



## EARN 30% OR MORE PER YEAR INVESTING IN REAL ESTATE

Anyone can earn 30% or more investing in real estate and it is not difficult to do. You just have to know how to do it! Once you understand a few basic principles of real estate finance, your wealth generation through real estate can be unlimited!

There are basically 5 different elements of return to consider when investing in real estate. Those principles are **Cash Flow from Rental, Appreciation, Leverage, Principal Reduction, and Tax Shelter.**

### 1. CASH FLOW FROM RENTAL.

For this example, we are going to assume you purchased a rental property today for \$100,000 that has a rental income of \$1,000 a month or \$12,000 a year. It is move in ready and takes you 2 weeks to get it rented. You rent and expenses are detailed below.

<b>Potential Rental Income:</b>	\$12,000	<b>Rental Expenses:</b>	
½ Month Vacancy per Year	\$500	Property Taxes:	\$1,300
<b>True Rental Income:</b>	\$11,500	Fire and Hazard Insurance	\$600
		Repairs & Maintenance	\$600
		Property Management Fees	\$1,000
		<b>Total Expenses:</b>	\$3,500
		<b>Net Income:</b>	\$8,000

You have just earned an 8.0% (\$8,000) return on your \$100,000 investment! Not bad! Do the property management yourself and save an extra \$1,000! But the above figures are a conservative estimate of true rental income for the educated investor.

### 2. APPRECIATION.

Property values go up over time! It's a certainty! Hard to believe though given the last five or so years of the housing market. But think back to home prices in 80's 90's and even the early 2000's. We are well ahead of values in those days! In fact, we can expect real estate prices to rise year over year from 3% to 5% just to cover inflation. Markets do have their swings, but inflation is a constant and the cost to build new homes rises every year. Thus the continual rise in home prices. In this example, if the home you bought last year rises in value by 5% you have made a \$5,000 return on top of your \$8,000 in rental income, a 13% total return on investment so far. Also, In 10 years, at 5% appreciation, your \$100,000 property will be worth over \$162,000!



### 3. LEVERAGE.

Leverage is the ability to borrow money on your real estate so that you can significantly magnify your return on investment. If you can borrow money at 6% interest rate and then earn 12% on that borrowed money through the collection of rental income and appreciation (Like the example above), then your income is only limited to the amount of money you can borrow! You are basically earning the spread on the interest rate you are paying the bank and the amount of income and appreciation your property generates.

For Example: Let's say you borrow money at an interest rate 6% for 30 years at 80% of the value of your property or in this case \$80,000. Your monthly payments would be approximately \$480 a month or \$5760 a year. Your annual expenses on the rental of the property would increase from \$3500 to \$9260 to cover your new debt. Your net income would be reduced to \$2240! Ouch! Terrible Right? Wrong!

Because your initial investment in the property was only \$20,000, (you borrowed \$80,000 remember) your return on investment on the rental of the property is now **11.2%** ( $\$2,240 / \$20,000$ ) and the return on investment due to the appreciation of the property is **25%** ( $\$5000 / \$20000$ ). Wow!

**Your Total Return on Investment So Far = 36.2%**

### 4. PRINCIPAL REDUCTION.

When you take out a fully amortizing loan, you are paying down a portion of the loan balance each month and each year. In this case, you will pay down your loan balance by \$892 in the first year. This represents an additional return of approximately 4.5% ( $\$892 / \$20,000$ ) = **4.5%**

**Your Total Return on Investment So Far = 41.7%**

### 5. TAX SHELTER.

Real estate has long been regarded as a great tax shelter. This is because real estate is an asset that you can depreciate on your taxes that actually increases in value over time if it is properly maintained. Everyone's tax situation is different, but real estate's tax shelter benefit is too great to be ignored. In the example above, you can write off the value of the dwelling (not the land) over a 27.5 year period. If the value of the dwelling is 85,000 and the value of the land is \$15,000, this represents a \$3090 ( $\$85,000 / 27.5$  years) annual tax deduction each year on your income taxes. In its most basic form, you will not have to pay taxes on the first \$3090 a year your rental property generates! If you have a mortgage on the property at an 80% loan to value, you will receive cash flow each year of \$2240 on the property but at the same time have a taxable loss on your tax return due to the \$3090 depreciation write-off. Imagine making \$3090 a year on each of your properties and not having to pay taxes on it! If you are currently in a 30% tax bracket for federal and state, this amounts to a \$927 tax savings each year. This represents an additional return of **4.6%** ( $\$927 / \$20,000$ ) = 4.6%

