DevNW

DEVELOPING THRIVING COMMUNITIES

Investment Property

DEVNW WORKSHOP

Types of Real Estate Investing

Wholesaling – the process of find great real estate deals and getting paid to bring them real estate investors. Likely requires a lot of direct marketing to find sellers/homeowners who would like to get out of their homes.

Money to start: $0 + outreach materials

Partnering –the process of teaming up with another real estate investor to build a deal together. One partner may bring more capital, while the other partner may bring more leg work or specific expertise. Local REAs (Real Estate Associations) are good place to beginning meeting partners. Like any business partnership, it's important to have clear expectations, clear exits, and a partnership agreement.

Money to start: $0—any amount; it just depends how you structure the partnership.

Real Estate Investment Trust (REIT) – a type of investment similar to a mutual fund that specifically invests in companies that invest in real estate. REITs offer investors with an extremely liquid and low entry-point into real estate.

Money to start: $100 and investment brokerage account

Real Estate Crownfunding– many people invest small amounts into a larger real estate project. In 2013 the JOBS Act lifted restrictions, allowing small investors to participate in crowdfunding real estate. Projects include investing in or financing developers, flips, large residential and commercial developments. Crowdfunding online platforms are relatively new and should be thoroughly researched.

Money to start: $1,000 - $5,000

House hacking – you purchase a property with the expectation to rent out part of it to either reduce or eliminate the monthy mortgage payment. House hacking can be as simple as renting out an extra room/floor, or more robust like renting out the other side of duplex or tri-plex.

Money to start: an owner-occupied house or duplex (aka: down payment, closing costs, repair costs)

Types of Real Estate Investing

Airbnb-ing – you purchase the property with the expectation short-duration rent a room or space of your house to similar to a hotel. Must ensure local regulary guidelines on Airbnb are met.

Money to start: an owner-occupied house or duplex (aka: down payment, closing costs, repair costs, Airbnb household goods, Airbnb fee)

Out of State Turn-key Property – the process where a real estate investor buys a rehabbed, leased property through a third-party, usually out of state. This supposedly passive strategy get its name, because all you supposedly need to do is “turn the key” to start cash-flowing. In reality, it may be more complicated. Oregon and the entire West Coast housing market is commonly more expensive than other areas where turn-key companys operate from.

Money to start: 20% downpayment + closing costs. For a $75,000, probably about $20,000 +/-.

Multi-Family Renting – purchasing and renting a du-plex, tri-plex or four-plex. Multi-plexes typically have more building, less land, and may have some efficiencies like consolidated overhead. Multi-plex still qualify for conventional lending for four units and under.

Money to start: 3-5% downpayment + closing costs + repairs for owner-occupied. 20% downpayment + closing costs + repairs for non-owner occupied.

Single Family (SFR) Renting – purchasing and renting a house. SFRs may give more maintenance and lawncare responsibility to the tenants and may attract longer-term tenants.

Money to start: 20% downpayment + closing costs + repairs for non-owner occupied.

House Flipping – the process of buying, quickly fixing up, and reselling “flipping” properties for profit.

Money to start: conventional financing if you plan to live in the property while rehabbing. Likely will need “hard money” or “private money” financing if working on multiple properties simontaniously.

Types of Real Estate Investing

Advanced

Apartment Complex Renting – purchases and rent housing with more than 4 units. Apartment financing use commercial loan criteria instead of conventional loan criteria. That is, the loan underwritten based on the underlining assets ablity to perform and not the real estate investor's credit and debt-to-income ratio.

Money to start: commercial loan criteria, likely at least 20% down payment, more assets in reserve.

Note Buying – the process of buying mortage notes and receiving the debt payment. Essential the real estate investor "becomes the bank." Some "non-performing" notes may require investor to re-negoicate the terms of payment.

Money to start: significant assets, difficult to access, need years of experience.

Private Lending – providing capital to a developer, flipper, investor, hard money lender or even a family member, for an agreed upon rate of return. Private lenders typically look for a higher rate of return backed by the security of real estate. When a loan is originated, a private lender must ensure collection along with various tax and regulatory standards are met.

Money to start: significant assets. Need the ability to either fund either loans or invest

Investment Property Tax Considerations

Deductions

You can deduct your rental expenses from any rental income you earn, thereby lowering your tax liability. Most rental property expenses – including **mortgage insurance, property taxes, repair and maintenance expenses, home office expenses, insurance, professional services and travel expenses related to management** – are deducted in the year you spend the money.

Read more: http://www.investopedia.com/articles/investing/060815/how-rental-property-depreciation-works.asp#ixzz4gvR7tTGx

Read IRS Publication 527: https://www.irs.gov/publications/p527/

Depreciation

Depreciation is the process used to deduct the costs of buying and improving a rental property. Three factors determine the amount of depreciation you can deduct each year: your basis in the property, the recovery period and the depreciation method used. Any residential rental property placed in service after 1986 is depreciated using the Modified Accelerated Cost Recovery System (MACRS), an **accounting technique that spreads costs (and depreciation deductions) over 27.5 years**, the amount of time the IRS considers to be the "useful life" of a rental property.

Read more: http://www.investopedia.com/articles/investing/060815/how-rental-property-depreciation-works.asp#ixzz4gvR7tTGx

Read IRS Publication 527 Chapter 2: https://www.irs.gov/publications/p527/ch02.html

Section 1031 Exchange

A section of the U.S. Internal Revenue Service Code that allows investors to defer capital gains taxes on any exchange of like-kind properties for business or investment purposes. Taxes on capital gains are not charged on the sale of a property if the money is being used to purchase another property - the payment of tax is deferred until property is sold with no re-investment.

