INVESTFOURMORE

TRANSCRIPT OF EPISODE 17 OF THE INVEST FOUR MORE PODCAST

WHY RENTAL PROPERTIES ARE SUCH AN AWESOME INVESTMENT

Mark Ferguson:

Hi, everyone. Mark Ferguson with Invest Four More. Welcome to another podcast episode. Today it's going to be just me. I'm going to be talking about rental properties, what is going on currently with my rentals, why I think rental properties are so awesome, a few ways to get started investing in retails, and a few other things. It's tough to fit everything there is about rental properties in a podcast episode. Even if I talk for a couple hours, I probably couldn't cover everything, but I'll try and cover as much as I can. Again, there's tons of articles on the blog about investing in rentals. If you subscribe to our email list, you'll get all types of different resources and different articles. The most important ones are regarding rental properties, so please do that. Let's get started.

I bought my first rental property in December of 2010. I had wanted to buy rental properties for a long time. I started making decent money as an REO agent around 2008-ish, and I was able to save some money for a little while, ended up spending it. Quite a few different things happened in our lives. I got married. Ended up having kids, so a lot was going on. It was tough to save money, tough to get that 20% down I needed for rental properties, but in 2010, I finally managed to save some money. We refinanced our house, and I had enough to buy a rental, and I knew I wanted to do it. I had been watching the market for a long time. I made an offer on a house. They ended up having multiple offers, which they didn't tell me about until they accepted another offer. That was fun. This house was a great house for me, but someone else got the contract on it. I was a little disappointed. Keep looking around.

About a month later, the agent on that house called me back and said, "Hey, the first offer backed out." Their inspection was bad, or they couldn't get financing. I can't remember what it was. "Are you still interested?" I'm like, "Yes, I'm still interested," so they got my offer signed. They didn't even put it back on the market, and I had my first rental property ready to go.

The first one was a little tricky. I was using a conventional bank. I wanted to put 20% down, but the lender convinced me to put 25% down, because the rates were a little lower, and the costs were just a little bit lower. In hindsight, I wish I would have put 20% down, paid a little more rates, and had more cash to play with, to buy more properties, or have extra money for reserves. But it was tricky getting that first property done. We had to extend closing I think three weeks, because the lender kept asking for more information for me. I was a real estate agent. I make a little of deposits from commissions, houses I sell, and they wanted a copy and an explanation for every deposit I made into my account of over a thousand dollars. It was just crazy the things they asked for.

After extending the closing, going through all these hoops, jumping through all these ... Document, after document, after document I had to send them. I finally closed on the house. I bought it for I think it was $96,900. I thought at the time it would rent for about a thousand dollars a month, which I thought was a pretty good deal, especially considering the house was built in about 2004, and needed almost no work.

Just a couple thousand dollars in paint, a little bit of sprucing up, some appliances, that was it. I bought that house. Ended up renting it for more than I thought, $1,500. It was a great investment. I really love that property. I still have it.

It got me hooked on rental properties. I knew that I had to buy as many as I could, and that's when I made plans to buy more, keep buying them, but it took me almost a year to buy my second one. It didn't happen very fast. Again, saving money was an issue, trying to get that 20% down payment, and then I, also, had multiple mortgages in my name, and many banks didn't want to lend to me, because I had a rental property. I had my primary residence, and I, also, had my name on some other mortgages with my parents, so technically, I had four mortgages in my name, and half the banks I talked to just said, "No, you can't even get a mortgage if you have four mortgages already." That's not true. It's just they won't give you a mortgage. It's not that you can't, and so I had to search around.

I found a local bank, a portfolio lender. They ended up saying, "Hey, yeah, no problem. We'll give you a loan. We don't have a limit on four mortgages. We don't have a limit on ten mortgages. We'll give you a loan," so I ended up using them. I think it was November of 2011 I bought my second rental property, and then from that point on, things really started to balloon. I was saving more money, making more money. I now have sixteen rental properties. All of them are in Colorado, within ten miles of me, except for one that's in Ohio. That's a turnkey rental property I bought in Cleveland.

