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# **BEGINNER'S GUIDE TO INVESTING IN REAL ESTATE**

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# **INTRODUCTION**

**Many of the wealthiest people in the United States have built a substantial portion of their wealth through real estate. It is estimated that over the past two hundred years over 90% of the millionaires in the United States have owned investment real estate.**

**This guide is designed to provide individuals interested in learning more about investing in residential real estate the knowledge to serve as the foundation for their future investing endeavors.**

**\*\*\*Disclaimer\*\*\***

**The advice contained in this guide is from a licensed real estate broker. It is not intended as a substitute for any professional tax or legal advice. That advice should always come from a tax professional, financial planner, or your attorney.**

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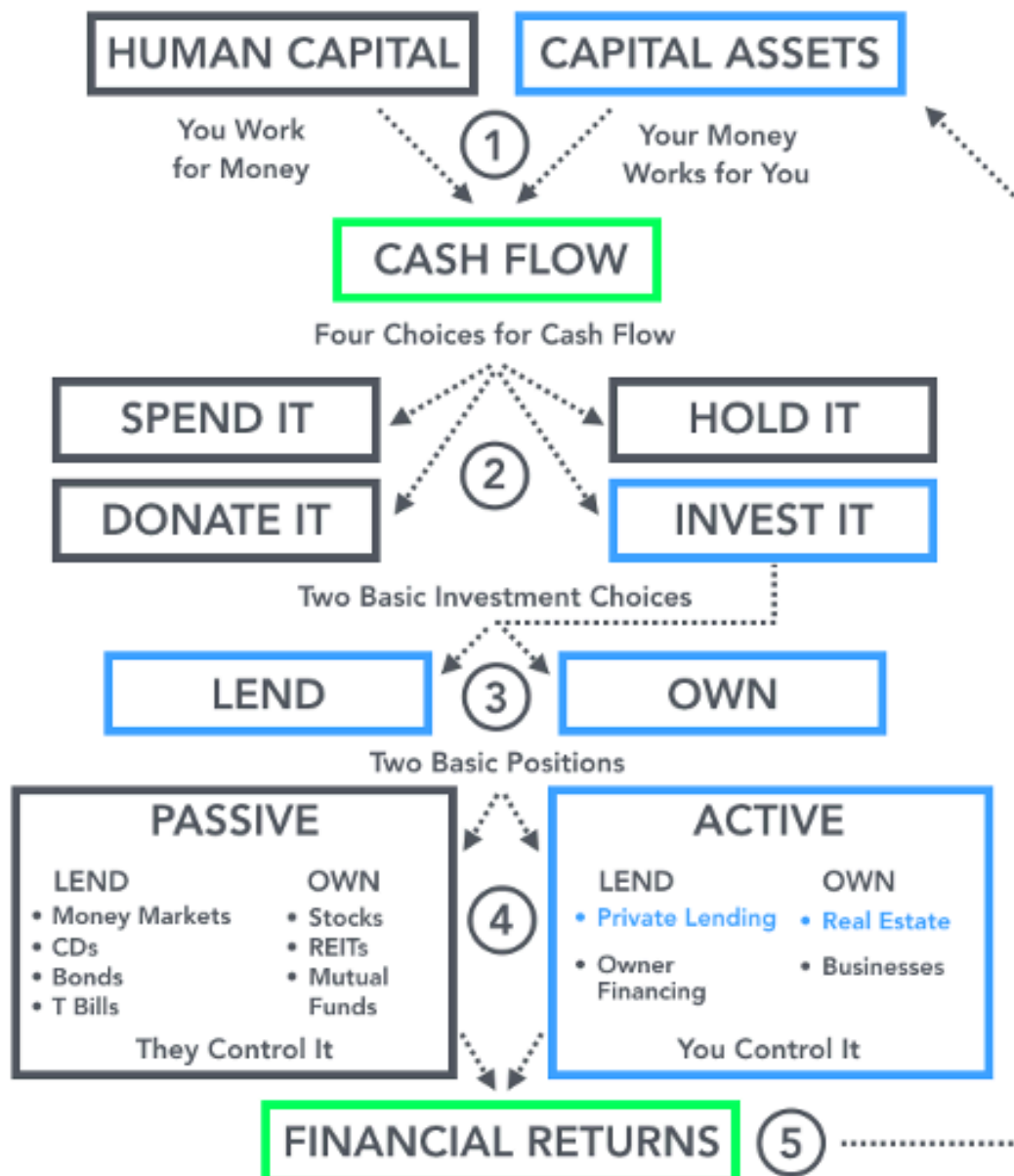
# WHY REAL ESTATE

Here are 8 reasons to invest in real estate from Gary Keller's *Millionaire Real Estate Investor*.

1. **Accessible**-Anyone can buy it.
2. **Appreciable**- Increases in value over time.
3. **Leverage**- buy the whole asset with a small portion of asset value.
4. **Cash flow**- generate monthly returns on your investment.
5. **Improvable**- think sweat equity.
6. **Tax advantages**-depreciation and more
7. **Stable**- will never get down to a value of zero.
8. **Livable**- fulfills one of the most important human needs.

