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"Our Goal – To Help Real Estate Entrepreneurs Grow Their Portfolios"

From the Desk of Lathea Morris
973.509.1903 Ext. 1#
www.MorlinoandLathea.com

Guide For Real Estate Investors On-the-Go

Building Your Real Estate Portfolio: A Guide for On-the-Go Investors

Habits of Successful Real Estate Investors

Although real estate investing is a sound way to invest, it does take being smart and savvy to become really successful in this competitive market. While there are classes to take, they're not necessarily a prerequisite to being profitable. However, there are certain characteristics that successful investors usually possess, and they're as follows:
Treat Investments Like a Business - An important habit that successful real estate investors have is that they treat their activities as a business. This helps them to achieve both their long-term and short-term goals. Develop and follow a business plan that will allow you to create a course of action to achieve objectives. Download - **What Your Real Estate Business Plan Should Include.**

Other habits include: Market Knowledge; Stay Ethical; Focus on a Specific Niche; Be Good at Customer Service; Continue with Education, and Build a Strong Network. **The details.**

Best U.S Markets for Real Estate Investment

Investing in real estate can be a risky business, however, if you have the right plan in place, you can also strike it big. It's key to pay attention to the trends and using those numbers to make projections about the future health of various real estate markets. This includes looking at stats such as unemployment rate, population growth, and housing price growth forecasts. According to Local Market Monitor, a data company based in North Carolina, Florida is one of the top markets for investment opportunities. Florida cities include Orlando, Fort Lauderdale, Cape Coral, North Port, Jacksonville, Tampa and West Palm Beach.

Other markets include: Texas - a robust market and high livability; The Carolinas - affordable investments and a growing market, and Michigan - low prices with high ROI. **The details**.

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Are You a Commercial Real Estate Investor? To find out, ask yourself these questions.

Five Trends Affecting Commercial Real Estate: Looking Ahead to 2017

The U.S. property market landscape in 2017 will be characterized by continued strong fundamentals, increased investor flows and high transaction volume. As for the economic landscape, the U.S. continues to grow moderately and add jobs. The U.S. employment gains continue to be strong, with unemployment dropping below 5.0 percent earlier this year, and adding to demand for housing in a variety of forms, for office space, for the retail sector and for industrial/distribution facilities.

The following 5 trends will play a significant role in commercial real estate in 2017.

1. **Low interest and cap rate environment.** While it seems fairly certain that the Fed will seek another rate hike before the year is out, it should be minor. The funds rate could be boosted by perhaps 0.25 percent to 0.50 percent in 2016 and the same in 2017, but both inflation and employment appear to be coming in under the Fed's expectations.

The other 4 trends include: Global economic and political uncertainties; Foreign investment in the United States; Slowing new supply, and Volatile energy markets. **The details.**

What is Small-balance Real Estate (SBRE)?

A "small balance real estate" refers to a real estate asset based business where the size/amount of the capital required to do an average deal is less than $2,000,000. Often the average deal size might only be $250K - $400K or some amount well below $1,000,000.

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What is Small-balance Real Estate (SBRE)? Cont.

Higher Demand on Small-Balance Properties

Although there are some indications that the market for small-balance commercial properties — those valued under $5 million — may be starting to ebb, it has remained robust overall during the first half of 2016, following a strong performance in 2015. Businesses absorbed 76.1 million square feet of space in buildings under 50,000 square feet during this past second quarter, up 90 percent year over year, according to research and consulting company Boxwood Means. Randy Fuchs, principal and co-founder of **Boxwood Means**, about the state of the small-balance market and its prospects. He was asked this question:

What is behind the solid performance of the small-balance market, and what are the chances that it will continue to thrive?