It's just been great. I just love rentals. I've been through a lot of ups and downs in my business. In September of 2013, I bought out my father, took over the team, took over the flips, took over everything. That was a very trying time, as far as money, as far as taking over the business, taking over payroll, taking over all of those different things, and having my rental properties and that steady income has really helped me get through some of these times, where money has been tight, because I've had ten flips at one time, and just so much cash tied up, or the real estate team is very up and down sometimes. Some months we do awesome and sell a lot of houses. Sometimes we don't do as awesome, and the rentals have always been there producing that steady income, just like that safety net. It's just been so nice having that, and being able to build my other businesses with that kind of safety net behind me.

If you know, over the years, when I first started out, I had a goal to buy thirty rental properties in ten years. I bought one in 2010. I ended up buying a couple more in 2011. I thought I could safely buy three properties a year for ten years, have thirty properties, have plenty of money to retire if I wanted to, be in good shape, and that was my goal.

What ended up happening was I took Jack Canfield coaching program, which is an awesome program, and they really challenged me on the way I thought about many different things about my time, about money, about goal setting, and I learned I have to make my goals much bigger than what I can really accomplish. If I think I can accomplish something, then it's not really that hard of a goal. It's something that I've done before, so I can do that again. I don't put much different into it. But if I make a big goal, I really go after something and challenge myself, that's when your life starts to change. You have to change things you're doing, change your perspective, change your habits to reach those goals. It's not something that just easily comes.

My new goal was to buy one hundred rental properties basically in the next ten years, by January 2023. I knew that was a big goal. I didn't know how I could do that. I didn't know how I could save enough money. I didn't know how I'd find enough properties. Many different factors came into thinking about how to challenge myself, because that's basically buying ten properties a year, which is a much higher pace than I was on, even that I'm right now, a few years into that goal, but it's really challenged me to look at things differently, find new ways to buy properties, look at different ways to finance properties, and just do things differently than the normal coast along. It worked once. Why not just keep doing that. It's really changed the way I think at things.

I love that goal. I love the way it's challenged me, and it definitely has made me buy more rental properties. If I did not have that big goal to buy one hundred, I would probably have maybe ten properties now I'd say, maybe. Who knows, maybe less. That goal has really pushed me into overdrive. Even though I'm behind the pace I need to be to get to a hundred, I'm definitely ahead of where I would have been without this goal. Even if I don't reach my goal, even if I don't hit one hundred in 2023, I'm still going to be way ahead of where I would have been without that goal. It doesn't mean you fail just because you don't reach your goal. Maybe you're taking a different path, or it takes you a little longer to get there, but the whole idea of goals is to get you farther ahead of where you would be without those goals. You don't have to reach your goals for them to be effective and change your life.

We'll move on here to a few of the benefits of rental properties. Why they've been so good for me, why I think they're so great for other people. Really, the biggest thing with rental properties is cash flow. I buy my properties below market value. I love to see them appreciate. I love to build equity in them. But cash flow is really the huge benefit of rental properties.

I try to make about five hundred dollars a month on each of my properties, sometimes I get a little less, sometimes a little more, and I shoot for about 20% cash on cash returns. That's just with my cash flow. You can see, that's a pretty good return on your investment if you're making 20% on your money. Your money is going to grow very quickly if you can make that much money.

That's one of the huge benefits of rental properties, but the best thing about cash flow, is it's coming in every month, and it gives you so much flexibility of what you do with that money. The first year I owned my rental property, I had the idea that I should pay it off as quickly as possible. Kind of used the snowball method to pay down that mortgage, and what that means is you take all the rent, all the cash flow from the properties you own, so if you own five rental properties and you make maybe two thousand dollars a month in cash flow off them, you take two thousand dollars every month, pay off one mortgage with that money. You can pay off the mortgage very quickly, and once you pay off that mortgage, you can do the same thing with another rental property. It was my strategy to begin with. I like that strategy, because it paid off debt. It was safe. Once I paid off a mortgage, it gave me flexibility with more cash flow. Maybe I could get a line of credit on that property, do all kinds of different things.

