What Real Estate Investors Should Know About

REAL ESTATE INVESTING

How to:

- Understand the nuances
- Make the calculations
- Apply the principals

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How to Evict Tenants Legally

One of the biggest issues real estate investors face with rental income property concerns tenants. Naturally, you always hope you can fill your apartment or other investment property with good tenants that pay the rent on time and act in an orderly fashion, but this is not always the case. Unfortunately, there are times when you must evict the tenant.

Before we look at three causes that enable legal evictions in most states, however, let's consider a list of unit conditions that may be considered the tenant's responsibility.

Tenant Responsibility

1. **Tenants should keep the unit clean and safe.** A tenant should be expected to have some cleaning capabilities such as keeping kitchens and bathrooms cleaned, and removing all garbage they generate to the appropriate receptacles or designated location for city pickup. The idea is to make the tenant responsible to maintain clean living conditions in and around his or her rental property unit both, for cleanliness sake and to prevent infestations.
2. **Tenants must use fixtures and appliances in the unit properly.** Tenants are not permitted to abuse fixtures and appliances in the rental unit, must exercise reasonable care not to overload electrical outlets, and should not flush large objects down a toilet in the unit.
3. **Tenants are responsible to fix or pay for damage they cause.** As the controlling factor living in the rental unit, if the tenant creates a situation that affects the habitability of the rental unit, he or she can be held responsible. If a tenant puts a hole in a wall, severely stains the carpets, or breaks fixtures and appliances, for instance, he or she must arrange to either fix or pay to repair the damages.

It's not a long list, and you can list more detailed tenant responsibilities in your lease or rental agreement. Understand, however, that an effort to hold a tenant responsible doesn't mean that it will hold up in court. As a rental property owner it's always best to become familiar with legislation in your area and understand what responsibilities you can and cannot shift to tenants.

Okay, now let's look at three types of evictions recognized by most state laws.

Legal Causes for Eviction

1. **Nonpayment of Rent** Nonpayment, one of the most common types of eviction procedure, is when a landlord attempts to evict a tenant for not paying the rent. A lease or rental agreement will state the due date for rent payment, and some

state laws extend the due date for a tenant to pay the rent by a certain amount of days referred to as the prescribed grace period. If the rent is paid in full within the legal grace period of these states, an eviction for nonpayment cannot be started; a landlord must wait until the legal grace period has lapsed to start an eviction. For instance, if the due date is on the first day of the month and the legal grace period is 10 days, the rent will not be due until eleventh day of the month and you cannot start the eviction until the twelfth of that month. In a nonpayment eviction, however, the rental owner should be aware that the tenant might try to show that the rental unit was sub par as a defense for not paying rent.

2. **Lapse of Time** Lapse-of-time evictions are when a landlord evicts the tenant because that tenant's lease or rental agreement has expired. A lapse-of-time eviction can be done when a lease is in its final month, and is the type of eviction procedure commonly used by landlords who give month-to-month tenancies most commonly use this type of eviction procedure. A lapse-of-time eviction can be done without giving any other reason than the owner wants his or her unit back; the contract is terminated because of its expiration only. So it doesn't matter what condition the tenant claims the unit is in because the condition has no relevance to the expiration of the agreement.
3. **Nuisance** Landlords have a right to evict tenants if the tenant has become a nuisance to the property as long as the agreement includes a nuisance clause. A nuisance could be someone who throws loud parties every night or who continuously disturbs the neighbors, resulting in police visits to the property. In this case, tenants have a right to use and occupy a rental unit in any way they want as long as it does not infringe on the quiet enjoyment of other tenants in the building or violate federal, state, and local laws.

Real estate investors should bear in mind that when it comes to rental property ownership, most legislation holds the property owner responsible, not the tenant. The property owner is always the bottom line regarding problems that arise at the property.

Again, it's highly recommended, that as a rental property owner, you become familiar with legislation in your area and understand what responsibilities you can and cannot shift to tenants. You can't afford to fill your rental income property with bad tenants, but at the same time, you don't want to get into trouble with the law either.

Why Landlords Use Rental Applications

A rental application is a form rental property owners require prospective tenants to fill out during the rental process, and is part of a landlord's screening technique that helps select tenants capable of paying rent on a timely basis and keeping the unit in good condition.

The information gathered in the rental application such as full name, current address, and monthly income are all essential for the rental property owner to determine whether the individual suits the landlord's expectations of a good tenant and will qualify for renting the unit.

The idea, of course, is that the rental property owner is typically looking for tenant longevity: a good person who will pay the rent on time as well as stay in the unit for a long period and thereby minimize tenant turnover.

Rental applications These are used to gather the following pertinent information from the prospective tenant.

1. Rental-housing history (including evictions) and any criminal history
2. How many people will be living in the unit
3. Who is the closest relative that can be contacted in case of an emergency
4. Social security and driver's license numbers
5. Source of income

Additional information It is important that the prospective tenant agree to supply the following additional information.

1. Two forms of identification you can copy and file
2. Credit checks – many credit agencies also perform checks on the prospective tenant's criminal history. You may have to join a credit-reporting agency in your area and pay an initial membership fee, but this is usually charged to the prospective tenant.
3. Present and previous addresses where they have lived – it is always smart to contact their previous landlords
4. Work references – call the employer listed on the application to make sure the prospective tenant does work there.

In the event that you are using a rental agency to handle tenant applications, make sure to ask for a copy of their rental application. You want to satisfy yourself that the rental agency holds to the same standards for tenant selection as you do.

Should You Rent to Tenants with Pets?

Whether you own one rental income property, a large apartment building, or simply rent out a bedroom in your motor home. If you own a dwelling you rent out to tenants, chances are that you already adopted some policy about whether or not you will rent to tenants with pets. There is no landlord alive that hasn't posted a "Now Renting" sign that invariable gets asked, "Do you allow pets?"

Okay, so should you allow tenants with pets into your property or not? There are certainly justifiable reasons why some landlords adamantly won't, but it might help to consider some reasons, especially if you're a beginner at real estate investing, why it might not be a bad idea.

1. **Grateful tenants** You will get a pool of grateful tenants to pick from
2. **Stable tenants** Pet owners generally stay put longer than non-pet owners do because it is difficult for them to find a landlord willing to accept pets
3. **More selection** It increases the pool of tenants you can rent to, so it helps during periods of high vacancy
4. **Larger security** Most pet owners are willing to put down a large security deposit that will subsequently offset pet damages
5. **Higher rent** You might be able to command a slightly higher rent when you allow pets.

Naturally, you want to have some controls in place (no six hundred pound cats or yelping dogs, please), but you might discover that pets are not as bad as you think, and might even be better than you think. You should at least consider it.

Why You Should Inspect Your Units Periodically

Okay, you just closed escrow on a multifamily apartment building.

During escrow, in accordance with prudent real estate investing practice, of course, you did your due diligence. You walked through each apartment unit, had the building inspected for everything from pest and dry rot to electrical, and generally surmised that the rental property would be a good income producer and real estate investment opportunity.