# UNDERSTANDING THE PATH OF MONEY

There are only 2 kinds of capital. Human Capital, aka, you work for your money and Capital Assets, your money works for you. From there here is a chart showing your options with that capital



# KEY INVESTING TERMS

Here are some key terms you will want to know and start to get a firm understanding of

1. **Buy & Hold-** an investment strategy of buying a property and holding onto it for a long period of time.
2. **ROI-** Return on investment- measurement of the performance of your personal investment in the property
3. **Cash Flow Before Taxes-** a measurement of the potential money generated on a property before taxes
4. **Net Operating Income(NOI)-** a measurement of the remaining income after paying all operating expenses.
5. **Debt Service-** the monthly commitment to your mortgage on the investment
6. **Ancillary Income-** monies collected in addition to rent. This could include fees like laundry in the building and pet fees.
7. **Appreciation-** the amount the value of the property increases over what was originally paid for the property.

# MONETARY BENEFITS

There are 3 huge tangible benefits to investing in real estate. A property can be a good investment over time as long as at least one of these benefits is present.

## #1 CASH FLOW

calculating  
cash flow

Potential Gross Income

(-) Vacancy & Collections(Use 5% without actual data)

(+) Other Income(Laundry....etc)

(=) Effective Gross Income

(-) Operating Expenses

(=) Net Operating Income(NOI)

(-) Debt Services

**(=) CASH FLOW BEFORE TAXES**

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# **MONETARY BENEFITS**

There are 3 huge tangible benefits to investing in real estate. A property can be a good investment over time as long as at least one of these benefits is present.

## **#2 APPRECIATION**

Since the 1990's real estate has increased an average of 4% annually. Here is what that looks like on a \$200,000 property over 7 years

<b>Year 1</b>	<b>\$208,000</b>
<b>Year 2</b>	<b>\$216,320</b>
<b>Year 3</b>	<b>\$224,973</b>
<b>Year 4</b>	<b>\$233,972</b>
<b>Year 5</b>	<b>\$243,330</b>
<b>Year 6</b>	<b>\$253,064</b>
<b>Year 7</b>	<b>\$263,186</b>

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# MONETARY BENEFITS

There are 3 huge tangible benefits to investing in real estate. A property can be a good investment over time as long as at least one of these benefits is present.

## #3

### DEBT PAY DOWN

Every month a portion of the mortgage payment goes towards lowering the principal.

This is an automatic benefit, that happens regardless of market condition, and the best part....it is paid by the tenants.

Example	Debt pay down
<b>Purchase Price</b>	<b>\$200,000</b>
Interest Rate	<b>6% fixed rate, 30-year mortgage</b>
<b>Down Payment</b>	<b>\$40,000(20%)</b>
<b>Original Balance</b>	<b>\$160,000</b>
<b>Balance After Year 7</b>	<b>\$141,737</b>
<b>Debt Reduction</b>	<b>\$18,263</b>

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# MONETARY BENEFITS

Putting it all Together. Here is an example when all 3 of these benefits are working together on that example \$200,000 purchase with a modest \$250 per month cash flow after 7 years.

Benefit	Return
Cash Flow	\$21,000
Appreciation	\$63,186
Debt Pay Down	\$18,263
Total Gain	\$102,449
Initial Investment	\$40,000
ROI	\$62,449(256%)

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# LEVERAGE

Now we get to the real power of real estate. **LEVERAGE.** Capitalizing on the power of leverage you get the full benefit of the appreciation of the asset with only a portion of money invested. Historically the S&P Index has had an average annual rate of return of 10.3%. On the surface 10.3% sounds better than 4% that real estate has appreciated, until you take a look at the power of leverage. Here is an example of \$100,000 invested in the S&P over a 5-year period and then \$100,000 invested in real estate with the power of leverage by putting 20% down on your investment.

## S&P 500

	Year One	Year Two	Year Three	Year Four	Year Five
Starting Balance	\$100,000	\$110,300	\$121,661	\$134,192	\$148,014
Return %	10.3%	10.3%	10.3%	10.3%	10.3%
New Balance	\$110,300	\$121,661	\$134,192	\$148,014	\$163,259

5 Year Profit: \$ \$63,259

5 Year Cash-on-Cash ROI: 63.2 %

## Real Estate Investment \$100,000

	Year One	Year Two	Year Three	Year Four	Year Five
Starting Balance	\$500,000	\$520,000	\$540,800	\$562,432	\$584,929
Return %	4%	4%	4%	4%	4%
New Balance	\$520,000	\$540,800	\$562,432	\$584,929	\$608,326