I used that strategy, and ended up paying off my first property a couple years ago. Awesome feeling. Just so cool to see me pay off an entire mortgage so quickly in just a couple years really, and I did get a line of credit, and used that money to help with my flipping business. My whole point is with the flexibility of this cash flow, I changed my theory after that, and realized I can grow my business, my rental properties much more quickly if I don't pay off my mortgages. Instead of using that cash flow to

pay off mortgages now, I've been saving it. Like I said, it's helped me get through when I had ten flips at one time and I was short on cash, it helped me get my business through that process. I could put more money into my flipping business from the rental properties. It helps me buy rental properties faster. If I save up that money every month, then it gives me more money for down payments to buy new properties.

I have changed my strategy regarding paying off mortgages, buying new properties, and how I use that cash flow. That's a great part about the cash flow. You don't have to pay off mortgages. You don't have to invest it in new properties. You could save it. You could use it to live on. You can use it for reserves, to build up your reserves if you're short on cash once you buy properties. There's just a lot of different options for it. That's the greatest thing about cash flow.

Contrary to retirement plans, the stock market and mutual funds, I think cash flow is far superior. Think about investing in the stock market. The basic idea is save your money, invest it every week, every month, whatever you do, and over enough time, the market always goes up historically, so your money is going to increase in value. Build up this huge amount of cash over the years, and then when you get to a point where you're comfortable, you can retire, start living off this money you've saved and the interest its producing.

But when you're living off money saved in the stock market and mutual funds, you begin to eat into that capital you've saved. If you've saved three or four million dollars, you have to save a lot to be able to retire, if you look at the calculators. Let's say you save four million dollars. Once you retire, you start using that money up. In five years, maybe you're down to three million. Ten years, maybe you're down to two million. I'm not sure. It depends on how much money you have to use every year, but you're guessing how long you're going to live. You're guessing how much money you're going to need. A lot of people will decide, "Hey, I can live more frugal in retirement to make that money last longer. I don't have to spend money on all these things." There's just so many unknowns when you're investing in the stock market.

You, also, don't know exactly how much money you're going to have, what returns you're going to get, so if you make 5% on your money, instead of 7%, that's going to increase the time you have to work five years. Who knows, ten years. It just all depends on how much you're saving, your goals, but just small differences in the returns you're going to make can make huge effects on your life, your retirement, and there's really no way to predict those, or know what the stock market is going to do. Sure, the stock market is doing great now, but it wasn't that long ago that people were losing their life savings, and seeing a 50% drop in their retirement savings, because the market had crashed. There's no guarantee it's always going to go up, and always be peachy and happy with the stock market.

The difference between the market and rental properties is when you have that cash flow, if you've got five hundred dollars a month coming from one property, you're not eating into the capital when you take that money. You can take that cash flow. You can pay off the mortgage on it, if you want to. You could buy more rental properties with it, if you wanted to, or you could live on it. If you live on it, it's not like you're decreasing the value of your rental property or taking away your investment. That five hundred dollars keeps going as long as you own the property. In most cases, it will begin to increase. As inflation increases, rents will increase. If you have a loan on the property, if you're slowly paying down

the loan on that property ... If you just make the bare minimum payments, in thirty years, you'll pay off that house if it's a thirty year loan, and then your cash flow will increase even more, because you don't have a mortgage payment anymore.

The huge difference I see between rental properties and the stock market in retiring is you can buy ten rental properties, have five thousand dollars a month coming in, and you're basically going to get that the rest of your life, as long as you own those properties. In fact, it will probably increase over time. You don't have to worry about what return you're going to get from the stock market. If it's five or seven percent, you don't have to worry about how long you're going to live in retirement. Twenty years, twenty-five years, what if you get lucky and live thirty years in retirement, you're going to run out of money. You're being punished for living too long, or living healthy.

