



## Why Invest in Real Estate?

### Cash Flow

- Many properties return 10% to 15% per year on your initial investment.
- The ability to increase your rents every year while maintaining a constant mortgage payment provides for increasing cash flow every year.

### Leverage & Appreciation

- With real estate, you can put 10% down and finance the remainder creating financial leverage. Appreciation magnifies the possible returns one can make when real estate is leveraged using a mortgage. For example, if you purchase a \$100,000 property for 10% down (\$10,000 out of your pocket), and it appreciates 5% (\$5,000), you have made a 50% return on your initial investment ( $\$5,000/\$10,000 = 50\%$ ).
- Over the last 30 years, real estate has had an average of 7% annual appreciation.

### Amortization

- Each month, a portion of your mortgage payment goes towards the principal, steadily decreasing your outstanding loan balance.

### Tax Advantages

- Property owners are allowed to write off depreciation of their building each year for 27.5 years. The write off amount each year will be the value of your building divided by 27.5.
- Property owners can write off an array of other expenses related to the investment, including: maintenance, repairs, property management, travel, commissions, etc.
- The interest portion of the mortgage payments is tax deductible.
- Avoid costly capital gains taxes when you sell your property by using a 1031 tax-deferred exchange or seller financing.

### Financial Freedom

- Collect cash flow each month with a minimal time commitment.
- The cash flow from investment properties allow investors to quit their day jobs and enjoy life!



## Frequently Asked Questions

**I have heard that the only people who can invest in real estate are people who are already wealthy. Is this true?**

- No, you can purchase an income-producing duplex with less than \$10,000 out of your pocket. It is also possible to purchase properties with no money out of your pocket using creative techniques such as cash advances, credit cards, seller financing, and partnerships.

**If I buy an investment property, won't I run into headaches dealing with tenants and getting midnight phone calls to repair toilets?**

- Not if you hire a professional property management company to manage your properties for you. They typically skim 10%-15% off the rent, and they will manage your tenants, take care of repairs, collect rent, and deal with all the minor problems. Property managers are highly recommended unless you have the time and patients to go at it alone.

**What happens if the market crashes?**

- Since your properties will be making you a residual income regardless of the value, why worry what the market does unless you plan to exit the market completely?
- The real estate market is generally far less volatile than the stock market.

**Can I invest if I have poor credit?**

- Yes. There are several alternatives to traditional financing. You can partner with someone who has good credit and get them to co-sign on the loan. You can also negotiate seller financing and avoid the banks altogether.

**What happens if my property catches fire? Or if one of my tenants sues me?**

- Mortgage companies require you to purchase insurance in case of a disaster. A typical fire insurance policy covers the value of the property in case of a fire. Even if you don't have a mortgage, it is a good idea to purchase insurance.
- It is generally recommended to hold your properties in an LLC or other form of liability limiting entity (trust, s-corp, etc.) so that your personal assets are not at risk. Please refer to your local attorney for further details.