

INVESTMENT PROPERTIES *Guide*



The Beginner's Guide for
Everything You Need to Know
About the Risks, Benefits &
Financing of Investment Properties



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Introduction

At Compass Mortgage, our goal is to help our clients realize their dream of homeownership and to assist them in the long-term management of their mortgage so that they can get the most out of their home. We are committed to providing all our clients with an exceptional level of service that exceeds their expectations.

This Investment Properties Guide will help you understand the benefits and risks of investing in real estate, educate you on how to finance your property, and help you understand what will make a profitable purchase.



WHO IS COMPASS?

Compass is a mortgage banker, not a mortgage broker. This subtle but important distinction gives us a greater level of control over the loan process and allows us to provide a higher level of service to our clients because we control the process from beginning to end, and we use our own funds to fund the loan.

We do underwriting in house which, in most cases, gives us the ability to approve the loans we originate. Because of this, we can quickly turn around a loan which might make the difference between getting the house you want or losing it to another buyer.

Mortgages are our only business, and our passion is to help our clients make informed decisions regarding their home financing. Our experienced staff is always here to answer questions you might have!



Dan Graham
Chairman & CEO
Compass Mortgage

INVESTMENT *Properties*

Investing is a choice that most people make at one point or another in their lifetime, whether it's through the stock market, mutual funds or real estate. Property investment is viewed as one of the safest and easiest options if done correctly.

Investment properties are a great means to create income. As an investor, you can enjoy the potential of market appreciation while building equity each month. Real estate investing can provide extra monthly income or even open up a new career path. Property investment isn't for everyone, though. If you're considering investing in a property, weigh the pros and cons and talk to a mortgage professional!



THE BENEFITS OF INVESTING

Apart from the significant risk factors, investment properties can be a lucrative investment with several methods of return.

HEDGING AGAINST INFLATION

Property values and inflation have a direct relationship, as inflation goes up values will go up as well. As the economy strengthens, inflation rises and properties create more net operating income. The more net operating income generated by a property, the greater chance that the property's value will appreciate.

MORTGAGE AMORTIZATION

For the first 15 years of a 30-year fixed rate mortgage, the majority of a borrower's monthly payment is going to interest rather than principal. By year 15, it becomes more of a 50/50 split. The longer you hold the property, the more of the loan your tenants pay off for you. By having tenants pay the monthly mortgage and therefore reduce the amount of your balance, you will build wealth and have access to the cash equity of the home.

LEVERAGE

Leverage means you have invested a relatively small amount of your own money and borrowed the remainder, but expect the profits of your investment to be greater than the interest charged on the borrowed money.

CONTROL & SAFETY

Property investing is one of the few investment opportunities that gives you full control of your own investment. You control the decisions and the profits. Real estate is also the only investment market that is not dominated by investors.

CAPITAL GROWTH

In most cases, property values grow over time and can be extremely profitable if well chosen. You will benefit from both the steady capital growth and regular monthly profit.

TAX BENEFITS

As a rental property owner, you are entitled to a plethora of tax deductions. Rental income, though, is taxable as an ordinary income tax, just as if you were working for an hourly wage. Rental income is even better, though, because you don't have to pay FICA taxes on rental income. Investment property owners can deduct the following expenses:

- Interest
- Depreciation, including capital improvements over the useful life of the upgrade
- Repairs
- Travel
- Home office
- Employee/management wages
- Insurance
- Legal and professional services
- Taxes

All expenses must be ordinary and necessary. Deductions are not limited to the above list.

THE RISKS OF INVESTING

Property investment and management does come with significant risk and downfalls. Keep in mind that the following things can cost you time, money and hassle:

TENANTS

Every landlord's worst nightmare is a bad renter. Whether it be damage to the property, late or unpaid rent, or even refusal to vacate the property, disputes can take time to resolve, especially if you seek legal action.

VACANCY

There is a possibility that your property may be vacant at times due to your inability to find a renter or the need to do repairs while the building is empty. Keep in mind you will need to cover the mortgage payments during those times.

LIQUIDITY

You can always sell the property if things don't go as planned, but selling real estate is not as quick of a process as selling other investments, such as shares.

HIDDEN AND ONGOING COSTS

Being a landlord requires having cash on hand to take care of unexpected and expected monthly costs. Keep in mind you will need to cover expenses for:

- Insurance (building & landlord)
- Monthly mortgage payments
- Land tax
- Utilities
- Property management
- Repairs



WHAT MAKES A GOOD INVESTMENT PROPERTY?

Choosing a property that will guarantee capital growth and rental returns is key in “making it” in the real estate investment world. Choose a property based on financial logic, not emotion. Consider the following when purchasing a property:

REAL ESTATE MARKET

The housing market tends to move in cycles. Knowing where the market is going will help ensure you purchase the property at the right price. Check to see what other homes in the vicinity have recently sold for and confirm the local vacancy rates.

VERIFIABLE EXPENSES

Property taxes are normally the biggest expense of an investment property and the highest fixed operating expenses. As an investor, you should verify that the assessed value of your property matches the Real Estate Tax Bill. If your value is less than the Tax Bill, then you can appeal to have the taxes lowered to the proper valuation. Also, be sure to check the real expenses (water and electric bills, utilities, etc.) compared to the past year's of the previous owner to check for proper incidentals.

LOCATION

Renters will want proximity to amenities, such as schools, restaurants, parks, shopping, public transportation, etc.

DEMOGRAPHICS

Consider the demographics of the area and what group of people will have constant demand for rentals, such as college students in a college town. Consider appropriateness of the property for the group.



FINANCING YOUR INVESTMENT PROPERTY

In an ideal world, you would make an all-cash purchase, but if you don't have that kind of money lying around, there are several loan options to help make your investment dream a reality. All investment properties only require as little as 15% down payment to acquire a property.

CONVENTIONAL FINANCING

Conventional financing is available on properties that are 1-4 units. Loan programs for these buildings can vary, but are usually 30-Year, 20-Year or 15-Year fixed interest rates, depending on specific qualifications.

In addition to purchase financing, we also offer renovation financing for investment properties which is a single loan to both acquire and renovate it.

COMMERCIAL FINANCING

Commercial Financing is described as funding for properties with 5 units or more. Loan programs for these buildings can vary but are usually an ARM (Adjustable Rate Mortgage) product or a 15-Year Fixed Rate product, depending on specific qualifications.

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