That doesn't happen with rental properties. There's so many advantages to cash flow and retiring that way over the stock market. Yes, the stock market, some stocks have dividends, and will pay out sort of like cash flow, but in most cases, it's not going to come close to the amount of money you're going to be getting from rental properties, if you buy them right, if you buy with great cash flow.

Great time to move into one of the other incredible advantages of rental property investment, is when you buy them, you can buy houses below market value. I talked a lot about this on the blog. Many people say, "Well, yeah, but you can buy stocks be low market value. You can buy under valued stocks," but under valued is not the same as buying below market value. If you're buying a stock, and someone thinks it's under valued, basically what you're saying is for some reason the thousands and thousands and thousands of over investors around the world don't think this stock is worth as much as I do. Maybe it's the price to earnings ratio, or the future prospects this company has, but the market has determined the price. It's a very fluid market. Thousands of people can buy and sell this stock very easily, so that's market value. Twenty dollars a share, that's what it's trading for, that's what the market says it's worth. If you think it's under valued, you're not buying it below market value. It just means you think the market is valuing that stock wrong, so maybe they are. Maybe you're right and the other thousands of people are wrong, or maybe you're not. Maybe that stock is worth what the market says it is.

With real estate, it's a completely different situation. We can say a house is worth a hundred thousand dollars. Market value is hard to determine on real estate, but you can tell from comparable properties that have sold, by making adjustments, by looking at houses in the neighborhood, and know approximately what a house is worth. Maybe it's worth a hundred thousand dollars.

But there are many reasons why you can buy that house for less than what the market says it's worth. It's a very different market than the stock market. There's much fewer people buying these properties, much fewer sellers. It's not nearly as fluid, and that gives you more opportunities. Maybe the property is an REO sale. The bank owns it. It needs ten thousand dollars in work, and they want to sell it right away. They want to get rid of it, so they'll sell it for eighty thousand, seventy thousand dollars. Maybe it's a short sale. If it's a short sale, the bank has to approve the current owner paying the bank less than they owe on it, and most buyers don't want to buy a short sale, because it can take months to get an approval. You can't have any repairs done. Many times you can't get a loan on those properties. Completely limits the market of buyers, which makes more opportunities for those that can buy the property. Maybe the seller, it's an estate, and they just want to get rid of it. They don't want to deal with

it listed, highest price they can get, and then dealing with contracts falling apart. They want their money. They want it out of there.

I've bought some estate sales, where the owners knew they were getting no money from the house sale, because all the money, all the proceeds was going to pay off nursing home bills, or estate bills, or taxes. They're like, "Yeah, we'll try and get close to market, but, really, if it's anywhere close to what it's worth, it doesn't matter to us, because we'll never see that money. It's just going to the state, so, yeah, we'll take a low offer," and that's happened to me on rental property number four I believe it was, yeah, number four.

There's many ways to buy properties below market, where you can't do that with stocks. Off market, direct mailing, buying properties from sellers who don't want to list on the MLS, many times they will take less than market value, because they don't want it shown. They don't want people coming through the house. Maybe they're embarrassed for people to see the house, or they need money in five days or ten days for something. They want to get rid of it. They're willing to take less than market value, and if you can pay cash, if you can close quickly, or many times even if you can get a loan still, you can get deals on houses.

On the typical rental property I buy, I probably walk into about 20% equity, because I'm buying it below market value, and that is just a huge, huge advantage. Let's say I buy a house for a hundred thousand dollars. It needs ten thousand dollars in repairs, but once I fix it up, it's going to be worth a hundred and forty thousand dollars. I buy it for a hundred thousand dollars, put ten thousand into it. It's worth a hundred and forty thousand dollars. That's a twenty thousand dollar increase in equity. It's not money I'll see in my pocket right away, but if I want to refinance later on, if I want to sell the house, that is money that's going to eventually pay off in the end. A huge advantage over stocks. You just don't get that in stocks.

