

Building Wealth Through Investment Property Presented by: **Brendia Johnson, MBA**

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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
- 2nd appraisal required if sales price or appraised value is less than \$100k
- Non-arm's 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

I-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 1st 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



TAXES AND INSURANCE

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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

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 Sheriff'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



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

RESIDENTIAL - DSF -

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



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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.

MLS#:	B1015626pd	ListPrice:	\$31,900
Status:	ACTIVE	LivingSF:	1,305/X
Address:	2520 LOBELIA AVE BATON ROUGE, LA	List\$/Sqft:	\$24.44
Zip:	70805	Bedrooms:	3
Parish:	EAST BATON ROUGE	BthFull/Pt:	1/
Area:	(31) EBR MLS AREA 31	Stories:	1
YrBlt/Age:		/41-50Yrs	
MapPage:	680 Key: A		
Subdiv:	STANDARD HEIGHTS	Zoning	
ParcelID:		Style:	Trad

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

Dir:
[Take Chippewa, cross over Scenic, first street on left is Lobelia](#)

Lot: 19

Legal:



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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 - DST -

MLS#: B1108991pd **ListPrice:** \$37,500

Status: ACTIVE **LivingSF:** 1,350/A

Address: 8455 N PARKLAND DR **List\$/Sqft:** \$27.78

BATON ROUGE, LA **Bedrooms:** 3

Zip: 70806 **BthFull/Pt:** 1/1

Parish: EAST BATON ROUGE **Stories:** 1

Area: (61) EBR MLS AREA 61 **YrBlt/Age:** /41-50Yrs

MapPage: 602 **Key:**J



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Subdiv: PARKLAND TERRACE **Zoning:** A-1

ParcelID: **Style:** 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.

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

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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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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.

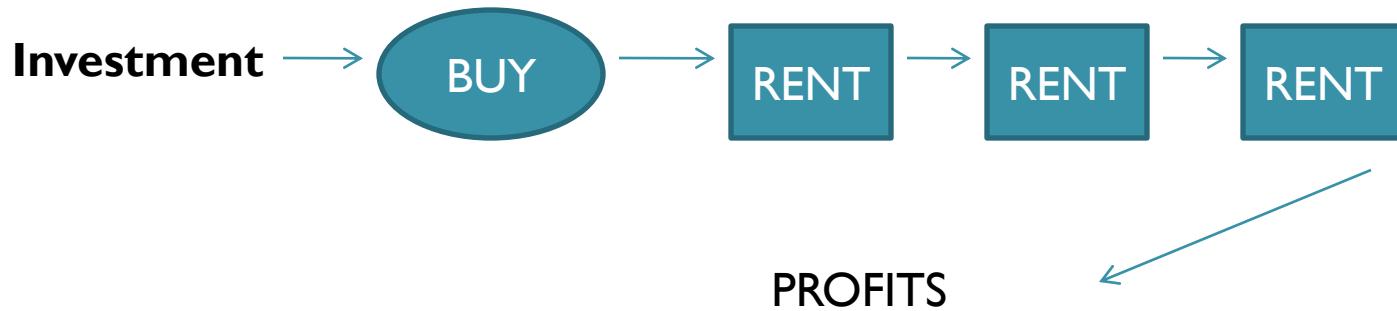
Also known as “flipping.”

No need to handle tenants.

One time repairs and improvements.