Read more: Section 1031 http://www.investopedia.com/terms/s/section1031.asp#ixzz4gvQBv6Nq

Read IRS Like-Kind Exchanges – Real Estate Tax Tips: https://www.irs.gov/businesses/small-businesses-self-employed/like-kind-exchanges-real-estate-tax-tips

Because rental property tax laws are complicated and change periodically, it is recommended that you work with a qualified tax accountant when establishing, operating and selling your rental property business. DevNW can provide referrals to CPAs and other tax professionals.

Run the Numbers Definitions

Gross Operating Income (GOI)

GOI is gross scheduled income less vacancy and credit loss plus income derived from other sources such as coin-operated laundry facilities. Consider GOI as the amount of rental income the real estate investor actually collects to service the rental property.

- Gross Scheduled Income
- less Vacancy and Credit Loss
- plus Other Income
- = Gross Operating Income

Operating Expenses

Operating expenses include those costs associated with keeping a property operational and in service. These include property taxes, insurance, utilities, and routine maintenance. They do not include payments made for mortgages, capital expenditures or income taxes.

Net Operating Income (NOI)

NOI is a property's income after being reduced by vacancy and credit loss and all operating expenses. NOI is one of the most important calculations to any real estate investment because it represents the income stream that subsequently determines the property's market value – that is, the price a real estate investor is willing to pay for that income stream.

- Gross Operating Income
- less Operating Expenses
- = Net Operating Income

Cash Flow Before Tax (CFBT)

CFBT is the number of dollars a property generates in a given year after all expenses but in turn still subject to the real estate investor's income tax liability.

- Net Operating Income
- less Debt Service
- less Capital Expenditures
- = Cash Flow Before Tax

Run the Numbers Definitions

Gross Rent Multiplier (GRM)

GRM is a simple method used by analysts to determine a rental income property's market value based upon its gross scheduled income. You would first calculate the GRM using the market value at which other properties sold, and then apply that GRM to determine the market value for your own property.

- Market Value
- ÷ Gross Scheduled Income
- = Gross Rent Multiplier

Then,

- Gross Scheduled Income
- x Gross Rent Multiplier
- = Market Value

Cap Rate

This popular return expresses the ratio between a rental property's value and its net operating income. The cap rate formula commonly serves two useful real estate investing purposes: To calculate a property's cap rate, or by transposing the formula, to calculate a property's reasonable estimate of value.

- Net Operating Income
- ÷ Market Value
- = Cap Rate

Or,

- Net Operating Income
- ÷ Cap rate
- = Market Value

Cash on Cash Return (CoC)

CoC is the ratio between a property's cash flow in a given year and the amount of initial capital investment required to make the acquisition (e.g., mortgage down payment and closing costs). Most investors usually look at cash-on-cash as it relates to cash flow before taxes during the first year of ownership.

- Cash Flow Before Taxes
- ÷ Initial Capital Investment
- = Cash on Cash Return

http://www.proapod.com/Articles/real-estate-investing-terms-formulas.htm

Property Analysis Example

Triplex Example (2014)

25% Down Conventional

30 Year Fixed Mortgage			**Explanation**
Interest Rate		4.50%	APR (Interest Rate + Amortized Fees)
Interest per month		0.38%	Interest Rate divided by 12
Total Months		360	30x12
Total Costs			
Upfront Costs			
Price	$	289,000.00	Purchase Price
Downpayment + Closing Costs	$	72,250.00	15% of Purchase Price Conventional
Closing Costs	$	5,750.00	
Remaining mortgage	$	216,750.00	Price - Downpayment
Renovations	$	75,000.00	Projected
TOTAL UPFRONT COSTS	$	364,000.00	Price + Renovations
Fixed Costs			
Principal + Interest	$	1,094.14	Use mortgage calculator
Taxes	$	304.17	Escrowed; Tax year divided by 12
Insurance	$	91.67	Escrowed; Yearly premium divided by 12
Mortgage Insurance	$	-	
TOTAL	$	1,489.97	
Maintenance Costs (Assumptions)			
Water/Sewer	$	130.00	
Garbage	$	50.00	
Repairs	$	100.00	
Yard	$	75.00	
TOTAL	$	355.00	
Management Costs (Assumptions)			
Management fee	$	264.00	8% of total rental income
HOA or Condo Fee	$	-	
TOTAL	$	264.00	
TOTAL MONTHLY COSTS	$	2,108.97	Fixed + Maintenance + Management Costs
Income			
Rent			
Unit 1 (3 B/1 Bath)	$	1,100.00	
Unit 2 (3 B/1.5 Bath)	$	1,200.00	
Unit 3 (2 B/1 Bath)	$	1,000.00	
Total	$	3,300.00	
Assume 10 month occupancy	$	3,025.11	Multiply Total Income 10/12
Total Monthly Costs	$	2,108.97	
Total Monthly Income	$	3,025.11	
Monthly CASHFLOW	$	916.14	Total Monthly Income - Total Monthly Costs

Return on Investment

ONE PERCENT RULE

One percent rule (upfront cost)	$	3,640.00	Multiply 1% by Total Upfront Costs.

Does the monthly rent equal at least 1% of the purchase price? To evaluate a property's prospects, the One Percent Rule says that you be wary of a property where the total monthly rents do not exceed the price you pay for property.

Not quite; 0.9%

CAPITALIZATION RATE

Net operating income (NOI)	$	24,123.32	Annual Rent assuming vacancy - Annual Expenses
Capitalization rate		**6.6%**	NOI divided by the Total Upfront Cost of the House.

Capitalization Rate (Cap Rate) looks at the net operating income (what the property cash flows) and divides it by the total dollars invested in the property. While a larger cap rate is generally better, cap rates vary significantly from location to location, and are used more for multi-family than single family resident investments.Shoot for cap rates over 5%.

