

LEARNING MADE EASY



Real Estate Investing

ALL-IN-ONE

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Real Estate Investing

ALL-IN-ONE

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Real Estate Investing All-in-One For Dummies®

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

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Published simultaneously in Canada

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Library of Congress Control Number: 2022948311

ISBN 978-1-394-15284-1 (pbk); ISBN 978-1-394-15289-6 (ebk); ISBN 978-1-394-15288-9 (ebk)

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Introduction

Successful real estate investing requires smart decisions. *Real Estate Investing All-in-One For Dummies* presents basic real estate investing topics — such as buying and selling houses, investing in foreclosures, and flipping properties — but also introduces advanced subjects, like international and commercial real estate investing, that can help you build even more wealth. You even get the ins and outs of short-term rentals like Airbnb, so all your passive income options are covered.

This book can help you start investing in real estate quickly and easily, thanks to expert tips and information that will help you avoid costly mistakes. It's your one-stop resource for all things real estate. Explore the pages of this book and find the topics that most interest you within the world of real estate investing.

About This Book

You don't need a fancy degree to invest in real estate. What you *do* need is a desire to read, absorb, and practice the simple yet effective strategies in this book. *Real Estate Investing All-in-One For Dummies* is designed to give you a realistic approach to investing in real estate. It provides sound, practical lessons and insights. You're not expected to read it from cover to cover. Instead, this book is designed as a reference tool. Feel free to read the chapters in whatever order you choose. You can flip to the sections and chapters that interest you or those that include topics that you need to know more about.

A quick note: Sidebars (shaded boxes of text) dig into the details of a given topic, but they aren't crucial to understanding it. Feel free to read them or skip them. You can pass over the text accompanied by the Technical Stuff icon, too. The text marked with this icon gives some interesting but nonessential information about the subject of real estate investing.

One last thing: Within this book, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending as though the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just click the web address to be taken directly to the web page.

Foolish Assumptions

No matter your skill or experience level with real estate investing, you can get something out of this book. Here are some assumptions we made about you as we wrote this book:

- » You're new to investing in real estate and don't know what properties and strategies will work for you.
- » Your real estate experience is limited to renting an apartment or owning your own home, and you're interested in finding out more about foreclosures, flipping, and other investment options.
- » You may already be a seasoned real estate investor, but you're ready to go to the next level with commercial and international properties.
- » You want to diversify your investment portfolio.

Icons Used in This Book

Throughout this book, icons help guide you through suggestions, solutions, and cautions. Here's what they mean.



REMEMBER

The name says it all! This icon indicates something *really* important to take away from this book.



TECHNICAL
STUFF

Information marked with this icon is interesting but not crucial to understanding real estate investing. Skip it or read it; the choice is yours.



TIP

This icon highlights helpful strategies that can enable you to build your real estate portfolio (and your wealth) faster.



WARNING

This icon indicates treacherous territory in real estate investing. Skip this information at your own peril.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product comes with a free access-anywhere Cheat Sheet that can put you on the road to successful real estate investing. To get this Cheat Sheet, simply go to www.dummies.com and search for "Real Estate Investing All-in-One For Dummies Cheat Sheet" in the Search box.

Where to Go from Here

If you're a new real estate investor, you may want to consider starting from the beginning; head to Book 1 on getting started. That way, you'll be ready for some of the more advanced topics introduced later. But you don't have to read this book from cover to cover. *Real Estate Investing All-in-One For Dummies* makes it easy to find answers to specific questions. Just turn to the table of contents or index to locate the information you need. You can get in and get out, just like that. Good luck!

1 Getting Started with Real Estate Investing

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IN THIS CHAPTER

- » Focusing on the potential (and downsides) of real estate investing
- » Contrasting real estate with other investing options
- » Deciding whether real estate is really for you
- » Arranging your overall investment and financial plans to include real estate

Chapter **1**

Evaluating Real Estate as an Investment

It's never too early or too late to formulate your own plan for a comprehensive wealth-building strategy. For many, such a strategy can help with the goals of funding future education for children and ensuring a comfortable retirement.

The challenge involved with real estate is that it takes some real planning to get started. Contacting an investment company and purchasing some shares of your favorite mutual fund or stock is a lot easier than acquiring your first rental property. Buying property need not be too difficult, though. With a financial and real estate investment plan, a lot of patience, and the willingness to do some hard work, you can be on your way to building your own real estate empire!

This chapter gives you information that can help you decide whether you have what it takes to make money *and* be comfortable with investing in real estate. You compare real estate investments to other investments. You find some questions you should ask yourself before making any decisions. And finally, you get guidance on how real estate investments can fit into your overall personal financial plans. Along the way, you find insights and thoughts on a long-term strategy for building wealth through real estate that virtually everyone can understand and actually achieve.

Understanding Real Estate's Income- and Wealth-Producing Potential

Compared with most other investments, good real estate can excel at producing periodic or monthly cash flow for property owners. So in addition to the longer-term appreciation potential, you can also earn investment income year in and year out. Real estate is a true growth *and* income investment.



REMEMBER

The vast majority of people who don't make money in real estate make easily avoidable mistakes, which this book helps you avoid.