Buying below market value, great, great thing about rental properties. Cash flow, awesome thing about rental properties. Tax advantages, rental properties have huge, huge, huge, huge tax advantages. Of course, always talk to an accountant, lawyer, if you have any questions on the specifics of taxes, but you can depreciate rental properties over time. Is it twenty-six and a half years? What you do is take the value of the structure of the property, so that house I bought for a hundred thousand, maybe the structure is worth eighty thousand dollars. You take eighty thousand, divide it by twenty-six and a half years, and you come up with a couple thousand, three thousand dollars a year as a deduction off your taxes. Basically the IRS is saying that structure is only going to last just under thirty years, and after that time frame, it's not going to be worth anything. It's depreciated. It will fall apart. It's just going to be scrapped.

Obviously, we know houses last longer than that, and if you take care of them, they can last hundreds of years, but you can depreciate that house off your taxes, which in essence, if you're making a couple thousand dollars a year in cash flow, and you're depreciating it a couple thousand dollars a year off your taxes, you can make money, see actual money coming in from the property, but on your taxes, it will show no income, or even negative income in some cases. Absolute huge advantage for rentals.

If you own a rental property more than a year, that time frame can be argued, but, in most cases, people will say if you own a rental property for a year, have it rented out for a year, and you sell it, you pay long term capital gains on any profit you make, which is much less than short term capital gains, another great advantage. Rentals are awesome. The interest you pay on your loans is deductible. The expenses you pay, repairs, maintenance, all that is either depreciable, deductible. Just awesome tax shelter, if you can buy rental properties.

We got buy below market value, tax advantages, cash flow. Equity pay down is another great thing about rental properties we've talked about briefly, but if you get a loan for eighty thousand dollars on that hundred thousand dollar property, it's probably going to be paid down a thousand, fifteen hundred dollars in your first year, and that's going to increase over time, to the point where you pay off the loan, and that five hundred dollars a month you're making in cash flow, is profit after all expenses, including paying your loan. It's just another extra bonus of paying off the loan, paying down equity on your property,

Finally, most houses ... I don't know if most houses do, I would say so, appreciate over time. Just like the stock market historically has always gone up in value, the housing market historically has always gone up in value as well. Some argue, in fact many people argue, "Well, stocks go up in value more than the housing index." I think the historic increase of stocks is around 7%, and historic increases in the housing index is three or four percent. People say, "Obviously, stocks are a better investment, because the stock market goes up a higher percentage than the housing market." Those people have no idea about the other advantages of rental properties, or they just don't want you to tell you about the other advantages of rental properties, like buying below market value, cash flow, tax advantages, paying down the loans. Appreciation is just another bonus on top of all those things. That's why rentals are so awesome.

I wrote an article last year about how ... I think it was when I had eleven rental properties. They had increased my net worth by six hundred thousand dollars, from a combination of buying below market value, appreciation. I don't even think I counted cash flow. Cash flow is a completely separate thing, but just from appreciation, buying below market value, those eleven properties had increased by net worth by six hundred thousand dollars in three and a half years.

That just shows you how powerful they can be, and I think the cash I spent on those eleven properties was less than half of what they increased my net worth by, and that's even if you don't even count the refinances I did, which allowed me to bring less cash into the equation as well.

I hope you can see the huge advantage of rental properties, the sooner you can buy them, the sooner you can buy a lot of them, the better off you're going to be, as long as you buy them right, you get great deals, and you're not just buying any property.

That's something I want to talk about here as well. So many people get into buying rental properties. They buy rental properties, or they become an accidental landlord, and they don't think about what real cash flow is, buying below market value. They just buy, because they think it's good to buy any property, to invest in it, or they think just because their rent is a little bit more than their mortgage, they're going to make money on the property, as long as they own it.