CASH ON CASH	**7.19%**	Annual Cash Flow divided by the total dollar investmer

Cash-on-Cash (CoC) is a metric to measure a property's potential performance in the first year, its potential return on your investment before taxes. Specifically, CoC is how much cash flow you expect has a percentage of the total amount you personally put into the property. Market conditions vary, yet be wary of a CoC much lower than 8%.

GROSS RENT MULTIPLIER (Annual)	**7.30**	Purchase Price divided by the Total Possible Rent

Gross Rent Multiplier (GRM) looks the relationship between a property's price and earning potential. The GRM is the number of years it would take for a property's gross income to total the purchase price. The higher the GRM, the relatively more expensive the property is. Market conditions vary, yet be wary of Annual GRMs above 7.5.

Would you explore this investment further? Explain.

Property Analysis Exercise

Duplex Example (2018) 15% Down Conventional		Duplex Example (2018) 3.5% Down FHA		
30 Year Fixed Mortgage		**30 Year Fixed Mortgage**		**Explanation**
Interest Rate	4.59%	Interest Rate	5.32%	APR (Interest Rate + Amortized Fees)
Interest per month	0.38%	Interest per month	0.44%	Interest Rate divided by 12
Total Months	360	Total Months	360	30x12
Total Costs		**Total Costs**		
Upfront Costs		*Upfront Costs*		
Price	$ 262,000.00	Price	$ 262,000.00	Purchase Price
Downpayment	$ 39,300.00	Downpayment	$ 9,170.00	FHA loan requires 3.5% down payment
Closing Costs	$ 3,502.00	Closing Costs	$ 7,926.00	Closing Cost + Mortgage Ins. Premium
Remaining mortgage	$ 222,700.00	Remaining mortgage	$ 252,830.00	Price - Downpayment
Renovations	$ 5,000.00	Renovations	$ 5,000.00	Projected
TOTAL UPFRONT COSTS	$ 267,000.00	TOTAL UPFRONT COSTS	$ 267,000.00	Price + Renovations
Fixed Costs		*Fixed Costs*		
Principal + Interest	$ 1,135.98	Principal + Interest	$ 1,400.60	Use mortgage calculator
Taxes	$ 223.00	Taxes	$ 223.00	Escrowed; Tax year divided by 12
Insurance	$ 50.00	Insurance	$ 50.00	Escrowed; Yearly premium divided by 12
Mortgage Insurance	$ 33.00	Mortgage Insurance	$ 178.00	
TOTAL	$ 1,441.98	TOTAL	$ 1,851.60	
Maintenance Costs (Assumptions)		*Maintenance Costs (Assumptions)*		
Water/Sewer	$ 50.00	Water/Sewer	$ 50.00	
Garbage	$ 50.00	Garbage	$ 50.00	
Repairs	$ 60.00	Repairs	$ 60.00	
Yard	$ 75.00	Yard	$ 75.00	
TOTAL	$ 235.00	TOTAL	$ 235.00	
Management Costs		*Management Costs*		
Management fee	$ 155.60	Management fee	$ 155.60	8% of total rental income
HOA or Condo Fee	$ -	HOA or Condo Fee	$ -	
TOTAL	$ 155.60	TOTAL	$ 155.60	
TOTAL MONTHLY COSTS	$ 1,832.58	TOTAL MONTHLY COSTS	$ 2,242.20	
Income		**Income**		
Rent		*Rent*		
Unit 1 (3 bedrooms) (Owner Occupied	$ 995.00	Unit 1 (3 bedrooms) (Owner Occupie	$ 995.00	
Unit 2 (2 bedroom)	$ 950.00	Unit 2 (2 bedroom)	$ 950.00	
Total	$ 1,945.00	Total	$ 1,945.00	
Assume 10 month occupancy for Unit 1	$ 1,782.98	Assume 10 month occupancy for Unit	$ 1,782.98	Multiply Total Income 10/12
Total Monthly Costs	$ 1,832.58	Total Monthly Costs	$ 2,242.20	
Total Monthly Income	$ 1,782.98	Total Monthly Income	$ 1,782.98	
CASHFLOW	$ (49.60)	CASHFLOW	$ (459.22)	Total Monthly Income - Total Monthly Costs
Return on Investment		**Return on Investment**		
ONE PERCENT RULE	1	**ONE PERCENT RULE**	6	
One percent rule (upfront cost)	$ -	One percent rule (upfront cost)	$ -	Multiply 1% by Total Upfront Costs.
Does the monthly rent equal at least 1% of the purchase price?	**Yes/No** 2	*Does the monthly rent equal at least 1% of the purchase price?*	**Yes/No** 7	
CAPITALIZATION RATE		**CAPITALIZATION RATE**		
Net operating income (NOI)	$ 13,432.58	Net operating income (NOI)	$ 13,432.58	Annual Rent assuming vacancy - Annual Expenses
Capitalization rate	3 %	Capitalization rat	8 %	NOI divided by the Total Upfront Cost of the House.
CASH ON CASH	4 %	**CASH ON C**	9 %	Annual Cash Flow divided by the total dollar investmen
GROSS RENT MULTIPLIER (Annual)	5	**GROSS RENT MULTIPLIER (Annual)**	10	
Would you explore this investment further? Explain.		**Would you explore this investment further? Explain.**		

Conventional Loan Investment Property Considerations

What is different about purchasing an Investment (Non-Owner occupied) property?

