



RE/MAX[®]

SMART INVESTOR

'With interest rates and sales prices at historically low levels, it might be the right time to make the move and turn your investment dreams into a reality.'

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Real Estate as an Investment

Have you been considering real estate as an investment opportunity? With interest rates and sales prices at historically low levels, it might be the right time to make the move and turn your investment dreams into a reality.

The RE/MAX Smart Investor Guide is a tool that can help you understand the basics of investing in real estate. This guide will help get you started and explains the benefits of investing in real estate; it offers an overview of which property types to consider and will give you an idea of how the profits can add up.

The RE/MAX Smart Investor Guide will offer you information, tips and resources to keep you on track to your goal of real estate as an investment opportunity.



Why Invest?

If you're thinking about investing in real estate there's one important question you'll want to ask yourself: **WHY** do I want to invest in real estate?

Is it because you're super handy and the idea of having a couple of rental properties, which are providing income, to keep-up is exciting?

Maybe you're looking at all the tax advantages and are thinking about the write-offs that could put some extra change in your pocket.

Do you have a high tolerance for risk and are curious about how far you can take your investment?

No matter what your reason is, the important thing to know, from the beginning, is your ability, temperament and knowledge of why you're investing in real estate. If you have that in mind you are starting off on the right track and have the opportunity to make some very good investment decisions.

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The Benefits of Real Estate Investing

Investing in real estate can be risky – but there are a number of benefits to consider that can be extremely rewarding as well. Some are:

Tax Incentives

Properties typically appreciate while the IRS allows you to write your properties off as depreciating. In addition, the IRS allows you to deduct a number of investment property-related expenses.

Good Debt vs. Bad Debt

Good debt is debt that makes you money; the benefit of good debt is leverage because you don't need to have a lot of money to get started – you can start with equity from your home.

Portfolio Balancing

Invest in real estate in addition to investments such as your IRA, 401K, stocks and bonds and you may have a stronger and more stable investment portfolio.

(Reprinted with permission from Alex Anderson of RE/MAX Advantage Plus. For more information about Investment Properties, visit GreatInvestmentProperty.com.)

Retirement Plan

When managed correctly, investment properties can be a very good potential source of passive income when you retire.

Deferring Capital Gains Tax

If you sell an investment property for more money than you bought it for, you will be taxed on that gain; however, if you transfer that gain into another investment property, using the 1031 tax exchange, you can bypass the taxation.

Instant Equity

It's possible to find investment properties that are \$5k, \$10k, \$15k (or more) below market value. When you invest in properties like this, you can instantly use the equity from this for additional buying leverage.

Long Term Growth

Long term real estate investing is about buying and holding properties for the future because their value will almost invariably continue to increase.

The Challenges of Real Estate Investing

If you're planning on investing in a rental property, there are certain challenges to be aware of. Here are five to be ready for:

Dealing with Tenant Issues

If you plan to manage the property yourself you need to be prepared to deal with phone calls and inquiries about various managerial issues, such as fixing appliances when they break.

Collecting Rent and Handling Evictions

Most tenants will pay on time; however, you might run into a tenant that doesn't. If you do, you need to have a plan in place on how you will evict the tenant; will you handle the situation on your own or hire a company to help?

Keeping a "Rainy Day Fund"

Eventually furnaces go out and ACs break. When this happens you will need to be financially prepared for repair related costs.

Handling Vacancies

Depending on how in-demand your rental property is you might eventually have a vacancy. Before investing, know what the average vacancy rates are and be financially prepared to cover costs during this period.

Managing Cash Flow

You'll need to make sure that the rent you charge brings in enough money to pay for the mortgage, taxes, and insurance.

(Courtesy of Ryan O'Neill, The Minnesota Real Estate Team, RE/MAX Advantage Plus)

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Types of Investment Properties

So, you've figured out why you want to invest in real estate and have read about some of its benefits. Now, you'll want to thoroughly research which type of investment property is right for you. Here are four popular property types to consider:

Residential

Residential real estate as an investment property is usually not owner-occupied and takes the form of a single-family home, duplex or townhouse. Residential investors act as landlords (or contract with a management company) and are responsible for paying the mortgage, taxes, and insurance, as well as finding tenants and building maintenance.

Commercial

Commercial real estate is property that has been zoned for business use. Commercial real estate can include retail stores, medical offices, office buildings, etc. whose tenants are operating for a profit. Commercial investors generally contract with a management company to find tenants and maintain the building.



Improvement

Improvement property is usually bought to be quickly re-sold. Investors "flip" the house; they buy an REO or distressed property well below the market value, invest personal money into fixing it up, and then re-list the home at an adjusted, competitive price for a profit. The key to investing in flipping houses is a quick turn-around time.

