

# Building Wealth Through Investment Property

**Presented by:**

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**Disclaimer:** This presentation is for informational purposes only. A trusted professional in each industry discussed should be consulted before making any investment decision. Properties within date 9/19/2011



# Please leave here knowing...

- Financing your investment property
- Inspections
- Selecting an investment team
- Taxes
- Insurance
- Setting prices
- Property selection

# Please leave here knowing...

- Title searches
- Appraisals
- Income generating options/models
- Flipping vs. Holding
- Housing and Urban Development
- Working with tenants



# **FINANCING YOUR INVESTMENT PROPERTY BY: BEN SANDERS WITH SWBC MORTGAGE**

# INVESTMENT PROPERTIES

- 1 – 4 unit property the borrower does not occupy
- 2<sup>nd</sup> appraisal required if sales price or appraised value is less than \$100k
- Non-arms length transactions not permitted
- Rent Loss Insurance required if rental income is used to qualify
- Two year property management history required if using rental income. Verified using 2 years tax returns
- Comparable Rental Schedule required on single family investment properties
- Operating Income Statement required on 2-4 unit properties regardless of using rental income

### 1-4 Financed Properties

- 6 months reserves on subject property
- 2 months reserves for each additional property

### 5-10 Financed Properties

- 6 months reserves on subject property
- 6 months reserves for each additional property

# RESERVE REQUIREMENTS

# Max LTV/CLTV

	Units	Max LTV	Max CLTV
Purchase	1	80%	85%
	2-4	75%	75%
Rate/Term Refinances	1-4	75%	75%
Cashout Refinances	1	75%	75%
	2-4	70%	70%

# More than 4 financed properties

- When the property is owner occupied, there is no limit to the number of financed properties
- When the subject property is a second home or investment property, the maximum number of financed residential properties is 10
- More than 4 financed properties is not allowed on high balance loans
  - \$271,050 for Single Family (EBR)
  - \$347,000 for 2 unit (EBR)
  - \$419,425 for 3 unit (EBR)
  - \$521,250 for 4 unit (EBR)



# Multiple Mortgages - 5 or 6 financed properties

	Units	LTV/CLTV	Credit Score
Purchases	1	75%	720
	2-4	70%	720
Rate/Term Refinances	1-4	70%	720
Cash out Refinances	1	70%	720
	2-4	65%	720

# Multiple Mortgages – 7 to 10 finances properties

	Units	LTV/CLTV	Credit Score
Purchases/ R&T Refinances	1-4	60%	740
Cash Out Refinances	1-4	60%	740

## **More than 4 financed properties cont.**

- No history of bankruptcies in the past 7 years
- No delinquencies ( 30 days or greater ) on any mortgage
- Rental income on subject property and any other rental property must be documented
- 6 months PITI in reserves for subject property and additional 6 months for every other financed property

# Converting Current Property to Investment

- Both proposed and current monthly housing expenses to be used to qualify
- Rental income may not be used to offset mortgage payment
- Documented cash reserves of 6 months for both properties

Exception: If there is 30% equity in the existing property, then 75% of the rental amount may be used as income. Document 2 months cash reserves for both properties

Must show 1 year lease agreement with evidence of security deposit and/or 1<sup>st</sup> months rent paid to borrower



**INSPECTIONS**

**BY:**

**BATTLEY INSPECTIONS**



# SELECTING YOUR INVESTMENT TEAM

# Investment Team

- Contractors
  - Worker's compensation and own insurance
- Real Estate Attorney
  - Investment experience
  - Closing/title work experience
- REALTOR®
- CPA for tax advice
- Mortgage broker
- Investment club – [meetup.com](https://www.meetup.com)



# TAXES AND INSURANCE

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[www.staytaxfree.com](http://www.staytaxfree.com)





# TAXES

- Operate your investment as a business
- Incorporate; get a business name
  - Protects you against suits
  - Allows for tax benefits
  - Removes self-employment tax
- Hold property at minimum 1 year
  - Long-term capital asset
  - Productive use; i.e. rental = 1031 Exchange
    - Defer paying gains tax
    - [www.1031x.com](http://www.1031x.com)

