



**Ruhl  
&Ruhl**  
REALTORS

# Real Estate Investment Guide

# Real Estate Investment is an effective way to build wealth and help you to move from the life you have to the life of your dreams.

Real estate investment takes time, effort and patience. Whether or not it is right for you depends on your current finances, your personal goals and your vision for the future. However, when it is done well, it is an effective wealth building tool that can benefit you and your family for years to come.

A brick and mortar investment has many advantages. A place to live is a basic need, so real estate investments tend to be more stable than stocks or bonds. Changes in equity happen over years - not days - so properties can often play a part in an overall portfolio as a hedge to the stock market.

Real estate also has the potential for a high return, especially when it is planned over years. Below are some of the most common reasons our clients started investing in real estate.

## **Pay for your children's (or your grandchildren's) college education.**

One of the easiest ways to pay for a college education is to buy a rental property when your child is young, and to put the property on a 15-year loan. The increase in the property's equity will help fund, or even fully fund, your child's college tuition.

## **Fund your retirement and provide a steady flow of income during those years.**

Purchasing rental properties is a long-term investment. Real estate rental rates tend to move at the pace of inflation, which helps protect your investment over time. When you reach retirement, you benefit from a steady stream of income and the equity that your properties accumulated.

## **Create "wake-up" money, or a steady flow of passive income.**

Passive income is money earned on a regular basis that takes little effort. Real estate can easily add thousands of dollars to your yearly income. Using a qualified Property Manager can be one way to reduce your effort and maximize your passive income.

## **Leave a legacy for your family.**

There are many tax benefits involved with leaving your real estate investments to your children, or other loved ones, depending on your personal estate portfolio.

*If you plan effectively, you can achieve all of these goals over time through leveraging your current portfolio to acquire new properties.*

## **What if...**

You purchased 10 houses 15 years ago at \$70,000 each and financed them on 15-year loans?

Today, your houses would be free and clear. Each home would be worth approximately \$100,000, which means that your real estate portfolio would be around \$1,000,000. Your houses would probably be earning you an estimated \$8,000 - \$10,000 in cash per month.

Interested in taking the first step? Let's work together to customize a plan for you, and your family, designed to move you from the life you have to the life of your dreams.

# Benefits of a Real Estate Investment

**Real estate is different from other forms of investment because it has four distinct components of return. To make informed decisions, it is important to understand each before starting your investment journey.**

## Rental Income (Cash Flow)

Generating income from rentals is at the top of the list of real estate investment benefits. The key to making cash flow a reality is to purchase a “cash flow positive property.” This means that the income from rent will outweigh the property expenses (e.g., mortgage, current and future repairs, vacancy rates, etc). See the chart to the right for an example of our property investment worksheet. We can provide this to you and customize it for your property.

If you do your homework and purchase the right property, then you can set yourself up to earn additional income without too much effort. Keep in mind that renters can be difficult to manage and properties need ongoing maintenance.

## Principle Reduction

One of the major benefits of real estate investment is someone else makes your payments for you. You simply apply any rental income toward your mortgage payments, and with every payment you increase your equity by reducing the amount you owe to the bank. Your tenants are actually helping you pay off your mortgage.

## Tax Savings

Any money you make from rental income must be declared as income on your tax return. However, the tax code is written to encourage real estate investment by allowing investors to depreciate the value of investment properties (claim losses), when in reality they are appreciating in value. You also can claim deductible expenses, such as repairs, maintenance, real estate taxes, equipment, and tools.

The potential tax benefits of owning a rental property may result in paying less in taxes than you did before you owned the property. Of course, this depends on your personal finances and tax situation, and you should always consult your tax professional.

## Appreciation

Real estate values have historically appreciated at a rate of around 2% across our region. Imagine you purchased a \$100,000 property with a 25% cash down payment. This property would increase in value by around \$2,000 per year. However, you are really receiving an 8% return because you didn't have to pay the full property value upfront; the 25% down payment is leveraged to get you a greater return on investment.

The power of this appreciation is amplified by inflation hedging, which means that real estate values tend to maintain the same purchasing power of capital. Basically, money loses its value over time due to rising prices (or inflation). However, historically, real estate values move at around the same pace of inflation, which protects your initial investment.

# A Real Estate Investment in Action

Below is an example of an investment property analysis that a Ruhl&Ruhl Realtor can run for you on your current, or potential, investment property.

<b>Purchase Price</b>	<b>\$100,000</b>	<b>Annual Debt Service</b>	<b>\$6,885</b>
<b>Down Payment</b>	<b>25%</b>	<b>- Interest</b>	<b>- \$3,302</b>
<b>Interest Rate</b>	<b>4.50%</b>	<b>= Principle Reduction</b>	<b>\$3,583</b>
<b>Loan period (years)</b>	<b>15</b>	<b>Total Depreciation Year 1</b>	<b>\$4,342</b>
<b>Cash Invested</b>	<b>\$25,000</b>	<b>Net Operating Income</b>	<b>\$8,017</b>
<b>Loan Amount</b>	<b>\$75,000</b>	<b>- Interest &amp; Depreciation</b>	<b>\$7,644</b>
<b>P&amp;I/Mo</b>	<b>\$574</b>	<b>= Taxable Income</b>	<b>\$373</b>
		<b>x Tax Bracket</b>	<b>30%</b>
<b>Monthly Rent</b>	<b>\$1,100</b>	<b>Tax Paid/Saved</b>	<b>- \$112</b>
<b>Annual Rent</b>	<b>\$13,200</b>	<b>Annual Appreciation Rate</b>	<b>2%</b>
<b>Less Vacancy (6%)</b>	<b>- \$733</b>	<b>Annual Appreciation</b>	<b>\$2,000</b>
<b>Gross Operating Income</b>	<b>\$12,467</b>	<b>Return on Investment</b>	
<b>- Operating Expenses</b>	<b>\$4,450</b>	<b>ROI w/ Appreciation</b>	<b>26.4%</b>
<b>= Net Operating Income</b>	<b>\$8,017</b>	<b>ROI w/o Appreciation</b>	<b>18.4%</b>
<b>- Annual Debt Service</b>	<b>\$6,885</b>	<b>CAP Rate</b>	<b>8.0%</b>
<b>+ Cash Flow Before Tax</b>	<b>\$1,132</b>	<b>Cash on Cash Return</b>	<b>4.5%</b>

