

How Many Properties do you Need to Retire?



How Many Properties do you Need to Retire?

1. Probably fewer than you think!
2. To earn a Passive Income of \$72k/year, you need the following paid off portfolios:
 - 3 \$400k houses (\$1.2 Million worth of houses)
OR
 - 5 \$250k condos (\$1.25 Million worth of condos)
OR
 - 2 \$700k 3-unit apt. buildings (\$1.40 Million worth of 3-plexes)
3. $\$1,200,000 \times 6.0\% \text{ cap rate} = \$72,000$ – SFRs
4. $\$1,250,000 \times 5.75\% \text{ cap rate} = \$72,000$ - Condos
5. $\$1,400,000 \times 5.1\% \text{ cap rate} = \$72,000$ – Multi-Units

How Many Properties do you Need to Retire?

To retire TODAY with \$72,000 in passive income, you simply need to pay cash to buy \$1,200,000 in SFRs/\$1,250,000 in Condos or \$1,400,000 in Multi Unit properties

What if you don't have \$1,200,000 - \$1,400,000?

What about Investing \$300,000 and retiring in 15 years?

How does this fit with your current cash position and your time horizon?

Do you want more than \$72,000 income per year?

Do you have more or less time before retirement?

Do you have more or less money that you are starting with?

Sample Townhouse Purchase

Denver, CO 80237

County: **Denver**
 Locale: **Cherry Creek Townhomes**
 Community:



Residential Full

MLS#: **None Known** List Price: **\$270,000**
 Status Conditions: **Yes** Original Price: **\$270,000**
 Has HOA: **Yes** Tax ID: **162044101**
 INV Blackout Ends: Taxes: **\$1,246 (2020)**
 Title Company: **Land Title**
 Financial Terms: **Cash, Conventional,**
 Earnest \$: **2500, Land Title**
 Seller Type: **Individual**
 Legal Desc: **CHERRY CREEK TOWNHOUSE CONDOS U-43 BLDG-8 CP-43-C PATIO-43-P**

Type: **Attached Single Family** Style: **Townhouse**
 Architecture: Year Built: **1965**
 Construct Details: Model:
 Time of Completion:
 Builder Name:
 Heat Fuel: **Gas**
 Heat Type: **Forced Air**
 Cooling: **Air Conditioning-Central**
 Other HVAC:
 HVAC Detail:
 Construction: **Brick**
 Exterior: **Brick**
 Roofing: **Composition Shingles**

Floors in Unit: **2** Unit Level:
 # Units in Building: End Unit:
 Style Characteristics: **Side-by-Side** Complex Name: **Cherry Creek Townh**

Total Beds:	4	Upper Sqft:		PSF Above Grade:	\$170.45
Total Baths:	2	Main Sqft:		PSF Total:	\$170.45
Full Baths:	1	Lower Sqft:		PSF Finished:	\$170.45
3/4 Baths:	0	Above Grade:	1,584	Bsmt Type:	None
Half Baths:	1	Basement Sqft:		Subfloor/Foundation Type:	
1/4 Baths:	0	Total Sqft:	1,584	Bsmt Finished:	
Rough-in:	No	Finished Sqft:	1,584	% Fully Finished:	
		Other Finished Sqft:		Bsmt Ceiling Height:	
		Other Finished Sqft Desc:			
		Measurement From:			Date Measured:

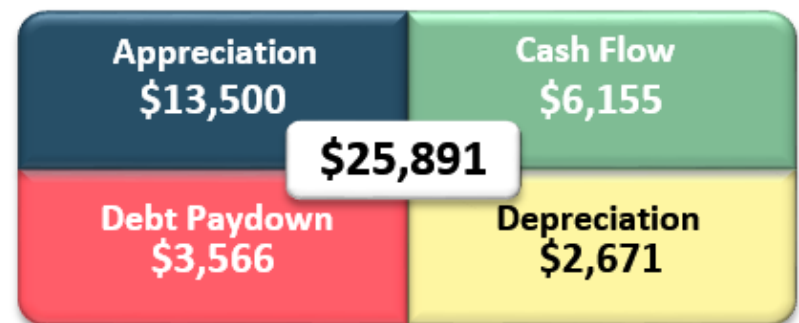
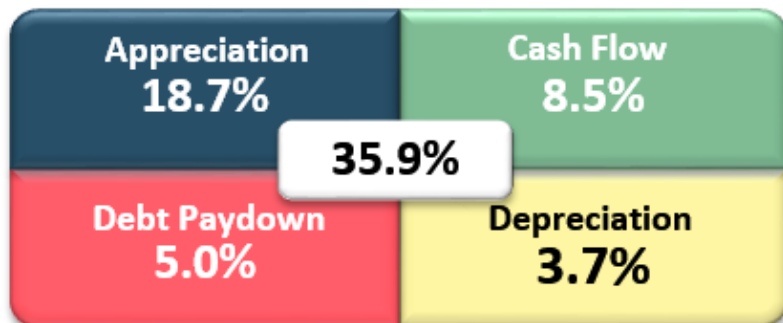
School District: **Denver 1** Jr High/Middle: **Hamilton**
 Elementary: **Joe Shoemaker** Sr High: **Thomas Jefferson**
 School of Choice:

