RentersWarehouse®

# Breaking Down Real Estate Investment Strategies

GUIDE:

## Stability of the Buy and Hold Method

# Introduction

Part of the beauty of real estate investing is that there really is something for everyone.

These days, there's no shortage of options available. From commercial properties to multifamily, fix-and-flips, and more –there are plenty of different options for investors to choose from. And with recent advancements in tools and tech, it's easier than ever to manage your portfolio and find great investment opportunities.

But one strategy that's especially popular is none other than the buy and hold method. That is, buying up single-family properties (SFR), renting them out, and holding onto them for the long-term. This strategy's long been used by everyday investors who often turn to rental properties to diversify their retirement portfolios, or as a way to generate some additional income. Since the Great Recession, though, these properties have caught the attention of institutional investors as well, with companies buying up these properties en masse, building portfolios with thousands of properties.

With buy and hold investing, most investors purchase the property with the plan of selling one day down the road. In the meantime, though, they collect rental income. The profit off of one property is great, but once you have five, ten, or more properties –these returns can really add up.

When done right, this strategy can offer tremendous rewards, including years of stable income. Not to mention, when you're in it for the long run, you'll also experience appreciation as the property (ideally) appreciates in value, and as you build up equity.

In this guide, we'll break down some common real estate investment strategies, and see how they compare to buy and hold. We'll also uncover some tips and strategies for buy and hold success, and show you how you can get started with this investing strategy.

# Benefits of Buy and Hold

First up, let's break down some of the exciting benefits of a buy and hold strategy.

- **Monthly Income:**
  One much-loved benefit of rental properties is the consistent monthly income that they provide. With stocks or shares, your returns might vary considerably depending on the economy and how the company is performing. In some cases, you may even stop receiving dividends altogether if a company hits an especially rough patch. But with a rental property, you're largely immune to the ups and downs of the economy. You'll still be able to generate cash flow returns, month after month, as long as you're able to keep the property rented. Even during the 07/08 recession rents didn't drop, they only flattened for a couple of years. As time goes on, and the rent increases, your returns will grow as well. SFR rents increased just under 3% year over year from July 2018 to July 2019. This means you'll be able to beat inflation –and will still have a cash-flowing asset, even years down the road.

- **Equity Growth:**
  When you're in it for the long-term, you'll be able to benefit from appreciation as well, as the property (ideally) increases in value, and you –and your tenant pay down the mortgage. Once you've held onto the property for a few years, if you choose to sell it, you'll be making a profit. SFR homes tend to be easier to sell than multifamily and sell for a better price as well. There's usually a higher demand for these properties, and a larger pool of prospective buyers –you can sell to homebuyers as well as investors, whereas with multifamily you can only sell to other investors.

- **Flexibility:**
  With buy and hold properties, you aren't in any hurry to sell your property, which means you have some breathing room to decide your next move. There is no pressure to rush through to sell it like there is with fix-and-flip properties or investments that are based on timing the market –since you're in it for the long-term, you'll be free to wait it out and wait until the timing is right.

- **Tax Breaks:**
  Rental properties also offer a number of opportunities for some pretty good tax breaks as well. Many of your expenses associated with the rental can all be written off. For a more extensive look at expenses that are tax-deductible see Filing Your Taxes as a Landlord.

# Other Real Estate Investing Strategies

**Before we get into the ins and outs of buy and hold SFR investments, let's take a look at some other real estate investment options to see how they stack up.**

- **House Flipping:**
  House flipping is a strategy that's popular in areas where housing prices are increasing in value at a steady pace. The method involves finding a place that is below market value, investing money to renovate it and bring it up to standard, and then selling it at a profit. This method is also very contingent on timing the market correctly –and generally, a profit is made both from raising the property value through upgrades, and appreciation.

  While shows on HGTV have helped to popularize this strategy, the reality, however, is that fixing and flipping houses can be tremendously risky and expensive if you're inexperienced. This option is great if you're skilled and capable of performing repairs and upgrades yourself, or if you know a good contractor who can –and for a good price.

