The No Fluff Zone

Volume 1, Winter 2005

A quarterly publication of Team Reba of RE/MAX Metro Realty

TEAM REBA

You've Entered The No Fluff Zone...

Welcome to the premier issue of The No Fluff Zone. If you're looking for a real estate newsletter with a lot of touchy feely fluff in it, then you've come to the wrong place. In case the name doesn't say it all, we created this publication as a resource for discussion and practical advice for real estate investing.

In this issue and in the coming months ahead, we'll be bringing you articles and tips from our distinguished panel of experts—financial planners, property managers, lenders, tax strategists and more. These professionals represent the many areas that affect your investment decisions.

On the flip side you'll find success stories of investors we've recently helped. Whether you're just beginning to get your feet wet with your first investment, or you're a veteran of real estate investing, we're sure you'll find each case informative and potentially applicable to your situation.

And if there's a topic you'd like to see us cover, please let us know.

Rebecca Haas &
Michael Lindekugel

Making Your Investment Pay

By Eric Aasness, Washington Mutual Bank

Over the years, I have had the fortune to watch many of my customers purchase their first homes, grow the equity, and then delve into investment property purchases. And ever since the NASDAQ took its dive, more and more people have been purchasing investment properties as an alternative to the stock market. Trouble is, with house prices on the rise, it's become more difficult to make an income property pencil out as a good investment. I can help with that.

The first step when purchasing income property is to negotiate the best price possible. The second step is to investigate different financing options to maximize cash-flow on the property. It's amazing how much cash flow can be impacted by your choice of loan programs.

> *"It's amazing how much cash flow can be impacted by your choice of loan programs."*

As for negotiating the best possible price, the first step is to determine what income the property will produce. We call it the NOI, or Net Operating Income. NOI is calculated using the income generated by the less "stabilized" expenses. Those expenses would include property taxes, insurance, utilities paid by the landlord (water, sewer, garbage usually), repairs and maintenance, a vacancy factor, property management expenses, and reserves for the replacement of capital items (roof, carpet, heaters, appliances, etc.).

Once the NOI is calculated, you can then determine the property's Capitalization Rate (Cap Rate). The Cap Rate is the NOI divided by the Sales Price. Cap Rates will vary from neighborhood to neighborhood. A good Cap Rate ranges from 7% to as low as 4.5-5% depending on the neighborhood. The higher the Cap Rate, the better your rate of return on the property. If the Cap Rate is too low, don't buy the property!

Next is financing. Say you purchase a Duplex for $400,000, with rents of $2,600 per month. With a 20% down payment and a 30-year fixed rate mortgage at 6.5%, your total monthly payment would be $2,440 including taxes and insurance, giving a slightly positive cash flow of $160.00. But the same property financed with an adjustable rate mortgage at 1.65% would have a payment of $1,545, giving you a positive cash flow of $1,057.00 per month! The trade off is that you are substituting a fixed-rate loan and more principal pay down for an adjustable rate one with less (or no) principal pay down.

Does it make sense to use an adjustable rate mortgage for investment properties? Usually the answer is yes. Interest rates tend to rise when the economy is strong. Rental rates will also rise when the economy is strong. So even if your monthly payment goes up due to a higher interest rate, you are collecting higher rents to offset that increase, keeping your cash flow steady.

For more information on this subject, give me a call or send me an email. I'm always happy to run specific numbers and scenarios.

Eric Aasness is a Senior Loan Consultant with Washington Mutual Bank, serving the local community for over 25 years. Eric can be contacted at 206-490-3604 or eric.aasness@wamu.net.

Investor Success Stories

Team Reba Buying and Selling Highlights in 2004

Rebecca Haas
Real Estate Agent
REALTOR®

Michael Lindekugel
Real Estate Agent
Financial Analyst

For more information contact:
info@teamreba.com
206. 706.6562

Every picture tells a story, as the saying goes, and behind every one of these pictures is a lot more than a simple purchase and sale. In fact, these two photos represent two recent investment successes that we helped to facilitate for clients, and we wanted to share their stories.

Renton 4-Unit

This 4-unit early 1970s brick property located in Renton quickly became the subject of a fierce bidding war with a starting sale price of $355,000. Based on the client's desired threshold of 10% internal rate of return (IRR), Michael Lindekugel determined that $364,000 was the maximum the client should pay. When factoring in the 20% down payment, that would give our client a 13.6% IRR after tax—outperforming his 10% threshold.

This information helped Rebecca Haas work with our client to determine the negotiating tactic we would take to secure the property. Using an escalation clause, we tied the property up at $364,000, but were able to get the price reduced to $350,000 through inspection negotiation. In addition, we negotiated to have the seller pay for our client's closing costs to the tune of $5,000. All of this helped to raise the IRR after tax of the property to 14.9%, which made our client one happy investment buyer.

2-Bedroom Fixer

When our clients first spied this 1937 stick-built construction 2-bedroom house, they could just tell that it had great bones. They knew immediately it was the ideal property for their desired rehab project. Located in a desirable neighborhood, right on the cusp of Ballard and Crown Hill, getting some firm research was going to be key to making this transaction a success.

So we did some digging around and quickly learned that comparable rehabbed properties in the area were selling for around $350,000. Better still, we helped our clients purchase it for $266,500. As quintessential do-it-yourselfers, the new owners are now elbow deep, hard at work renovating the property. Once they've completed the rehab, they're looking forward to pocketing a tidy profit. We'll check in on their progress in the near future to update you on the sales results. ■

TEAM REBA

RE/MAX Metro Realty, Inc.
2312 Eastlake Avenue E
Seattle, WA 98102
Tel: 206 706 6562
Fax: 206 781 5224
www.TeamReba.com