Appliances: **Cook Top, Dishwasher, Disposal, Microwave Oven, Refrigerator (Kitchen), Stove/Range/Oven**
 Flooring: **Carpet, Vinyl/Linoleum**
 Interior Features: **Window Coverings**
 Countertop Type: **Laminate, Tile**
 Smart Home Features:
 Laundry: **W/D Hookups in Unit**

Cash Flow Analysis of Denver Townhouse

	Number of Units	1	<u>Annual Cash Flow Statement</u>	
Cash Investment Breakdown			<u>Annual Income</u>	
Purchase Price	\$	270,000	Annual Rental Income	\$ 24,600
Mortgage	\$	202,500	- Vacancy 3%	\$ (738)
Down Payment	\$	67,500	Expected Annual Rental Income	\$ 23,862
Net Closing Costs to Buyer	\$	3,540	<u>Annual Expenses</u>	
Repair Costs	\$	1,000	Reserves for Repairs and Maintenance	\$ 1,230
Total Cash Investment	\$	72,040	HOA Dues	\$ 3,420
			Real Estate Taxes	\$ 1,246
			Property Insurance	\$ 210
			Total Annual Expenses	\$ 6,106
Cash-on-Cash Rate of Return		8.5%	Net Operating Income	\$ 17,756
CAP Rate		6.6%	Less: Annual Mortgage Payments	\$ (11,601)
GRM - Gross Rent Multiplier		132.2	Annual Cash Flow Before Taxes	\$ 6,155

1st Year Return On Investment Quadrant™ (ROIQ)



**Return On Investment Quadrant™ is a trademark of Real Estate Financial Planner LLC

Scenario #1 - Make minimum payments and put cash-flow in the bank

Annual Cash Flow Statement

<i>Annual Income</i>	Year 1	Year 15
Annual Rental Income	\$ 24,600	\$ 37,210
- Vacancy 3%	\$ (738)	\$ (1,116)
Expected Annual Rental Income	\$ 23,862	\$ 36,093
<i>Annual Expenses</i>		
Reserves for Repairs and Maintenance	\$ 1,230	\$ 1,860
HOA Dues	\$ 3,420	\$ 5,173
Real Estate Taxes	\$ 1,246	\$ 1,885
Property Insurance	\$ 210	\$ 318
Total Annual Expenses	\$ 6,106	\$ 9,236
Net Operating Income	\$ 17,756	\$ 26,858
Less: Annual Mortgage Payments	\$ (11,601)	\$ (11,601)
Annual Cash Flow Before Taxes	\$ 6,155	\$ 15,256
Property Value at End of Year	\$ 283,500	\$ 561,311
Mortgage Balance at End of Year	\$ 198,934	\$ 130,699.17
Total Equity	\$ 84,566	\$ 430,611



\$72,000 / \$15,256
= 4.7 properties
Rounded up
= 5 properties

5 x \$561,311 value
= \$2,806,555

Initial Investment
\$72,040 x 5
= \$360,200

\$2,806,555 x 4.7%
Cap Rate = \$131,908

???