- **Short-Term Vacation Rentals:**
  Short-term rentals like Airbnb can seem like a great investment –and they can be when done correctly. However, like all real estate investments, it's important to ensure that you have the right property –and the right location to make it work for you. Short-term rentals usually work well when they're in vacation hot-spots or high-demand urban areas that tend to get a lot of visitors. While short-term rentals can generate more income than their long-term counterparts, this is usually tempered by the fact that demand for these rentals is often seasonal. Short-term rentals also have higher operating costs. You should also ensure that you will be in compliance with the rules and regulations for short-term rentals in your area as some cities have passed legislation prohibiting, or strictly regulating short-term rental activity. Learn more about short-term vacation rentals.

- **Real Estate Investment Trusts (REITS):**
  A Real Estate Investment Trust (REIT) is a company that operates income-producing real estate. One of the great things about REITs is that the buy-in can be lower than investing in an actual property – sometimes this is as low as$500. They're a good investment for those who don't want any of the responsibilities that come with being a landlord. Keep in mind, though, that REITs are essentially stocks, so the traditional benefits of leverage (the ability to use other people's money to grow your investment) that come along with traditional real estate investments don't apply.

- **Commercial Real Estate:**
  Commercial real estate investments include properties such as retail buildings, office buildings, warehouses, and strip malls. While there can be good financial returns to investing in commercial property, it tends to carry a greater deal of risk than residential investments. For one thing, there's more liability when it comes to managing commercial real estate as this real estate as the property will be welcoming the general public, so you'll want to ensure that you have good insurance, and are prepared to navigate the many responsibilities that are involved with overseeing a commercial rental.

- **Wholesaling:**
  Wholesaling involves tracking down investment properties and selling them to another buyer at an elevated price. This is a great business opportunity for those who are good at finding and making deals. While it may sound cut and dry, wholesaling requires a tremendous amount of research and a great deal of knowledge on real estate investments. It also requires diligence and skill –the best wholesalers are great marketers.

**Check out this helpful guide on Bigger Pockets to learn more about this niche investment strategy.**

# Buy and Hold Strategies

There are a number of different ways that you can get started with buy and hold investments. Here's a look at some of the popular strategies now.

- **House Hacking:**
  Buy and hold properties could potentially present you with the opportunity to house hack, a great way to get started with SFR investing. This strategy involves purchasing a multi-family home, like a duplex or triplex, and living in one unit while renting out the rest. If you're young and single, this strategy could work with a single-family unit, where you live in one of the rooms or the basement, and rent out the rest of the house to roommates. One of the biggest advantages of this strategy is cash flow. You can reside rent-free while using the extra cash to pay down the mortgage. Once it's paid off, you can save the extra cash as a down payment for your next property.

- **BRRRR Investing:**
  Buying and holding property allows you to take advantage of the BRRRR method of investing. With this strategy, you buy a property, and then Rehab, Rent, Refinance, and Repeat. The BRRRR method allows you to get the ball rolling without requiring you to tie up a great deal of capital for an extended period of time. Here's how it works: because you purchase a property that is in need of repairs or renovation, you'll be adding value to it –and increasing its appraisal value. When assessing potential property, it's important to accurately calculate the cost of repairs as these can quickly go over budget, and eat into your profits.

- **The Debt Snowball Plan:**
  The debt snowball plan is a simple, yet effective plan for acquiring rentals and paying down debt. This strategy requires diligence, and being able to save for a number of years –but it's a method that many investors have used and is a favorite due to its predictability. This strategy involves collecting all of the cash flow from your rental properties, and your job –or any other sources of income that you have, and funneling most of it into paying off one mortgage at a time. Once that property's paid off, you can start channeling the money into paying off the next mortgage. Part of the beauty of this strategy is that it has a compounding effect. Each time a property's paid off, you'll be able to channel most of the cash flow from that property into paying off the rest –meaning your income will compound considerably as each time you pay off a property, you'll have that much more income to use for the next. Learn more about using the snowball plan to acquire rental property.

# Keys to SFR Investing Success

Success with SFR largely comes down to three things:

- **The Right Property**
  First things first, you'll want to find a good investment. While finding properties isn't difficult, finding the right property can take some time. You want to ensure that the property you choose will perform well as a rental and an investment, and you'll need to do research on the area, market, neighborhood, and more to make sure.

