

Building Passive Income with Portfolio Real Estate



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One of the best ways to grow your income is to work smarter, not harder. Let your money work for you. Using real estate to build wealth for your family and future generations has been the vessel for some of the most famous billionaires known. Whether you are planning for retirement or just want to increase your income, generating passive income through real estate investments is one of the smartest approaches.

Taking the first step can be the most difficult. Start by taking inventory of your personal finances, talking with your family or business partner(s), and deciding how you will finance the purchase of your rental properties.



This guide will help you learn more about investing in real estate, finding the right deal, options for getting it financed, and overcoming some of the most challenging hurdles in the industry.



Return on Investment (ROI)

It is calculated by taking the profit and subtracting the original cost of the investment. However, ROI is a profitability ratio meaning it gives us the profit represented in percentages.

Understanding Passive Income

Passive income in the real estate industry is income derived from an investment to produce cash. This might include purchasing and maintaining properties such as:



Singlefamily Residential Properties



Multifamily Residential Properties



Commercial Rental Properties

Cash flow comes from the monthly rent paid by tenants, and profit comes from having rents high enough to cover the mortgage and associated operating costs.

Doing your homework and finding the right deal is essential for generating profitable passive income and making sure that you are protected through the market swings.



Multifamily

Why investors prefer passive income

There is honor and respect in working a job, but there are only so many hours in a day. As we stated earlier, let your money work for you. Having a passive income source allows you to increase your income without dramatically affecting your time investment.

You want to optimize your time and your capital.

You can dramatically improve your lifestyle

With enough passive income from real estate investments, you can sustain your day-to-day living. By building income streams that don't require you to do much after the initial time investment, the rent is deposited directly into your bank account each month. This can potentially allow you to do the things that you want to do in your life, including:

- Going from full-time to part-time work
- Changing Careers
- Starting your own business
- Spending more time with family

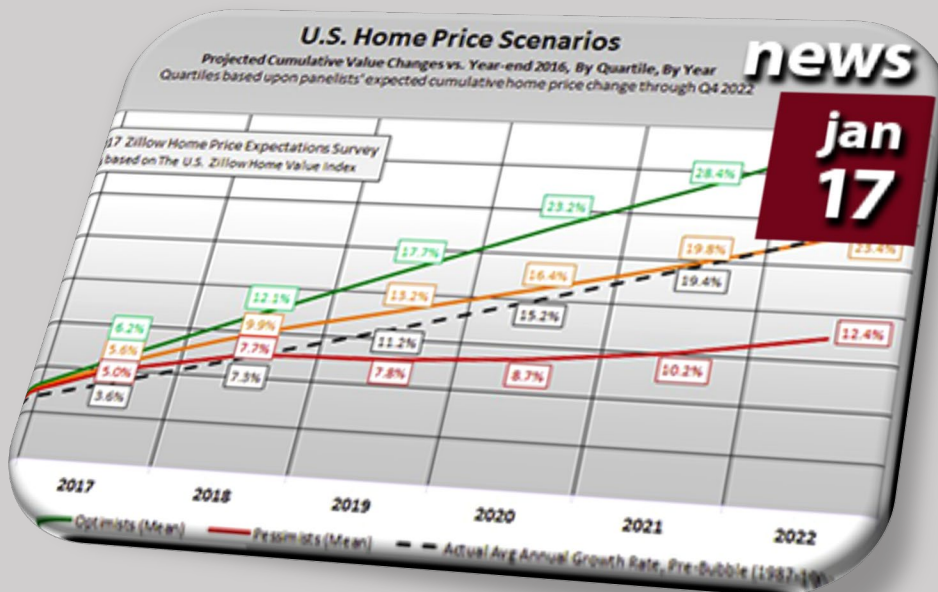


Few things compare to financial independence. For many people, real estate investing is the means to aggressively pursuing a better lifestyle.

Real Estate is the smart investment

Historically, real estate appreciates in the long run, so it is widely seen as a smart investment. Real estate is also a great way to diversify your portfolio because of the cash flow from investment properties usually grows over time due to inflation. Increases in property values usually correlate with increases in passive income because rents will typically increase. Remember the old saying “people will always need a place to live”.

Additionally, if you’re good at and smart about real estate investing, the rates of return can be very strong, and you can generate enough passive income to cover the expenses which gives you the flexibility to choose to or not to work a traditional job.



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Every investor will do things a little different. However, there are a few basic practices to pay attention to while starting your journey to passive income through real estate.