# Insurance

- Builder's risk policy for "rehab" work
- Errors and omissions
- Property insurance
- May consider "umbrella coverage"



# SETTING PRICES

# Rentals / Leases

- Get “comps”
- Annual 3% increases
- 25 – 50% greater than mortgage
- Always list price to nearest \$95 (retail)
  - Example: \$1,000 - \$995 or \$1,495 - \$1,395
- Indefinite timeframe
- Learn to watch the market and your return; then decide to sell
- Builds cash flow; allows for more borrowing

# Lease purchases

- Becoming very popular
- Credit issues
- Nonrefundable down payments
- Can offer a percent of payment toward principal
- Set price based on “comps” and features
- Locked in price and act of sale date
- Can extend date, if needed for a fee
- 1-3 years

# Sales

- Quickest return
- No steady cash flow of income
- Proceeds can be used to purchase another
- Borrow to refill reserve
- Sellers love cash sales
- Can sale by owner or with an agent
- Closing fees



# PROPERTY SELECTION

# Sources

- REALTOR®
- HUD hudhomestore.com
- For Sale by Owners
- Mortgage brokers
- Drive by neighborhoods
- Attend open houses
- EBR Sherriff's Office  
<http://www.ebrso.org/Foreclosures/tabid/114/Default.aspx>
- Probate estate
  - Obituary; cross reference tax assessor



# The Gem

- 3 bedroom
- 1-2 baths
- Central air and heat
- Standard floor plan
- Nice backyard



RESIDENTIAL - DSF -

<b>MLS#:</b>	B1109755md	<b>ListPrice:</b>	\$15,000
<b>Status:</b>	ACTIVE	<b>LivingSF:</b>	1,389/M
<b>Address:</b>	4919 BANK	<b>List\$/Sqft:</b>	\$10.80
	BATON ROUGE, LA	<b>Bedrooms:</b>	3
<b>Zip:</b>	70805	<b>BthFull/Pt:</b>	2/0
<b>Parish:</b>	EAST BATON ROUGE	<b>Stories:</b>	0
<b>Area:</b>	(31) EBR MLS AREA 31	<b>YrBlt/Age:</b>	0/41-50Yr
<b>MapPage:</b>	561 <b>Key:</b> J		
<b>Subdiv:</b>	WHITE PLAINS	<b>Zoning</b>	A1
<b>ParcelID:</b>		<b>Style:</b>	Cottage

**ElemSch:** CALLSCHLBRD **Middle:** CALLSCHLBRD **High:** CALLSCHLBRD  
**Dir:**

[AIRLINE HWY NORTH TO LEFT ON ST KATHERINE TO LEFT ON BANK.](#)

**Lot:** 9

**Legal:**



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PERFECT INVESTMENT FOR RENTAL INCOME. HOME NEEDS REMODELING AND OFFERS A LOT OF SPACE TO WORK WITH ALONG WITH SPACIOUS TREE FENCED IN SHADED BACKYARD.

<b>MLS#:</b>	B1110920md	<b>ListPrice:</b>	\$18,000
<b>Status:</b>	ACTIVE	<b>LivingSF:</b>	657/X
<b>Address:</b>	1768 N 47TH ST	<b>List\$/Sqft:</b>	\$27.40
	BATON ROUGE, LA	<b>Bedrooms:</b>	2
<b>Zip:</b>	70802	<b>BthFull/Pt:</b>	1/
<b>Parish:</b>	EAST BATON ROUGE	<b>Stories:</b>	1
<b>Area:</b>	(31) EBR MLS AREA 31	<b>YrBlt/Age:</b>	/41-50Yrs
<b>MapPage:</b>	601 <b>Key:</b> E		
<b>Subdiv:</b>	GREENVILLE EXTENSION	<b>Zoning</b>	
<b>ParcelID:</b>		<b>Style:</b>	Cottage
<b>ElemSch:</b>	CALLSCHLBRD <b>Middle:</b> CALLSCHLBRD <b>High:</b> CALLSCHLBRD		
<b>Dir:</b>	<a href="#">Gus Young to N. 47th St.</a>		
<b>Lot:</b>	0		
<b>Legal:</b>			



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Attention: Investors. Start your rental assets here with this one; really cute cottage, nice grounds, needs work but mostly cosmetic on interior.