Afterward, over the next several years, you essentially sat back and collected the rent. You made no provision to inspect periodically the units that your tenants occupy. Then you made the decision to exchange your real estate investment for a newer, larger apartment complex, and listed it for sale with a popular real estate agent who understands income-producing property.

To your delight, within just two weeks you get an offer, accept it, and set up a time for the buyer to inspect the apartments. Just the way you did when you purchased the building, with an interior inspection requiring the buyer to walk through each unit.

To your dismay, you discover that your tenants, though careful to make their rent payments on a consistent basis, had little regard to carefully maintain your property. You are as surprised and disgusted as the buyer is to see a stack of tires in one unit, multiple bleach marks on the carpet of another, one unit painted totally in the color pink, and so on.

This does happen. When real estate investors become owners of income property, some get lulled to sleep by tenants who are not disruptive and pay their rent on time, and therefore feel no need inspect the units periodically.

Prudent real estate investing, however, requires you, as the CEO of your investment enterprise, to know what's going on behind the closed doors of your rental income property. Always schedule a walk through of your income properties maybe twice, but no less than once a year. It might not prevent everything tenants might be prone to do, but it helps.

A Property Management Checklist

You virtually become the CEO of your own small business when you purchase real estate income property, which are true benefits of real estate investing. But unless it's land, now you must manage the property. Your goal now is to keep the units full at the highest rent per square foot possible.

So let's consider the big picture of property management and look at some rental management basics every real estate investor should be aware of once tuned in to real estate investing.

- **Property condition** Getting the best tenants and commanding the highest rent starts with a sharp-looking building that has good curb appeal. Keep the structure, landscaping, common areas, and parking in good clean condition.
- **Tenant applications and screening** Require each potential tenant to complete a rental application and then follow up to verify their employment, rental history, and credit and criminal history. Remember, it's always easier to get tenants into your building then it is to get tenants out of your building.
- **Emergency repairs** Be sure you have reputable maintenance personnel on-call to service emergency repairs. This may be your job or someone you hire, just be sure the tenant has a repair "help line" they can call 24 hours a day when something must be fixed immediately.
- **Aggressive marketing of vacancies** Get the word out about an upcoming vacancy instantly. Use signage, advertise in the newspaper, or post it on the web. Moreover, be sure someone is available to take the calls.
- **Move-in/move-out coordination** Get a unit "rent-ready" within a day or two after it becomes vacated, even when you don't have a new tenant standing by. You wouldn't want to postpone a showing to a prospective tenant because the unit isn't ready to show.
- **Keys and locks** It's always a good idea to change locks each time you have a turnover in tenants. This adds security for you and your new tenant.
- **Learn the laws about eviction** Know what you must do to evict a deadbeat tenant even when you don't think it might be necessary. The last thing you want is to have a deadbeat tenant hanging around any longer than necessary.
- **Keep accurate books and records** Maintaining a good income and expense history is vital to your rental property business and the cornerstone to the profitability of your real estate investment.

You must decide whether you want to hire a professional management company to relieve yourself of the time and stress of having to deal with tenants and repairs, and put matters like late rents into the hands of experts, or to do it yourself.

The important thing is not to neglect a sound plan for property management. You might otherwise find that owning and becoming CEO of your rental property business can quickly become more unpleasant than profitable.

Beware of Discrimination: What to Know

Finding new tenants to rent your rental income property is paramount to profitable real estate investing. When it comes time to finding tenants, however, one of the biggest issues facing a real estate investor is federal and state discrimination laws.

As an income property owner, you must be careful not to violate discrimination laws. Not only do they carry penalties that can be costly, they can damage an otherwise good reputation as a property owner. Worse, it's illegal, whether the discrimination is intentional or unintentional. No matter how well intentioned a property owner might be when initiating certain policies, it does not justify discrimination.

1. **Race and Religion** A property owner cannot use a person's personal belief as a reason not to rent to that person. Moreover, a property owner must be cautious not to write ads or send subtle messages with forms of written or oral communication that would benefit, support, or discriminate against any race or religious group.
2. **National Origin** A property owner cannot require that all tenants be U.S. citizens, or give discounts to people who are of a particular origin. Even in cases where you might suspect that an applicant is here illegally, you cannot ask for paperwork that might prove citizenship unless you ask every applicant for this proof.
3. **Family Status and Age** A property owner cannot refuse to rent to families with children or to someone based on the applicant's age unless the applicant is not a legal adult or the apartment complex is legally categorized as senior housing only.
4. **Disability** A property owner must treat every tenant the same and cannot ask tenants whether they have disabilities of any sort. Unless it can be shown that the tenant's behavior poses a threat to the health and safety of other residents or the property, Federal law protects anyone who has a physical or mental disability from being refused occupancy, including mental retardation and AIDs.
5. **Gender** A property owner cannot discriminate against a person solely on whether they are male or female, or make decisions about where they live in a rental unit based on their gender.
6. **Source of Income** In many states, it's illegal for a property owner to refuse to rent to someone based on the source by which the income is earned such as public assistance.
7. **Marital Status** In many states it's illegal for property owners to refuse to rent to a couple that is not married based on the property owner's religious or moral convictions.
8. **Sexual Orientation** Some states and many cities make it illegal to discriminate against tenants based on sexual orientation.

Understanding discrimination is a vital part of managing your real estate investment. You would be smart, indeed, to understand the laws at every level--federal, state, and city—and always better off to remain cautious not to violate those laws.

How to Buy Multifamily Properties

Multifamily property is any rental income property that has more than one family unit. The smallest multifamily property would be a duplex (two units) and then ranging up from there to larger rental complexes easily consisting of hundreds of apartments.

Multifamily property, like all income-producing properties, has the advantage of being able to support debt from the income they produce. Understood in real estate investing circles as "using other people's money", this idea must always be kept in mind when buying multifamily property because the success or failure of the rental property depends on the income it generates to meet debt service and other obligations to keep the property. Rental income property virtually prospers or declines based upon "using other people's money".

We will look at three elements crucial to buying multifamily property that each surround this principal.

Obtain sound financing

The key to buying any income property is the ability to establish a sound financing package on the property; you want to obtain a loan that doesn't place excessive burdens on the property or yourself. Because lenders evaluate rental property based on income stream, and generally structure a loan based on the property's financial strength as well as the investor's, always bear in mind the role that "using other people's money" plays in financing the investment.

When applying for a loan on multifamily property, present lenders with clear and concise cash flow reports. When the property is represented fairly to the lender and the income and expenses are shown to be accurate, the investor is more apt to obtain a favorable financing package.

Conduct a rent survey

Tenants and the rents they are willing to pay to occupy a unit in the apartment is the cornerstone of the investment. It is incumbent upon real estate investors, therefore, to understand local rental market trends for vacancies and rental rates when buying multifamily property.

Luckily, rental market trends are easy for multifamily property investors to recognize. Just watch the newspaper or drive around the community noting all rental properties that have vacancies. If you see few "for rent" ads or signs, or surmise that rents are increasing, it probably signals a shortage of rental units, and a favorable opportunity for you; and vice versa.