- Expect to put more money down. Conventional loan requires 15% down
- Gift funds are not allowed on an investment purchase, nor a gift of equity
- Expect your interest rate to be higher than a primary or 2nd home purchase
- You will need to show asset reserves:
    - Not applicable for owner-occupied purchase
    - Non-owner occupied investment purchase --minimum 6 months reserves of PITI payment for subject property
    - Non-owner occupied investment purchase if you own 2-10 properties- minimum 6 months reserves of PITI payment for subject property and an additional reserves required for each additional investment or 2nd home financed properties
- Tighter guidelines for FICO scores. Min FICO 620, higher if you have more than 4 properties financed
- Appraisal will generally cost more and would have to include a rent schedule/operating income statements if you intend to use the rental income to help qualify for loan

Investment Property (Non-owner Occupied) FAQ
Is it true that I must have two years of landlord experience?
No, you do not need 2 years of experience as a landlord to use the rent/lease payments on the property to help you qualify.

How much of the current rental/lease contract will the lender count to help me qualify?
Generally, the lender will count 75% of the current agreement. If the rent is $1000, the lender will count $750 to offset the new mortgage. This allows for a vacancy factor. The rent amount must be supported by rent schedule by appraiser.

Can I turn my current primary residence into a rental and purchase a new primary residence?
Generally yes. Refer to the terms of the mortgage on your current house and make sure renting the property is within the mortgage guidelines. If you used grants or have a second lien, they might have time or occupancy restrictions as well. Also, make sure you talk to your lender about the requirements of the new loan. Some loan products have Loan to Value requirements to be able to count the rent on the vacating residence or area restrictions.

At what point would I have to apply for a commercial loan on a property?
Most mortgage lenders can originate a loan for 1-4 unit property that is residential in nature. If you want to purchase a 5 unit or more, or if there is a large commercial element to the building, that would be fall into commercial parameters.

Can I purchase an investment property with a partner that I am not related to?
Yes, you can purchase a property with partners who are not your relatives.

Source: Local Lender, subject to change.

Investment Property Loan Matrix

	Conventional	FHA	VA
Occupancy	Allows for owner occupied, 2nd home and non-owner occupied investment	Only owner occupied	Veteran has to occupy as primary. Spouse or child can occupy if currently deployed.
Description	A loan not insured or guaranteed by the federal government.	A mortgage loan that is insured by the Federal Housing Administration.	Home mortgage available to qualifying veterans and some non remarried spouses.
Minimum FICO	620	580	600
Maximum DTI	Per AUS, generally 45%	Per AUS, generally up to 55%	Per AUS - general is 41% but varies greatly
Income Caps	Can be on the 3% down	No income caps	No income caps
Loan Limits	1 unit - $453,100 2 unit - $580,150 3 unit - $701,250 4 unit $871,450	1 unit - $294,515 2 unit - $377,075 3 unit - $455,800 4 unit - $566,425	$453,100 depending on guarantee amount, does have high balance options
Down Payment Requirements	3% with restrictions - 5% generally for a 1 unit primary. 10% for second home & 15% for investment property. More units = more down payment	3.5% minimum with up to 4 units. Has to be owner occupied.	0% down - can finance funding fee taking LTV over 100%
Non-traditional Credit	Yes - higher rate (only-owner occupied)	Yes (only-owner occupied)	Yes (only-owner occupied)
Mortgage Insurance	Required if less than 20% down. Rate depends on FICO and LTV.	Yes; 1.75% upfront fee (generally financed into the loan) and .80% annual paid monthly for the lifetime of the loan unless 10% or more down.	No monthly. Funding fee depends on type or service and how many times used. Not applicable if borrower is 10% or more disabled from the VA.
Gift Funds	100% ok for O/O 1 unit, 5% required from borrower for 2-4 units, NO gift funds on investment property	Yes	Yes, but included in the 4% seller contribution limitations

Source: Local Lender, subject to change

Investment Property Loan Matrix

	Conventional	FHA	VA
Max # of Financed Properties	O/O = unlimited, up to 10 for a 2nd home & NOO - reserves will be required	Borrower may obtain second FHA loan for new principal residence when relocating for employment and current residence is more than 100 miles from new. residence area.	No max, but have to make sure they have entitlement for new primary loan
Student loans	Income Driven Repayment monthly payment amount as reported on credit report.	1% of the loan balance will be factored for the monthly payment unless you can document a fixed, fully amortizing loan terms.	The payment on the credit, a documented actual payment or 5% of the current balance divided by 12. IBR is acceptable if it does not adjust within the next 12 months
Converting existing primary house to rental	Obtain current lease agreement for house and calculate gross rent by 75%. Might need reserves.	Rental income may be counted if the new residence is located at least 100 miles from the previous residence. Obtain a lease agreement of at least one year's duration after closing. Evidence of security deposit or 1st month's rent. If no rental history on tax returns need appraisal documenting 25% equity in the house	Obtain current lease agreement. Rental income can only be used to offset rental mortgage, not for income.

**Jumbo guidelines are going to vary between investors have the toughest guidelines.
***Purchased after a Bankruptcy may require larger down payments and my only be allowed for a primary residence.
+Manufactured houses have to be on their own land, at least a double wide and build on or after June 15, 1976. Manufactured houses generally require a higher FICO and possibly larger down payment. FHA will require an engineer's cert and so will some lenders on conventional. Only loan that will allow the house to be moved is VA. If there are any after market changes that pierce the skin of the house, you will need an engineer's cert.
+Condos need to have a healthy HOA and may need to go through a project review.
+Excessive acreage (40+) or if the land to structure value is not at least 50/50 can be a problem.
+Unique houses (is. Log Cabin) or unique features (i.e. spring water) have to have comparable sales and be common for the area.
+The condition of outbuildings will be factored on government loans (USDA, FHA and VA)

Down Payment and Rates Comparisons

CONVENTIONAL LOANS

	Owner Occupied				Non-Owner Occupied			
	Single Family	Duplex	Triplex	Four-plex	Single Family	Duplex	Triplex	Four-plex
Min. Down Payment	3%	15%	20%	20%	15%	25%	25%	25%
Example Interest Rate*	4.375%	4.625%	N/A	N/A	5.125%	5.125%	N/A	N/A
Example APR*	4.752%	5.001%	N/A	N/A	5.816%	5.239%***	N/A	N/A
Example Monthly Payment**	$1,379.73	$1,411.30	N/A	N/A	$1,543.07	$1,304.24	N/A	N/A

* Based on $250,000, 30 year fixed loan, 740 FICO. Data from a local lender on 5/11/17. Your actual rate, payment and cost could be higher or lower. Get an official Loan Estimate before choosing a loan.