RESIDENTIAL - DSF -

<b>MLS#:</b>	B1015626pd	<b>ListPrice:</b>	\$31,900
<b>Status:</b>	ACTIVE	<b>LivingSF:</b>	1,305/X
<b>Address:</b>	2520 LOBELIA AVE	<b>List\$/Sqft:</b>	\$24.44
	BATON ROUGE, LA	<b>Bedrooms:</b>	3
<b>Zip:</b>	70805	<b>BthFull/Pt:</b>	1/
<b>Parish:</b>	EAST BATON ROUGE	<b>Stories:</b>	1
<b>Area:</b>	(31) EBR MLS AREA 31	<b>YrBlt/Age:</b>	/41-50Yrs
<b>MapPage:</b>	680 <b>Key:</b> A		
<b>Subdiv:</b>	STANDARD HEIGHTS	<b>Zoning</b>	
<b>ParcelID:</b>		<b>Style:</b>	Trad
<b>ElemSch:</b>	CALLSCHLBRD <b>Middle:</b> CALLSCHLBRD <b>High:</b> CALLSCHLBRD		
<b>Dir:</b>	<a href="#">Take Chippewa, cross over Scenic, first street on left is Lobelia</a>		
<b>Lot:</b>	19		
<b>Legal:</b>			



Great Investment! Large 3 Bedroom 1 Bath Home. Living room with separate dining area, huge kitchen good size bedrooms. Long term tenant currently paying \$475 a month. Great cash flow!



RESIDENTIAL - DSF -

<b>MLS#:</b>	B1108991pd	<b>ListPrice:</b>	\$37,500
<b>Status:</b>	ACTIVE	<b>LivingSF:</b>	1,350/A
<b>Address:</b>	8455 N PARKLAND DR	<b>List\$/Sqft:</b>	\$27.78
	BATON ROUGE, LA	<b>Bedrooms:</b>	3
<b>Zip:</b>	70806	<b>BthFull/Pt:</b>	1/1
<b>Parish:</b>	EAST BATON ROUGE	<b>Stories:</b>	1
<b>Area:</b>	(61) EBR MLS AREA 61	<b>YrBlt/Age:</b>	/41-50Yrs
<b>MapPage:</b>	602 <b>Key:]</b>		
<b>Subdiv:</b>	PARKLAND TERRACE	<b>Zoning</b>	A-1
<b>ParcelID:</b>		<b>Style:</b>	Ranch

**ElemSch:** CALLSCHLBRD **Middle:** CALLSCHLBRD **High:** CALLSCHLBRD

**Dir:**

[Start out going EAST on FLORIDA BLVD/US-190-BR E/US-61-BR S toward PHILLIPS AVE. Turn RIGHT onto E AIRPORT AVE\(E AIRPORT AVE is just past S WOODDALE DR.\). Take the 1st LEFT onto N PARKLAND DR.](#)

**Lot:** 10

**Legal:** Lot #10,Parkland Terrace S/D



This property is located in an area that is convenient to employment centers, places of worship, schools(both public and private) and shopping. The house is being sold as is.

RESIDENTIAL - DSF -

MLS#:	B1109999pd	ListPrice:	\$39,900
Status:	ACTIVE	LivingSF:	1,277/M
Address:	4622 OSBORNE AVE	List\$/Sqft:	\$31.25
	BATON ROUGE, LA	Bedrooms:	2
Zip:	70805	BthFull/Pt:	1/1
Parish:	EAST BATON ROUGE	Stories:	1
Area:	(31) EBR MLS AREA 31	YrBlt/Age:	/51-75Yrs
MapPage:	601 Key:B		
Subdiv:	FOSTER HEIGHTS	Zoning	RES
ParcelID:		Style:	Cottage

ElemSch: CALLSCHLBRD Middle: CALLSCHLBRD High: CALLSCHLBRD

Dir: [N Foster, cross Choctoaw, left on Osborne go to end home on left](#)

Lot: 102

Legal: 4622 Osborne Ave, Lot #102, East Baton Rouge Parish, Baton Rouge, La. 70805

