



**STRAIGHT TALK**

# ***Real Estate Investing 101***

***A Realistic Strategy for the Average Joe!***

**Teresa Brooks, MRA, ABR, CRS**

**National Speaker & Trainer**

**President – REO Connection**

**757.406.1396**

**[teresa.brooks1@cox.net](mailto:teresa.brooks1@cox.net)**

**[www.teresabrooks.com](http://www.teresabrooks.com)**



## STRAIGHT TALK

# Get Your Financial House in Order

- Income & Expense – get receipts for everything
- Debt Spreadsheet – use power pay technique
- Net Worth – annual financial report card

***What are You willing to Sacrifice Today for Tomorrow's Security?***





# STRAIGHT TALK

# How Much Do I Really Make & Spend Each Month?



Monthly Income	Amount	Monthly Expense	Minimum Payment	Balance Owing
<b>Salary</b>		<i>Housing (mortgage or rent payment)</i>		
		<i>Utilities</i>		
		<i>Groceries</i>		
		<i>Eat Out (lunch)</i>		
<i>Rental Income:</i>		<i>Eat Out (dinner)</i>		
		<i>Family Necessities (laundry, etc)</i>		
		<i>Phone+Cell Phone+Computer Line</i>		
<i>Other Income / Child Support:</i>		<i>Medical Insurance</i>		
		<i>Life Insurance</i>		
		<i>Car Insurance</i>		
		<i>Car gas &amp; repairs+ maintenance</i>		
		<i>Clothing</i>		
<b>Gross Monthly Income (a):</b>		<i>Gifts</i>		
<b>Monthly Taxes (fed&amp;state)+Soc.Sec.</b>		<i>Recreation + Entertainment</i>		
		<i>Church &amp; Charity</i>		
		<i>Education Costs – Student Loans</i>		
		<i>Savings</i>		
		<i>Retirement Plan</i>		
<b>Less Monthly Taxes +Soc.Sec. (b):</b>		<i>Car Payment</i>		
<b>Net Income</b>		<i>Credit Card Payments</i>		
		<i>Installment Payments</i>		
		<i>Furniture + Appliance Payment</i>		
		<i>Equity Line or Loan Payment</i>		
		<i>Vacation / Trips Away</i>		
		<i>Other</i>		
<b>Total Net Income (a-b=c):</b>		<b>Total Monthly Expense</b>		



# Get Your Financial House

## How Much Debt Do You Really Have? in Order



Debt Item	Lenders and Account Number	Minimum Monthly Payment	Balance Owing	Interest Rate	Annual Interest Paid	Monthly Interest Paid
<b>Totals</b>						



# Determine Your Net Worth Your Annual Report Card

## Personal Balance Sheet



PERSONAL BALANCE SHEET	
Liquid Assets	Value
Cash	
Savings	
Marketable Securities (403(b))	
Life Insurance (cash value)	
<b>Total Liquid Assets (a)</b>	
Other Assets	Value
Stocks (market value)	
Bonds (market value)	
Real Estate Investments (market value)	
Residence (market value)	
Automobiles (current value)	
Household Furnishings	
Jewelry & Furs	
Other	
<b>Total Other Assets (b)</b>	
<b>Total Assets (a+b=c)</b>	
Liabilities	List All Debt Owed
Current Payables	
Installments Debt (2 car loans)	
Mortgage Loans	
Notes Payable (student loans)	
Other Debts	
<b>Total Liabilities (d)</b>	
<b>Net Worth (c-d)</b>	

