



RENTAL PROPERTY INVESTING

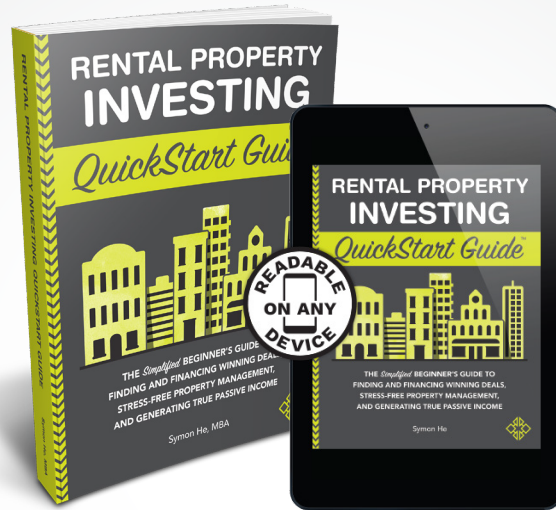
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INTRODUCTION

fig. 1

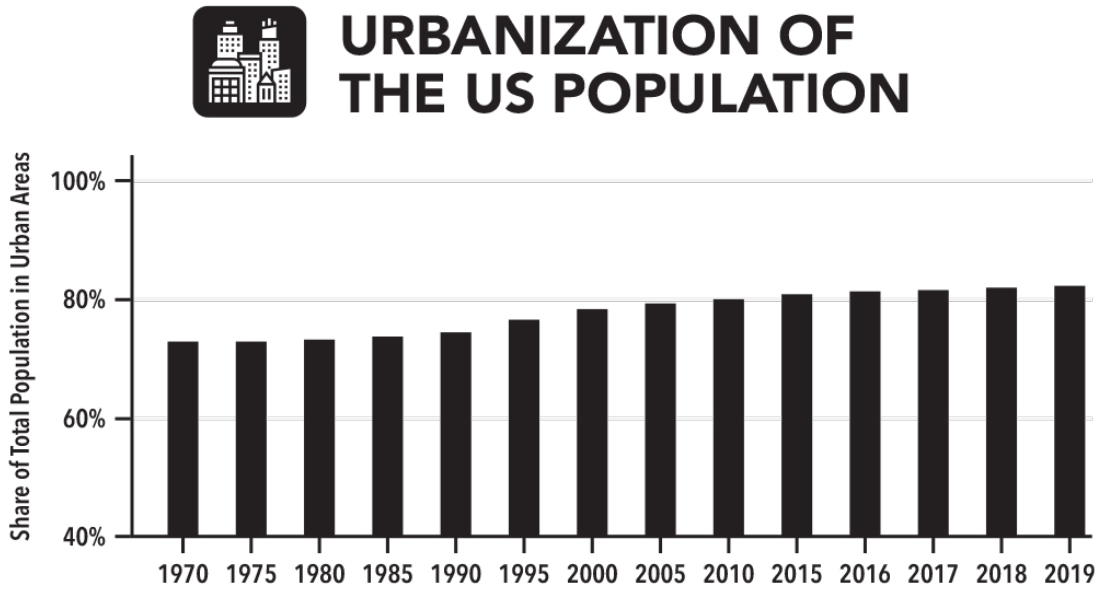
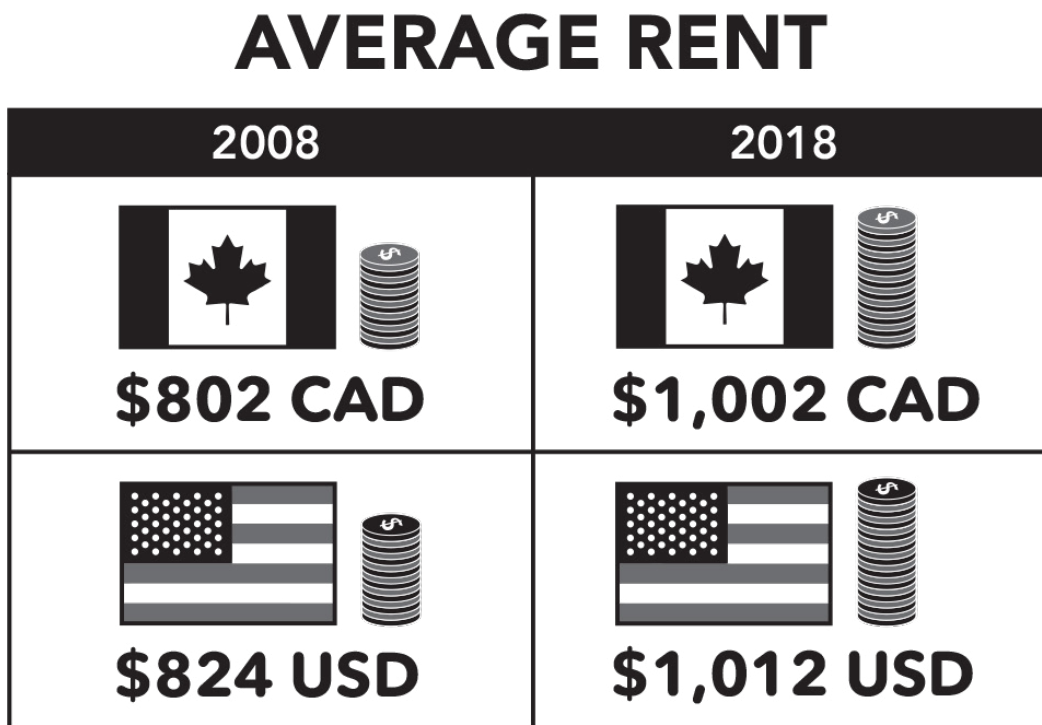