I want to talk about some of the fundamentals of what properties to buy, how to figure out what a good property is, and how to find some of those properties. Like I said, I don't have time to talk about everything, but we'll try and get into as much as we can.

The biggest mistake most people make when buying rental properties, is they don't figure their cash flow right. Your cash flow is the profit you make every month on that house. You have to consider taxes, obviously, insurance, your mortgage payment, and then any other fixed expenses, if there's a HOA. If you have to pay any utilities on that property, the tenants don't pay everything. Electric, gas, trash, if you have to do any law maintenance. You've got all your hard expenses. Those are the ones you know you're going to have. You have them every month, or at least every quarter. You can figure those very easily.

Many average investors will say, "Hey, my rent is twelve hundred dollars a month. My hard fixed costs are a thousand dollars a month. This is an awesome investment. I'm making two hundred dollars a month," but they forget two of the most important expenses that are not going to happen every month, but they will occur, and they will take your money.

The first is vacancies. You cannot assume your house is going to be rented every single month of every single year for as long as you own it. It doesn't matter how awesome a property manager you are, or if you hire the most awesome property manager in the world. It will not happen. Even the best tenants in the world run into problems. They lose jobs. They have issues, and they might have to move out early. They will move out eventually. You might not be able to rent that house the very next day as soon as they move out. There will be vacancy costs.

Those costs can vary. I like to do about 5% of my rents as the cost I figure for. I do that because we have an extremely low vacancy rate in Colorado. It's, where I'm at, right around 1%, so it's very easy to rent homes. We can rent them very quickly, but we still have vacancy costs. Right now, we're going through on issue on one of my properties. The people lived there for four months. No issues. Paid their rent on time every month, and, all of a sudden, they stopped paying rent. They won't answer their phone. They won't answer the door. Just out of the blue they stopped paying, so we had to start the eviction process. We posted a notice. Getting ready to go through the eviction, and then, all of a sudden, they just moved out. They're gone. It cost us two months in rent to go through that whole process. We can get the house rented again. They didn't destroy the house, thankfully. They left it a little dirty, but we can get the house cleaned. We can get it rented again, but we still lost two months in rent.

That doesn't happen very often. It happens very rarely, but that two months in rent is a lot of money, and greatly affects your returns, because I still have my fixed costs for those two months. I'm not just losing five hundred dollars a month in cash flow. I'm losing five hundred dollars a month in cash flow, plus I still have to pay the mortgage payment. I still have to pay the taxes, the insurance, and, since those people are moved out, they may have stopped paying their electric bill, their gas bill, whatever, and I might have to pay some of those as well.

Just one issue like that can make up for a year or two years of continuous rent payments, so you have to account for vacancies, at minimum 5%. If you have a higher vacancy rate, where you're dealing with properties that have more turnover, you may consider thinking about 10%, and so if your rent is twelve

hundred dollars a month, you would assume your vacancy cost at 10% would be a hundred twenty dollars a month. At 5%, sixty dollars a month. That's one cost you have to account for. You can't ignore it. I don't care how good a manager you are, how awesome your properties are.

The second one that many people ignore is maintenance, capital expenses, fixing up and repairing the property while you own it. Even if you buy a brand new construction home, just built, everything's perfect, you're going to have maintenance expenses, guaranteed, so you have account for them. Again, how much you account for them will vary on how big the house is, how old the house is, what kind of shape the house is in, maybe what type of tenants you have in the house, but you have to account for it.

When you own the house, you should have maintenance costs anyway, even if they're the perfect tenants and the house is in good shape, because there are certain things you need to do while you own the property to keep it in good shape. For example, every quarter, we have someone go in, inspect the house, check the smoke alarms, make sure batteries are in there, change the furnace filters or check the furnace filters, make sure they're clean, check the CO alarms, make sure they're working. Just go in, checking the house, make sure the systems, everything is safe, and it gives us a great excuse to check on the tenants, too, make sure they're cleaning the house, keeping it in good shape, don't have twenty people living there, or ten dogs in the house, things like that.