Even though the cyclical rebound in the U.S. economy has been slower and more inconsistent than other post-recession recoveries, moderate GDP [gross domestic product] growth trends were pivotal in lifting business and consumer confidence, [which] inspired the strong jobs recovery. That, in turn, has led to steady gains in income and, finally, wage growth, too. Let's not forget that the export boom and the significant reduction in domestic energy prices have also been important drivers behind the well-being of the Main Street USA economy and the rise in commercial real estate [CRE] fundamentals. We're pretty upbeat that in a low-inflation, low-energy-cost environment, the economy will continue to bolster jobs and household spending. That, and the housing-market resurgence, are likely to extend the health of the current CRE cycle.

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Single Family vs. Multi-Family Investments

Both options, single family and multi-family can prove to be worthy investments, however, weighing the pros and cons of each will help determine which is best for you.

Single Family Pros
Only one family of tenants to manage
Sells quicker if you no longer want the property
Tends to appreciate quickly

Single Family Cons
Increased risk posed by vacancy - The problem with only one tenant is that when the house is vacant there's no income which means you will be paying for all the upkeep and bills yourself.

Depending on the lender type, a SF home can affect your debt to income ratio and might make it more difficult to get additional loans.

Multi-Family Pros
By having multiple units to rent, it lessens the risk of having no income for the landlord. It also helps spread out the cost of repairs and capital improvements.

Financing for multi-family 5 units+ is different than residential (1-4 units). The income from the property is a major factor (vs. your debt to income ratio) that is taken into consideration.

Convenience - You only have to travel to one location to make a repair or resolve an issue with a tenant, rather than driving to multiple single family locations.

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Single Family vs. Multi-Family Investments Cont.

Multi-Family Cons
In financing a multi-family project, the initial cost can be greater – a higher down payment and reserves.

Because you have more than one tenant, you will probably have to respond to more families in regards to maintenance issues. Although, there can be more income to cover maintenance, expenses can be more and have a domino effect. The problems caused by one tenant can quickly magnify and cause issues with other tenants, i.e., a sink overflowing on the top floor allowing water to flow into all units below it.

Turnover can be more of an issue in multi-family buildings than SF homes. Multiple units can be turning over at one time. With turnover comes added expenses.

Do You Know All the Benefits of Rental Property?

The use of leverage - Real estate is one of the few investment vehicles where using the bank's money couldn't be easier. Tax deferred growth - Buying rental property based on speculation of its value is a dangerous tactic since cash flow is the key. However, appreciation over the long run is certainly realistic and at the least, you should be considering a tax-deferred strategy.

Other benefits: Tax-free cash flow; Tax write-offs against your other income, and Rental real estate is a forced retirement plan. **The details.**

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Funding Options

Hard money loans are short-term loans offered by private lenders who lend based on the equity in the deal more than the strength of the borrower. Typically, hard money loans are used by fix and flip investors to purchase, rehab and re-sell the property. Rates are typically between 10 – 18%, with points ranging between 2-10 depending on the lender and the strength of the deal.
Hard money loans are ideal for situations such as: Fix and Flips; Land Loans; Construction Loans; When buyers have credit issues, and When investors needs to act quickly.

Two Examples of Fix / Flip Financing

For the experienced investor: Property types are SFRs up to 4 units; Minimum loan size of 100K; Financing up to 90% of purchase price and 100% of rehab costs (for experienced investors that can show 2-3 deals completed within 2 years); Rates from 10.99-12%; No minimum FICO score but credit will be reviewed; Points - 2-4; I/O payments; 12 month term; No prepayment penalty, and No tax returns required.

For the novice investor: Property types are SFRs up to 4 units; No minimum loan amount-up to $1.5M; Financing up to 90% of loan to costs; Loan to ARV up to 70%; 12 months term; Down Payment 10%+; Credit Score 630+; Rates from 9.99- 12%; Points - 2-4 (Min fee is $3500), No prepayment penalty, and Must purchase property in a business legal entity name.