** Payment assumes $600 annually for home insurance and $2800 annually for taxes.

*** Doesn't include mortgage insurance in the APR because the down payment is 25%. Mortage insurance is required for loans under 20%.

Source: Local Lender

Mortage Acronyms

ATR – Ability to Repay
AMV – Average Market Value
APR – Annual Percentage Rate
ARM – Adjustable Rate Mortgage
AUS – Qutomated underwriting system
BPS – Basic points
CD – Closing Disclosure
CLTV – Combined loan to value
CMA – Comparative market analysis
COFI – Cost of funds
DTI – Debt-to-Income
DU – Fannie Mae's automated underwriting system
FHA – Federal Housing Administration
FICO – Fair Issac Corporation (Credit Score)
HELOC – Home equity line of credit
HOA – Home owner's association
HUD – Department of Housing and Urban Development
IO – Interest Only
LE – Loan Estimate
LP – Freddie Mac's automated underwriting system
LLPA – Loan level pricing adjustment
LTV – Loan to value
MBS – Mortgage backed securities
N/O/O – Non owner-occupied
O/O – Owner-occupied
PI – Principle, interst, taxes and insurance
PIW – Property Inspection waiver
PMI or MI – Private mortgage insurance or mortgage insurance
POC – Paid Outside of Closing
PUD – Planned unit development
P&L – Profit and Loss Statement
REO – Real Estate owned
VOE – Verification of Employment
VOR – Verification of Rent
VOM – Verification of Mortgage
VOE – Verification of Employment
VOD – Verification of Deposit

Source: Local Lender

Fair Housing

THE BASIS OF ALL REAL ESTATE TRANSACTIONS

Discrimination, what is it? In the context of landlord/tenant law, it means treating people who belong to a protected class differently than people who don't belong to a protected class in the advertising, showing and leasing of real estate. Enforcing different requirements or standards; utilizing alternate policies and procedures; representing prices or availability of rental units differently; or failing to act upon knowledge of one tenant harassing another tenant based on membership in a protected class, are all examples of discrimination.

Protected classes – Federal – Race, Color, National Origin, Religion, Sex, Familial Status (families with children), and Disability. **State of Oregon:** Marital Status, Source of Income (now including housing subsidies like Section 8), Sexual Orientation, and Gender Identity. **City of Eugene:** Type of Occupation, Ethnicity and Domestic Partnership.

Domestic violence victims and active-duty military have additional protections under the law.

- **Disparate Impact** – Policies or procedures which have a discriminatory effect on members of a protected class.
- **Chilling Effect** – Language, written or spoken, which is off-putting to members of a protected class, or causes them to fear discriminatory treatment.
- **Steering** – Encouraging people with advertising, words or actions to go <u>to</u> one place or <u>away</u> from another place.

<u>Fair Housing and the Disabled</u>

As defined by the Americans with Disabilities Act, a disabled person is one who "has a physical, emotional or mental impairment that substantially limits one or more life activities, believes they have such impairment, or is regarded as having such impairment."

Landlords are required to consider requests to alter the terms and conditions of their rental agreements or rental policies for the disabled, and grant them when it is reasonable to do so.

Reasonable Accommodation – A requested change to rules or policies for persons with disabilities as defined in the Americans with Disabilities Act. This can include accommodation for an aid animal, acceptance of a problematic history due to addiction, DV (domestic violence), mental illness, a caregiver residing in the unit, accepting payments from a third party like a payee, weird behavior, an extension of the grace period for rent or other payments, or a dedicated parking space, for example. You may not charge any fees or deposits for these allowances.

Reasonable Modification – A requested change to the physical structure for persons with disabilities, such as grab bars, a wheelchair ramp, visual smoke alarms, a widened doorway, or any other modification that allows person with disability to enjoy unit the way a non-disabled person would. You are not required to pay for any reasonable modification. You must approve the tenant's plans, and may require the tenant to return the property to its original condition at the end of the tenancy; they must use a licensed contractor to ensure quality and safety. Often tenant modifications that accommodate physical disabilities are a benefit to landlords.

- **The tenant must make the request** - verbal or written.
- **Accommodation/Modification requests must be reasonable**, not an undue administrative burden, not create a threat to health and safety of others, create substantial damage to the property, or fundamentally alter the nature of the landlord's business.
- **You may not place barriers in the way** of person seeking accommodation or modification. If the disability is obvious, don't ask for verification, i.e., if a person is blind or deaf or in a wheelchair, then their disability is obvious and a request for a seeing eye or hearing aid dog, or visual smoke/CO alarms, or a ramp, should not be met with a request for verification of disability. The request can be made through a third party with the applicant or tenant's written permission.
- **You may enforce reasonable requirements for service animals** such as vaccinating, licensing, and spaying or neutering (disputed). You are not required to allow an animal that is destructive, dangerous, or disturbing the peaceful enjoyment of the neighbors, or that the owner is failing to properly care for. When a tenant's aid animal is not in compliance with the rental agreement, deal with it as you would any other non-compliance issue, including the assessment of noncompliance fees as allowed by law: 1) Warning notice; 2) Notice of termination; 3) 10-day repeat violation; 4) Eviction.
- **The request must be reasonable**, but what is reasonable is not clearly defined in law, so err on the side of caution to avoid trouble.
- **If you have tenants with dueling disabilities**, the longest-term tenant wins.
- **For disabilities that are not obvious**, upon request for an accommodation or modification by an applicant or tenant, provide a **Request for Reasonable Accommodation/Modification Request and Verification form – ORHA form #53**, or **Assistance Animal Agreement – ORHA form #46**, as needed.