That's an expense we have to pay. Even if we don't have to spend any money on the house, we have to pay the person to inspect it, look at everything, make sure it's all right. All my houses, also, have sprinkler systems, so I hire someone, usually the same person, they can do their quarterly inspection, to go out, winterize the sprinkler systems during the winter, blow them out, make sure none of the pipes freeze. Sure, you could put that responsibility on your tenants, but what are the chances that they're actually going to do it or do a good job? They're probably not going to spend the money to hire someone. They're going to try and do it themselves, and you'll run into issues with pipes freezing.

The same thing in the spring. I'll have someone go out and turn on the sprinklers, make sure they're running right, there's no leaks, there's good coverage for the yard. That's another thing. I don't trust my tenants to water the lawn themselves if they don't have a sprinkler system, because it's not their house, and many people, if it's not their house, they won't care as much about it. They'll let the lawn die. The sprinkler system guarantees the lawn will stay green, save me more money in the end with replacing grass, sod, whatever you have to do. That's a maintenance cost to have the guy go inspect the house.

Every few years, houses will need painting. The carpet is going to need to be replaced. There's just things that wear and tear does on a house. You can't expect it to stay perfect. While I may have some houses that have awesome tenants, long term tenants, lived there for three years, no problems, no issues, when they move out, we might have to repaint some of the rooms, or do some maintenance on the house. It's not the tenant's fault. They lived in the house. If you live in a house, you're going to scuff up the walls, or you're going to do a little bit of damage, but you have to fix those, as a landlord, to make the house looking good to get top rent.

What I figure for on maintenance, on houses that are in really, really good shape, just remodeled, minimum 5% maintenance a month. That's pretty rare. I think usually at least 10% you need to figure on, because you'll have those big expenses that come up, too. You'll have to replace roofs once in a while.

Maybe you have to replace windows. You have old aluminum windows, at some point you may want to put nice vinyl windows in. Every once in a while, you'll have a tenant that really does not do a good job of taking care of the house, and you'll have more expense in that house.

The big expense, just like the big vacancies, will make up for all the months of no repairs, no maintenance, so you really have to figure for those in your cash flow. Let's say you've got 10% maintenance, 10% vacancies in your area. If you've got twelve hundred dollars a month in rent coming in, and your hard fixed costs are a thousand dollars a month, your vacancy is going to be another hundred and twenty. Your maintenance is going to be another hundred and twenty. Now you've got twelve hundred and forty dollars a month in costs, and you're bringing in twelve hundred dollars of rent, so on the surface, sure, it looks like you're making two hundred dollars a month in rent. In reality, you're probably going to lose money on that property, because the maintenance, the vacancies will eat up any profit you make.

I've got a great cash flow calculator on Invest Four More. It takes into account the maintenance, the vacancies, and gives you an idea of what those percentages should be, too, based on the condition of the house, age of a home, all those factors.

Make sure you're not just taking the rent minus your payment and taxes, and assuming all the rest is going to be profit, because it won't be. One of the biggest mistakes new investors make.

We figured out how to make proper cash flow. We figured out why rental properties are such a great investment. How do you buy houses? How do you find those great deals? How do you buy houses that cash flow so well, and are bought below market value? Maybe even appreciates is a bonus, too, and, honestly, it's not easy to do. If this was easy to do, everybody would do it, and people would not invest in the stock market. Come on, twenty percent returns, plus you're building twenty thousand dollars in equity when you buy, plus the houses are going up in ... It's a no brainer if you can do all of this and hit a home run every time.