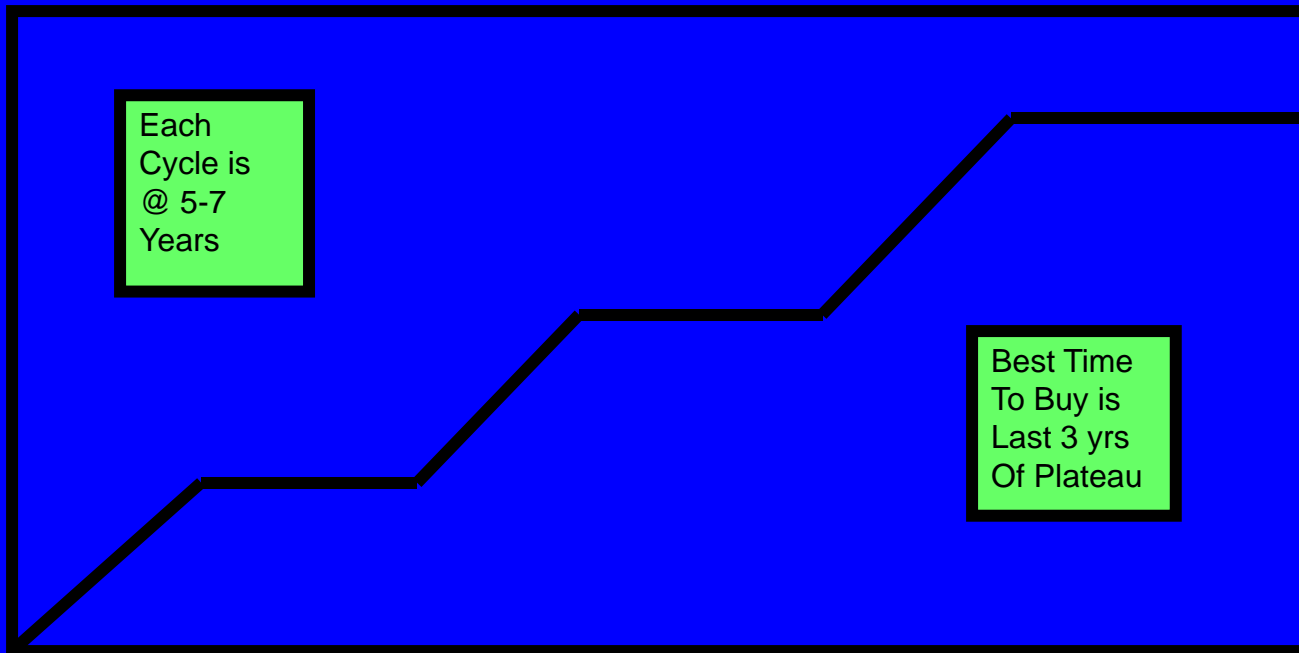


STRAIGHT TALK

# Four Reasons to Invest in Real Estate

## #1 Significant Increase in Value over Time

### Cycles of Appreciation





# Four Reasons to Invest in Real Estate

## #1 Significant Increases in Value over Time

### Rule of Supply and Demand



When Supply is High  
Demand is Low  
**Prices Go Down**



When Supply is Low  
Demand is High  
**Prices Go Up**

### Neighborhood Cycles



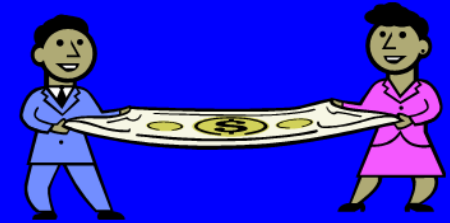
Most Neighborhoods  
Tend to Cycle



# #2 Leverage

## What is Leverage & How Does It Work?

Example - \$10,000 to Invest



	Money Market Account	Gold & Silver	Stocks & Mutual Funds	Savings Account	One Year CD	Real Estate Investments
Initial Investment	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000 Buy \$100,000 Property
Rate of Return Before Tax	1.80%	10%	10%	0.70%	3.75%	3-4% Nat'l Average 3.2%
Gross Gain	\$180	\$1,000	\$1,000	\$70	\$375	\$3,000
Pay Capital Gains Tax	\$50	\$280	\$280	\$20	\$105	None – Unless Sell Property
Net Gain After Tax	\$130	\$720	\$720	\$50	\$270	\$3,000
After Tax Rate of Return	1.30%	7.20%	7.20%	0.50%	2.70%	30%