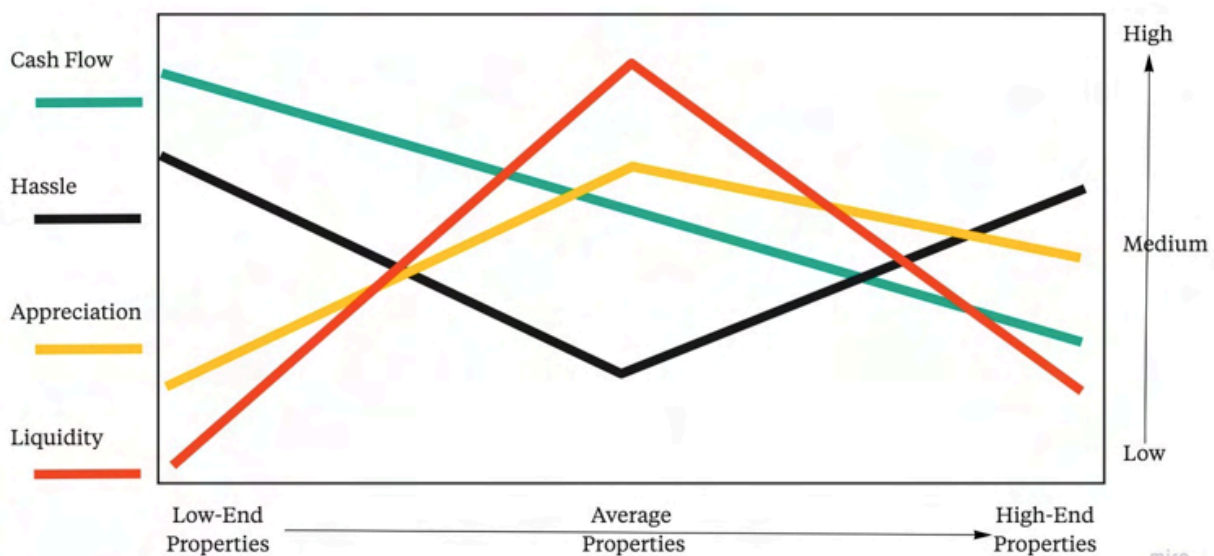
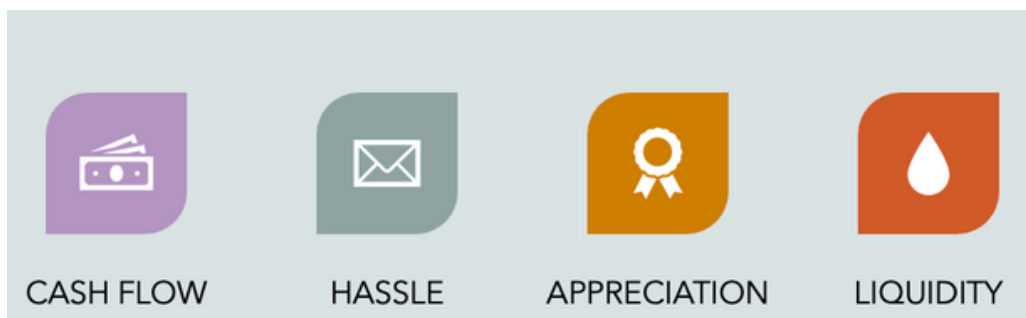
5 Year Profit: \$ \$108,326

5 Year Cash-on-Cash ROI: 108.3 %

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# SELECTING YOUR CRITERIA

Every investor has different tolerances and desires with their real estate investments. You need to identify what criteria is most important to you and your investment goals. Here is a generalization of four important and distinct considerations for the type of investment property that would be best for you. Then in the back of the guide you will find a printable worksheet.



[Click Here to Watch a Video Breakdown from Chris](#)

# NEXT STEPS

You have taken your first steps in the world of real estate investing. Hopefully, you have found the guide beneficial and it is my goal that you learn a ton from it. If you haven't already be sure to check out the videos that are clickable at the bottom of most of the pages of the guide. If you still think starting to invest in residential real estate is a good path for you to start, the next step would be to schedule a strategy session with me. During this session, we will discuss your goals, and develop a plan to work towards these goals. Thanks for downloading the guide and I look forward to helping you on this journey.



**SCHEDULE  
YOUR STRATEGY  
SESSION TODAY**

# CASH FLOW WORKSHEET

## Cash Flow Before Taxes

Potential Gross Income	\$_____
-Vacancy & Collections(Use 5% without actual data)	-\$_____
+Other Income	+\$_____
=Effective Gross Income	= \$_____
-Operating Expenses	-\$_____
=Net Operating Income	= \$_____
-Debt Service	-\$_____
=Cash Flow Before Taxes	= \$_____

# CHOOSE YOUR CRITERIA

1) Location		4) Condition	7) Amenities
State(s):		No Repair	Office
Weather		Minor Cosmetic	Exercise Room
Rental Restrictions		Major Cosmetic	Security System
School District		Demo	Fireplace
Traffic		New Construction	Pool on property
Lot			Pool in HOA
Location	Urban	5) Construction Features	Hot Tub
	Suburban	Basement	
	Rural	Heat Type	Near:
	Resort/Vacation	Roof Type	Shopping
		Wiring	Golf
2) Type		Plumbing	Skiing
Single Family	Home		
	Condo	6) Property Features	Other:
	Town House	# of Beds	
	Manufactured	# of Baths	
Small Multi	2 Family	Age of home	
	3 Family	Sq feet	
3) Economic		Appliances	
Price Range		Patio/Deck	
Cash Flow		Attic	
Appreciation		Laundry	
		# of Stories	