The Expert Guide
to Real Estate Investments

MASHVISOR

Investing in residential properties is not a get rich quick scheme. It is a business that requires research, time and hard work to generate a positive cash flow. Consider this a crash course in real estate investing.

What is an Investment Property?

An investment property is any property that has been purchased solely for receiving an income and building wealth. Single-family rental properties can be very rewarding. Understand this overview on how to find a single-family investment property to get a monthly income and a high return on investment.

3 Ways an Investment Property Generates Value:

1 Cash Flow

2 Equity Build

3 Appreciation

Cash Flow

It should be positive. If the cash flow is not positive, you will be feeding it every month with other source of income, which will not help you make profits. Your rental income should be more than you expenses, so that your cash flow is positive. If it's not positive, don't invest. You should be able to get a positive cash flow with a 20% down payment.

Equity Build

Rent helps you pay mortgage and gain assets. By putting rent toward your mortgage, you are slowing owing less and slowing owning more. You gain ownership of the property more and more every month, building equity and gaining an asset. Think of it as your tenant basically buying the property for you.

Appreciation

Not the main thing, but a nice bonus. Appreciation is basically gettig more money than what you paid for when selling, which is great. But don't let this be the main objective because it's not guaranteed you can sell the property for a significantly greater amount. Investors that purchased properties to achieve appreciation were not successful after the real estate market crash. The increase in value of a property is based on factors such as supply and demand, capital improvements, etc.

Invest for Profit

Market Growth

4

Housing Market

Job Market

Things to Consider When Choosing a Market

Invest for Profit

not for convenience. You can probably find a property that meets all your investment criteria outside your neighborhood or city or state. It's understandable why you would want to invest in the neighborhood that you are used to and know well. However, the grass is sometimes the greener on the side, and green is the color of money. Consider looking outside the 20 mile radius, and you may find a cheaper property. Let's look at an example. A condo in Arlington, Virginia is about $440,000 and you can rent it out to George Mason University students for $1,700/month. However, if you drive two hours south to Harrisonburg, Virginia, you might find a condo for $55,000 and rent it out to James Madison University students for $850/month. The better option? Buy 8 of the $55,000 properties and make $6,800 in rent.

Detailed Analysis – study the market. Before investing, look at the following factors then compare with your needs and decide from there:

Market Growth

Growing population → Development of infrastructure → Increases value and attraction of property

You want the demand of houses to exceed the supply so that rental returns will be consistent and increase.

Housing Market

If other homes are making money, yours will too. How much do the other homes cost? If the other homes are making money, yours will too. Look at home values, this helps determine if the property will be profitable or not. Once you calculate your costs including renovation, insurance, maintenance, costs and taxes, evaluate investment costs required and compare to analysis of market conditions to see if property is worth it. If the evaluation of the market looks encouraging, see if you can find properties within that market to get you the income and equity build to get your ROI. A general rule is the monthly rent generated by your property should be at least 1% of how much you purchased the property. If total acquisition price is $200,000, then monthly rent should be $2,000.

Job Market

Tenants want jobs. Understand the employability rate in the area. People go where the jobs are, so be there. Study the present and future of that area and avoid investing in an area that is only tied to one industry. If that one industry shuts down, your property loses its value quickly.

Things to Consider When Choosing a Market

Income Levels

School Districts

5

Amenities

Transportation

Others

Income Levels

what is the median income of that area?

High: Areas with higher incomes have higher priced homes. The higher cost of the properties may prevent you from meeting the 1% rule. Hence, you will not enjoy the benefits of having a positive cash flow. Investors that work in these types of areas focus on the exit strategy of "buy, fix and sell."

Moderate: Have lower price homes but rent isn't necessarily significantly lower, so return will be higher. This is the type of neighborhood you will usually want to look to invest in for a positive cash flow.

Low: Much lower priced homes. May look like good investment opportunity, but can be risky. These types of homes tend to have a higher tenant turnover rate and higher maintenance costs.

School Districts

very important, especially for families. The appeal of the property is usually directly related to the appeal of the school district. Parents also look if there are children in the same age group as their children. Finally, families don't like traffic. Higher traffic areas are harder to rent and may cause lower rent.

