The Definitive Guide

BE AN INVESTOR

Not A Landlord

homeunion™

Single Family Rentals Are an Undervalued Asset Class that Can Provide You with Great Rewards.

At one point or another you've probably heard that you should invest in real estate. However, if you're like most investors, the bursting of the real estate bubble in 2008 made you a little reluctant.

But should it have? There were a lot of real estate investors who lost a lot of money when the recession started, mainly because they panicked and sold at the worst time possible.

Benefits of Real Estate Include:

- **Cash Flow**
- **Equity Growth**
- **Appreciation**
- **Depreciation Deductions**
- **Mortgage Interest Deductions**

Those who held on to the properties made a nice return with rental income, and took advantage of the tax benefits that real estate often provides. Now that home prices have rebounded to or above the highs of 2006, they are seeing even better returns, thanks to appreciation.

Institutional investors have recognized the value of single family rentals and have been gobbling up this undervalued asset class. Blackstone Group, Pimco Colony Capital, and Cerberus Capital Management have invested billions into single family rentals (SFRs) over the last couple of years.

> *"If I had a way of buying a couple hundred thousand single family homes, I would load up on them."*
>
> *— Warren Buffett, CNBC Interview*

Yet the majority of individual investors still aren't taking advantage of single family rentals. Why?

This paper will debunk common myths investors may have that keep them from investing in real estate.

We will show you how you can successfully invest in real estate without becoming a landlord.

Myths We Will Debunk

1. Investing in Real Estate is Too Expensive
2. I Can't Invest Remotely; I Don't Know How to Identify A Good Investment
3. I Have to Be A Landlord

MYTH: Investing in Real Estate Is Too Expensive

If you limit yourself to your local market, your initial investment may be too high.

For example, if you live in California, the median home price for a property is $458,000+ (according to Zillow). Using the maximum amount of leverage (financing with a 20% down mortgage), your initial investment would be approximately $96,700 before closing costs. That's a lot of money for a single investment. These high home prices also make it difficult, if not impossible, for you to have positive cashflow.

It's very unusual to get over $4,500 in rent for a $450,000 property, but there are plenty of markets where you can get $1,000 in rent on a $100,000 property.

As a General Rule, You Want a Property Where Rent Is Close to 1% of the Purchase Price.

In markets such as Indianapolis, IN where the median home price is $130,400+ or Jacksonville, FL where the median home price is $134,100+, not only will your down payment be more affordable ($26,080 and $26,820 respectively), it's also more likely that you'll be able to generate positive cashflow even when fully leveraged.

Even if you do have plenty of cash to invest in a market like California, it might be wiser to invest in multiple properties in a variety of markets than to place all your eggs in one basket.

Why Invest in Multiple Markets?

1 **It protects you from an unexpected downturn in an economy.**

For instance, let's say you invested in Seattle, and Boeing announces major layoffs. Such a scenario could lower home prices and significantly decrease rents in the area, negatively affecting your return.

2 **It protects you from vacancies.**

If you only own one property and your tenant moves out, your income comes to a screeching halt until you're able to get another tenant in place. However, if you have multiple properties and one tenant leaves, you still have income from your other properties.

But a question many investors have is how to choose the right market and how to identify the best investment property in that market.

MYTH: I Can't Invest Remotely; I Don't Know How to Identify A Good Investment

"Invest in what you know" is a quote made famous by Peter Lynch, the legendary Fidelity portfolio manager. Many real estate investors have translated this famous quote into meaning they should only invest locally in a market with which they are familiar. Until recently, this was sound advice, but no longer. All the information you need is online.

1 First, Start by Identifying a Good Market.

Find a market with strong job growth fueled by multiple industries, high occupancy rates, growing rental rates and other positive economic trends.

2 Next, Identify the Ideal Neighborhoods.

The high value neighborhoods typically are not ideal, as they often do not meet the 1% rule we mentioned above.

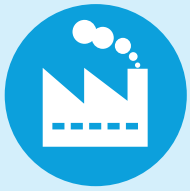
The low-end neighborhoods are also not ideal, as they usually have a lower occupancy rate and your property value may be at a higher risk.

You want to identify neighborhoods that fall somewhere in the middle.

Ideal Neighborhood Traits

Rent is close to 1% of the property value

Median income levels are approximately 3x the rent



Plenty of jobs are in close proximity

Numerous transportation options are available

Good schools and amenities are within short distance

3 Now It's Time to Find the Ideal Property.

Look for properties that are in good condition and are rentable. For instance, you should take the demographics into consideration. In a neighborhood where the typical household has 5 people, a 2 bedroom/1 bath property probably isn't all that rentable.