- **Good Management**
  How well your property is managed will also impact its profitability. Treating your rental as a business is the best approach. Managing your property right can also help you have fewer vacancies and reduce your turnover rate as well.

- **How You Structure the Purchase**
  Finally, how you structure the purchase and the type of financing that you get can make all the difference when it comes to your profitability. The right loan with the right interest rates can make all the difference when it comes to being successful in your investment. Be sure to check into your options, and look to get yourself into a good position to borrow –a higher credit score, and a bigger down payment can help you to qualify for a lower interest rate.

Before you decide that a certain property is right for you, it is important to do your homework and run the numbers. Ensure that at the end of the day, you'll need to ensure that you'll be turning a profit. Don't tie up any capital in investments that won't perform that well; instead, work to ensure that you put it all into high-performing assets.

# Analyzing Smart Real Estate Investments

In order to find the right investment, you'll need to know what you're looking for. Don't start without a plan. Here's a look at some tips for analyzing real estate to help you find a property that'll perform well as an investment.

**Identify an Emerging Market:**
When it comes to finding a market to invest in, it is important to find a market that's up-and-coming. This is where you'll find great appreciation rates. Most investors also find it more feasible than investing in a primary market –where prices are usually sky-high and there's often a higher chance of property approaching bubble territory.

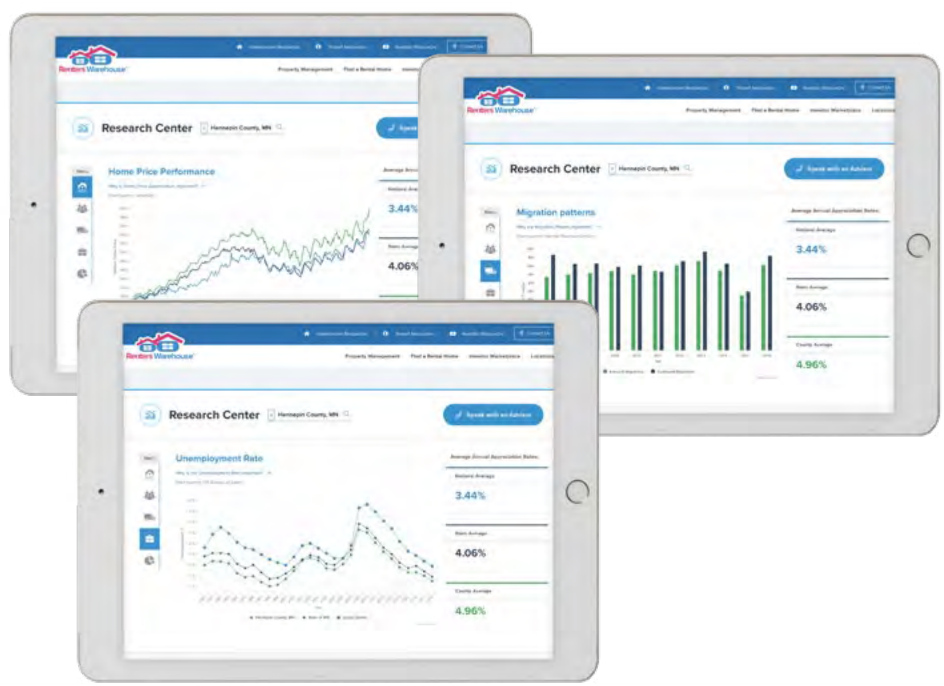
Here are some tips to help you identify an emerging market:

- **Population Growth:** You'll want to look for an increase in population growth, but you'll also want to find out why people are moving into the area. Will they be staying long-term? Will they be needing places to rent? You'll want to find a place that's not only experiencing population growth but expected to see continued growth as well. A new significant development could be a good indicator of this. You can also get in touch with an informed investor-friendly real estate agent to see if they can fill you in on the population growth situation.
- **Employment:** obs are key for population growth, and demand for properties. Are there strong employment opportunities available that would draw people to the area? One sign to look for is an Amazon Distribution center that's being built nearby –a sure sign that there will be jobs, and demand for rentals. Big companies have done their research and are setting up where they are for a reason.
- **Building Permits:** You'll also want to check to see how many building permits are being pulled. Keep in mind that a high number could be a good sign that there's development happening, but you'll want to watch out for a surplus. Make sure the area will be able to absorb the supply.
- **Affordability:** A median income that's more than 66% of the median annual rent is a sign of an affordable market. Any higher and tenants may struggle to afford the rents.
- **Absorption Rates:** Are new buildings being rented quickly? What's the absorption rate like? Locations with a lot of empty units available can be a sign of a bad market or at least a market that isn't moving very quickly. See how much demand there is for rentals in that area.