Be smart about the deal

This is the most challenging aspect of creating passive income. Finding the right property to buy at the right price point comes down to doing research. If you are just getting started and do not have a lot of capital, you might want to look at properties in less expensive neighborhoods. Understanding the cost is also essential, so run a lot of spreadsheets with various scenarios.

Understand that you will need a 10-20% down payment based off of the scenario and budget accordingly. This may mean buying less expensive properties to start off with. Filter your search by price and look at the rental market in the area to make sure rents cover your mortgage and expenses. Don't forget about the closing costs.

*If you plan to buy properties that need renovations to become rentable, then look for a lender that offers rehab funds. This also will need to be part of your purchase calculations. It is suggested to have a General Contractor give you an estimate on the repairs, especially if you have limited experience.



Stay Connected

Join real estate clubs and make it known what you are looking for. Online groups like Facebook can also be a place to learn and find wholesale properties. Building investor relationships can help you avoid pricing wars. Local professionals know where there might be deals and will let you in on a few little secrets.



Be Prepared

You will need to act quickly when a deal comes your way. Build relationships with a lender, brokers, contractors, and other people in the industry. Getting the funds ready beforehand plays a big part in successful investing. Talk with your loan consultant and learn the process of getting approved and what will be needed.



Be Disciplined

Always be actively looking for properties that fit your criteria. Stay within your price range and limit your location search, so you're not tempted to buy over budget. Do not let yourself get personally attached to a deal because it could lead to poor decisions.

Pay attention to location

Once you purchase a property, you will have to manage it or hire a management company. If you are new to rental properties, it may be a good idea to hire a management company. Research their services, fees, and their relationship styles.

In most cases, they assist with finding renters, checking credit, background checks, collecting rent, handling the calls for maintenance and other issues. They will also keep you legally compliant.

If you plan on self-managing your properties, consider keeping them close to home. Sometimes you will have to handle late night, weekend, and holiday calls.



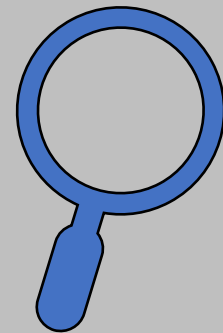
Be a visionary



The real estate market is impossible to accurately predict, however there are trends that can influence it. For example, with an upcoming flood of baby boomers relocating, you can expect a shift in the available housing inventory in coming years. Start researching homes that have been owned for a while by someone who might be looking to downsize. Reach out to them early and let them know that you are an investor in their area, and you can purchase their property quickly when they are ready to sell. You may be able to land a great deal this way.

**Another way to find residential properties is to look for homes in desirable areas that need cosmetic improvements but no major structural issues. If you're interested in buying commercial properties such as retail, office, mixed-use, and smaller apartment buildings, look for distressed properties in locations near high volume traffic areas. There is a website where you can search for commercial properties for sale (www.loopnet.com), however there are many other ways to find them as well.*

Don't limit yourself to only one type of investment property. There are many great opportunities to build passive income.



How do you fund investment properties



Unless you are somewhat wealthy already, you will probably need to finance your investment properties. Many investors continue to use OPM (Other People's Money) to fund their deals so that they can keep themselves liquid in case an issue arises, or they find a property that needs a quick cash close.



**Partnering with a lender and working with a dedicated Consultant that can help you finance many different types of properties is a good idea. They will be knowledgeable and have the resources that you need to grow your business.*

Traditional Loans

Conventional bank loans have a lot of benefits... and a lot of challenges. They may have lower rates and are easily accessible, but they are normally not the right fit for investors. First, not all properties will qualify for this type of loan, especially in the commercial area, so this may not even be an option. Getting a conventional loan can also be difficult if you have nontraditional income, credit issues, or cannot verify income. Conventional loans can take 30 days or more to close and this could interfere with you winning the contract. Private money is the best solution for most investors.

Private Money Loans

Private Money lenders understand the real estate investment and can see the true profitability of a deal. They are quicker than traditional financing and require much less documentation in most cases. They mainly focus on the asset and not as much on the Borrower. For example, if you're buying a property that needs renovation, a private money broker like us can arrange for you to get funds towards the purchase price but also get up to 100% of the cost of the renovations included. Ask your Funding Consultant about the difference between "Hard Money" and "Private Money".



*A few terms to know about private money lending:

1. Fix and Flip - This term refers to a property that you are going to buy, rehab, and sell. You can also refinance it into a long-term rental unit once the renovations are done. You can also do what's called a "Cash-out" refinance and use those funds to purchase your next property.
2. Bridge Loan – This is a short-term loan 12 -36 months (depending on the project type). This is usually used for the quick acquisition and/or renovations of a property.
3. ARV- After Renovation Value - This is the price that you think a property should sell for or be valued at after the renovations are complete.
4. Construction Draw - Most loans that include renovation funds are held in an Escrow type of account and dispersed as the project moves along.



