

# How to Purchase and Finance Rental Properties



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# What are the most common ways to purchase investment properties?

- 1 – Purchase the property with cash**
- 2 – Purchase the property with a new mortgage**
- 3 – Purchase the property with hard-money (short term) financing and refinance into permanent financing**
- 4 – Purchase a multi-unit property as a primary residence, live in one unit and rent out the others**

**How does each scenario work?**

**What are the pros/cons of each scenario?**

**Which one is the best choice?**

# Scenario #1 – Purchase with Cash

Purchase Price = \$210,000  
 + Closing Costs = \$553  
**Total Cash to Purchase = \$210,553**  
 + Rehab = \$0  
**Total Cash In The Deal = \$210,553**

## Benefits

- 🏠 4.9% Cap Rate
- 🏠 10.8% ROIQ
- 🏠 NO LOAN QUALIFYING!
- 🏠 No Monthly Payments

## Risks and Negatives

- 🏠 Need a large amount of \$\$\$\$
- 🏠 May only be able to buy few props

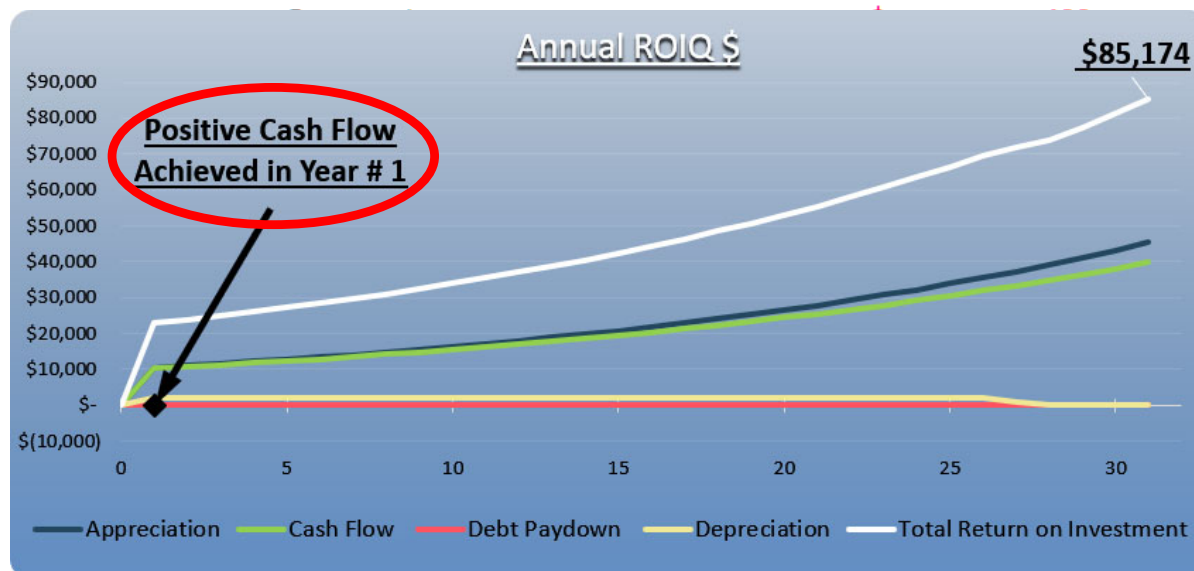
**CLOSED – On the MLS – Seller's Market with less than 1.6 MOI**

### Annual Income

Annual Rental Income @ \$1800 per month	\$	21,600
- Vacancy 5%	\$	(1,080)
<b>Expected Annual Rental Income</b>	<b>\$</b>	<b>20,520</b>

### Annual Expenses

Property Management	\$	2,160
Reserves for Repairs and Maintenance	\$	1,728
HOA Dues	\$	4,680
Real Estate Taxes	\$	1,215



**Annual Cash Flow Before Taxes** **\$ 10,238**

### 1st Year Return On Investment Quadrant™ (ROIQ)



\*\*Return On Investment Quadrant™ is a trademark of Real Estate Financial Planner LLC

# Scenario #2A – Purchase 15% Down

Purchase Price = \$263,000  
 - New Loan Amount = \$223,550  
 Down Payment Needed = \$39,450  
 + Closing Costs = \$6,500  
**Total Cash to Purchase = \$45,950**  
 + Rehab = \$6,000  
**Total Cash In The Deal = \$51,950**

