Service Specialties II, Inc.
Property Management

BUILD YOUR REAL ESTATE PORTFOLIO WITH RESIDENTIAL PROPERTIES

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Whether you are saving for retirement, your children's education, or a rainy day, real estate investing is a proven method for achieving financial success. Most people believe in the value of real estate as an investment tool, but for varying reasons (mostly fear), they never take the first step toward building their real estate portfolio. Anyone can do it!

There are three basic reasons to buy real estate for investment:

1) Appreciation in value (long-term)
2) Cash flow (a monthly income)
3) Depreciation (tax write-off)

Let's discuss these reasons.

Appreciation

Appreciation is defined as an increase of value. Let's assume a $100,000 purchase. The question is what will my property be worth in 1 year, 5 years, or 10 years? The answer to this is appreciation. Since homes in our area appreciate on the average of 6% per year, please consider the following:

Ending Year	Value
Ending Year 1 Value	**$100,000**
Ending Year 2 Value	**$106,000**
Ending Year 3 Value	**$112,360**
Ending Year 4 Value	**$119,101**
Ending Year 5 Value	**$126,247**
Ending Year 10 Value	**$168,947**

Based on home appreciating at a rate of 6% per year.

Naturally, some areas and some years see the 6% appreciation rate go as high as 12%. A lot of investors (like myself) refinance after they have created an extra 20% equity (see year 5) and buy a new property with the money and start all over. If you held the property for 10 years, it would be worth $68,947 more than you paid for it. Appreciation is almost always guaranteed on single family properties purchased in most any neighborhood.

Cash Flow

Cash flow is defined as what is left in your pocket after all expenses. On a monthly or yearly basis, unless you put a lot of money down, cash flow is usually not possible immediately. The key however, is to purchase property price-wise wherein your mortgage, insurance, taxes, and management are paid by the tenant. Lets say you purchase a house for $100,000 and you put 20% down (required to get conventional financing). Here's how it looks:

$100,000	**Purchase Price**
- 20,000	**Down Payment**
$ 80,000	**Mortgage Amount**
$ 489.00	**Payment at 6.25%/30 year loan**
+ 150.00	**Taxes**
+ 40.00	**Insurance**
+ 85.00	**Management**
$ 764.00	**Total Cost**

Average Rent = $850.00
Cash Flow = $86.00 (Rent less expenses)

In this scenario, you would have approximately $86.00 per month cash flow. Remember, however, there is always the cost of finding a tenant (rental fee) involved which could use this up. It is good to have $1,000-$2,000 in reserve for things that can go wrong.

Depreciation

Depreciation is Uncle Sam's method of helping you to provide the cash necessary for renovations (carpet, roof, windows, major repairs, etc.) when you need them. The government wants you to take the money you save with depreciation and use it to improve your properties when needed. That is the concept, but in reality, it is a way to put tax-free rent in your pocket. Here is how it works using the same $100,000 house purchase scenario.

Total Depreciation 1st Year	**$3,050.00**
Cash Flow After Exp./Year	**$1,272.00**
Cash Flow After Depreciation	
($106.00 x 12 Months)	**-$1,778.00**
Tax Liability	**$ 0.00**
Write-Off of Other Income	**$1,778.00 ***

**** Subject to income limits***

If this sounds interesting and intriguing, call us and we can help you get started. It is important to hire a professional Realtor who understands this concept. It is amazing to know that only 26% of real estate professionals own investment real estate!