# Four Reasons to Invest in Real Estate

## #3 Tax Advantage

- Gains are taxed as ordinary income except qualified RE Pros
- Consult w/ CPA @ IRS Passive Loss Rules
- Write Off Deductions: interest, RE tax, insurance, repairs & maintenance

97% of U.S. Congressmen Own Investment Properties

## #4 Generation of Cash Flow

- OPM – tenant pays mortgage  
*pick the right tenants*
- Cash Flow based on D.P.  
*no money – break even cash flow to support 1-5 years*  
*20+%D.P. – positive cash flow to support 1-3 years*
- Over time, rents rise creating cash flow stream that's inflation sensitive





# Factual History of Actual Hampton Roads Properties

**Property #1:**

**Duplex @ 6211 Wellington St., Norfolk, VA  
Purchased 4/30/90 for \$71,635**



Year	Value	Mortgage Balance	Equity	Rent	Mortgage Payment	Monthly Cash Flow
1993	\$85,000	\$70,270	\$14,730	\$790	\$632	\$158
1995	\$85,000	\$68,641	\$16,359	\$830	\$632	\$198
1998	\$75,000	\$66,060	\$8,940	\$850	\$632	\$218
2000	\$75,000	\$64,766	\$10,234	\$850	\$632	\$218
2004	\$95,000	\$58,415	\$36,585	\$1,000	\$546	\$454
2006	\$165,000	\$52,896	\$112,104	\$1,100	\$546	\$554



# Factual History of Actual Hampton Roads Properties

**Property #2:**

**Single Family @ 5841 Hartwick Dr., Norfolk, VA  
Purchased 6/10/91 for \$110,000**



Year	Value	Mortgage Balance	Equity	Rent	Mortgage Payment	Monthly Cash Flow
1993	\$140,000	\$103,339	\$36,661	Owner Occupied	\$1,043	\$-0-
1995	\$165,000	\$104,850	\$60,150	\$1,200	\$884	\$316
1998	\$135,000	\$100,627	\$34,373	\$1,250	\$895	\$355
2000	\$135,000	\$98,685	\$36,315	\$1,250	\$901	\$349
2004	\$185,000	\$91,022	\$93,978	\$1,400	\$916	\$484
2006	\$350,000	\$86,394	\$263,606	\$1,675	\$994	\$681



# Factual History of Actual Hampton Roads Properties

**Property #3:**

**Single Family @ 540 N. Witchduck Rd., Va Beach, VA  
Purchased 12/2/92 for \$25,000**



Year	Value	Mortgage Balance	Equity	Rent	Mortgage Payment	Monthly Cash Flow
1993	\$50,000	\$24,873	\$25,127	\$450	\$261	\$189
1995	\$75,000	\$22,629	\$52,371	\$650	\$261	\$389
1998	\$75,000	-0-	\$75,000	\$675	-0-	\$675
2000	\$80,000	-0-	\$80,000	\$650	-0-	\$650
2004	\$115,000	-0-	\$115,000	\$775	-0-	\$775
2006	\$168,000	-0-	\$168,000	\$900	-0-	\$900



# Factual History of Actual Hampton Roads Properties

**Property #4:**

**12 unit Apt @ 318 N. Main St., Suffolk, VA  
Purchased 6/30/93 for \$375,000**



Year	Value	Mortgage Balance	Equity	Rent	Mortgage Payment	Monthly Cash Flow
1995	\$425,000	\$302,746	\$122,254	\$5,400	\$2,807	\$2,593
1998	\$425,000	\$291,023	\$133,977	\$5,500	\$2,764	\$2,736
2000	\$425,000	\$277,136	\$147,864	\$5,700	\$2,607	\$3,093
2004	\$600,000	\$217,956	\$382,044	\$6,425	\$2,578	\$3,847
2006	\$815,000	\$182,316	\$632,316	\$7,275	\$2,578	\$4,697