When vacancy rates decrease, for instance, property owners can be more selective about the type of tenant they rent to and establish a positive direction for the complex; perhaps even increase rents. On the other hand, when tenants become scarce, owners might have to become less selective about tenants and perhaps lower the rents just to fill the units.

Consider economic conversion

In cases where the former property owners have let the property run down and rents had to be decreased to keep the units filled, an opportunity to upgrade the building and raise rents might be in order. If these rental properties are in a good area of town or in an area that is returning to a former higher quality, then the remodeling of a rundown apartment complex can be a profitable venture.

Just be careful to ascertain the cost for remodeling and what impact it will have on rental income. Pure "window dressing" for the sake of appearances only, unless it has a positive influence on occupancy levels or rents, is typically avoided by prudent real estate investors. Moreover, get a qualified contractor to give you a bid on remodeling.

Otherwise, what you surmised as surface issues when you were buying the multifamily property could in fact be a costly can of worms.

The pros and cons of buying multifamily property

The most obvious advantage of buying any income-producing property is real estate investors can grow wealthy in the long run. Simply by holding onto the property and letting "other peoples money" payoff the debt, even if there is no immediate cash flow, is what drives people into real estate investing.

Moreover, multifamily properties serve a basic need, which limits the downside risk in that they provide shelters to those who cannot afford or who do not choose to buy real estate.

The downside to owning multifamily property mostly concerns the management problems associated in dealing with tenants; apartments can be management intensive. This is often the reason why investors who purchase income property hire the services of a professional property management company, to deal with the day-to-day issues of running the property. So you do have an option to, at the very least, minimize this disadvantage.

Buying multifamily property, not unlike any real estate investment property, provides investors the opportunity to build wealth. When done correctly, with a careful eye on elements such as discussed here, so can you. Here's to your success.

Real Estate Investing for Beginners

Whether you are new to real estate investing, about to become a real estate investor, or a real estate agent interested in selling investment property, this article is intended to acquaint you with some basic elements crucial to succeeding at real estate investing.

Develop the Correct Attitude

Strike the thought that real estate investing is like buying a home, and develop the attitude that real estate investing is business. You purchase a home to live in and raise a family; you purchase income-producing property because you want to make the money to pay for the home.

The idea that investment property must be beautiful, with curb appeal, exciting amenities, and desirable floor plans desired in a home, has caused many investors not to make money, to lose money, or even to miss opportunities to make some real money because the income property lacks luster.

But as one investor once told me, "Only women are beautiful, what are the numbers?" This must become your way of thinking about real estate investing if you plan to succeed.

Develop Objectives

Having a meaningful set of objectives with stated goals is one of the most important elements for successful real estate investing. Here are some suggestions.

1. How much cash are you willing to invest comfortably
2. Are you expecting instant cash flow, looking to make your money when the property is resold, or merely looking to achieve tax shelter benefits
3. How long do you plan to own the property

Learn to Run the Numbers

Whether you use a real estate professional to help you buy investment property or do it on your own, learn the key financial measures used in property evaluation and how to compute them. You might consider investing in a software program to jump-start the process. You would be surprised how much you can learn merely by running your own numbers and previewing the reports.

Research Your Market

The more you know about property values, rents, and occupancy rates in your local area, the better. Here are some helpful resources.

1. The local newspaper
2. A local bank or mortgage company
3. A local appraiser, real estate professional, or property management company
4. The county tax assessor
5. The local Multiple Listing Service

Work with Qualified Professionals

A real estate professional can help you get started with rental property investing. They can acquaint you with local market conditions, recommend properties that meet investing objectives, and discuss strengths and weaknesses about property performance.

Just be sure he or she understands rental property, knows how to measure profitability and rate of return, and is capable of presenting the concise data you need to make wise investment decisions.

Get Started

Okay, equipped with those insights, if you've taken them to heart, all that remains is for you to get started investing. Here's to your success.

How Real Estate Makes You Money

Real estate investing has made many real estate investors wealthy, and certainly the reason why many people start investing in real estate to begin with. It's certainly not about having fun. Having to resolve tenant issues or to fill vacant units is work, taking the family to Disney World is fun; real estate investing is about making money, and the more the merrier.

The good news about real estate investing is that almost anyone can make money at it because the enigma about investing in real estate is that it provides a number of ways property value can be increased, almost as you sleep.

1. **Inflation-** Inflation increases rental property value because the increased cost of land, building permits and fees, materials, or actual construction increases the cost to replace property already in operation.
2. **Improved infrastructure-** The development of roads, electricity, water, and sewer systems, police and fire protection, parks, and hospitals around the property have a major effect on the value of property.
3. **Economic conversion-** When new zoning laws allow you to convert a small apartment building to offices or a single-family home into a four apartments this change in use can add value.
4. **Increased cash flow-** Since real estate investors buy a rental property's cash flow, every dollar you add to the income, whether by higher rents or reductions in operating expenses, typically will increase the resale value of income property.
5. **Capital improvements-** Unless improvements are superfluous, adding extra apartments to a building, or an extra bedroom or bathroom when the market demands it, can increase property value.
6. **Supply and demand-** The shortage of available rental property at a time when the demand for rental income property is high drives rental property values up.

These factors don't occur with every real estate investment, that's true, but you can make it part of your research and due diligence of a rental property.

Meet with your local planning and building department. Ask them about their comprehensive plans for the area. Learn whether zoning can be changed that would permit a more profitable use for the property. Discover how many permits have been issued to builders for the construction of comparable rental properties in the area.

The more research you conduct looking for ways a rental property might increase in value, the more likely you will make money. The real money, after all, is made in real estate investing when value can be added to the property. That's simply the nature of real estate investing.

The ABC's of Real Estate Investing

Real estate investing involves acquisition, holding, and sale of rights in real property with the expectation of using cash inflows for potential future cash outflows and thereby generating a favorable rate of return on that investment.

In contrast to stock investments (which usually require more investor equity), an advantage of real estate investing is that it's possible to leverage a real estate investment heavily. With a real estate investment, you can use other people's money to magnify your rate of return and control a much larger investment than would be possible otherwise.

Aside from leverage, however, other benefits arise from real estate investing. Namely, yields from annual after-tax cash flows, equity buildup through appreciation of the asset, and cash flow after tax upon sale. Not to mention the other non-monetary returns associated with real estate investing such as pride of ownership, the security that you control ownership, and portfolio diversification.

Real estate investing does require capital, there are risks, and rental property can be management-intensive. On the other hand, the car you drive required capital, driving it involves risk, and it certainly requires management. The difference is that a car is not a source of wealth.

If you would like to become a real estate investor or just getting started in real estate investing, here are six things you should consider doing.