## Questions to Consider When Investing in Real Estate

- What is your ultimate goal for investing (e.g., a college education, retirement, passive income, etc.?)
- When do you need to reach this goal?
- Where do you want to end up financially? How much passive income would you like each year?
- How will you finance your first property?
- What types of properties are you most comfortable owning?
  - Single Family Homes? Where?
  - Townhomes? Where?
  - Condos? Where?
  - Duplexes? Where?
  - Student/Campus Housing? Where?
  - Commercial buildings? Where?
- How much risk are you comfortable with?
- Are you investing alone or with a partner?
- How much time are you willing to invest to find, buy, and manage properties?
- How many properties/units would you like to eventually acquire?
- Are you “handy” with tools and can fix things or do you prefer to hire someone?
- Do you have the time and knowledge to manage your properties?
- Will you want to hire a qualified property manager?
- Do you have geographic stability in your job or profession?
- Can you hold the property for at least three years? Five years?
- How can you leverage existing properties to buy more?
- Who would you like on your team (e.g., Realtor, tax professional, lawyer, etc.)?
- Do you know of anyone who has successfully invested in real estate? If not, contact us, and we can help connect you.
- What is your plan? We encourage you to get specific and develop a plan with short-, medium- and long-term goals.
- Are you able to evaluate the ROI on investment properties? Or will you need assistance analyzing potential returns?
- What are your systems to run the properties? How will you attract tenants, screen them and collect rent? How will you handle complaints and/or repairs?

# Top Tips for Creating Wealth through Real Estate

**Get started early.** Put time on your side.

**Spend time planning.** Ask yourself the important questions. Then, establish your goal(s) and craft a plan.

**Draft your team.** Surround yourself with knowledgeable people. Meet potential Realtors, accountants, attorneys, and qualified property managers to determine who will be the best partner.

**Decide how you will finance your investment.** There is a wide range of financing options available, so it is important to meet with your loan officer early in the process to determine which product will meet your investment objectives. Ruhl Mortgage is always available to help answer your questions, quote products that fit your goals, and get you pre-approved so you can start searching for properties with confidence.

**Research the buying process.** Review the contract and ask your Realtor to walk you through each step of the transaction. Decide what type of property you would like to purchase and make a plan for how to search for it.

**Stay local or hire a qualified property management company.** Even if you are local, you may want to hire a company to take the stress out of investing. However, if you live out of state, this partnership is necessary. You need someone who has eyes on the property and can take care of any issues that arise.

**Take care of your property and it will take care of you.** If you don't like property management or are too busy, don't let your property languish. Hire a qualified property management company. You can start by calling Ruhl&Ruhl Property Management Department at 563-441-5230.

**Buy "mainstream" houses and condos.** Buy properties at or below the average sales price that appeal to most buyers and avoid unusual properties. Be sure to always check to see if the property is part of a Homeowners Association (HOA), and if so, research their rules and regulations.

**Evaluate your insurance options.** Ask about property and liability insurance for your property. Make sure to also inquire about title insurance.

**Analyze the potential ROI.** Ask your agent for the Ruhl&Ruhl Investment Property Worksheet. Before you purchase a property, it needs to make financial sense.

**Start small.** Start with one property and build. Leveraging one property to buy another is often a good strategy to build your portfolio. When you start small, you also have the benefit of learning from your mistakes before taking on another property.

**Ask a successful investor.** You will always learn a lot from someone who has mastered the art of property investment. Ask them what they wish they knew before getting started and for any other advice they may have.

**Believe in the long run.** You need to be prepared for ups and downs. Over time, the real estate markets have always trended up and an investment well-planned and managed can be very profitable. However, there may be some months where you don't have a renter or something breaks in the property. The best way to prepare is to have money in reserve for repairs or for off months.

**Know your "limit."** Know when you are ready to stop accumulating property and start paying off what you have - so you can enjoy life!



## Consult Your Advisors

We strongly encourage you to consult with an attorney and an accountant before making any real estate investment purchase.

We also suggest that you set your team of experts, so you can rely on them throughout the process. Contact us and we can connect you to a wide variety of resources, including property management, expert Realtors, knowledgeable loan officers and successful investors.

### **Ruhl&Ruhl Property Management**

5403 Victoria Avenue, Suite 100  
Davenport, IA 52807  
(563) 441-5245

### **Ruhl Mortgage**

1701 52nd Avenue  
Moline, IL 61265  
(866) 441-1862

### **Nelson Brothers**

940 Lincoln Road  
Bettendorf, IA 52722  
(563) 323-9233

### **Ruhl Commercial**

5111 Utica Ridge Road  
Davenport, Iowa 52807  
(563) 355-4000