# How To Analyze a Good Property To Buy

Property itself is NOT the most critical factor



- Neighborhood

Roofs condition -> ownership

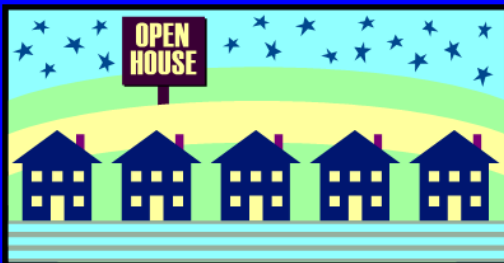
Children -> the type of people living in the neighborhood & any future problems



- Do Your Homework

Exterior Inspection

Interior Inspection



- Get Pertinent Property Data

Listing & Tax Data -> historical data

Recent Comparative Market Analysis

(CMA) -> *Supply versus Demand*

# Key Factors for Investment Properties



**Condition** *Thoroughly inspect property*  
*Use Matlock Approach*  
*Knife, binoculars, marble, flashlight*  
*Distressed properties (REOs)*



**Financing** *Shop financing FIRST*  
*Portfolio "shelf" loans*  
*Keep your financial house in order*  
*Pre-foreclosure - modify existing*  
*loan terms*

# Key Factors for Investment Properties



## Legalities

*Preliminary title search (PFW)  
Junior lien holders discount or lien  
extinguished in foreclosure  
Get owner's title insurance & survey*



## The Offer

*Get contractor's bid to evidence costs  
Point out any liens on title beyond  
1<sup>st</sup> mortgage  
Show the math & why offer is fair  
Emotions cloud a seller's judgment*



# Negative Aspects of Real Estate Investing

## Management Headaches



- Property Managers  
Choose an OWNER of real estate  
(or do it yourself)

- Property Management Agreements  
watch out for the “MUST sell through the manager”  
clause



- Vacancy and Collections - 5-10% annually

- Repairs and Maintenance – 12-15% annually





# How to Avoid the Management Headaches



- Knowledge and Experience
  - Educate yourself!



- Proper Planning & Routine Procedures
  - Establish systematic process & documentation
  - Ensure tenant's understanding of the rules
  - Enforce them

**Nobody will care for your property  
as much as you do!**





# Flippers Vs. Keepers

## Positive Aspects of Real Estate Investing



- Flippers- Old School

Earnings from sale taxable as ordinary income

FHA financing requirements

No cash flow, just a pile of cash

- Keepers- New School

Rental income sheltered by depreciation

Long-term investment

Generates cash flow

Pay cash -> buy -> repair -> rent -> refinance  
to pull cash for next investment





# Rehab & Resale Vs. Rehab & Rent

### FACTS:

Sales price = \$112,000 (as-is)  
 Rehab costs = \$7,000  
 Total exposure = \$119,000  
 Repaired value = \$135,000



### ACTIONS:

- purchase & rehab property for cash
- rent the property for \$925/month
- refinance loan for 80% of repaired value

	Rehab & Rent	Rehab & Resale
Carrying Costs	\$110 x 3 mo.= \$330	\$110 x 8 mo.= \$880
Repaired Value	\$135,000	\$135,000
LESS: Total Exposure	\$119,000	\$119,000
LESS: Selling Expenses (7%)	-0-	\$9450 (7% )
LESS: Capital Gains Tax (28%)	-0-	\$4,480
LESS: Carrying Costs	\$330	\$880
<b>Net Proceeds</b>	<b>\$15,670</b>	<b>\$1,190</b>

### CASH FLOW ANALYSIS:

Mortgage Loan = \$108,000 @7.125%/30yrs  
 Monthly Rent = \$925  
 PITI = \$835  
 Positive Cash Flow = \$90 / month