**Your Total Return on Investment So Far = 46.3%**



## **KEYS TO SUCCESS**

### **1. THE CASH-OUT REFINANCE!**

The real money in real estate is made in cash out refinancing! You can do a cash-out refinance on any one of your properties once you have built up substantial equity in it. Just ensure that when you refinance a property, that it is generating enough income to cover any new debt you obtain on the property. This is easily achieved by increasing rents over time. You can receive literally tens of thousands of dollars every 5 to 10 years from the refinancing of each of your properties. In ten years, given a 5% appreciation rate, the \$100,000 property you purchased above would be worth over \$162,000! Also in ten years, the balance of your \$80,000 mortgage would have been reduced to about \$67,000. An 80% cash out refinance would net you \$62,600! ( $\$162,000 \times .80$ ) – \$67,000 = \$62,600. You can use this money to realize your dreams, travel the world, or better yet, purchase new investment properties! You also never have to pay taxes on loan money!

### **2. NEVER OVER FINANCE A PROPERTY**

That is, never finance a property to the extent that you are losing money each month through the rental of the property. Give yourself a good rental income cushion. Be sure you allow for vacancies, and repairs. You want to be generating a comfortable positive cash flow each month. In general, we recommend putting at least 20% down on all properties. Putting 20% down usually gives you great cash flow on the property and saves you from having to pay any kind of mortgage insurance. It also gives you the best rates on most mortgages.

### **3. KEEP YOUR PROPERTIES IN GOOD RENTAL CONDITION**

Properties in good condition rent faster, have fewer vacancies, and generate higher rental income. All tenants desire good quality housing. Keeping properties in good condition pays for itself over time!

### **4. NEVER SELL**

Selling a property requires paying capital gains taxes and depreciation recapture taxes which can be a significant expense. Instead, exchange your property! If you do want to sell a property, utilize all the benefits of the IRS tax code regarding tax free exchanges. You can achieve significant tax avoidance by "exchanging" properties instead of "selling" them!

### **5. CONSIDER BUYING REAL ESTATE INSIDE YOUR IRA**

Do you have a large balance inside your IRA or 401K? You may be able to invest in real estate totally tax free! These are great for investment properties that you purchase for cash and rent out on a long term basis.

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**For More information on investing in residential real estate, please give us a call at 678-261-4901.** We can go over your financial situation and investment objectives. With each property you purchase with Georgia Choice Realty, you will receive an investment projection spreadsheet that will calculate down to the dollar what you can expect to return while investing in your selected property. This projection spreadsheet includes all of the financials regarding your real estate investment including, property acquisition costs, estimated rehab expenses, closing costs, rental income projections, rental expenses etc. This is a great financial tool for any real estate investor.

## **THANK YOU!**

We hope you have found the content in this free report valuable. Be sure to download a copy of our Free Home Buying E-book **"7 Steps To Becoming a Homeowner"** by visiting [www.GeorgiaChoiceRealty.com/free/](http://www.GeorgiaChoiceRealty.com/free/) If you have any questions about the home buying or selling process, just give us a call at 678-261-4901. You can also send an email to us at [homes@georgiachoicerealty.com](mailto:homes@georgiachoicerealty.com). We look forward to serving you for all of your real estate needs!



## ABOUT US

Georgia Choice Realty, LLC is a husband and wife team located in Snellville, GA. We specialize in selling residential homes located in all of Gwinnett and surrounding counties.



### **BRADLEY TAYLOR, REAL ESTATE BROKER**

Bradley is the founder and manager of Georgia Choice Realty, LLC. Bradley graduated from the University of Georgia in 1998 with a Bachelor's Degree in Finance. While attending the University of Georgia he developed a passion and interest in real estate investing and real estate sales. Bradley first obtained his real estate license in 2000 and has been practicing real estate sales ever since. Bradley is a dedicated real estate agent and husband. He strives to provide customers with exceptional service and win-win outcomes. He is totally dedicated to his clients and their needs. Bradley is a technology guru and strives to discover more and better ways to use technology for the benefit of his clients.



### **JADE TAYLOR, REAL ESTATE AGENT**

Jade is Brazilian by birth and American by heart. Jade is the glue that holds us together. Jade is fluent in English, Spanish and Portuguese. Before becoming a real estate agent, Jade worked for the largest bank in Brazil handling and facilitating trade and currency exchange transactions amounting to millions of dollars daily. She is very detailed and customer service oriented. Here at Georgia Choice Realty, Jade specializes in finding that perfect home for each of her clients. Jade is well known for her friendly and outgoing personality. She will guide you through the entire real estate sales process and handle your transaction in a kind and professional manner.