1. **Develop a real estate investment goal.** What do you want to achieve? By when do you want to achieve it? How much cash can you invest comfortably? What rate of return do you expect to want to receive on moneys you pull out of your home or bank account to purchase an investment property given the risk? How long do you plan to own the property?
2. **Research your local market.** Learn about the product you want to invest in, and the area where you plan to invest. Determine rents, vacancy rates, any plans for future development.
3. **Learn the terms and returns and how to compute them.** You can't succeed in a musical career unless you can read music. Get familiar with the nuances of real estate investing; learn the terms and rates of return; learn how to make the calculations. Look for sources of information like seminars, college courses, and books. Don't rely on someone else to spend your money.
4. **Consider investing in real estate investment software.** Having the ability to create your own rental property analysis gives you more control about how the cash flow numbers are presented and a better understanding about a property's profitability.
5. **Create a relationship with a real estate professional that knows the local real estate market and understands rental property.** It will not

advance your investment objectives to spend time with the agent of the year unless that person knows about investment property and is adequately prepared to help you correctly procure it. Work with real estate investment specialists.

6. **Avoid buying into real estate investing "trade secrets".** Tons of real estate investing gurus out there repackage and sell the exact same material as the next guru. But successful real estate investing is not about uncovering a "trade secret." The sizzle in the business of real estate investing is about owning a piece of ground that, if unduly researched and purchased sensibly by impartial numbers, with careful management, will likely be more valuable tomorrow than it is today.

Investing in real estate is the act of purchasing real estate with the goal of making a profit and acquiring wealth. When done correctly, real estate investing can become extremely profitable.

How to Find Good Deals

Real estate investors looking to make that first real estate investment undoubtedly have become aware that finding a good income property to purchase can be daunting. Good real estate investment deals don't grow on trees, and unless we're very fortunate, it's unlikely they will simply fall into our lap.

It seemed needful, therefore, to discuss six resources where you might find good real estate deals. Perhaps they're all rather obvious, but worth mentioning nonetheless.

1. **A Real Estate Professional** Developing a good-working relationship with a qualified real estate salesperson can be an excellent resource for you. There are just two suggestions: the more loyalty you give the agent the better, and getting two or three agents to beat the bushes for you in the same community can be counter-productive because most real estate agents won't generally spend a lot of extra time trying to hunt down a property for a real estate investor when it looks like a dog race.
2. **Builder-Developer** Look for people who are in the business of selling their own real estate. Often you can find someone with a treasure trove of inventory motivated to sell off some of it.
3. **Code Violations** Local building codes sometimes change during the course of ownership and put a seller into a difficult spot. For example, the state now requires buildings of a certain category to have fire sprinklers installed, or earthquake reinforcement. A sudden added investment to do that work may be more than the owner has to spend, and in turn might motivate the owner to sell at a reduced price instead.
4. **Foreclosure-REO** When lenders foreclose on a delinquent loan and buy the property themselves at a foreclosure sale they end up with real estate owned property (REO) they prefer to sell rather than operate. REO properties can sometimes be a prime source for good deals.
5. **For Sale by Owner** It's common for owners to market their own properties to avoid paying a real estate commission. When properly handled, sale by owner (FSBOs) can be a good source for good deals.
6. **Management Problems** Properties in need of maintenance can be an indicator that the owner no longer has a heart (or the cash) to continue managing the property and might want to sell. A call to the owner expressing your interest in the property might be all it takes to negotiate a purchase and good deal for yourself.

Regardless what resource you pursue, however, always run the numbers yourself, and do not naively accept numbers for a rental income property given to you. Making a small investment into affordable real estate investment software will help protect your large investment later. This is your money at stake here, after all, not a salespersons, banks, or sellers. It just seems reasonable that you will do all you can to preserve it.

9 Reasons to Own Rental Property

There are certainly reasons why it would be wrong for you to purchase a rental property.

Just because a rental property is beautiful, for example, is not a prudent reason to for you to become a real estate investor, nor should you invest in real estate simply because it is located in the same neighborhood where you grew up.

On the other hand, there are good reasons to consider becoming a landlord and sound reasons why you would get involved with rental property ownership. Let's look:

1. **Tax Shelter** You want to take advantage of the IRS depreciation factors made available through property ownership to help write-off money you earn at your regular job
2. **Retirement** You are planning for retirement and are looking to add to your nest egg when you someday sell the rental property for a profit
3. **Tuition** You are planning your children's college tuition and would like to set up a property account to act as a savings account
4. **Extra Income** You want to earn some extra income to provide a more steady base income
5. **Wealth** You want to beef up your net worth with a portfolio of properties to make yourself more attractive to lenders and subsequently better qualified to borrow more money—perhaps so you can invest in a business venture
6. **Appreciation** You relish the idea that real estate property values are increasing, and would like to cash in on rental property appreciation
7. **Business Advantage** You see an opportunity to purchase the building your business is located in to help reduce the overall cost of operating the business and thus, enhance your profits
8. **Diversification** You want to own real estate in order to diversify your investment portfolio
9. **Money** You simply want to make money

It should not surprise you that the good reasons for investing in real estate concern money. Rental property ownership is a business, after all.

The important thing is not to mix business with pleasure. Do your homework. Learn the value of income property in your area; watch the for-sale ads in the paper, speak with appraisers, bankers, and real estate investment professionals.

Most importantly, after you locate a rental property, be sure to run the cash flow, rate of return, and profitability numbers. Not in your head, plan to invest in a good real estate investing software program--remember, real estate investing is a business you want to manage like a CEO.

Terms for Real Estate Investing Beginners

If you are just starting to invest in real estate you undoubtedly will hear (if not already) terms generally associated with real estate investing that you might not understand.

I even speak with real estate professionals who are not beginners and have no idea what they mean either, so no need to apologize. Knowing these real estate terms, of course, will not guarantee investing success, but it never hurts any beginner new to investment property to learn as much as possible; whenever possible.

This list is not exhaustive, but it does include terms real estate professionals frequently confront me with and ask to be explained.

APOD

An APOD is an acronym for annual property operating data and essentially gives a snapshot of a rental property's income and expense performance for one year.
If you already started looking for rental income property, or previously met with a real estate agent about income properties, you probably have already seen an APOD because it is a popular report that is good at giving a first-glance look at a property's performance.

Gross Scheduled Income

Gross scheduled income (or GSI) is the total annual rental income a property would generate if all the rentable space were occupied and all rent collected. Sometimes called potential gross income, gross scheduled income is an estimate intended to show the maximum potential income without regard to any vacancy or credit losses.

Operating Expenses

Operating expenses include those costs associated with keeping a property in service. Among others, operating expenses include costs for routine maintenance and repair, utilities, property taxes, insurance, and management fees. They do not include the mortgage payment (or debt service), income taxes owed by the investor as a result of owning the subject investment, or allowances for depreciation.

Net Operating Income

Net operating income (or NOI) is a property's income after being reduced by vacancy and credit loss and all operating expenses-think of it as a measure of the property's productivity. NOI is a valuable measure of cash flow and the return expected from a property for any given annual period as if it was wholly owned (without debt) and before taxes and depreciation are considered.

