“Supplementing your retirement income with Rental Real Estate”

By: Amy Bonis Certified Mortgage Planner Raleigh NC
(919) 414-4430 www.amybonis.com NMLS# 106455
TREIA MEMBER

Are you feed up with the paltry returns you get on bonds, or the craziness of the stock market or the insulting interest rates banks pay on your money? Rental real estate is a very viable way to supplement your retirement income but it’s not for everyone. If you are happy with a consistent, longer term investments, real estate can provide very decent, steady returns.

Different people have different ideas of how to make money in real estate…. Some still focus on flipping of properties but this has become really hard to do, some people focus on larger apartment buildings or mobile home parks…. Many people are very content focusing on residential real estate. Single family homes and townhomes in particular. This strategy is easier for most people to understand, less expensive, and may be easier to limit your risk as you can buy one property at a time. These types of properties are easy to finance and require a 15-25% down payment in this market. If you qualify, you can buy and finance up to 10 properties. If you buy one property a year and can rent the property for equal to or more than your mortgage payment, think of the potential return you may yield when these properties are paid off by your renters!

Here are five tips to think about when investing in real estate:

1. What are your goals? Are you prepared to do work and research the property location?, the current market rents in the area you are buying? Do your own research, Craig’s list is a great tool. Are you going to manage the property yourself or use a property manage to help you at least initially?
2. What can you qualify for loan wise and does this make sense financially for you? Should you consider renting the property you own and buying a new primary residence would this be easier to finance? Make sure your finances are in order and get formally approved with a local lender who hopefully owns rental real estate and can help you with these decisions. Rental real estate lending is a specialty.
3. Should you buy local or buy in the mountains or at the beach? There are arguments on both sides but buying locally can give you the ability and peace of mind to manage the property and go by and see your property more frequently. This is a good step when you are first getting involved in investment real estate because of the easier management of the property. Especially if you are working full time in another job.
4. Make sure you have cash reserves and that you are comfortable with the concept of buying a rental property. When you apply for a loan, we will want you to have 6 mos of reserves for that mortgage payment in the bank or a retirement account or other asset….You never know if you will need

repairs or what will come up. It is always better to be a little conservative and not spend all your cash to buy a property.

5. Buy the property at a good price. Understand that a good price is not necessarily one below the ask price in this market. The forecasts for the housing market over the next few years are really very good. Our local and world populations are growing. The RTP area is a very strong area in terms of rentals and housing in general so your risk should be more limited here than a volatile market like some of the coast states. Real estate if you think of it as a long term investment, is a very solid investment and one where you can get huge tax benefits. You are able to depreciate properties and write off your repairs, management fees etc… You can look up a Schedule E from the IRS website and see what you can write off when you own a rental property.
6. If you do decide this is a good course of action for your family, I would highly recommend using a buyer’s agent that has experience in rental real estate, even currently owns rental real estate in this market. That experience goes a long way with philosophy and vision of long term investors.
7. There has been an increase in the number of distressed properties that have hit the market. These properties, foreclosures, short sales, REO’s, Hud properties, are potentially really good deals but are not able to get typical bank financing. You can usually buy distressed properties for less than other properties. The idea is to buy the property at a discount, fix the property up and now your new appraised value after renovations is higher than the combination of what you paid and the renovation costs.

The biggest issue consumers and realtors have in dealing with these properties is where to start, and how to finance these properties. In some cases, people feel overwhelmed with the project. It is important to work with a qualified contractor and a lender that is familiar with these type of remodeling or repair loans. In addition to making a nice profit, you can get a great deal of satisfaction from remodeling/ rehabbing a property. The vast majority of primary residences that are bought or refinanced this way are financed through a 203K rehabilitation loan. These loans base the loan amount on the after renovation value and your ability to pay back the loan. It is important before embarking on this type of loan that you work with a local financing expert to make sure that you personally meet the specifications on this type of financing. Whether you want to remodel your existing home or buy a new home, these loans do not require a lot of equity at all. You can finance up to 96 or 97% of the value of the property or even more…. The interest rates are 30 yr FHA fixed rate loans. The interest you are paying on your renovation costs are part of your first mortgage and are therefore tax deductible. There are two types of 203K loans. There is the Streamline K (for cosmetic work and work not exceeding $35K) and there is the Consultant K loan. The Full K or consultant K loan is typically used for homes that need repairs more than $35K or that require structural repairs. The Hud Consultant allows for more extensive work to be done and helps supervise and protect you throughout the process.

Here are 10 steps to consider when buying and rehabbing a property.

1. Consider replacing the locks and making sure vandals cannot get in during your rehab stages. Clean up obvious debris from the outside of the home as a good first move.
2. Notify the police dept of your intentions. They may be willing to patrol the area more. Everyone wants a nice looking neighborhood. Consider leaving the exterior lights on in the home 24/7.
3. Get multiple bids from contractors before starting your project. Always check references and the Better Business Bureau. When deciding on what to start with, consider renovations that will increase the value of your home such as kitchen and bathroom updates. 203K loans do not typically allow self help and require a professional to help you with the work.
4. Consider putting up something / for example fabric on the windows so that nosey neighbors, vandals cannot see into home.
5. You want to start the rehab with the interior of the home (unless you have foundation or roof issues, particularly those involving water damage).
6. If there are things you need to order, for example replacement windows, order those sooner rather than later due to the wait time when ordering.
7. If there is painting involved, painting the trim first is a smart idea. You can mask the trim by using a masking machine and use an airless sprayer that can be used on various projects. These sprayers are not that expensive (maybe $300- $400 dollars) and can save you hours of time.
8. New light fixtures and faucets are indicators of when time wise a house has been updated so pay attention to what you choose when remodeling your home.
9. When buying flooring, usually put down the flooring last and consider a neutral color. People can easily paint but flooring is harder to change moving forward.
10. Work on the outside landscaping last after you have completed