## Benefits

- 6.1% Cap Rate
- 25.9% ROIQ
- Much less cash in deal
- Can buy more properties

## Risks and Negatives

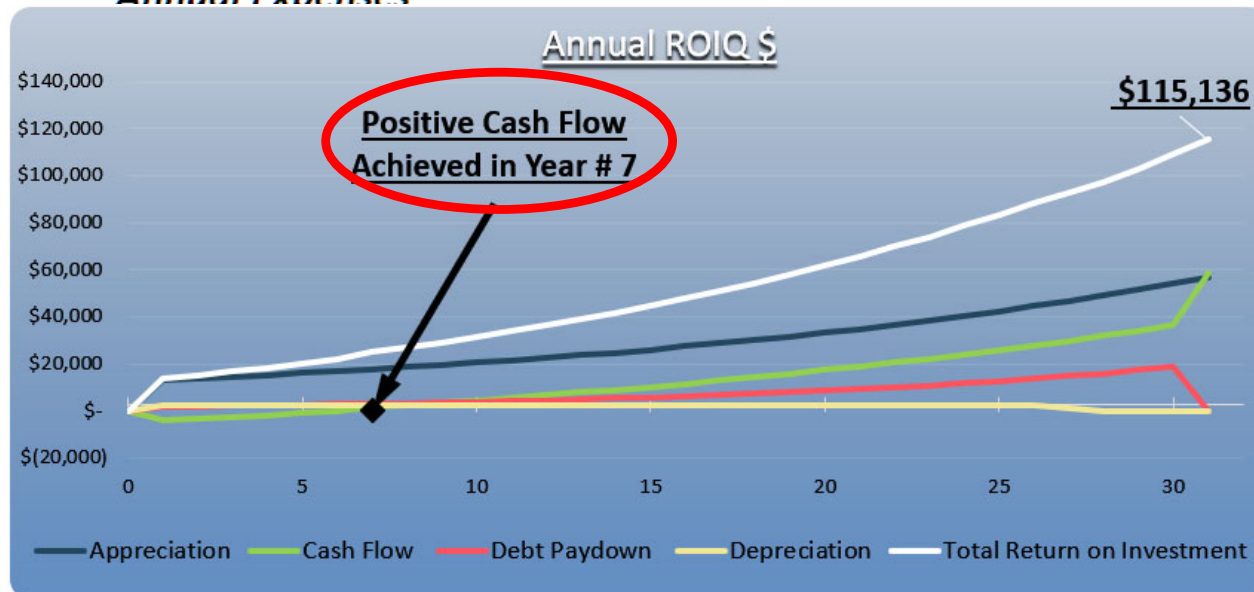
- NEGATIVE cash flow
- Have to qualify for a new loan
- Vacancies have more impact
- Property may not qualify for financing

**CLOSED – On the MLS – Seller's**  
**Market – 1.3 MOI**

## Annual Income

Annual Rental Income @ \$2250 per month	\$	27,000
- Vacancy 5%	\$	(1,350)
<b>Expected Annual Rental Income</b>	<b>\$</b>	<b>25,650</b>

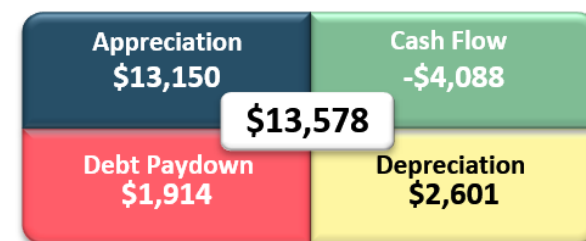
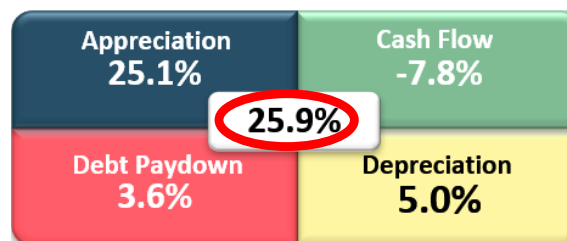
## Annual Expenses



## Annual Cash Flow Before Taxes

**\$ (4,088)**

## 1st Year Return On Investment Quadrant™ (ROIQ)



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# Scenario 2B – Purchase 25% Down