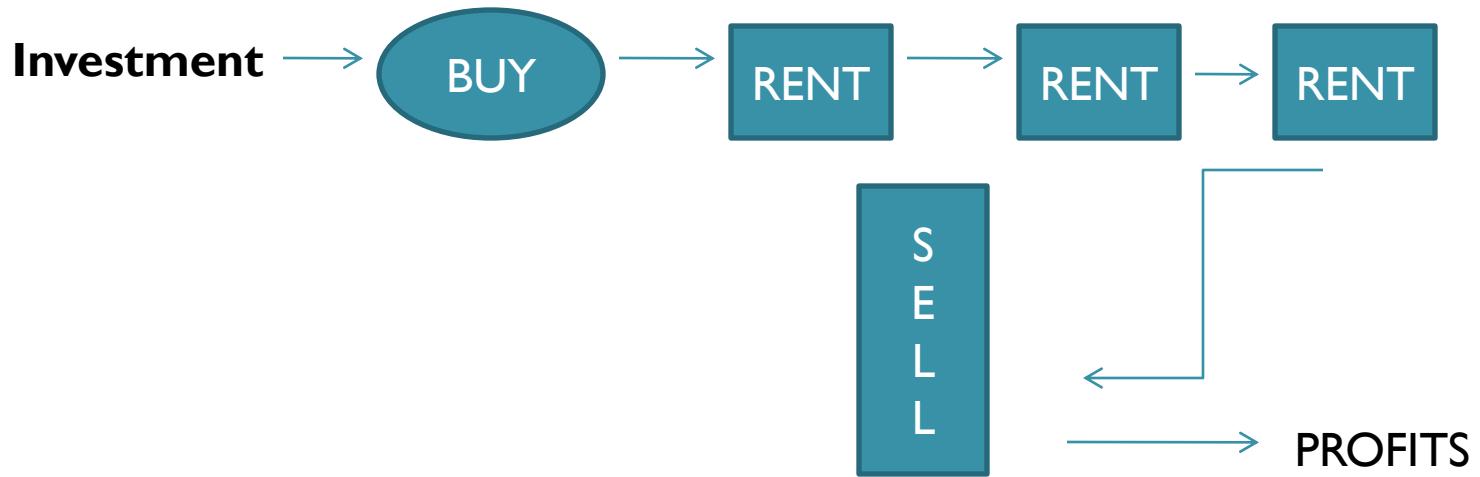
Make take a long time to sell, so expenses could mount quickly.

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

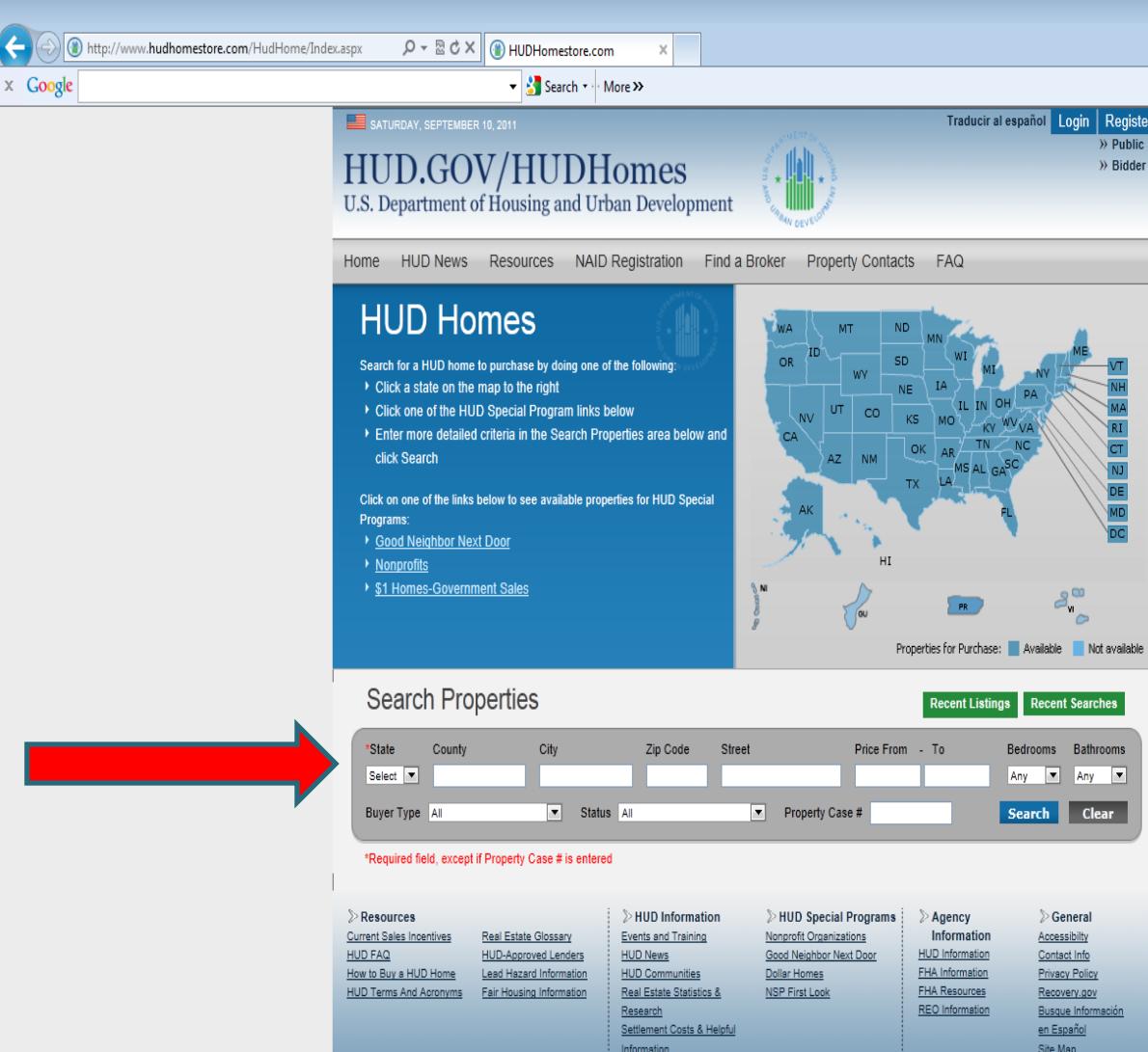
- Assets are not cash form; only equity
- Selling at the wrong time; could lose money
- Have to handle tenants
- Maintain property
- May have to cover mortgage when vacant