Cash Flow (Before and After Tax)

Cash flow before-tax (CFBT) and cash flow after-tax (CFAT) has nothing to do with real estate property tax. Rather, it signifies whether the cash flow available after the debt is before or after consideration of taxes and the effect of tax shelter.

CFBT is simply NOI minus debt service. CFAT requires a separate tax calculation. It subtracts from NOI interest on the loan, an allocation for depreciation (cost recovery), and allocable amortization expense (amortized loan points) to arrive at taxable income which is then multiplied by the investor's marginal tax bracket and in turn subtracted from CFBT.

Why You Should Know About Tax-Deferred Exchanges

A number of requirements must be met to qualify for an exchange for tax deferral, typically involving the services of a tax exchange professional, but a benefit that every real estate investor should know about.

To begin with, though, it is important to note that a tax-deferred exchange does not mean you must actually locate another property owner willing to exchange properties with you, and rather might involve the outright purchase of a property, which is then used in the exchange process. IRS rules require careful compliance to avoid having the exchange treated as a sale instead of a Section 1031 exchange, still, other then the proper structuring and documentation, a Section 1031 exchange may be no different from any other transaction.

Briefly, Section 1031 of the federal tax code provides investment property owners with a means to dispose of one real property asset in exchange for another without having to pay taxes in the year of the exchange. The tax obligation is not vanquished, it will have to be paid someday, but Section 1031 permits the taxpayer to defer federal tax until an actual sale of the property occurs.

The benefit to you as an investor should be obvious. By pushing the payment of taxes into the future with the exchange, you have the full value of the property available to be exchanged, and from a time value of money stand point, the longer your tax payments can be deferred into the future, the greater the present value of that deferral.

Tax-deferred exchanges are complex, however, and as the disclaimer goes, should not be attempted without expert supervision.

First, the property must qualify for a Section 1031 tax-deferred exchange. The asset must be held for the production of income in a trade or business or held as investment property. Property held as a personal residence and property held as inventory are excluded.

Secondly, a tax-deferred exchange involves numbers of requirements that must be met to be eligible for exchange treatment. Namely, only like-kind properties must be exchanged. For example, whereas an apartment building for a parcel of raw land would qualify, a vacant lot for an automobile would not qualify. Moreover, only domestic (not foreign) like-kind properties must be exchanged.

Thirdly, the transfer of one property must be dependent upon receiving a qualified property in return within allotted time. The IRS currently allows 45 days for an acceptable exchange property to be identified and up to 180 days from the initial transfer to complete the delayed exchange.

Fourthly, exchanges involving boot (non-like-kind property) require calculations that are even more complex. For example, if you receive a property with a smaller mortgage then the one you are disposing of, that results in net debt relief and is taxable as boot in the transaction. Properties not of equal value would constitute additional boot.

We could go on.

Naturally, there is more (much more) about 1031 tax-deferred exchanges—there always is when it comes to tax matters—but that is beyond the scope of this author. My intention is simply to acquaint those of you who are real estate investing with Section 1031, and trust it may help your with your real estate investment endeavors.

Sinking Fund Factor

The sinking fund factor provides the annuity payment that must be made each conversion period at a given rate of compound interest to have available a specified sum at some given future time period.

This calculation for a sinking fund is used to make real estate investment decisions such as how much money must be placed on reserve to have a specified sum at a given future time period to take care of scheduled capital expenditures or other expenses.

In other words, when a real estate investor wants to start setting aside money so he or she has enough available at some future date to replace, let's say, for a roof on an apartment complex he or she owns, the investor would create a sinking fund.

The formula: P = 1 / Sn

Where:
P = Cash flow payments of equal size at equal intervals
Sn = Future value of a series of annuity cash flows

Example: A real estate investor needs $10,000 in 5 years to replace refrigerators in an apartment complex that he or she owns. If the investor starts an ordinary annuity fund (payments made at the end of each year) that yields 15% per year, the investor would use the sinking fund factor to calculate what each annual payment would have to be to accumulate the $10,000.

Result: The answer computed using Microsoft Excel, an HP 10B hand-held calculator, and ProAPOD Mortgage Calculator software is $1,483.16. In other words, by making an annual deposit of $1,483.16 into an account that yields a 15% return per year, the investor will accumulate the $10,000 desired to replace the property's refrigerators.

A sinking fund is a prudent way for real estate investors to plan for future capital expenditures. The idea is straightforward, start depositing some amount of money into an account with compound interest at regular intervals so you have the total amount of money you need at some prescribed future time.

Note: ProAPOD® Mortgage Calculator software enables you to compute a sinking fund very easily. In addition to hundreds of calculations, the software also creates printable amortization schedules and more.

Cash-on-Cash

Cash-on-cash return (CoC) measures the ratio between a rental income property's anticipated first-year cash flow to the amount of cash real estate investors invest to purchase the real estate investment property.

Popular Not Particularly Powerful

Real estate investors typically use the cash on cash return in two instances: To gauge the profitability of real estate investments against other investment opportunities, and to compare the profitability of similar real estate income-producing properties. To discover the return an investor might receive investing in T-bill compared to investing in real estate, for instance, or purchasing an apartment complex compared to a commercial real estate office complex.

Cash on cash is a popular measurement of income property profitability mostly because cash-on-cash is an easy return to compute. Moreover, for this reason, because cash-on-cash return is popular amongst real estate analysts, many real estate investment software programs include the cash-on-cash return in their software solutions.

Despite its popularity, however, cash on cash (CoC) is not a particularly powerful tool for measuring the profitability of rental income property. This is mostly due to the fact that cash on cash doesn’t take into account time value of money, and as a result must be restricted to measuring a property’s first year (not its future year’s) cash flow.

Calculating Cash-on-Cash

The cash on cash computation has two parts: Cash invested and the rental property's annual cash flow.

In this case, "cash invested" meaning the total amount of cash the investor expects to initially invest to purchase the property such as down payment, loan points, escrow and title fees, appraisal, and inspection costs, and "annual cash flow" being the cash flow before tax (CFBT) generated by the investment property in the first year of operation.

Here's the formula:
Annual Cash Flow / Cash Invested = Cash on Cash Return

Caution

Real estate investment decisions should never be made solely on cash on cash return; there are better ways to evaluate income-property investments.

Nonetheless, cash on cash return is not without validity. So it helps to be aware of it, to know how to calculate it, and perfectly fine to include it in your cash flow analysis reports.

Note: ProAPOD® computes cash-on-cash automatically as you enter the property data for any rental income property, of any size. Cash-on-cash is recalculated each time you make changes to sale price, income, and expenses so it is always accurate. Reports such as the APOD, proforma income statement, rent scenarios, marketing package and assumptions all reflect cash-on-cash return.

Cap Rate

Capitalization rate, or cap rate, is the rate at which you discount future income to determine its present value.

To better visualize what capitalization rate is, however, don't get hung up on its technical definition and simply regard cap rate as the relationship between a property's net operating income and its value; capitalization rate expresses what percentage rate a property's net operating income is to its value.