Fair Housing requirements run through the entire tenancy, from advertising and screening, through termination and eviction.

Fair Housing Testing – If a complaint is filed against you, you may be tested. Fail the test and you will be penalized. BOLI fines start at $16,000...

Avoid problems by saying the same thing to each person who calls, offering an application to any who ask, and applying the same criteria to all applicants. Another way to avoid potential Fair Housing claims in regards to screening, is to record the time and date of each completed application and screen them in order. You risk a claim if you take several applications and pick who you like best, if a denied applicant can convince a judge that you declined to rent to them due to their membership in a protected class.

<u>Prohibited considerations in screening – ORS 90.303</u>

- Dismissed evictions
- Eviction judgments more than five years ago – but you can still get a reference!
- Arrests that did not result in a conviction, unless there are pending charges for criminal behavior that have not been dismissed when the applicant submits the application.

Fair Housing

THE BASIS OF ALL REAL ESTATE TRANSACTIONS

- You may deny applicants for any criminal history no matter how long ago if the conviction or pending charges is for conduct that is a drug-related crime, a person crime, a sex offense, a crime involving financial fraud, including identity theft and forgery, or any other crime, if the conduct for which the applicant was convicted or charged is of a nature that would adversely affect the property of the landlord or tenant, or the health, safety or right to peaceful enjoyment of the remises of residents, the landlord or the landlord's agent.

Habitability – ORS 90.427

- **Effective waterproofing and weather protection** of roof and exterior walls, including windows and doors;
- **Plumbing facilities** that conform to applicable law in effect at the time of installation, and maintained in good working order;
- **A water supply** approved under applicable law that is under the control of the tenant or landlord and is capable of producing hot and cold running water, furnished to appropriate fixtures; connected to a sewage disposal system approved under applicable law; and maintained so as to provide safe drinking water and to be in good working order;
- **Adequate electrical and heating facilities** that conform to applicable law at the time of installation and maintained in good working order, capable of maintaining a minimum temperature of 67 degrees in the center of each room under normal conditions. Each room or open space within the dwelling unit must have a dedicated heat source. You may not just make your tenants use space heaters except in short-term emergency situations, such as a furnace repair or replacement that necessitates shutting down the system for a period of time;
- **Property must be safe and secure.** Even if your property meets code at the time it was built, you must make it safe and secure for all reasonably intended purposes to use it as a rental property. Examples: windows and doors must open, close and lock properly; rail spacing on stairs and rails must be sufficient to prevent injury or death; decks and fences should be solid, secure and safe; stairs and handrails should be secure, not wobbly or loose; and your property should be free of obvious tripping or injury hazards;
- **Property must be free of trash, debris, rubbish and vermin at the outset of the tenancy.**
- **Your property must have a secondary escape route (that conforms to applicable law) through a window or emergency exit for all designated bedrooms and sleeping places in case of fire or other emergency.** The routes of exit must conform to applicable law in effect at the time of occupancy of the building or in effect after a renovation or change of use of the building, whichever is later.
- **But They Said it was Okay!** Even with the tenant's consent, you may not violate these standards or any other provision of landlord-tenant law. It's only okay until it's <u>not</u> okay and then your tenants have ammunition to use against you in a court of law.

Waiver

Accept behavior by your tenant for three separate rental periods or longer and you re-write your rental agreement.

Fair Housing

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Notices

Legal service of notice is the precursor to eviction. Do it right, or you may lose in court.

If you intend to manage your own rental property, you are advised to learn your responsibilities as a landlord. The Rental Owners Association of Lane County offers correct legal forms, classes, seminars, articles and a live Helpline to guide you through the perilous legal landscape of Landlord-Tenant law and proper procedures. Visit www.laneroa.com.

Source: Local Property Manager

Should you Hire a Property Manager?

EVALUATING THE RISKS, BENEFITS AND SERVICES

Things to consider when shopping for a property management company:

- Does your management company have hidden charges or fees such as set-up fees, turn fees, or signing fees? Do they charge you a management fee if your property is vacant? Do they mark up your repair bills?
- What financial controls do they have in place to ensure accuracy and minimize the chances of theft?
- What management software does your management company use and does it offer tenants the opportunity to pay rent online or with a credit card?
- What are your management company's payment and reporting dates?
- Does your management company start advertising as soon as they receive notice?
- How does your management company document the condition of your rental unit?
- How does your management company protect your personal information?
- What is the staffing level at your management company?
- What is the knowledge base and industry involvement of your property management company?
- What is the office climate and what kind of experience will your tenants have?

How to know you have a problem – the Shockley debacle
Terry Shockley owned Property Management Concepts that was one of the biggest management companies in our area. He stole MILLIONS of dollars of his clients' money. How could this have happened?

Red Flags that clients ignored:

- Calls & emails not returned
- Late payments
- Late or nonexistent reports
- Ridiculously simple reports – numbers on a page, what?
- No copies of paid invoices with reports
- Monies paid in but not accounted for, or paid to contractor
- Property not advertised, no signs, no ad, extended vacancies with no explanation or communication

His clients...