Purchase to hold loans – There is a middle ground between hard money and conventional rates. This financing is typically for investors who don't fit the typical bank model and don't want to pay hard money fees. Rates typically start at 6.95%, with points ranging between 2-4 depending on the lender and the strength of the deal.
The loans offered by this lender type are ideal for investors who don't quite meet the stringent income, credit, and net worth standards of traditional banks.

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Funding Options Cont.

Two Examples of Purchase / Hold Financing

For both experienced and novice investors: Property types are SFRs up to 4 units and Commercial; Minimum loan size $45K (residential only) up to $5M; Financing up to 70% - 75% LTV; Credit Score 630+ for residential & 650+ for commercial; Rates start 6.95%+, Points - 2-4, Terms vary; and No Personal DTI to qualify – Debt Service Coverage Ratio (DSCR) only – 1.3 Minimum (residential only).

DSCR Residential Example:
DSCR Calculation: $100,000 loan, 30 years amortization
Fixed PI (at 7.25%) = $682.18
TIA = $100
PITIA = $782.18
Gross Rent = $1,100 ÷ PITIA of $782.18 = DSCR of 1.41

For low credit score investors: Fico score as low as 500 & up to 65% LTV; Minimum loan size $100K; Property types are SFR, 2-4 units and Commercial; Rates start at 8.75%; Loan terms are 3, 5 and 7 years

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Funding Options Cont.

Commercial loans are for properties with five units or more, as well as other non-residential investment properties; i.e., shopping malls, apartment buildings, office complexes, and any other kind of commercial investment.
The first step in commercial real estate loan underwriting is determining the appropriate net operating income (NOI). The borrower will typically submit a rent roll and a pro forma (forecasted rental income and expenses), but the lender will almost always construct their own pro forma for loan underwriting purposes, which may result in a different NOI calculation. Possible lender adjustments to NOI include increasing the vacancy and credit loss factor to account for market conditions or tenant rollover risk. After determining NOI, lenders have internal loan policy guidelines they use as underwriting criteria for different real estate projects. The two most important loan underwriting criteria used are the LTV and DSCR. Different from the residential DSCR, the commercial DSCR is the ratio of NOI to annual debt service. The reason why this ratio is important to lenders is because it ensures the property has the necessary cash flow to cover the loan payments. Typically, a commercial lender wants to see a DSCR of at least 1.2 after all the expenses are paid.

The DSCR formula can be calculated as follows: $DSCR = \frac{\text{Net Operating Income}}{\text{Annual Debt Service}}$

Maximum Loan Analysis Excel Cheat Sheet

Commercial investor program: Minimum loan size $250K; Credit score 650+; Rate: 6-9%; LTV: Up to 70%; Pre-Payment Penalty; Origination up to 4 points

For commercial investors who have a credit score of 700+: Minimum loan size $500K and, Rates start at 4.5% with a DCSR of 1.35+.

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Real Estate Comps: Resources for Determining Property Value

Zillow.com – Zillow is the biggest player in the online house values game, through a feature called a "Zestimate," which is an automated estimate based on public records and sales comps. You can also search for "sold" listings to determine your own comps.

Trulia.com – Like Zillow, Trulia allows you to search "sold listings" to gather comps.

Redfin.com – An online brokerage with online property valuation tool.

Property Shark – Property Shark provides public data on a property, recent sales, sale history, and comparables. No need to provide your contact info, either.

Real Estate Forums

BiggerPockets.com

Meet-ups

Commercial Real Estate

Real Estate Investor Apps

Property Evaluator – Analyze, buy and hold investment properties

Commercial Real Estate Resource

42Floors.com – Commercial Real Estate Search Engine

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Share Your Investor Scenario With Us

Why Choose Lathea Morris for Your Investor Financing Needs?

She's committed to bringing you fantastic customer service and loan products that fit your investing strategy.

You can expect timely responses and follow-ups. If she can't offer a financing solution, she won't leave you hanging.

Need to talk financing strategy?

For your convenience, here's a **link to schedule a call** with Lathea.