DREAM
BUILDERS
REALTY

A Simple Introduction to

Property Investment

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CHAPTER ONE

What are your goals in investing in property?

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Realizing what your goals are can help you to better target what type of property you should be directing your attention toward.

It's also a great idea to consult your CPA, a tax attorney or a tax LLM in order to better understand the tax ramifications to you. When you sell your investment property, the purchase and sale price of your asset will determine whether there is a capital gain or loss.

All capital gains must be reported to the IRS, so how long you hold the property will affect the tax rate at which you are taxed on said gain:

- **Short term appreciation/capital gain** - An investment in which you capitalize on the investment within a one year period. An example would be a home that is "flipped" and resold within one year from the date of purchase.
- **Long term appreciation/capital gain** - An investment that is held for longer than one year. Examples include residential properties, agricultural, industrial, commercial properties, etc.
- **Immediate cash flow** - The net cash derived from an investment over a specified period of time. Examples include residential or commercial rentals.
- **Cash flow and appreciation** – This is a mix of the two types of investments and can include a plethora of categories. When looking at cash flow and appreciation, an investor will need to weigh the pros and cons of what they are ultimately striving to achieve.

"Realizing what your goals are can help you to better target what type of property you should be directing your attention toward."

CHAPTER TWO

How involved do you want to be in your property?

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We've all seen those shows on TV where some people are motivated to make a quick buck during a rising real estate market and are willing to put in the hard work, determination and money to fix up a house to sell off within 30 days. Have I done this myself? Absolutely! This isn't for everyone though, as unexpected issues almost inevitably pop up and you will need to be able to roll with the punches (especially those punches that include a major increase to your budgeted expenses or time frame).

- **For those of you who are interested in getting your feet wet**, you may want to start with purchasing one or two residential properties to start, hire a property manager (for those who want to be as hands-off as possible), and start building up your net worth that way.
- **Those interested in taking a more hands on approach**, be sure to research the time and commitment required for property management. This includes the time needed for selecting tenants, setting rent rolls, understanding lease agreements, repair requests, etc. Setting aside a little time now to further understand your investment, and any related matters, can save you time and money in the long run.

Understand though that there are investment opportunities for all levels of investors and the best individual to help you assess your needs and requirements will be your local Realtor®.

CHAPTER THREE

How much money is it going to take to make this happen?

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No one ever likes this answer but the truth is, "it depends". Before investing in investment property, it's *extremely* important to have a financial analysis completed so that you will have a firm grasp of the operating costs to not only maintain but make a profit off of your investment. This is not a comprehensive list but a starting point as to what topics you need to consider when purchasing investment property:

- How much money do you need to put down? Keep in mind that rates differ for investment property (as opposed to residential home ownership).
- What are the terms of your loan?
- What is the time frame for your investment?
- Will there be property management fees? How are the fees assessed when units are empty?
- What marketing fees will apply?
- How much will insurance policies cost you, the Landlord, and how much insurance will you require tenants to hold? How will you enforce these requirements?
- Who will pay the property taxes?
- Do you have money set aside for unexpected incidents (i.e., long term vacancy, damage to the building, etc.)

“Dream Builders Realty’s goal is to help make buying investment properties as easy as in the game of Monopoly. ”

CHAPTER FOUR

What type of property should you buy?

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Typical types of investment properties that investors look for include:

1. Commercial investment property
    - Retail investments - usually comprised of shopping malls, strip malls, and other retail storefronts. When purchasing retail investments, pay close attention to the types of leases available as they will have different advantages.
        - Gross lease: a full service lease in which the landlord pays all or most of the expenses associated with the property. These costs are passed on to the tenants in their rent through a load factor. Typically found in office properties and warehouse units but can also be found in some retail properties.
        - Single Net lease (N Lease): the tenant is responsible for paying for property taxes and the base rent.
        - Double Net lease (NN Lease): the tenant is responsible for property taxes and commercial property insurance whereas the landlord is responsible for expenses having to do with the structure of the building and common area maintenance (CAM) costs in addition to the base rent.
        - Triple Net lease (NNN Lease): the tenant pays for their pro-rated share of all property taxes, building insurance, and CAM costs along with the base rent.
        - Percentage lease: the tenant pays for the base rent and a monthly percentage of the revenue earned from the business occupying the unit. This type of lease can usually be found in retails spaces and in the mall. In this type of lease, the tenant may be penalized for non-operation of their unit since the rental income is dependent upon their faithful performance in operating their unit.
    - Industrial investments – include storage units, car washes and other special purpose real estate generating sales from patrons of the facility and fees or service revenue streams create a return on investment for the owner.
    - Mixed-use investments - a combination of any of the other categories and is often times a viable option for investors as a means to diversify and mitigate risk.