There is no one ideal cap rate; capitalization rates vary from area to area and from investor to investor. The cap rate for an apartment complex in Los Angeles, for instance, would not be expected to be the same as it would be in Seattle, or that one capitalization rate would satisfy the investment goal of all real estate investors.

Moreover, cap rate alone doe not provide a true picture of a property's profitability and is not generally used apart from other criteria to make real estate investment decisions.

At best, capitalization rate is a rule of thumb that provides a first-glance assessment of a rental property's ability to pay its own way, and as such, because it is easy to compute, cap rate is popularly used in three ways by real estate agents, appraisers, investors, property tax assessors, and others that evaluate real estate investment property.

1. To compare similar income properties in the area
2. To calculate a reasonable estimate of an income property value
3. To calculate an income property's net operating income

The formula for cap rate is:
Capitalization Rate = Net Operating Income/Property Value

For example, let's say a real estate investor wants you to locate several multifamily properties priced at around $500,000 with a cap rate of 8.0%. As a result, you discover one rental property listed at $490,000 with a net operating income of $40,000 and another listed at $510,000 with a net operating income of $43,000.

To compute the capitalization rate for each property, you would divide the net operating income by the sale price. $40,000 divided by $490,000 equals 8.16% cap rate, and $43,000 divided by $510,000 equals 8.43% cap rate. Since both properties meet the investor's buying criteria, you can present them.

The formula for estimate of property value is:
Property Value = Net Operating Income/Capitalization Rate

For example, let's say you're preparing a listing presentation and want to advise the owner of a commercial office complex that has a net operating income of $65,000 what

the property is worth based on the capitalization rate of similar properties in the area, which you already determined to be at around 6.8%.

To compute a suggested property value for the owner's office complex, you would divide its net operating income of $65,000 by the market capitalization rate of 6.8%. The result is $955,882, which you decide to round up to $960,000 and suggest to the owner.

The formula to determine a property's net operating income is:
Net Operating Income = Property Value x Capitalization Rate

For example, suppose a real estate investor will not purchase any income-producing property at more than a 7.0% cap rate. You hear of one property for sale at $300,000 and want to know what net operating income it must produce to meet your investor's desired capitalization rate.

To compute for net operating income, you would multiply the property value of $300,000 by your investor's cap rate of 7.0% and surmise that the property must generate a net operating income of $21,000.

Note: ProAPOD® computes capitalization rate automatically as you enter the property data for any rental income property, of any size. The cap rate is recalculated each time you make changes to sale price, income, and expenses so it is always accurate. Reports such as the APOD, proforma income statement, rent scenarios, marketing package and assumptions all reflect cap rate.

Net Present Value

Any real estate investor who has tried to evaluate the price for a rental property with time value of money consideration has undoubtedly used net present value (NPV).

Although it should not be used as the only factor to decide whether a real estate investment provides a good buying opportunity, NPV does provide the investor with a quick and easy way to determine whether the price that will be paid for the property will yield the investor's desired rate of return (i.e., discount rate).

What is Net Present Value?

NPV is the difference between the present value (PV) of all future cash flows produced by a rental property and the amount of cash investment (or, initial investment; down payment and closing costs) required to purchase the property.

For example: Let's assume that the investor desires a 10% yield on all future cash flows, must invest $100,000 cash to purchase those cash flows, and wants to know whether the price he or she will pay achieves the desired yield. NPV would be calculated in the following manner:

1. Discount back all future cash flows at 10% (the desired rate of return) to determine the present value (PV) of those future cash flows.
2. Deduct the investment (or initial investment) of $100,000 from the present value (PV) of those future cash flows.

Here's How NPV Works

Example A: Assume that the PV of all future cash flows is $110,000. We would calculate NPV by subtracting $100,000 (the initial investment) from $110,000 (the PV of all future cash flows). The NPV is $10,000 (positive).

Example B: Assume that the PV of all future cash flows is $90,000. We would calculate NPV by subtracting $100,000 (the initial investment) from $90,000 (the PV of all future cash flows). The NPV is -$10,000 (negative).

How to Interpret NPV

NPV will always appear as a dollar amount in one of three ways: greater than zero, zero, or less than zero.

1. An **NPV greater than zero** means the discounted value of future cash flows is greater than the initial investment. You are getting an even higher return than you desire. You can pay $10,000 more for the property and still achieve your desired return.

2. An **NPV equal to zero** means the discounted value of future cash flows is equal to the initial investment. You are getting exactly the return you desire. The price for the property is exactly right.
3. An **NPV less than zero (a negative number)** means the discounted value of future cash flows is less than the initial investment. You are getting a lower return than you desire. You must pay $10,000 less for the property to achieve your desired return.

Note: ProAPOD® calculates net present value (NPV) automatically as you enter your property information. Net present value and all other returns are recalculated each time you make changes to your data entries. So you can run scenarios on various numbers very easily.

Time Value of Money

Time value of money is the concept of measuring the value of money over time. Why do we care, because value of money changes with time and it's crucial to analysis of a real estate investment to be able to measure and solve for those changes. There are two components.

Present Value

Present value defines what a dollar is worth today. For instance, if today's cost for a duplex is $400,000 it can be said that $400,000 has the present value (or power to purchase) one duplex.

Future Value

Future value defines the worth of a dollar at some future time. If $400,000 can buy a duplex today, suppose the duplex appreciates 10% and next year costs $440,000. What can be said about the future value of our $400,000? Our money is worth 10% less than its present value because next year it will take 10% more dollars to buy the duplex than it does today.

Say we have an investment that gives us the option of collecting $400,000 today or waiting a year to collect $430,000. Which is preferable? We take the $400,000 because next year $430,000 will not buy a duplex and therefore has less purchasing power than $400,000 does today.

Here's the point: the timing of receipts might be more important than the amount received. This is why the relationship between present and future value must be studied and measured from a time value of money standpoint. To solve, two mathematical procedures known as discounting and compounding are applied.

Discounting

Discounting is the mathematical procedure for determining present value. For example, to determine whether we should collect $400,000 today or wait a year, we solve for present value by discounting the future value ($430,000 promised next year) by some rate for the period of one year. For our computation, we elect to use the inflation rate of 10% as our rate. Therefore, we discount the $430,000 at 10% for one year. The result is $390,909. Since this amount is less than the amount we can receive today, we decide to take the $400,000.

Compounding

Compounding is the mathematical procedure for determining future value. This is the reverse of discounting. Here we solve for future value by compounding the present value ($400,000) at 10% for one year, which, in this case, results in $440,000. Still, because the investment only pays $430,000, it's clear our desired return is not achieved. So we opt to cash out.

This is not easy stuff, and requires the use of a financial calculator. But it is crucial, and understanding it can be the difference between making a good or bad investment decision so it is worth the effort.

Note: ProAPOD® has a Mortgage Calculator software solution that calculates time value of money solutions in seconds. It mimics the HP 10 but it's easier. Just two or three entries into the user-friendly forms and your results appear instantly.

Internal Rate of Return

Internal rate of return (IRR) is generally more popular than other rates of return to a real estate investor because it calculates for time value of money and provides a linkage between present value (PV) and future (FV) of any benefit stream.

