best budget and action plan** for you.

STEP 1

Set Clear Investment Goals

What do you hope to achieve with this property? Think about the desired size of your investment, your risk tolerance, and how hands-on (or off) you want to be.

You'll also want to **consider your timeline**. Will this be a long-term investment? Are you looking to achieve a certain **return on investment** (ROI) within a specific time frame?

Lastly, you'll want to determine whether you're going to purchase a property to rent out for the **short term or long term.**

STEP 2

Assess Your Finances

This goes without saying, but you want to have a clear understanding of your finances before you commit to buying an investment property.

Evaluate your **credit score**, analyze your **debt-to-income** (DTI) ratio—the money you owe versus the money you make—and consider getting pre-approved for a mortgage. **Pre-approval can also help you determine your budget.**

STEP 3

Research the Market

Knowledge is power! Conduct thorough **market research with the assistance of a real estate professional**. Keep your eye on areas with strong growth potential, rental demand, leading employment industries, and favorable economic conditions. You'll also want to compare markets by examining property prices, local rental rates, vacancy rates, and amenities. Then, once you've nailed down your area, you can turn your attention to individual investment opportunities.

STEP 4

Crunch the Numbers

It's easy to fantasize about inflated rental rates, but what you need to focus on are key financial metrics like **potential cash flow, ROI timeline,** and **fees**. Yes, we said fees. You'll have the fees associated with buying the home, such as closing costs and the interest rate attached to your mortgage. Then you'll have the fees of operating the home. These can include property management costs, repairs, and may also include rental tax depending on your city ordinances. Consider, too, that there will be times when your place is vacant and no income is being earned.

ANALYZE THOSE FINANCES!

Create a pro forma for each property you're considering. Begin with the property's gross income, then subtract the vacancy and recurring operating expenses like landscape and maintenance, property management fees and your mortgage payment to get your net cash flow.

GROSS INCOME – VACANCY – RECURRING EXPENSES – MANAGEMENT FEES – MORTGAGE PAYMENTS = **PRE-TAX CASH FLOW**

STEP 5

Know your Place

That doesn't just refer to the physical dwelling—though you should certainly carry out all the necessary inspections. Instead, it refers to the rules of the city, community, or complex that govern rental properties. Some have **laws on how many rentals a given community can have,** while others **don't allow short-term rentals.** You might be clear on your property's objectives, but you have to be crystal clear on what's allowed within your desired community.

STEP 6

Manage Your Property

Closing on an investment property is just the beginning. Now it's time to turn that revenue stream on! The last step before doing so is establishing a property management strategy that includes **tenant screening, rent collection, maintenance and repairs.** Some investors will choose to hire a property manager for these tasks, while others may opt to do it themselves.

Landlords grow rich in their sleep.

—John Stuart Mill

Financing
an Investment Property

Financing a non-owner-occupied property, such as an investment property or rental property, may involve slightly different requirements compared to financing a primary residence. Here are some key points to consider:

Down Payment

Typically, a down payment of 20% or more is required, though some lenders can go **as low as 15% or 10%**. Much of this will depend on your qualifications and the type of property.

Interest Rates

Properties that a borrower does not live in have higher rates of default. Lenders compensate for the added risk by requiring a **slightly higher interest rate on investment properties.**

Debt-to-Income (DTI) Ratio

A DTI ratio will typically be **calculated based on the net rental income of the property**—a calculation usually provided on the appraisal report. This may make it easier to qualify when using rental income to offset the expense.

Creating **Profitable Rentals**

In order to make your first investment property as profitable as possible be sure to:

- **Accurately calculate** repairs and ownership costs, property values, and fair market rents.
- **Focus on cash flow first** and appreciation second, unless you're investing in 'cash cow' rental real estate.
- **Understand ongoing ownership costs** include not just your mortgage but also expenses such as repairs, property management, landscaping, upkeep and taxes.
- **Avoid getting attached** when you're buying for investment purposes. It's alright to care about paint and flooring, but always remember that investment real estate is strictly a numbers game.
- **Turnkey rental properties** can be smart as they are already rented to qualified tenants, so your cash flows being the day you close.

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