- ...were lured by low percentages; they were penny-wise and pound foolish.
- ...based their selection of a manager on charisma instead of research.
- ...trusted too easily and didn't ask tough questions.
- ...abdicated responsibility for verifying things like tax payments.
- ...failed to follow through or check up on maintenance funds & contracts.
- ...completely transferred the responsibilities of rental ownership.
- ...lacked understanding of the service they were entitled to expect.

Should you Hire a Property Manager?

EVALUATING THE RISKS, BENEFITS AND SERVICES

Your property manager is your business associate, not your friend.
Don't hesitate to hold them accountable.

Your property manager's duties to you include:

Seeking profit - Charging market rate rents, advertising, showing, screening, filling vacancies, inspecting periodically, collecting funds, paying bills, distributing funds, reconciling resident deposits, sending financial reports, and responding to questions or concerns. Maintaining compliance at all times with landlord/tenant law, and with all business, financial and regulatory agency rules and laws. Utilizing advanced financial controls to minimize potential for theft and misuse of funds.
Customer service - Responding in a timely fashion to you and your tenants.
Maintenance - Attending to routine maintenance as noted upon inspection or tenant complaint.
Rapid response - Acting quickly upon knowledge of tenant breach of contract or emergency maintenance situation.
Protection of personal information - Safeguarding and restricting access to your private information.
Risk assessment/loss avoidance - Identifying potential physical and legal risks with recommendations for mitigation.

Unreasonable expectations
Perfection - Humans are managing your property, be assured, at some point a mistake will be made. What matters is whether the mistake is recurring, and how the company and employee respond to the mistake. Do they apologize? Take responsibility? Make it right?
No problems - No manager can promise that a tenant will never cause damage, or that it won't exceed their security deposit. But they should act immediately in your best interest, serve legal notice at the earliest opportunity, work to recoup financial losses, and communicate with you along the way.
Extensive maintenance - Your property manager is not a licensed contractor (usually). Your properties should be inspected periodically for soundness of structure and systems.
Immediate return of all calls & emails - You are not your manager's only owner, be patient. Sometimes, they're dealing with one or more emergencies that triage your call down the line. Give it at least one day before you try again.

If your manager is failing (depending on how badly) you should:

- Put your concerns in writing with specific expectations for improvement
- Transfer your properties elsewhere for management
- File a formal complaint with the Oregon Real Estate Agency:
  530 Center St. NE, Suite 100, Salem OR 97301 – 503-378-4170
  http://www.oregon.gov/REA/Pages/Index.aspx
- All of the above, in sequence

Source: Tia Politi, a local licensed property manager

Management Software & Apps

If you self manage your properties, there are many low-cost-to-free resources, apps and software tools that can help you with everything from automating rent collection and advertising to recordkeeping and digital lease signing. Offerings vary, do your homework before deciding on a platform.

Rent Manager®

Buildium
Property Managed.

Cozy

appfolio™
Property Manager

Your Bank/Credit Union

Tenant Cloud
Your home for rental solutions

HELLOSIGN

CudaSign

Your First Investment Property

GETTING STARTED

Develop Your Plan

Like with any business, you'll need to develop a real estate investing business plan. It can be as formal or informal as you want, but it should at least address the following questions:

- What is your overall goal for real estate investing?
- How much can you budget? How much do you have for emergencies?
- How much will you be able to put down? How much will you have liquid and ready for repairs and emergencies?
- What will be your real estate niche? Why? What property metrics will you use as a criteria for an investment?
- How will you make money? Consider developing financial projections, including your balance sheet, cash flow and profit and loss.
- What skills do you bring to real estate investing? What weaknesses do you bring? How will you compensate for these weaknesses?
- How much time will I have for this endeavor? Would I like to eventually become a full time investor or work full time while investing? Is real estate investing a means to another end?
- What is your overall goal for real estate investing? Complete financial freedom? $200 more per month in retirement? What's your exit strategy? Goals can change, but be specific today.

Build Your Team

Start thinking about what strengths you have, and what gaps you'll want to fill with the support of professionals. Here are some important teammates you'll likely need:

- Family – If you have a partner or dependent(s), is everyone onboard for you to jump into real estate investing? They are the most important people to be on the same page and on your team.
- Mentors - Who can you lean on when you have questions from the trenches?
- Partners - Will you bring on a partner investor or do it yourself? Will you bring on the partner for a complementary skill set or for capital needs?
- Property management - Will you use Property Management? If not, are you prepared to execute all of the duties that property managers take off your plate?
- Handyman – Will you outsource or do you it yourself?
- Contractor – Who can get finish a project on time and on budget?
- Attorney - Will you organize and protect your investment inside a legal entity?
- Accountant – Will you work with a Certified Public Accountant (CPA) to ensure your books are set up correctly and to help you navigate tax time?
- A Real Estate Team – Consider taking NEDCO's *ABCs of Homebuying* to see the role that lenders, realtors, inspectors, escrow officers and insurance agents play in real estate transactions.

As with anything, ask friends and family for referrals for these professionals. The Rental Owners Association of Lane County has a good list of member referrals to local professionals as well:

http://www.laneroa.com/referrals

Your First Investment Property

GETTING STARTED

Build Your Knowledge
What questions do you have about financials, law, management, maintenance and taxes? Develop a plan to learn the answers to your questions.

Books
- Rich Dad, Poor Dad, Robert Kiyosaki
- Ultimate Beginners Guide to Real Estate, Brandon Turner (free online)
- Building Wealth One House at a Time, John Schaub
- The Millionaire Real Estate Investor, Gary Keller
- What Every Real Estate Investor Needs To Know about Cash Flow, Frank Gallinelli
- Every Landlord's Legal Guide, Marcia Stewart, et. Al.