In other words, it allows the investor to take into account both the timing and the scale of cash flows generated by the income-producing investment property.

The principal assumption, of course, is that a dollar in hand today is preferable to a dollar at the end of the year or ten years from now. IRR measures future cash flows with a particular discount rate (an investors desired rate of return) and determines what that rental income stream is worth today.

How to Calculate

Trying to calculate internal rate of return (IRR) manually is not very practical for income property investors (or anyone else for that matter) because the internal rate of return calculation involves tedious mathematical solutions that take a lot time. Even the most skilled investment real estate specialist probably wouldn't know the internal rate of return formula and instead would use a time value calculator or real estate software program to compute it.

So I'll ignore the actual formula (it can be found in other places on the web) and instead resort to a simple example.

Let's suppose you have $100,000 to invest in a rental income property and plan to hold it for five years. Moreover, during the period of those years you plan on receiving five annual cash flows and then an amount of additional money from the sale of the property. When you find the unique rate that discounts the sum of these future cash flows until it equals the initial investment, you will have the IRR.

Note: ProAPOD® calculates internal rate of return (IRR) automatically as you enter your property information. Internal rate of return and all other returns are recalculated each time you make changes to your data entries. So you can run scenarios on various numbers very easily.

Rule of 72s

The rule of 72s is a rather obscure but useful rule of thumb you can use to calculate quickly the approximate amount of time it will take for your real estate investment property at compound interest to double in value.

For example, let's assume you own an 8-unit rental income property on which you are estimating an annual appreciation rate of 12% and want to know how many years it will take for the property to double in value. Divide 72 by the annual appreciation rate to determine the years. That is, divide 72 by 12 and you can quickly calculate that your property will double in value in approximately six years (72 / 12 = 6).

Okay, now let's transpose the formula to calculate the annual appreciation.

Let's assume that you've owned a property for three years, feel that it's doubled in value, and would like to know the annual rate of appreciation you've experienced. Divide 72 by the number of years to determine the annual appreciation rate. In other words, divide 72 by 3 and you will see that you've experienced an approximate rate of growth of 24% per year (72 / 3 = 24).

The answer isn't precise, so don't run to the bank with it. However, it can be helpful when you're simply looking for a quick way to determine the approximate number for a specific income-producing property.

Note: ProAPOD® calculates mortgage amortization automatically as you enter your property information. Loan payments are recalculated each time you make changes to your data entries.

How to Market Income Property like a Pro

Browse the listing inventory of any real estate office and you should expect to see some investment properties listed for sale by a residential real estate agent. Mostly duplexes or triplexes, but occasionally residential real estate agents also sell larger apartment complexes.

Having been a real estate professional myself for the past thirty years, I applaud any colleague with enough grit to sell real estate, let alone income property. But that's where my admiration ends, and my complaint begins.

You might call it professional pride, even intolerance. Yet it irks me when real estate professionals list an income-producing property for sale and then do not include basic elements about the property others as myself can use to sell that property.

In the MLS listing, for instance, residential agents typically do not include essential income and expense data about the property. This is frustrating because it necessitates a call to that agent, which easily could be avoided if the agent merely took a few minutes to present the income property properly.

1. Price
2. Number of Units
3. Unit Mix – Are the units two bedroom one bath, three bedroom two bath, and so on? How many units are there for each configuration?
4. Gross Scheduled Income – What is the annual gross rental income? The potential annual income if all units were occupied and collecting realistic (current, not pie-in-the-sky) rents.
5. Operating Expenses – The dollar amount spent annually to keep the property running. Property tax, liability insurance, utilities, trash collection, maintenance and repairs, and so on. Depending on the number of units, this should be somewhere between 25-50% of the gross operating income. With duplexes, for instance, tenants usually pay for trash collection, and utilities normally associated with laundry facilities in larger complexes, or landscaping costs do not exist.
6. Rent Per Unit – Show the current rent for each unit. In cases of larger apartment complexes, show a rent-range by unit configuration.
7. Capitalization Rate – This is optional in the MLS listing, but it can help generate interest. Simply divide the property's net operating income by the asking price.

Moreover, prepare a marketing package you can send to those inquiring about your income property listing. Whereas, the MLS is meant to broadcast the listing and peak interest in the property, the marketing package fills in the blanks. In addition to the obvious like price and address, a marketing should also include

1. An Income and Expense Statement
2. Property Description
3. Property Features
4. Current Loan Information
5. Proposed Loan Information – Show the annual debt service and cash flow before tax (net operating income less mortgage payment)
6. Rates of Return such as capitalization rate, gross rent multiplier, cash on cash return. The more eloquent the better, so you might also consider adding calculations for price per unit, price per square foot, expense ratio, break-even ratio, and debt coverage ratio.
7. Property Picture

Remember, your goal is to sell your income property listing. Why not present it in a way that would appease investment property specialists, perhaps get them interested, and at the same time make you look more professional. Plus, it's a great way to show your seller how proactive you are about rental property marketing.

How to Start Selling Rental Property

Whether by a walk-in, up-call, previous customer, relative, friend, neighbor, or some aggressive cold calling, chances are good that every real estate agent will be given the opportunity to work with one real estate investor and close one income property transaction during any given year.

How did you do in that encounter? Did you win over the investor? Were you able to convert to a listing or sale?

Not surprisingly, most real estate agents would say, no. Not for a lack of intention-who would not want to make another commission-most real estate agents simply do not prepare to engage real estate investors.

What little it takes to prepare for income property opportunities will surprise you.

Make the Right Impression

All salespeople understand the value of the first impression--that winning or losing a sale often rests solely on the perception a customer develops within seconds during the first encounter.

Real estate agents know this. They service customers who make buying decisions based on the first impression of houses (curb appeal) all the time. They also adorn clean suits and freshly washed cars, why, to impress customers, when, before the meeting, not afterward.

It is ironic then, given that agents know the importance of the first encounter, it is often their inability to make a good first impression on investors where most agents lose the opportunity to gain a rental property sale due to their failure to recognize what generates a good first impression on investors.

What Investors Look for in an Agent

Winning over an investor is more than style and panache. Real estate investors are less impressed with the agent's Armani and Mercedes then they are with the agent's ability to discuss and service real estate investment property.

The reputation of a residential agent with the grandest record for selling houses means little to an investor. There must be some evidence that the agent can assist them in making a sound buying decision, and feel confident that the agent genuinely cares about how the investor spends his or her money.

This is not the result of a friendly smile or warm handshake. The investor wants to feel that you are concerned enough about real estate investing to adequately prepare to work with it.

Okay, now think back and consider your last encounter with a real estate investor.

How did you respond when asked about the value, profitability, and capitalization rate? What reaction did you give when the investor requested an APOD or proforma? If you stood there like a deer staring into the headlights of a car then you experienced one of several outcomes.