HOLDING



WORKING WITH HOUSING AND URBAN DEVELOPMENT (HUD)

Find HUD Homes



http://www.hudhomestore.com/HudHome/Index.aspx

SATURDAY, SEPTEMBER 10, 2011

HUD.GOV/HUDHomes

U.S. Department of Housing and Urban Development

Traducir al español | Login | Register | Public | Bidder

Home | HUD News | Resources | NAID Registration | Find a Broker | Property Contacts | FAQ

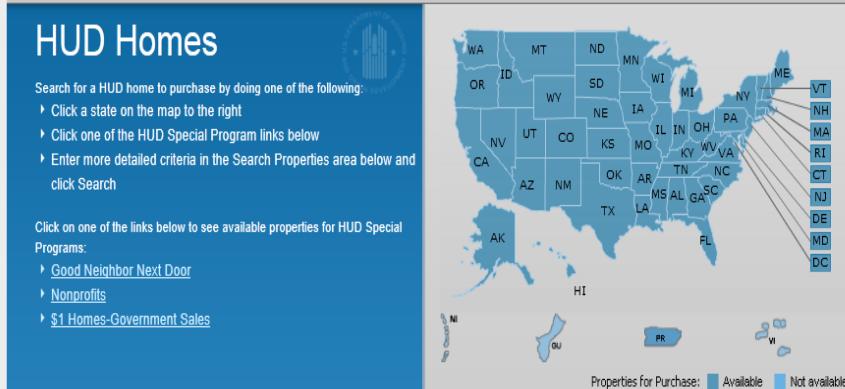
HUD Homes

Search for a HUD home to purchase by doing one of the following:

- Click a state on the map to the right
- Click one of the HUD Special Program links below
- Enter more detailed criteria in the Search Properties area below and click Search

Click on one of the links below to see available properties for HUD Special Programs:

- Good Neighbor Next Door
- Nonprofits
- \$1 Homes-Government Sales



Properties for Purchase: Available | Not available

Search Properties

Recent Listings | Recent Searches

*State: Select, County: [input], City: [input], Zip Code: [input], Street: [input], Price From: [input] - To: [input], Bedrooms: [input], Bathrooms: [input]

Buyer Type: All, Status: All, Property Case #: [input], Search, Clear

*Required field, except if Property Case # is entered

Resources: Current Sales Incentives, Real Estate Glossary, HUD FAQ, How to Buy a HUD Home, HUD Terms And Acronyms

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, Lead Hazard Information, Fair Housing Information

Agency Information: HUD Information, FHA Information, FHA Resources, REO Information

General Accessibility: Contact Info, Privacy Policy, Recovery.gov, Busque información en Español, Site Map

Harris  **Manor**
REALTY, LLC

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!!!