**The after-tax Rate of Return on \$11,000 invested is 33.28%!**

# Investment Analysis



Sales Price: \$190,000

Down Payment: \$47,500

Terms of Financing: 5.25% / 20 yr amortization w/ 5 yr call

P&I: \$960.23

Mo. Tax: \$216.82

Mo. Ins: \$110.00

Total Monthly Payment: \$1287.05

Current Rent: \$575/unit X 4 units = \$2300.00

Gross Cash Flow = \$2300 - 1287 = \$1013 X 12 = \$12,156

Before Tax Rate of Return: 25.59%

Anticipated Rent: \$650/unit X 4 = \$2500.00

Gross Cash Flow = \$2500 - \$1287 = \$1213 X 12 = \$14,556

Before Tax Rate of Return: 30.64%

# Cash Flow Analysis



	<u>Current Rent</u>	<u>Anticipated Rent</u>
Rental Income:	<u>\$27,600</u>	<u>\$31,200</u>
LESS: Vacancy:	<u>60 day notice</u>	<u>60 day notice</u>
Net Operating Income:	<u>\$27,600</u>	<u>\$31,200</u>
LESS: Interest	<u>\$7383</u>	
RE Tax	<u>\$2602</u>	
Insurance	<u>\$1320</u>	
Utilities	<u>\$2880</u>	(@ \$60/month/unit)
Maintenance	<u>\$1500</u>	
Management	<u>\$2208</u>	<u>\$2496</u> (8%)
LESS: Total Deductions	<u>\$17,893</u>	<u>\$18,181</u>
Cash Flow (before tax)	<u>\$9707</u>	<u>\$13,019</u>
LESS: Depreciation	<u>\$5182</u>	<u>\$5182</u>
Tax Gain / <u>Loss</u>	<u>\$4525</u>	<u>\$7837</u>
MULTIPLY: Tax Bracket	<u>28%</u>	<u>28%</u>
Tax Saving / <u>Liability</u>	<u>\$1267</u>	<u>\$2194</u>
ADD: Net Operating Income	<u>\$27,600</u>	<u>\$31,200</u>
Total Cash Flow	<u>\$26,333</u>	<u>\$29,006</u>
LESS: Total Deductions	<u>\$17,893</u>	<u>\$18,181</u>
<b>Net Cash Flow</b>	<u>\$8440</u>	<u>\$10,825</u>
<b>After Tax Rate of Return</b>	<u>17.77%</u>	<u>22.79%</u>



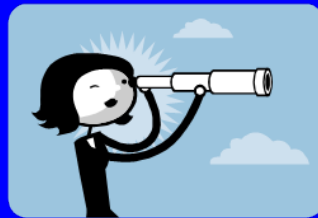
# How Do I Get Started?

## Plan & Sacrifice for Your Financial Future



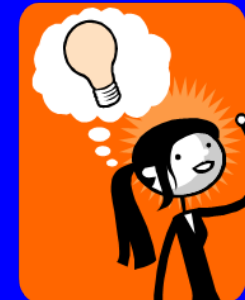
1) Get your financial house in order & get out of debt

2) Use credit cards to “float” your money – not purchase items



3) Determine your long-term financial goals

4) Use OPM (other people’s money) & manage YOUR money yourself





# Make Your First Property Your First Investment Property

## How Do I Get Started?

- 1) Buy your 1<sup>st</sup> home in mind with making it your 1<sup>st</sup> rental



- 2) Live in the home, prepare for tenants



- 3) Save to buy the next home & repeat pattern



- 4) Make your last purchase your dream home!



# Leverage Your Current Home for Investment

## How Do I Get Started?



- 1) Determine the current value of your home & its market rent



- 2) Only if needed, determine equity position & refinance mortgage

Do not to leverage more than 80% of the value

Make sure rental cash flow is positive, not negative





# Hire the Right “Team” of Professionals

## How Do I Get Started?



### Facts:



- 1993-1996, 50 new real estate agents each month – 48% of total membership in HRRA (3,790 agents)



- Most people hire the 1<sup>st</sup> or 2<sup>nd</sup> agent they speak with due to laziness