In addition to demographics, you should consider the condition of the property. But how do you know if these properties are in good condition? How do you know if the property needs rehabilitation, and to what extent?

One option is for you, the investor, to fly to the investment property location to see the property yourself. But that can get costly and it takes time away from your busy schedule.

A better option is to take advantage of the HomeUnion property database.

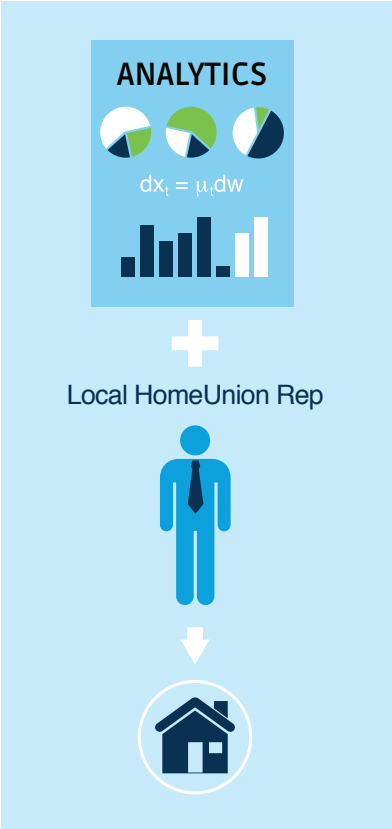
We use proprietary algorithms to filter through thousands of properties to identify ideal investments.

Then, we have HomeUnion local market experts hand select the best investment properties that meet our high standards to insert into our database.

Our local market experts will visit the properties to verify their condition on behalf of our investors.

Our data scientists and local real estate investment experts have identified good investment properties in select markets throughout the country.

HomeUnion Investment Property Selection Process:



Register for your free account and get access to 500+ pre-vetted investment properties.

START SEARCHING TODAY →

Finally you must consider the most important trait of any investment property: do the numbers work? Will the returns meet your financial goals?

Continued

4 Identify a property that meets your financial goals

To find out, you have to run the numbers. You must determine:

Annual Total Income

Take the estimated rent for the property you have selected and then subtract estimated costs for vacancy periods (typically 2 months of rent).

Expenses

Account for expenses like property taxes, insurance, HOA fees, leasing fees, asset management fees, and maintenance.

Annual Cash Flow

To calculate, take your total income and subtract expenses, principal and interest payments.

FINANCING Financed All Cash

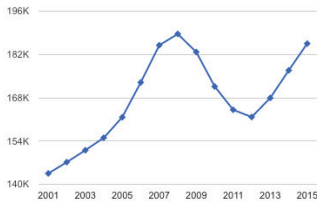
Reset All Fields to Default

INVESTMENT SUMMARY

Price	$94,900
Other Costs	$12,763
Total Cost	$107,663
Investment	$31,743
Yield	10.16%
LOAN TERMS	
Down Payment(%)	20%
Down Payment (Amount)	$18,980
Loan Amount (Amount)	$75,920

VIEW MORE

HISTORICAL PRICE TREND 5 YR 10 YR 15 YR



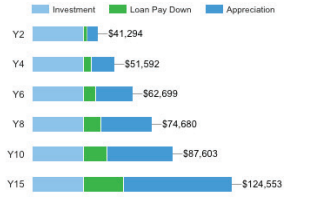
AVERAGE HISTORICAL APPRECIATION RATES

5 Years	2.0 %	10 Years	0.9 %	15 Years	1.6 %

*sources: HomeUnion Research Services, Axiometrics Inc. National Assocation of Realtors, U.S. Census Bureau, Zillow