Nice wood floors in bdrms & hall, den and living room (den could be used as 3rd bedrm if needed), carport with storage



# Price

- Percentage discount (min. 35%)
- Ceiling price
- Needs for savings
- Market analysis / “comps”
  - Resale / lease or rent value
- Account for special features
- Repairs / improvements

# Calculating Ceiling Price

• Fair Market Value	\$100,000
◦ Repairs / improvements	\$15,000
◦ Closing costs	500
◦ Finance costs (2% of loan)	7,000
◦ Taxes and insurance	700
◦ Utility	300
◦ Mortgage	1,000
◦ Miscellaneous	1,500
• Total costs	21,000





# WHAT'S THE MAXIMUM YOU SHOULD PAY?

# Neighborhood

- Good condition
- Location
  - Good schools
  - Amenities and conveniences
- Upcoming buildings
  - Warehouses, plants
  - A new park; shopping or medical center

# Market Value

- Comparables will tell the story
- What's the activity?
  - Purchases / “Solds”
  - Rentals / Lease purchases



# Improvement Costs

- Deciding on what to improve
- Make necessary repairs
- Use a licensed inspector  
<http://www.lsbhi.state.la.us/>
- Use licensed repair technicians
- Seek out a relationship with one or two contractors <http://www.lslbc.louisiana.gov/>
  - Save time and money in bidding wars
  - Trust that the work gets done right



# **WHAT MAKES MY PROPERTY “MOVE IN” CONDITION?**



# TITLE SEARCHES

**Disclaimer:** This presentation is for informational purposes only. A trusted professional in each industry discussed should be consulted before making any investment decision.

[www.staytaxfree.com](http://www.staytaxfree.com)



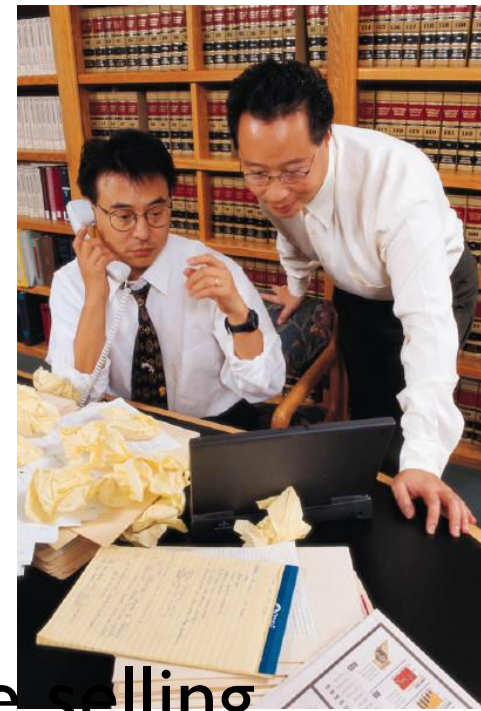
# Regular Sales

- Simple
- Title work
- Few days
- No additional costs
- Attorney provides search
- Hire attorney familiar with real estate transactions
- Insure the title



# Auction Sales

- Several previous owners
- Several days
- Complicated
- May have to wait years before selling
- Advantage : buy homes really cheap
- May have other encumbrances
- Cloud on the title
- Additional charges to “clear title”







# APPRAISALS

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[www.staytaxfree.com](http://www.staytaxfree.com)



# Appraisals

- Normally lender selects
- Licensed Appraiser <http://reab.state.la.us/>
- Average sales time for property
- Gives estimate sales value
- Points out flaws
- Very useful tool



# INCOME GENERATING MODELS

# Buy Low and Sell



Quick sell on surface.