The following list highlights the major benefits of investing in real estate:

- » **Tax-deferred compounding of value:** In real estate investing, the appreciation of your properties compounds *tax-deferred* during your years of ownership. You don't pay tax on this profit until you sell your property — and even then, you can roll over your gain into another investment property and avoid paying taxes. (See the later section "Being aware of the tax advantages.")
- » **Regular cash flow:** If you have property that you rent out, you have money coming in every month in the form of rents. Some properties, particularly larger multi-unit complexes, may have some additional cash flow sources, such as from parking, storage, or washers and dryers.



REMEMBER

When you own investment real estate, you should also expect to incur expenses that include your mortgage payment, property taxes, insurance, and maintenance. The interaction of the revenues coming in and the expenses going out tells you whether you realize a positive operating profit each month.

- » **Reduced income tax bills:** For income tax purposes, you also get to claim an expense that isn't really an out-of-pocket cost — depreciation. Depreciation enables you to reduce your current income tax bill and hence increase your cash flow from a property. (Find out about this tax advantage and others in the later section "Being aware of the tax advantages.")
- » **Rate of increase of rental income versus overall expenses:** Over time, your operating profit, which is subject to ordinary income tax, should rise as you increase your rental prices faster than the rate of increase for your property's overall expenses. The following simple example shows why even modest rental increases are magnified into larger operating profits and healthy returns on investment over time.

Suppose that you're in the market to purchase a single-family home that you want to rent out and that such properties are selling for about \$200,000 in the

area you've deemed to be a good investment. (Note: Housing prices vary widely across different areas, but the following example should give you a relative sense of how a rental property's expenses and revenues change over time.) You expect to make a 20 percent down payment and take out a 30-year fixed rate mortgage at 6 percent for the remainder of the purchase price — \$160,000. Here are the details:

Monthly mortgage payment	\$960
Monthly property tax	\$200
Other monthly expenses (maintenance, insurance)	\$200
Monthly rent	\$1,400

Table 1-1 shows you what happens with your investment over time. Assume that your rent and expenses (except for your mortgage payment, which is fixed) increase 3 percent annually and that your property appreciates a conservative 4 percent per year. (For simplification purposes, depreciation is ignored in this example. If the benefit of depreciation had been included, it would further enhance the calculated investment returns.)

TABLE 1-1

How a Rental Property's Income and Wealth Build over Time

Year	Monthly Rent	Monthly Expenses	Property Value	Mortgage Balance
0	\$1,400	\$1,360	\$200,000	\$160,000
5	\$1,623	\$1,424	\$243,330	\$148,960
10	\$1,881	\$1,498	\$296,050	\$133,920
20	\$2,529	\$1,682	\$438,225	\$86,400
30	\$3,398	\$1,931	\$648,680	\$0
31	\$3,500	\$1,000	\$674,625	\$0

Now, notice what happens over time. When you first buy the property, the monthly rent and the monthly expenses are about equal. By year five, the monthly income exceeds the expenses by about \$200 per month. Consider why this happens — your largest monthly expense, the mortgage payment, doesn't increase. So, even though you can assume that the rent increases just 3 percent per year, which is the same rate of increase assumed for your nonmortgage expenses, the compounding of rental inflation begins to produce larger and larger cash flows to you, the property owner. Cash flow of \$200 per month may not sound like much, but consider that this \$2,400 annual income is from an original \$40,000 investment. Thus,

by year five, your rental property is producing a 6 percent return on your down payment investment. (And remember, if you factor in the tax deduction for depreciation, your cash flow and return are even higher.)

In addition to the monthly cash flow from the amount that the rent exceeds the property's expenses, also look at the last two columns in Table 1-1 to see what has happened by year five to your *equity* (the difference between market value and mortgage balance owed) in the property. With just a 4 percent annual increase in market value, your \$40,000 in equity (the down payment) has more than doubled to \$94,370 (\$243,330 – \$148,960).

By years 10 and 20, you can see the further increases in your monthly cash flow and significant expansion in your property's equity. By year 30, the property is producing more than \$1,400 per month cash flow and you're now the proud owner of a mortgage-free property worth more than triple what you paid for it!

After you get the mortgage paid off in year 30, take a look at what happens in year 31 and beyond to your monthly expenses (big drop as your monthly mortgage payment disappears!) and therefore your cash flow (big increase).

Recognizing the Caveats of Real Estate Investing



WARNING

Despite all its potential, real estate investing isn't lucrative at all times and for all people — here's a quick outline of the biggest caveats that accompany investing in real estate:

- » **Few home runs:** Your likely returns from real estate won't approach the biggest home runs that the most accomplished entrepreneurs achieve in the business world. That said, by doing your homework, improving properties, and practicing good management (and sometimes enjoying a bit of luck), you can do extremely well!
- » **Upfront operating profit challenges:** Unless you make a large down payment, your monthly operating profit may be small, nonexistent, or negative in the early years of rental property ownership. During soft periods in the local economy, rents may rise more slowly than your expenses or they may even fall. That's why you must ensure that you can weather financially tough times. In the worst cases, rental property owners lose both their investment property and their homes. See the later section "Fitting Real Estate into Your Plans."