\*SFR With Basement Apartment

Purchase Price = \$475,000

- New Loan Amount = \$356,250

Down Payment Needed = \$118,750

+ Closing Costs = \$5,600

Total Cash to Purchase = \$124,350

+ Rehab = \$25,000

Total Cash In The Deal = \$149,350

## Benefits

- 5.5% Cap Rate
- 20.3% ROIQ
- Closer to break even cash flow

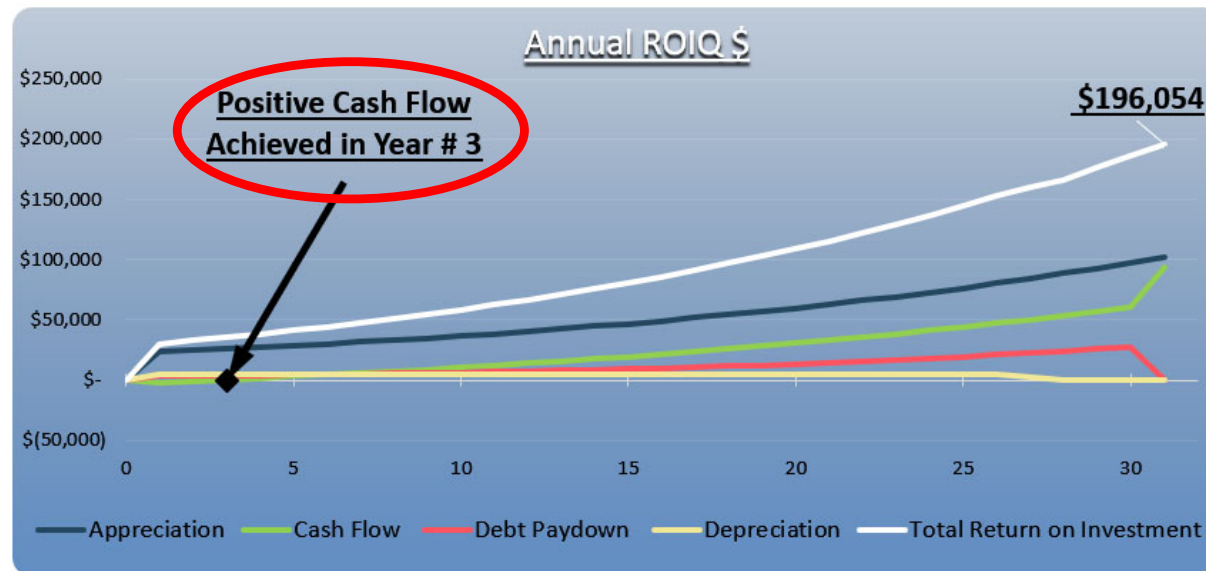
## Risks and Negatives

- Have to qualify for a new loan
- Property may not qualify for financing

**CLOSED – On the MLS – Seller's**  
**Market 1.1 MOI**

## Annual Income

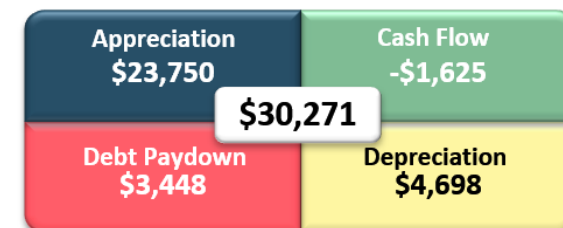
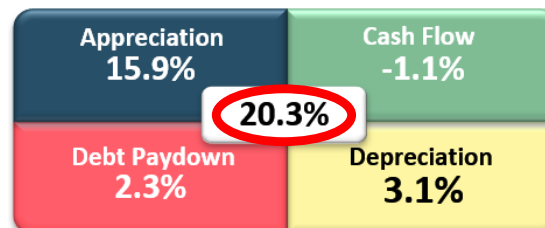
Annual Rental Income @ \$3200 per month	\$	38,400
- Vacancy 5%	\$	(1,920)
<b>Expected Annual Rental Income</b>	<b>\$</b>	<b>36,480</b>



## Annual Cash Flow Before Taxes

**\$ (1,625)**

## 1st Year Return On Investment Quadrant™ (ROIQ)



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# The Process to Purchase with a Hard-Money Loan

- 🌲 Locate the property
- 🌲 Get it under contract and prepare repair budget / analytics – Need sufficient equity
- 🌲 Get Hard Money acquisition loan – Up to 70% of ARV
- 🌲 Repair Property
- 🌲 Get a tenant
- 🌲 Refinance Hard Money Loan – Up to 75% of NEW APPRAISED VALUE
- 🌲 Hire management company or manage the property yourself