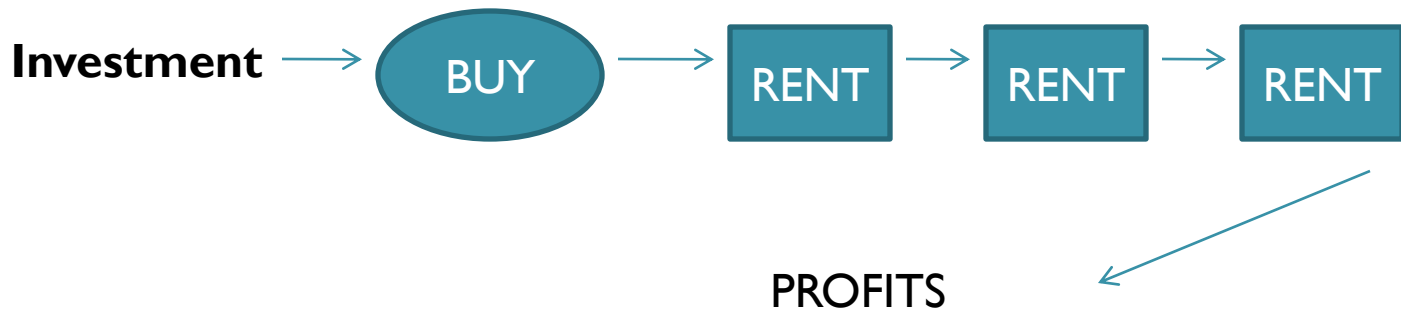
Also known as “flipping.”

No need to handle tenants.

One time repairs and improvements.

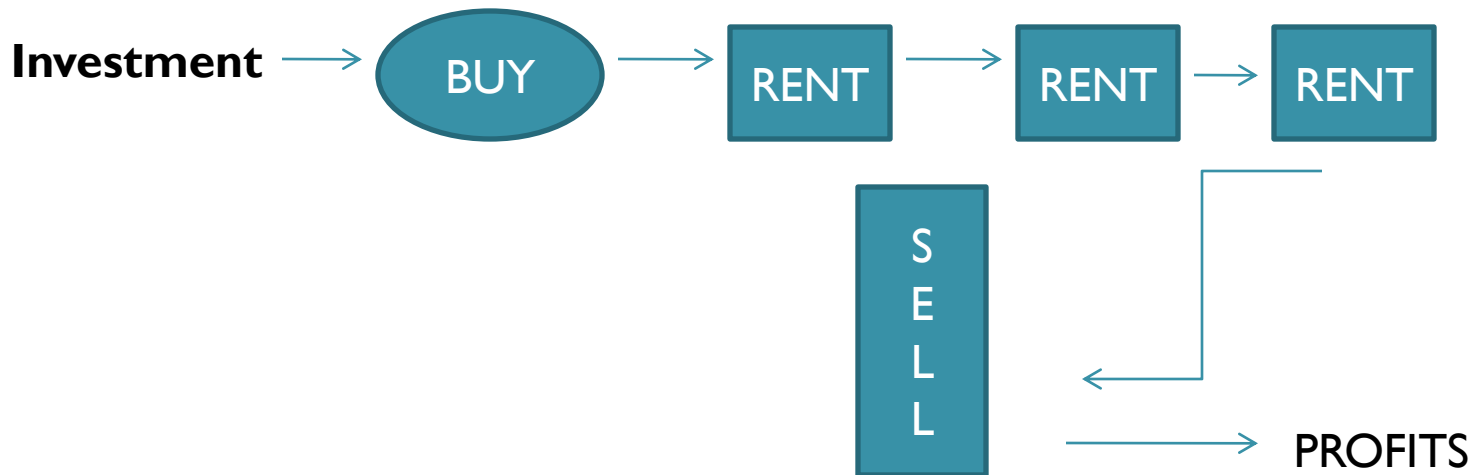
Make take a long time to sell, so expenses could mount quickly.

# Buy and Rent Smart Model



Goal is to pay off the mortgage as soon as possible.  
Use payments to payoff mortgage.

# Buy Low, Rent Smart, Sell High



Make a decision at this point (every 3 years):

- Continue renting
- Offer a lease purchase option to tenant
- Sell

Listen to the market.

Pay attention to neighborhood conditions.