1. You got lucky and made a sale, regardless
2. You referred the business away and lost 75% on potential commissions
3. You scrambled around trying to learn about cap rates and APODs and finally referred it away, only to discover that the investor went to your competitor

In other words, though you were given a perfect opportunity to convert a real estate investor into a commission, you had to rely on pure luck, settled for a small portion of the commission, or did not make a penny.

I have seen this happen numerous times to real estate agents. Moreover, I am certain that it can be prevented with simple preparation.

Prepare Yourself to Meet an Investor

First, dismiss the idea that you need to become a real estate investment expert. Hundreds of deals are closed every year by residential agents who know little about rental income property.

Secondly, recognize the importance of numbers to a real estate investor and make a conscious effort beforehand to discuss and present those numbers. At the very least, know the difference between capitalization rate and gross rent multiplier and be able to create an APOD.

1. Search online for real estate investing resources where you can become acquainted with and learn the formulas for key terms and returns.
2. Use a program like Excel to design an APOD that clearly shows the property's income and expenses, mortgage payment, cash flow, and rates of return.
3. To save time, invest in real estate investment software that provides the computations and reports for you.

Thirdly, be willing to accept the notion that the time or money you invest beforehand in preparation for income property can result in a sale, or perhaps more then one sale. The untold secret about real estate investment property, what others would not want you to

discover, is that real estate investors typically purchase more than one property over time.

Finally, do not wait until you have met with an investor to service the investor. If you do, you may blow a transaction. Putting your best foot forward for a customer is a truism of successful selling. Why not get started today in preparation to meet with an investor, and be ready to capture the opportunity the next time it arises.

The Role of Real Estate Software and Real Estate Investing

Twenty years ago participants in the real estate investment process relied on a calculator and amortization schedule to create the analysis required to make informed investment decisions.

With the advent of the computer, however, real estate investment and participants in the investment arena has witnessed substantive change in the methods of analysis used in the real estate investment business.

Though the real estate investment decision process will continue to rely upon information retrieved from primary and secondary data sources, information is increasingly available that can be accessed via personal computers, and real estate investment software programs make it easier then ever to create and print a variety of investment reports.

For example, thanks to the computer, real estate investors and investment firms focused on the purchase, holding, and sale of investment properties are now able to use a variety of computer programs and real estate software solutions to compute and track the income, expenses, and cash flows of owned properties that assist with a myriad of investment analysis decisions.

Spreadsheet software is used, but it does involve a degree of spreadsheet experience and time for it to be useful in investment analysis.

As a result, those with less experience or less time available to devote to spreadsheets, are turning to proven and ready-made investment analysis real estate software applications that are used in conjunction with the spreadsheet software.

These real estate investment software programs are easier to use because they require only the entry of information rather than the development of mathematical formulas or other algorithms that spreadsheets may require, and might offer--as does our real estate investment software--a variety of analytical diversity to support financial feasibility such as:

1. Computations and tables for time value of money
2. Mortgage analysis with calculations made for mortgage payments under a variety of interest rates and amortization terms with both partial and full amortization schedules
3. Depreciation schedules that provide information on annual depreciation deductions unique to a specific acquisition date of the investment
4. Tax shelter computations that may provide outcomes resulting in lower income tax liability

5. Computations for discounted cash flow that analyze an investment over the entire proposed holding period such as internal rate of return based on the investor's initial equity contributions and net present value of equity based upon anticipated future equity returns; other various ratios, multipliers, and rule-of-thumb indicators

With the rapid growth of the information superhighway computer-assisted real estate analysis and real estate investing software has become commonplace because the fast-paced investment process involves a more sophisticated understanding of an investment's forecast performance.

Note: Real estate software like ProAPOD® is in the future for real estate investment because it has greatly accelerated the ability to facilitate this increasingly more complex investment analysis.

FAQs about ProAPOD®

Here are some of the most frequently asked questions we receive about ProAPOD® since we launched it back in 2000.

Is ProAPOD user-friendly?
Yes, ProAPOD® is absolutely 100% user-friendly. All our real estate software solutions were meticulously designed with easy-to-use forms, features, and tools.

Do I have to have Excel to use ProAPOD?
Yes. All our real estate software solutions were developed as Microsoft® Excel applications, and we have never regretted this because Microsoft® Excel is the most widely used and powerful spreadsheet software programs in the world.

Is ProAPOD Vista compatible?
Yes. We had some reservations about our software's compatibility with Vista when Microsoft® first introduced it at the beginning of the year, but following a few modifications, many of our customers are currently using our real estate investment software on Vista without incident.

Is ProAPOD Excel 2007 compatible?
Yes. Again, because so many of our customers are successfully using our software solutions with Microsoft® Excel 2007 we can say that ProAPOD® Real Estate Investment Software is compatible with this newest Excel version.

Do I have to be a commercial real estate broker to use ProAPOD software?
No. On the contrary, ProAPOD® was specially designed so those with little or no rental income property or commercial real estate experience can easily use it.

I know nothing about cap rates or other ratios. Will ProAPOD be over my head?
No. ProAPOD® makes all rate of return computations automatically whether you understand the formulas or not.

Can I email the reports created in ProAPOD?
Yes, but it does require a third-party software program capable of making PDF files. The best free software program we have found is called PDFCreater and can be downloaded at www.pdfforge.org.

Does ProAPOD include a help file and tech support?
Yes and Yes.

The ProAPOD® Story

Colleagues often ask how ProAPOD® Real Estate Investment Software came to be developed. Most of my colleagues, after all, know me as a real estate professional, football fanatic, father, and proud grandparent. They find it amazing that such a good real estate investment software program was developed by, shall we say, just a normal guy.

It started with my discovery of Excel.

In 1995, just after purchasing my first computer, I discovered Excel and therein the tremendous potential spreadsheet software offered to rental property analysis. It was magical. Of course, I had no thoughts of developing my own real estate investment software, so I set out to purchase one.

In 1996, I purchased a real estate software program for $350. But in time became somewhat disenchanted because it was difficult to work with and created horrible reports, so I found another software program for $500 and purchased it.

This second real estate investment software program was head and shoulders above the first, but was overloaded with stuff beyond multi-family analysis, and quite honestly, the software was cumbersome to work with.

As I became more familiar with Excel spreadsheets, I decided to omit the weaknesses and take the benefits offered by the two other investment software programs and developed my own Excel-based spreadsheet. ProAPOD® was conceived, but only for my own rental property business.

It wasn't until other real estate agents begin asking for my spreadsheet that I considered converting it into true real estate investment software. Six exhausting months later ProAPOD® Real Estate Investment Software was born and ready to be distributed.

Since 2000, ProAPOD® Real Estate Investment Software has become a major player in the real estate software market; was featured by **REALTOR®Magazine** as a "Cool Tool" in May 2003; is used by real estate agents and investors nationwide from Florida to Hawaii; and most recently, our mortgage calculator software was selected by **Southwestern College in Kansas** as a requirement for Corporate Finance.

Today's version of ProAPOD® is much improved from the original program, now offers several real estate investment software solutions. ProAPOD® continues to be, as one customer said, "the best and most affordable real estate software of its kind on the market."