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2. Residential investment property - dwellings in which people reside, such as houses, apartments, condos, duplexes and vacation homes. Lease agreements will dictate the income accrued and the length of the rentals.

Regardless of what type of real estate you choose to invest in, your investment, at its best, should be a form of passive income. Passive income is money that flows in, at a steady rate, with little to no work beyond the initial work performed on your part. What does that mean and didn't you just tell me to go out and flip a house?

Passive income is a great source of revenue for investors because it frees up your time to do things you enjoy without having to go through the daily grind associated with employment. Sure, flipping a house will make you money but if you stop flipping, the income will also stop. ***Passive income works for you rather than you working for the money.*** Additionally, as an incentive to invest in the economy and job growth, passive income is more favorably taxed than active income.

CHAPTER FIVE

Does location really make a difference?

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You bet it does, but be sure you consider what the location is like now and what it will be like in about five to ten years. When looking at location, keep an eye out for general market conditions, job conditions, economic conditions of the area, comparable properties and what they're selling for, and what landmarks are in the area? Is it near a school, a hospital, a park, a zoo, shopping centers? What side of the street is the property located, what are the traffic patterns throughout the day, are there many pedestrians? The location of the investment property should be thoroughly examined.

It's also a good idea to get in touch with local officials to inquire about the location of your investment property. Property laws and the rights and responsibilities of landlords and tenants will vary by location. Consult with professionals you can trust in providing you with the knowledge necessary to make the best and most informed decision in choosing an investment property.

Today's small town could be tomorrow's major metropolis and your net worth just may reflect that upturn. Take the time to research these issues, check out the area and outlying areas, assess what the area will be like in the future, and ask as many questions as you need so that you are better equipped to identify those investments selling below market value and purchase them as a means to maximize your net worth.

CHAPTER SIX

Is there ever a right time to buy real estate?

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Investing in real estate always comes with a set of risks, as was evident over the past years. Some will maintain that it's best to buy when the market is low and others assert that an investor should buy when most others are incapable to buy and properties are ripe for the picking.

However, based on the economic model of supply and demand, real estate is a finite good and there will always be a demand for it in this ever-growing world. There may never be a "right" time to buy but timing can make all the difference. The savvy real estate investor should commit the time necessary to do the research needed to make money off of their investment.

CHAPTER SEVEN

How is your property being held?

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When purchasing your home, did you know how your property was going to be held or was the assumption that the title agent would “figure it out”? Was it as an individual, a tenancy in common, a joint tenancy with right of survivorship, a trust, a corporation? The list is probably as long as the chopstick I used to eat yesterday’s noodles. However, knowing how your property is held should be a question every investor asks and should eventually be able to answer. Why? To save your tuckus, of course.

When in investing in property, you never know when a slip and fall may occur in a parking lot or the bathroom of a 747 will drop out of the sky into a tenant’s yard. Accidents happen and they happen all the time. Within my first month of law school, we learned that when an attorney goes after someone, they tend to go after anyone and everyone. The deeper the pockets the better. Sometimes, those pockets might be yours.

In order to better protect yourself, consider these issues when choosing how to hold title to your investment properties:

- Work with your CPA and a local real estate, business/corporate, estate planning attorney, or tax LLM to help you ascertain what the best means of protecting yourself and your properties against potential lawsuits and creditors.
- Consider the tax implications and benefits that may arise out of how you will hold title so that you can maximize the return on your investment.
- Determine the most flexible means of control and management of the property.
- Minimize the cost and complexity of the legal entity used to hold title to your property.

CHAPTER EIGHT

Can you handle investment properties and its management alone?

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"No man is an island. Entire of itself, every man is a piece of the continent, a part of the main" were the words of John Donne. Can you do it all alone? Sure you can. Should you do it all alone? Definitely not.

Whether you're a newbie investor or a seasoned investor, it is important to remember that knowledge is wealth. Don't be afraid to ask questions or to ask someone what questions you need to be asking. Take the time to research the answers you get and to consult with professionals who are able to help you engineer the best path for your success in investment properties.

If you don't know where to begin, you're always welcome to contact us at Dream Builders Realty.