That's why it's not easy to do. Even in my market, our market is going crazy, and it's not easy for me to find these deals, and I've been in the business fifteen years. I've gotten sixteen rentals. I've been flipping houses. It's still not easy to find great rental properties, but you can do it. The first thing you need to look at really is your market. Look at average rents versus what you have to pay for houses. Figure the cash flows. See if your market works for rentals, because many markets simply don't work well for cash flow. East Coast, prices are so high. West Coast, prices are so high. It's getting tougher in Colorado with prices so high. If you just have astronomically huge prices, in most cases, the rents are not going to be relatively as high to give you that cash flow with the house prices.

If you don't have a place that cash flows well, then you've got to look at your immediate vicinity, other towns close by, other areas, other neighborhoods maybe, where you can buy lower priced homes that cash flow, and, also, some people are buying out of state. Some people are buying in the mid-west, or Florida, Milwaukee, South Carolina. There's all types of different places where people are buying, where you can find that cash flow, so that's another option.

Obviously, I think the closer you can invest to where you live, the better, but if you just can't make money there, don't be afraid to research some other areas. When you're buying properties, it helps being an agent. I'm a real estate agent. It really helps me out, but you don't have to be a real estate agent to get a good deal. Make sure you find a good real estate agent if you do have to use them. Don't be afraid to look around, to switch, to find an agent who has time to look for you, show you houses right off, because acting fast will make a big difference. Many of my properties that I buy are great deals, and I act very fast, write offers very quickly, and that's why I get them.

Some of the ways you can make it easier to get those great deals. Obviously, talk to a lender, talk to a bank if you're using financing, and get that figured out before you even start looking at houses, so that you're ready to go. Know what repairs and what condition your bank is going to want a home to be in. Some banks, even if you're an investor, will want a house to be in livable condition. They'll want the carpet decent. They'll want all the appliances there. They don't want any holes in the walls. They want the roof good. They want the plumbing good, the furnace good. If you see a house that needs ten thousand dollars in work, and the furnace is bad, you might not be able to buy it if your lender wants to see the heat working, so make sure you know all that upfront, what your lender requires, what they're going to look for when you're getting a loan.

That's why a portfolio lender is so important. Those are local lenders that lend their own money. Many times they're much more lenient than the big lenders on lending, on conditions. That's why I love my lender. I don't have to get an appraisal in most cases. They don't care what condition the home is in. They don't even see the house many times. They're much easier to use than a big bank.

If you can find a bank that will loan on repairs, or it doesn't matter if the house needs a lot of repairs, it will give you many more options. You can use it almost as a cash deal, but you're still getting a loan. Look at those houses where you can put ten thousand, fifteen thousand dollars into them, increase the value, increase your cash flow.

Later on down the road, if you're really tight on money, it's possible to refinance that home, maybe after six months or one year. Take much of that cash out, use it to buy another property. Many different options, many different things you can do to invest in rental properties, get started quickly, then start making some money.

Finally, if you're just beginning, just starting out, don't have any money, all hope is not lost. You still have some options. You can buy as an owner occupant. Live in the home for a year. After you've lived there a year, you can move out, rent the house. Perfectly legal in almost all cases. You can do an FHA 203k loan if the house needs repairs. It needs a furnace, needs a roof. There's many different options for owner occupants to get into homes, but you're going to have to look at the cash flow very closely, because your loan will be higher, which means a higher mortgage payment. You might have mortgage insurance you have to pay, which means even less cash flow, so you really have to look at the numbers. Dig into the numbers. Figure out where you can make money, and how you can make money with rental properties.

Think that's all I've got for today. If you have any questions, always welcome to comment on the blog. I respond to all the comments. Email me, Mark at Invest Four More.com. I've got my complete blueprint for successful real estate investing. If you're really serious about rental properties, it goes into the

details on everything we talked about, plus a lot more. We're doing conference calls twice a month with me, email coaching. Great program.

Please, find a way to buy rental properties if you can, or at least make a plan for the future, where you can invest in rentals. They're so awesome. They're such a great investment, but it's not going to be easy. It's not going to be a walk in the park. You're going to have to put some time in, some work in to make them work.

Thanks, everyone, for listening, and I'll talk to you again next week.