# FLIPPING VERSUS HOLDING

## ADVANTAGES

- Quick cash
- Not a long-term commitment

## DISADVANTAGES

- No steady cash income
- No opportunity for market appreciation
- Can't file 1031 for tax-deferred exchange
- May have to wait longer to sell

# FLIPPING



## ADVANTAGES

- Wealth over long-term
- Achieve property value appreciation
- Rental income for retirement or college

## DISADVANTAGES

- Assets are not cash form; only equity
- Selling at the wrong time; could lose money
- Have to handle tenants
- Maintain property
- May have to cover mortgage when vacant

# HOLDING



# **WORKING WITH HOUSING AND URBAN DEVELOPMENT (HUD)**

# Find HUD Homes

The screenshot shows the HUD.GOV/UDHomes website. The header includes the date "SATURDAY, SEPTEMBER 10, 2011", the site name "HUD.GOV/UDHomes", and the U.S. Department of Housing and Urban Development logo. Navigation links include "Home", "HUD News", "Resources", "NAID Registration", "Find a Broker", "Property Contacts", and "FAQ". A "HUD Homes" section provides instructions for searching and lists special programs like "Good Neighbor Next Door", "Nonprofits", and "\$1 Homes-Government Sales". A map of the United States is shown with state abbreviations. A "Search Properties" form is highlighted with a red arrow. The form includes fields for State, County, City, Zip Code, Street, Price From, To, Bedrooms, Bathrooms, Buyer Type, and Status. A "Search" button is present. Below the form, there are links for Resources, HUD Information, HUD Special Programs, Agency Information, and General Accessibility.

Search Properties

Recent Listings Recent Searches

\*State County City Zip Code Street Price From - To Bedrooms Bathrooms

Select [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] Any Any

Buyer Type All Status All Property Case # [ ] Search Clear

\*Required field, except if Property Case # is entered

Resources  
Current Sales Incentives  
HUD FAQ  
How to Buy a HUD Home  
HUD Terms And Acronyms

Real Estate Glossary  
HUD-Approved Lenders  
Lead Hazard Information  
Fair Housing Information

HUD Information  
Events and Training  
HUD News  
HUD Communities  
Real Estate Statistics & Research  
Settlement Costs & Helpful Information

HUD Special Programs  
Nonprofit Organizations  
Good Neighbor Next Door  
Dollar Homes  
NSP First Look

Agency Information  
HUD Information  
FHA Information  
FHA Resources  
REG Information

General  
Accessibility  
Contact Info  
Privacy Policy  
Recovery.gov  
Busque Información en Español  
Site Map

# Financing for HUD

- FHA
- Conventional
- VA
- Cash
- Private lending
- FHA 203(k) Loan to finance repair costs in the same FHA loan

# Cautions

- Sold as-is
- No warranty on sales
- However, can purchase home warranty
- Definitely get inspection
- Estimates on repair costs to show to lender for 203 (k)

# Process

- Bid placed by REALTOR®
- Fair market value
- NO negotiations (accept or not accept)
- 30-45 days for closing
- May have to pay for extension and write a explanation

# Good Neighbor Next Door

- Police
- Firefighters
- Emergency Medical Technician
- Teachers
- Live in for 3 years
- 50% OFF the fair market value of HUD homes in certain areas

[http://www.mmrem.com/hud/forms/How%20to%20Buy%20a%20HUD%20Home%20\(Buyer%20Version\).pdf](http://www.mmrem.com/hud/forms/How%20to%20Buy%20a%20HUD%20Home%20(Buyer%20Version).pdf)





# WORKING WITH TENANTS



# Working with Tenants

- Application
  - Background and credit check
- Little extras
  - Bring a gift; send cards for holidays
  - Advance notice prior to site checks
- Saved money letter – where's the money
- Handle late payments
  - Call
  - Letter
  - Late fees

# ASK YOURSELF...

- Do I need additional income NOW or in the FUTURE?
- Am I in a high-income tax bracket and would I be adversely affected by earning more income now?
- Does the current real estate market afford me bargains as well as room for high rents?

# ASK YOURSELF...

- Do I have other income or savings that I could use for repairs or to cover vacancies?
- Do I have the time and patience to deal with tenants?
- Am I willing to commit to this?
- Do I know when the market is changing?

# Sources

- Frank, Scott and Andy Heller. 2003. Buy Low, Rent Smart, Sell High: Real Estate Investing for the Long Run. Kaplan Publishing.
- Bronchick, Esq., William. 2006. Flipping Properties: Generate Instant Cash Profits in Real Estate. Kaplan Publishing.



**Thank you!!!**