Ask for referrals & interview at least 3-5 professionals



# How Much Will You Need to Retire?

## The Rule of 25

Age	Current Gross Income	Projected Gross Income Before Retirement	85% Retirement Spending Needed	Estimated Social Security & Pension Income*	Income Gap to be Funded by Retirement Assets	Multiply Income Gap by 25 Retirement Assets Necessary
45	\$80,000	\$109,365	\$92,960	\$52,960	\$40,000	\$1,000,000

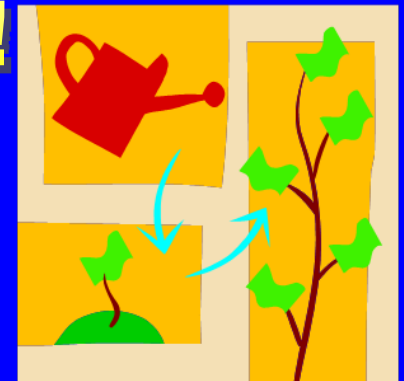
NOTES: \* Social security income of \$24,816 based on Social Security Administration data plus a hypothetical pension income of \$28,144

Source: Fidelity Investments – "Improving Retirement Readiness"

# Retirement is about Cash-Flow, not a pile of Cash!



Old School



New School



# Real Estate Investments as Primary Retirement Vehicle

Rents rise with inflation



Monthly Retirement Income Needed	Gross Monthly Income Required*	Average Monthly Rental Income	Rough Number of Rental Properties Needed	Total Number of Rental Properties Needed**
\$6,000	\$8,340	\$900	9.27	13
\$4,000	\$5,570	\$900	6.19	10

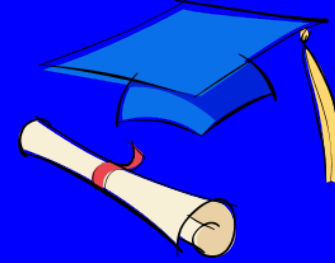
NOTES: \* Based on 28% income tax rates

\*\* Total number of rental properties needed – the difference in rough number of properties is based on covering carrying costs – insurance, real estate taxes, repairs & maintenance, future replacement reserves, etc.



# What Will College Cost?

## Children Born in 1996



	Public	Private
Annual College Costs Today	\$8,000	\$20,000
Education Fund Started at Birth	\$500	\$500
Current After-tax Return	8%	8%
Assume College Inflation Rate	5%	5%
Future 1 <sup>st</sup> Year Cost in 18 Years	\$19,253	\$48,132
Future Total Cost of College	\$82,983	\$207,457
<b>To Reach Your Goals, You Must</b>		
Make a One Time Deposit Today of	\$17,984	\$45,710
or Make Annual Contributions of	\$1,632	\$4,149
or Make Monthly Contributions of	\$135	\$344



# Madison

## Learn to Use Leverage for Costly Future Expenses!



Saved \$235/month for 3 years = \$8,460

Ages 0-3 yrs



Together with Madison bought a house for \$75,000 in 1999

Age 3 yrs



Teach repairs & maintenance (take care of what you own) inspect property annually

Age 5 yrs



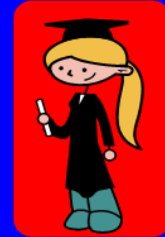
Teach records & bookkeeping (make deposits & pay bills) Organization is key to success!

Age 7 yrs



Mortgage paid off in 15 years by making 2 extra payments a year, property value at least doubled (\$150,000)

Age 18 yrs



Refinance the mortgage to get cash for college expenses (tuition, books, housing, etc)

Age 18 yrs



# Q & A TIME

Now is the time  
to ask YOUR

"burning" questions!





**Teresa Brooks** REALTOR MRA, ABR, CRS  
National Speaker, Consultant and Trainer

President – REO Connection  
REO Marketing Director – All/Pros Realty

1161 Revere Point Road  
Virginia Beach, VA 23455  
757.406.1396

[teresa.brooks1@cox.net](mailto:teresa.brooks1@cox.net)  
[www.teresabrooks.com](http://www.teresabrooks.com)