15 YEAR PROJECTION

Asset Build Up | Annual Cash Flow



*All values are cumulative

ANNUAL RETURN CALCULATIONS

	ASSUMPTIONS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	TOTAL
Rental Income	2.00%	$10,800	$11,016	$11,236	$11,461	$11,690	$12,907	$14,250	$186,769
Less Vacancy	6.00%	648	661	674	688	701	774	855	11,206
Total Income		10,152	10,355	10,562	10,773	10,989	12,133	13,395	175,563
LESS EXPENSES									
Property Tax		1,164	1,187	1,211	1,235	1,260	1,391	1,536	20,130
Property Insurance	2.00%	899	917	935	954	973	1,074	1,186	15,539
HOA	2.00%	0	0	0	0	0	0	0	0
Leasing Fee		675	689	702	716	731	807	891	11,673
Asset Management Fees		1,200	1,128	1,128	1,131	1,154	1,274	1,407	18,628
Repairs & Maintenance	8.00%	864	881	899	917	935	1,033	1,140	14,942
Net Operating Income		5,350	5,553	5,687	5,820	5,937	6,554	7,237	94,652
Less Interest		3,581	3,524	3,464	3,402	3,336	2,958	2,477	46,281
Net Income		1,770	2,029	2,223	2,418	2,600	3,597	4,759	48,370
Yield		**5.57%**	**6.39%**	**7.00%**	**7.62%**	**8.19%**	**11.33%**	**14.99%**	**10.16%**
Cash on cash Return Calculations									
Less Loan Principal Pay Down		1,172	1,228	1,288	1,351	1,416	1,795	2,275	25,005
Annual Cash Flow		598	801	935	1,068	1,184	1,802	2,484	23,365
Cash-on-cash Return		**1.88%**	**2.52%**	**2.94%**	**3.36%**	**3.73%**	**5.68%**	**7.83%**	**4.91%**
Cash Realization on Sale									
Projected Appreciation Rate	3.50%								
Property Price		103,914	107,551	111,315	115,211	119,244	141,624	168,205	

Once you have your Annual Cash Flow, you can determine your annual return.

It's important to calculate out your investment cash flow for several years, as rental income can increase over time. Additionally, the amount of equity build up will increase over time when financed.

Doing all this research may sound confusing and difficult, but HomeUnion makes it easy by doing all the work for you.

With HomeUnion, you have access to:

- All the data points mentioned above all-in-one convenient location.
- Hundreds of pre-vetted properties categorized by risk versus reward.
- Financial calculator to adjust assumptions and see ROI performance under multiple circumstances.
- Industry experts who have in-depth knowledge to determine the best investment markets, neighborhoods, and properties.

MYTH: Investing in Rental Properties Means I Have to Be A Landlord

People understandably equate investing in real estate to being a landlord and therefore assume that it takes a lot of hands-on work. After all, to make an investment property pay off, a lot has to be done, including:

Marketing the Property for Rent

Maximize your exposure by putting a “For Rent” sign in front of your rental property and advertise on multiple places online.

Finding a Good Tenant

Choose the right tenant to live in your investment property by running credit reports and background checks. It is critical to avoid getting caught in a situation with bad tenants.

Collecting Rent on Time

Create a method and process for collecting rent each month. If payment is not received on time, follow up with tenant to collect unpaid rent. If tenant continues with late payments, you may have to start the eviction process.

Repairing and Maintenance of Rental

Be accessible for tenants. No one wants a phone call in the middle of the night because the plumbing in the rental property has backed up. But in order to keep good tenants happy and paying, it’s important that someone be readily available in case of an emergency.

Knowing When to Increase Rent to Maximize Returns

Be Strategic with rent increases to match the local market supply and demand.

Abiding by Tenant/Landlord Laws

Understand the landlord/tenant laws, rules, and regulations clearly. Common disputes are non-payment of rent, late payments or damages to the investment property.

Handling Evictions, If/When Necessary

Begin eviction process immediately, if rent is not paid on time and your arrangement to make payments isn't honored. The longer you wait, the more money you will loose. Be sure to abide by all laws, rules and regulations.

Tracking ROI

Maintain careful records of income and expenses to track performance of your rental property. Plus, everything else that goes into protecting your asset and maximizing the returns.

However, the assumption that the investor has to do all this work themselves is a myth.

When you invest with HomeUnion, you'll never have to be a landlord. We are an all-inclusive service where you invest and we do the rest including all the tasks mentioned above that are required to maximize your returns.

Additionally, we provide you full transparency with access to detailed, up-to-date information about your investment at all times via a secure web site.

Real estate is a great long-term investment. With all the tools and services available to you through HomeUnion, you too can

Be an Investor, Not A Landlord.

The performance information shown are projections. These are not actual results. These projections are based upon various assumptions and representative properties. No representation is being made that a performance record similar to the projected returns will or is likely to be achieved. Appreciation is indicative and based on publicly available Zillow Home Value Forecast [ZHVF] over the next 12 months. Please see the Terms of Use for important information about these projections.

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