**Dial-In Your Research to the Neighborhood Level:**
Another tip that's often overlooked by first-time investors is the value of researching individual neighborhoods in an area. Just because the local housing market's doing well, doesn't mean each neighborhood will perform the same way. There are good pockets, and areas that won't perform as well from an investment perspective. One advantage of investing in your own area is that you'll already be familiar with many of the areas and will be able to spot a good opportunity when one comes up. But what if you're planning to invest outside your own backyard?

According to Greg Rand, Chief Strategy Officer at Renters Warehouse, looking into secondary places that you're familiar with is another option. Maybe places that you vacation to or the location your parents retired to. Or, if you have a place that you're interested in, then get it on your radar and work out from there, learning about it as you go along. The key is being familiar with the area. That's what will give you an advantage.

***Tip: Head over to the Renters Warehouse Research Center –and find metrics that you need to gauge the viability of a specific housing market. See population changes, employment rates, housing appreciation, and more.***



**Find a Potential Property and Run the Numbers**
Once you've found a potential property, it's important to run the numbers to make sure that your investment will be profitable. Here are a few different calculations you'll want to run that'll help you to assess the viability of your investment:

- **The 1% Rule**
  The 1% rule is a fast and easy way to determine whether a property's worth considering further. According to this rule, a property should generate 1% of its value in rent each month. This means that a $100,000 property should generate $1,000 in rent. While this calculation shouldn't be the only thing that you consider when assessing a property, many investors feel that it's a helpful place to start. How strictly you adhere to this rule will also vary depending on your investment criteria. For instance, properties in some locations generate more in cash flow, but may not appreciate as much. It all depends on your big-picture goals, and what you're hoping to generate from a property. Learn more about the 1% rule.

- **Cash Flow**
  Cash flow is how much your property will generate in rental income –after expenses.

  As Steven Edward of Berkshire Hathaway puts it, if your property is cash flowing, it should be producing a solid 10% or higher return –and it's a good deal. But if it's not, you'll want to reconsider.

*"You can mess up a lot of things but if your month-to-month income is more than your outgoing, you can weather changes in the market and mistakes won't be fatal to your investing success," Edward says.*

- **The Cap Rate**
  Moving on to the cap rate. This is essentially the return that you'd generate if you paid for the property upfront in cash. To find your cap rate, take your net income (income after expenses), and divide it by the property's cost.

  Here's the equation:
  **Annual income / purchase price = Cap Rate**

  For example, say your property cost $150,000, and you're confident that you could rent it out for $1,000 per month. Subtract your expenses from this figure. For this example, let's say that you'll be left with $600. This means your net operating income is $600 per month or $7,200 per year.

  $7,200/$150,000 = .048 or 4.8%.

  Is this a high enough return for you? That depends on what type of returns you're hoping for, and the property itself. Say you can get good tenants, and you expect appreciation. In this case, you may be willing to accept these returns. If, however, the property is in need of extensive repairs or in an area that's not expected to appreciate very much, then you may not want to take the risk.

- **Cash-on-Cash Returns (CoC)**
  Finally, we have the CoC. This a number you'll want to run if you're planning to finance the property. The CoC looks at the return you'll get on the money you've invested. If you're paying all-cash, then this figure will be the same as the Cap Rate. Assuming you are financing, you'll want to use the amount of money that you've invested, rather than the purchase price of the property.