Scenario #2 – Take all cash-flows and pay down the mortgage

Annual Cash Flow Statement		Year 1	Year 15
Annual Income			
Annual Rental Income		\$ 24,600	\$ 37,210
- Vacancy	3%	\$ (738)	\$ (1,116)
Expected Annual Rental Income		\$ 23,862	\$ 36,093
Annual Expenses			
Reserves for Repairs and Maintenance		\$ 1,230	\$ 1,860
HOA Dues		\$ 3,420	\$ 5,173
Real Estate Taxes		\$ 1,246	\$ 1,885
Property Insurance		\$ 210	\$ 318
Total Annual Expenses		\$ 6,106	\$ 9,236
Net Operating Income		\$ 17,756	\$ 26,858
Less: Annual Mortgage Payments		\$ (11,601)	\$ -
Annual Cash Flow Before Taxes**		\$ 6,155	\$ 26,858
**All Cash Flows are Reinvested to Reduce the principal balance			
Property Value at End of Year		\$ 283,500	\$ 561,311
Mortgage Balance at End of Year		\$ 192,779	\$ -
Total Equity		\$ 90,721	\$ 561,311



Scenario #3

Use Same Cash of \$360,200 from Scenario #1 to buy 5 properties

5 x \$561,311 value = \$2,806,555

\$2,806,555 x 4.7% = \$131,908

5 x \$26,858 = **\$134,290**

Most Common Concerns I Hear from Investors

- These properties aren't available any more –
 - True... except for all of the ones that are out there.
 - *“If you think there are deals or you think there aren't any deals; either way you're right.”*
 - *Travis Sperr – 2014*
 - There are plenty of these available on the MLS and remember, you're not looking for a homerun, just basic singles and doubles. 5.0% - 6.0% Cap rates will do just fine.

Most Common Concerns I Hear from Investors – Cont.

- What if values go down??
 - This is only a concern if you need to sell while values are down.
 - If you're buying for long-term ownership, there has never been a 10 year period in Denver that you would have lost money
 - But, let's say the property loses 50% of it's value the day after you buy it and NEVER goes back up. What happens?

Property Loses 50% the day after you buy it and NEVER regains any value

Annual Cash Flow Statement

<i>Annual Income</i>	Year 1	Year 15
Annual Rental Income	\$ 24,600	\$ 37,210
- Vacancy 3%	\$ (738)	\$ (1,116)
Expected Annual Rental Income	\$ 23,862	\$ 36,093
Annual Expenses		
Reserves for Repairs and Maintenance	\$ 1,230	\$ 1,860
HOA Dues	\$ 3,420	\$ 5,173
Real Estate Taxes	\$ 1,246	\$ 1,885
Property Insurance	\$ 210	\$ 318
Total Annual Expenses	\$ 6,106	\$ 9,236
Net Operating Income	\$ 17,756	\$ 26,858
Less: Annual Mortgage Payments	\$ (11,601)	\$ -
Annual Cash Flow Before Taxes**	\$ 6,155	\$ 26,858
Property Value at End of Year	\$ 135,000	\$ 135,000
Mortgage Balance at End of Year	\$ 192,779	\$ -
Total Equity	\$ (57,779)	\$ 135,000



5 x \$26,858
 = **\$134,290**
 EXACT SAME Cash Flow

5 x \$135,000 value
 = \$675,000

Initial Investment
 = \$360,200

Return on Investment =
 \$675,000 / \$360,200
 = 87% Return

87% Growth of your initial investment

****All Cash Flows are Reinvested to Reduce the principal balance**

What if the property gets damaged, needs repairs, etc.

- This is accounted for in the analysis with a 5% reserve for repairs and maintenance:

<i>Annual Expenses</i>	
Reserves for Repairs and Maintenance	\$ 1,230

- Depending on the age of the property, condition, renovations, etc. you may decide to reserve a higher or lower amount.
- SFR, Multi-Units = Generally 8%+
- Older homes, not recently renovated = 10%+

I don't want to find tenants, fix toilets, manage the property, etc.

- No problem. Hire a property manager!

Do you pay for property management?

Yes

Monthly Cost for Property Management - Percentage

10%

Industry Average is 10% of gross rents for Property Management

Annual Income

Annual Rental Income	\$	24,600
- Vacancy	3%	\$ (738)
Expected Annual Rental Income	\$	23,862

Year 18

\$	40,660
\$	(1,220)
\$	39,440

Annual Expenses

Property Management	\$	2,460
Reserves for Repairs and Maintenance	\$	1,230
HOA Dues	\$	3,420
Real Estate Taxes	\$	1,246
Property Insurance	\$	210
Total Annual Expenses	\$	8,566