Protect yourself

**Disclosure: We do not offer legal or tax advice, this is for informational purposes only. ROC Financial Solutions LLC., suggests that consult with a licensed professional on both topics.*

Most investors use some type of business entity to protect themselves from many types of issues. Research what method is best for you.

Why Do I Need An LLC?

We are glad you asked! In real estate investing, there are lots of moving parts and potential pitfalls. An LLC allows you to create an entity that limits your personal liability.



What Is An LLC?

An LLC stands for Limited Liability Company and offers some of the benefits of both a partnership and a corporation. It is essentially a corporate structure that allows for the pass-through taxation of its

members as in a partnership while limiting overall liability as in a corporation. More often than not, real estate investors may find an LLC necessary to obtain financing.

Most Real Estate Investors use a Limited Liability Company to protect their personal assets.

In most states it an easy process to set up. Take the time to make sure that you have all of the correct legal documents in place to ensure that your LLC is legally sound.

Most Commercial Lenders also require that you title properties that you wish to borrow against in some sort of company entity name. You can own several properties under the same company, however, we suggest that you research the legal risk of doing so.

** We recommend that you consult a licensed professional for these services including but not limited to a tax consultant.*

Speed is essential in real estate investing

No matter which route you take, time is of the essence because you must move on available properties fast before your competition does. Cash offers and fierce bidding wars are commonplace. This makes private money funding a strong choice.



Challenges involved with passive income

Although it will eventually require less work, building passive income does come with some effort and some risk. Understanding the most common challenges can help you to prepare to overcome them.

Buy the right properties

Selecting the right property is always one of the most difficult parts to real estate investing. Do the math twice or even three times to make sure it's right. Once you complete a few deals, this will be much easier. In general, maintenance on rental properties is attractive because it is low. This is a great starting point for investors as are Fix and Flips if you have a good team. On commercial properties the cost can quickly get out of hand if you are inexperienced. This may be a good reason to hire an experienced management company.

Controlling Cost

Understand both the short-term and long-term to ownership of a property. Consider improvements, maintenance, utilities, and other expenses based on the individual property.

Maintain Profitability:

One of the main challenges of remaining profitable is buying the property

at a good price. Usually under market value. Keeping it always leased without spending extra money on it is another challenge some investors face. Retaining good tenants who take care of the property and pay the rent on time is priceless. A few low-cost ways to keep them happy could be a phone call every 3-4 months just to check in and see how they are doing. Another way is to drop off new HVAC filters every 6-12 months. (This also helps ensure that they are getting changed which prolongs the life of the system. Having a service contract in place is a great idea as well). For a last suggestion, send a small gift basket on birthdays. These may sound like extra work, however the less times that you must source new renters, the better. Lastly, always check credit and references of all new renters. Once you get a solid renter in the unit, try to keep them as long as possible.

Set yourself up for success

Once you become an investor, you also become a business owner. Here are a few tips to secure longevity with your company.

1. Build a reserve account holding up To 6 months reserves for mortgage payments and taxes on each property.
2. Build a maintenance account for your investments in case something like a water heater fails unexpectedly.



3. Network with wholesalers and real estate agents to help you keep an eye out for great deals.
4. Keep in touch with your Funding Consultant to stay up to date on current guidelines, financing programs, and industry news. Things are always changing in real estate and to be on top, you must stay on top.

How do you grow passive income

Once you have established some passive income and learned more about the process along with all of the challenges that come with it, you can continue to grow your portfolio by leveraging your current properties through the BRRR Strategy. This stands for Buy, Rehab, Rent, Refinance, Repeat.

Keep making connections with real estate agents, contractors, framing carpenters, plumbers, painters, and so on. Having an established network of partners will help you be successful.



At ROC, we want to see help you succeed with real estate, so we evaluate each loan scenario individually which enables us to offer you solutions for your investment needs. We look at the asset and the potential, and do not focus on your credit or income. Let us help you capitalize on the next opportunity.

Get Started with a no-obligation Solutions Quote

HELPING **REI** INVESTORS
WITH CREATIVE FUNDING!

ROC Financial Solutions

*We are here to assist clients with building
wealth one property at a time*

We Offer Lending on:

Purchase and Refinance (Including Cash-out) Loans

Fix and Flip Funding

Rental Units - Short and Long Term

Construction – Ground Up and Horizontal

Commercial Real Estate - Many Types

Multifamily and Mix-Use

Land Loans

Unique Property Financing

Working Capital

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