Look into local events at:
- The Rental Owners Association of Lane County - http://www.laneroa.com/
- Northwest Real Estate Investors Association – http://www.NorthwestREIA.com
- Eugene & Springfield Real Estate Investors Association - http://www.orreia.net/

Podcasts
- BiggerPockets
- Best Real Estate Investing Advice Ever with Joe Fairless
- Old Dawgs: Real Estate Investing for Seniors
- Real Estate Investing for Cash Flow with Kevin Bupp
- ListenMoneyMatters: search "real estate"

Forums
- https://www.biggerpockets.com/forums

Find a Mentor or two
- Consider asking: "can I help you with one of your deals?"

Learn Your Landlord Responsibilities
Whether or not you plan to use Property Management, it is important to know the rights and duties afforded to for your future tenants, as well as to you as the landlord. As a landlord, federal housing law prohibits discrimination based on Race, Religion, National Origin, Age, Family Status, Gender, Disability, Marital Status, Sexual Orientation or Source of Income.

Fair Housing Act
- http://portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_equal_opp/FHLaws/yourrights

Oregon Landlord and Tenant Law
- https://www.osbar.org/public/legalinfo/tenant.html

Your First Investment Property

GETTING STARTED

Start Costing Out Deals

Real Estate Investing, like anything, takes practice to get a "feel" for the numbers. Many investors report that the best way to become comfortable with this new field is to start analyzing deals in your market niche. The purchase price may be the number one factor that determines the long-term success of your deal, so get to know your market with practice. Use some of the following metrics we talked about in the workshop as well as some you can learn more about online.

Some Vocab:

- Rent Roll = Annual Rent
- Net Operating Income (NOI) = Annual Rent – Vacancy % - Annual Prop. Mgmt – Maintenance – Insurance – Taxes
- Annual Cash Flow = Annual NOI – Annual Total Mortgage Payment (PI)
- Capital Expenditures (CapEx) – expected minor and major repairs like roofs, appliances, etc.

Some Calculations:

- Cash on Cash Return (CoC) = Annual Cash Flow / Your Investment Contribution * 100
- One Percent Rule – Does your monthly rent exceed 1% of the purchase price? If so, great!
- 50 Percent Rule – Does your monthly rent – 50% monthly rent – your mortgage equal more than 0? If so, great! (This is also sometimes called the Long-term Cash Flow calculation)
- Gross Rent Multiplier = Purchase Price / Rent Roll. If it's over 7.5, be wary.
- Cash Flow – Medium Term = Cash Flow - CapEx Estimates
- Cash Flow – Long Term – Ensure the 50 Percent Rule costs out to be a positive number.
- Capitalization Rate = Annual NOI / Purchase Price *100
- Gross Yield = Rent Roll / Purchase Price *100

Find which metrics work best for you and your market. You'll learn more in your readings.

Use sites like these to test your metrics and assumptions:

- http://www.loopnet.com/
- http://www.rmls.com/
- https://www.roofstock.com/
- https://www.homeunion.com/
- Any of the other major real estate sites like Zillow, RedFin, Trulia

Use sites like these to market validate your rent assumptions:

- https://craigslist.org/
- https://www.padmapper.com/
- https://www.rentometer.com/

Your First Investment Property

GETTING STARTED

Some Action Steps

Get Prepared

- Know your parameters. Know your budget. Plan for emergencies.
- Study. Meet with mentors. Meet with other “Your First Investment Property” participants.
- Write your business plan, as simple or detailed as you wish. Plan your niche.
- Know the Fair Housing and Oregon Landlord Tenant Law.
- Practice evaluating properties. Challenge: evaluate 10 properties each week until you know your market.
- Start shopping for your “team.” Get referrals from friends. Always compare three professionals.

Get Started

- Start shopping for your “team.” Get referrals from friends. Always compare three professionals.
- Compare lenders and get financing lined up. Explore both conventional and private money options.
- Will you be using property management? Build 10% into your pro-forma either way.
- Select your realtor and shop for a home.
- Forming a LLC, series LLC or S-corp? Get it in place if you plan to form a legal entity.

Get Looking

- Work with your realtor and start getting your property parameters sent to you…
    - Or work with online investment property marketplaces like RoofStock or HomeUnion.
- Find the perfect property? Get feedback from your realtor, mentor(s) and BiggerPocket forums before pulling the trigger on your first deal. Remember, it’s all about the purchase price.
- Be cautious, but also be cautious of analysis paralysis. If you’re truly ready, then do it!
- **Make an offer and sign a purchase agreement**.

Get Closing (from *Homebuying Foundations*)

- Put down your earnest money deposit in Escrow.
- Get a *Loan Estimate* from your lender.
- Get a professional home inspection (a must for an investor or homebuyer). Negotiate any repairs.
- Get your home appraisal.
- Shop for and get homeowner’s insurance.
- Review closing documents 3 days before closing. Compare *Closing Disclosure* with *Loan Estimate*.
- Bring in funds to close to Escrow company and sign closing documents.
- Escrow and Title company record documents and transaction closes.

Your First Investment Property

GETTING STARTED

Get Cash Flowing (if tenant is in place)

- Devote X amount of your initial cash flow to build a vacancy and CapEx fund in a separate bank account.
- What's your strategy? Are you going to save cash flow to roll into a 20% down for your next property?
- You're a landlord now and responsible for your tenants' rights. Continue learning at Lane ROA.
- Have your CPA ready to support as you set up your books and prepare for tax time.
- Congratulations, treat yourself to a microbrew or something special!

The 4 Real Estate Investment Returns:

Cash Flow

Loan Amortization

Appreciation

Taxes

What's your "WHY?"