Amenities

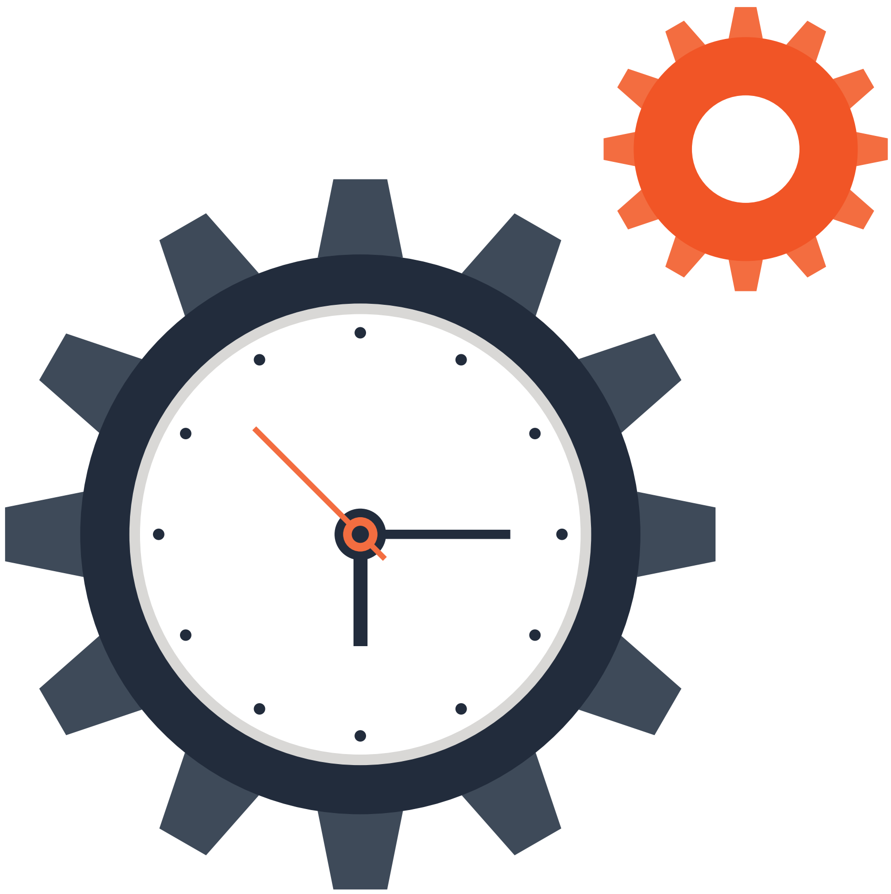
Be close to them. Select neighborhoods that are filled with basic amenities such as malls, schools, hospitals, restaurants and other basics because renters will argue about the long commute to everything. The neighborhoods you invest in should be safe, within your financial means, accessible and nearby all basic amenities.

Transportation

Proximity or public transportation. People do not want a long commute. If their work is only 15 minutes away but it takes an hour to get there from traffic, they may not be willing to live there. Public transportation has a big hand in making the area desirable as well.

School Districts

There's always more to consider. Parking, sounds, closeness to airport, crime rates . . . try to gather as much information as possible, including about evenings and weekends. People want to feel safe and feel like they live in the optimal neighborhood.



Math Time – Know the Numbers

Investment Costs: add up all the costs to acquire your property:

• Home price – if you're paying all cash, that is the price agreed to pay to seller. If you're financing your investment (credit), that is the down payment.

• Closing costs – usually between 6 -7% of loan value

• Inspection costs – usually $250-$500, varying on region

• Rehab costs – this is any money that is put towards getting the property for the next tenant; you'll know what you need to spend from the inspector's list.

Monthly costs: add these up.

• Mortgage Payments – when you make a payment every month, the amount goes more toward the principal and less toward the interest each month, assuming the mortgage has a fixed rate. You can use a mortgage calculator to plan payments or ask lender.

• Taxes – your property tax depends on your county and state, find out yours by contacting the local county tax assessor's office.

• Insurance – also depends on region, find out yours by contacting insurance provider.

• Property management – totally worth it. This is a fee to have management professionals take care of any day-to-day maintenance calls, which takes a huge load off of you. The fee ranges from 7-10% of the monthly rent.

• Home owners association on (HOA) fees – vary based on property, and may or may not apply to you. If it does apply to you, make sure to include it in your monthly costs.

• Maintenance – you never know what could happen. Over time, it is likely items in your property will need to be replaced. So calculate 4 to 8% of your ROI as maintenance provision.

• Vacancies – are inevitable. Plan for 4-8% of rent income as a vacancy provision instead of overlooking the possibility of not receiving a month's rent.

Math Time – Know the Numbers

Monthly income: time to make money. Your monthly income is the monthly rent. If the property you're going for already has a tenant, then you should know what the income will be. If you don't already have a tenant, ask your realtor or property manager how much you'd be able to get, always go with the low-end of the range they give you.

ROI – here's how to calculate it.

1. Monthly income – monthly expenses = monthly cash flow

2. Monthly cash flow + monthly equity build (principal payment)

3. Multiply that by 12 (months in a year)

4. Divide by your total investment

The more diligence and education you have about real estate, the more real estate can be lucrative for your investments because you know what you are doing and know what to expect. The good thing is the advantages of real estate outweigh the disadvantages. By following the simple steps here and having the right mentors, you can secure excellent investment properties and continue adding on to your portfolio. Real estate is a business that gives you long term profits when managed correctly. Good luck!

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