\$	4,066
\$	2,033
\$	5,653
\$	2,059
\$	347
\$	14,158

Net Operating Income \$ 15,296

Less: Annual Mortgage Payments \$ (11,601)

Annual Cash Flow Before Taxes \$ 3,695

\$ 25,282

\$ -

\$ 25,282

\$ 649,787

\$ -

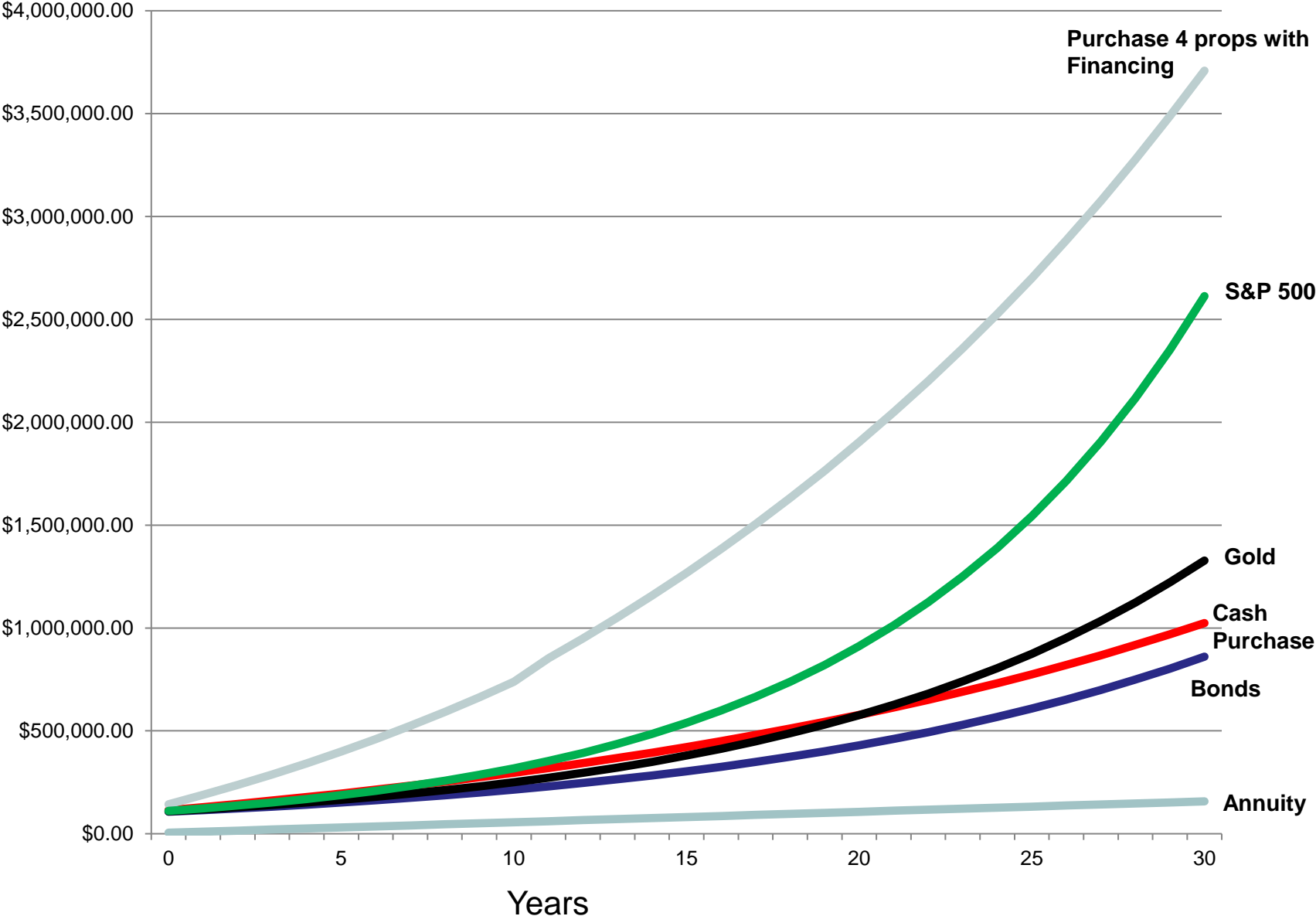
\$ 649,787



You still accomplish your goals, it just takes you 3 years longer to pay off each property.

But how much LESS headache did you have over that time period?

\$100K Invested Today - Total Return



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