# Scenario #3 – Purchase w/ Short-Term Loan & Refi w/ Permanent Conventional Financing

\*Duplex - \$885,000 ARV

Purchase Price\* = \$370,000

+ Rehab Costs = \$175,000

+ Closing Costs = \$27,250

Total Loan Amount = \$572,250

Down Payment Needed = \$0

8 Payments made during the rehab and refinance period = \$6,670 x 8 months =

**\$53,360** total holding costs

Payoff Existing Loan = \$572,250

+ Closing Costs = \$7,750

Total New Loan Amount = \$580,000

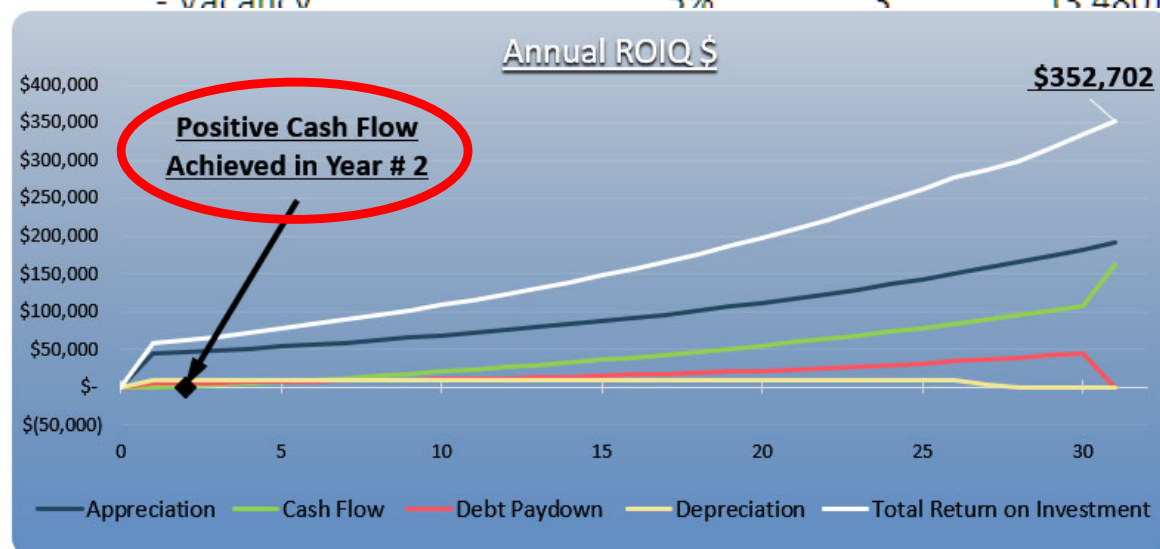
Cash Needed for Refi = \$0

Total Cash In Deal = **\$53,360**

Purchased - Wholesaler –  
Seller's Market with Less than 1.0 MOI

## Annual Income

Annual Rental Income @ \$5800 per month \$ 69,600  
- Vacancy 5% \$ (3,480)



## Annual Cash Flow Before Taxes

**\$ (799)**

## 1st Year Return On Investment Quadrant™ (ROIQ)



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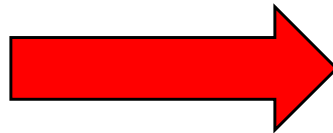
# Scenario #3 – Continued...

## Benefits

- 🌲 Amazing ROIQ
- 🌲 Very little cash into the deal
- 🌲 Ability to purchase more and more properties
- 🌲 Good cash-flow with very little investment

This example is the **BEST-CASE** scenario. **REAL WORLD results can be different.** There are a number of factors that can affect your results.

**BE PREPARED TO PUT CASH IN TO THE TRANSACTION DEPENDING ON YOUR APPRAISAL AND APPROVAL TERMS!**



## Risks

- 🌲 Loan qualifying is more difficult
  - 🌲 Less equity in the property and more leverage on the investor
  - 🌲 Vacancies have a much higher impact
  - 🌲 May not have to put cash into the deal, but still need to have good cash for loan qualifying
- **Appraisal is the key determining factor on the approval of the loan**
  - **Be prepared to bring some money to the closing. You should expect to put 3% - 15% in to the transaction**