Land

Land as an investment provides a few opportunities. Land investors can purchase large quantities of land then sell it off in smaller parcels; they can invest in land then bring it through the zoning process and, once approved for residential or commercial development, sell it for a profit; they can purchase zoned land and develop the roads, sewer, utilities, etc. to sell it to a builder; or they can purchase developed land to build on. Of course they could purchase the land and bring it through the entire process as well. In certain parts of the country, land investors purchase land for mineral rights.



Other Investment Options

Investment Clubs

Investment clubs consist of two or more people who pool their money and invest in a common property in which they split the work, risk and profits.

Real Estate Investment Trusts

Real Estate Investment Trusts (REITs) are shares of investment properties sold by large companies in which the share-holders earn returns based on the profit of the investment company.

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How You Profit

As a real estate investor, the usual goal of investing in property or land is profiting from it. Whether you want your profit to pay off the debt of the purchase or, down the road, provide for some steady positive income, there are a number of ways to earn money.

Cash Flow

This is what's coming in versus what's going out. The most common method of cash flow with real estate is through a rental property; the cash flow you earn is the difference of your mortgage expenses, up-keep rates and your rental income.

Appreciation

This is the increase of value over time and is the difference of what was paid versus what it's worth now. With real estate investments, a few factors will affect your appreciation; they include location, property condition and the current economic condition.

Forced Appreciation

This too is the increase of value, but its value you've added by making improvements. In real estate you force appreciation to your investments when you flip houses, update or upgrade rental properties, zone or develop land, etc.

Amortization

This occurs over time. With each payment you make towards your investment debt, a portion is applied to the interest on the loan; the other half is paid to the principal. The reduction of your principal is amortization and as your debt is reduced your equity increases.

Tax Deductions

This is huge for most real estate investors of rental properties. The IRS allows you to deduct a number of expenses including interest, depreciation costs, repairs, insurance and more. The less money you're taxed on means more money in your pocket.



When You Profit

You may wonder "When will I see a profit?" It all depends!

- You may profit monthly from the cash flow from a rental property, as rent is generally collected on a monthly basis.
- You may profit yearly from your tax returns; as a W-2 earner, you can adjust the number of deductions you take to increase your net take-home check.
- You may profit once, down the road, from appreciation and amortization as this happens only if and when you sell.

(Courtesy of Ryan O'Neill, The Minnesota Real Estate Team, RE/MAX Advantage Plus)



Taxes can be Taxing

Preparing taxes as a first-time investment property owner can be, well, taxing. A number of tax considerations are available to you as an investor that aren't offered to residential homeowners.

If you're not sure what you'll be eligible to claim, or how, consult with your Commercial/Investment RE/MAX agent or consider hiring a tax professional.



Cover your Costs

Is your interest in investment real estate rental properties? If so, a very important detail to remember when getting started is to factor in a vacancy rate. You'll want to be able to cover all of your out-of-pocket costs, which includes the mortgage, taxes, insurance, maintenance, repairs and vacancies, with your monthly cash flow. If you're not sure what vacancy rate to factor into your budget, or how much to charge your renters, consult an experienced RE/MAX agent who specializes in investment properties.



Financing Investment Property

After determining why you want to own investment property and figuring out which investment property type is right for you, the last step will be financing the property – and there are some unique options to consider in addition to traditional financing.

Contract for Deed

An agreed upon contract between the buyer and the seller in which the buyer pays loan installments to the seller and gets the deed to the property after the loan is paid in full.

Lease Option

A contract between the buyer and seller that allows the buyer to lease the property for a set period of time with the option to purchase the property at a specific, pre-determined price, at any time during the agreement period.

Seller Carry Back

Sellers act as a lender and carry a second lien on the property, which the buyer then pays down each month.

Sharing Profits

An agreement between the buyer and seller in which the buyer offers the seller a share of the profits generated by the property in lieu of a down payment towards the purchase of the property.

Traditional Loan

Just as you might have done when purchasing your home, you can consult your mortgage lender and obtain financing through a Fixed-Rate or Adjustable Rate Mortgage.

Remember

Interest rates and sale prices are at historically low levels, making it a great time to invest in real estate. As you move forward with your real estate investment plans keep in mind these three final tips:

- Constantly be aware of your budget.
- Building wealth in real estate takes time.
- Hire an experienced RE/MAX agent specializing in Commercial/Investment properties to guide you through the process.

Commercial & Investment Experts

RE/MAX Commercial Practitioners have the background, the experience, the knowledge and the independence to successfully represent you in every phase of your business development and investment goals. A longtime supporter of the CCIM Institute's highly respected training programs, RE/MAX has one of the industry's largest contingents of Certified Commercial Investment Member designees and candidates. A CCIM is recognized as an expert in the disciplines of commercial and investment real estate; they are proficient in investment, market, and financial analysis.

Smart Investment?

Check out the "Cash Flow Analyzer" button on all listings in Minnesota and Wisconsin on remax.com. Powered by:

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