  Here's the equation:
  **Annual Income / Money Invested = Cash-on-Cash Return**

# Taking the First Steps

**If you're thinking of investing in rental property, here's how you can get yourself off to the best start possible.**

- **Set Clear Goals:**
  Setting clear, long-term goals will help to keep you on track when investing, allowing you to ensure that you build a solid portfolio that will help you to reach your big-picture goals. Some investors find it helpful to connect their rental properties with life goals. So say one property could be to pay for your child's tuition, or another three properties could be to supplement your retirement income. Make sure you get specific with your goals. This will help to keep you on track and moving forward.

- **Establish Your Investing Criteria:**
  You'll also want to establish your investment criteria. Are you purchasing for cash flow, appreciation, or both? This will help you to determine which markets you should look to invest in and what type of investment strategy you'll want to employ. You'll also want to determine what type of returns you're looking for from each property –10% yield? 15% yield? Or how much cash flow you'd like each property to generate. Finally, how many properties will you need to reach your big-picture goals? This will help to ensure that you spend your money on properties that will produce returns that you'll be happy with.

- **Get Yourself Ready to Buy**
  Assuming you are looking to take out a mortgage, it is important to get yourself buy-ready. Learning how much you can afford will narrow down your housing options as well as help you determine if you are, in fact, ready to buy. You should also get your finances in order; establish good credit and income. Then go shopping. For a mortgage, that is! Don't settle for one answer, be sure to shop around for the best mortgage rate possible.

- **Save Up for a Down Payment:**
  Now is the time to start saving for a down payment. If you haven't started yet, it's best to begin saving as early as possible. How much should you plan to save for a down payment? That depends. If it's your first home, and you're going to be residing in it while renting part of it out, you may be eligible for an FHA loan, and a lower down payment of 3.5%. But other experts recommend putting as much down as you can. Greg Rand recommends 30% for investors. Having some extra equity in the property right from the start will put you in a much safer position, should the market experience any temporary downturns. A larger down payment could help you qualify for better loan terms as well, like a lower interest rate.

- **Try to Buy Below Market Value:**
  Buying a rental property below market value can be an excellent strategy, and a great way to ensure that you'll be able to generate a profit. To find a good deal on a property, you'll want to look for one that's been on the market for a while. When it comes to properties that have been listed for over a month, there's a chance that the seller may be more motivated to sell, and may accept a lower offer. You may also want to consider purchasing a fixer-upper is another way to buy a property at a reduced price, just make sure you're prepared for the work that's at hand. Be sure to accurately calculate the cost of repairs, as these can quickly spiral out of budget and eat into your profits if you're not careful.

- **Assemble Your Team:**
  When it comes to investing in real estate, there's a lot that you can do yourself –especially if you're first starting out and only have one or two properties. But if you'd like to add to your portfolio, or invest in properties that are out of state, it's a good idea to make sure you have a good team of professionals that you can rely on. Professionals you'll want to have on-call include: an investor-friendly lender, an investor-friendly real estate agent, and contractors: including an electrician, plumber, and HV/AC specialist. You'll also want an attorney and a good accountant. If you're going to be investing in multiple markets, you'll want to find these people for each of the different markets.
  You should also be sure to have a plan for management in place. Whether you're planning to manage the property yourself or hire a property manager. Even if you're planning to oversee your rentals yourself, though, it's a good idea to calculate the cost of a property manager into your expenses when running the numbers, that way if you do decide to enlist their help down the road, you'll have already budgeted for it and will still be able to turn a profit.


# Final Thoughts

While there are many different ways to invest in real estate, and plenty of different options, at the end of the day, it's important to find an investment that's in line with your big-picture goals. A buy-and-hold strategy allows you to experience both immediate returns in the form of cash flow, while also fitting in nicely with your long-term plans as well –thanks to long-term appreciation and equity growth. It's one strategy that many investors have been using, and continue to use to grow their wealth; and it's an investment that you can use to gain financial independence as well. With the above tips and strategies, you'll be able to implement a strategy that'll help you to find success. Then join the ranks of countless other investors who have found financial freedom through rental properties.

**Are you ready to start investing, but aren't sure where to start? Head over to the Renters Warehouse Investor Marketplace, and search our inventory of available SFR rental homes. Or, see portfolios that are available to purchase. When you have a property in mind, head to the Research Center –and see for yourself how the market's performing.**