# Scenario #4 – Purchase a Multi-Unit as your Primary Residence

\*SFR With Basement Apartment

Purchase Price = \$475,000

- New Loan Amount = \$451,250

Down Payment Needed = \$23,750

+ Closing Costs = \$7,500

Total Cash to Purchase = \$31,250

+ Rehab = \$6,000

Total Cash In The Deal = \$37,250

## Benefits

- 160% ROIQ – WOW!
- Super-low down payment – 5%
- Potentially Great Cash Flow

## Risks and Negatives

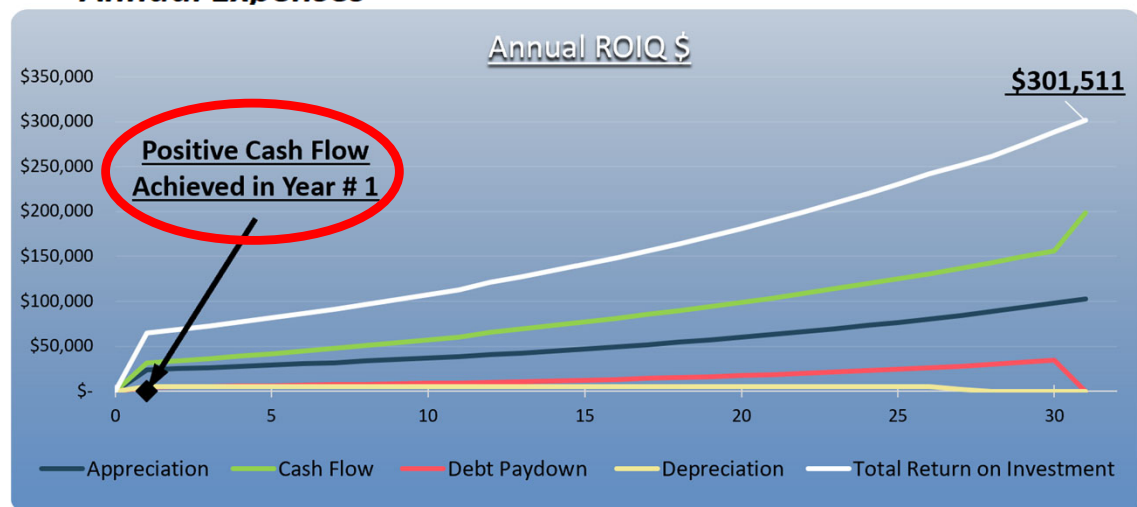
- YOU HAVE TO LIVE WITH YOUR TENANT
- Need to be disciplined to save your payment
- Need to live there for a minimum of 12 months

**CLOSED – On the MLS – Seller's**  
**Market 1.3 MOI**

## Annual Income

Annual Rental Income @ \$3400 per month	\$	40,800
- Vacancy 5%	\$	(2,040)
<b>Expected Annual Rental Income</b>	<b>\$</b>	<b>38,760</b>

## Annual Expenses



## Annual Savings and Cash Flow

**\$ 31,416**

## 1st Year Return On Investment Quadrant™ (ROIQ)



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# Which Option Is the RIGHT One?

	Investment	Annual Cash-Flow	ROIQ	Years to Achieve Positive Cash-Flow
<u>Cash</u>	\$210,553	\$10,238	10.8%	Immediate
<u>15% Down</u>	\$51,950	(\$4,088)	25.9%	Year 7
<u>25% Down</u>	\$149,350	(\$1,625)	20.3%	Year 3
<u>Hard Money</u>	\$53,360	(\$799)	108.4%	Year 2
<u>Primary Residence</u>	\$37,250	\$31,416	160.7%	Immediate

Only the investor can answer that question!

The best option is completely up to the investor! You should carefully review all of the following areas to make a decision about the strategy that is right for you:

- 🏠 Personal Financial Situation
- 🏠 Risk Tolerance
- 🏠 Loan Qualification Ability
- 🏠 Asset Position
- 🏠 Investment Goals
- 🏠 Tax Implications

# How Can Pine Financial Help YOU?

- 🌲 Up to 70% After-Repaired Value (ARV)
- 🌲 Up to 100% of Rehab Costs Financed
- 🌲 9 month term
- 🌲 No mortgage insurance
- 🌲 No PrePayment Penalty
- 🌲 **NO MONEY DOWN!**
- 🌲 90% Purchase with No Renovation Option available as well
- 🌲 **FAST Closings!**

## What people are saying about our rehab loans –

Pine Financial Group is an excellent fit for my business needs. They understand our regional economy and my business. Pine provides personalized service, attention to detail and more importantly, no surprises at the closing table.

- G. Ramsey

# Questions for Justin?



**Justin Cooper**

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When it comes to service, we believe that proactive communication is absolutely critical to successful closings.

We believe that real estate closings should involve a personal touch and not be treated as mere business transactions.

We also believe that the experience of homeownership, whether selling or buying, is a special process

Our commitment to customer service originates from the core belief that the transaction is incredibly important and should be celebrated.

## Why Work with Jerrod Paterson

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