fig. 2



EVOLUTION OF NET AMOUNTS

fig. 3

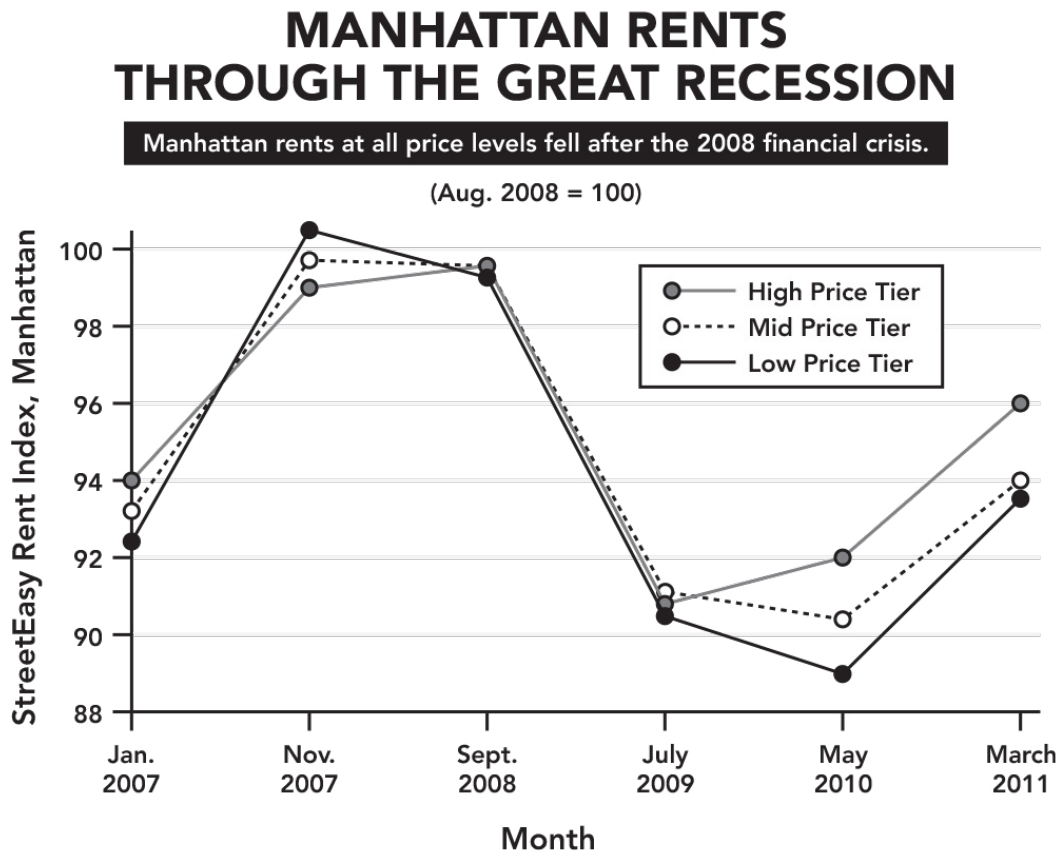


fig. 4

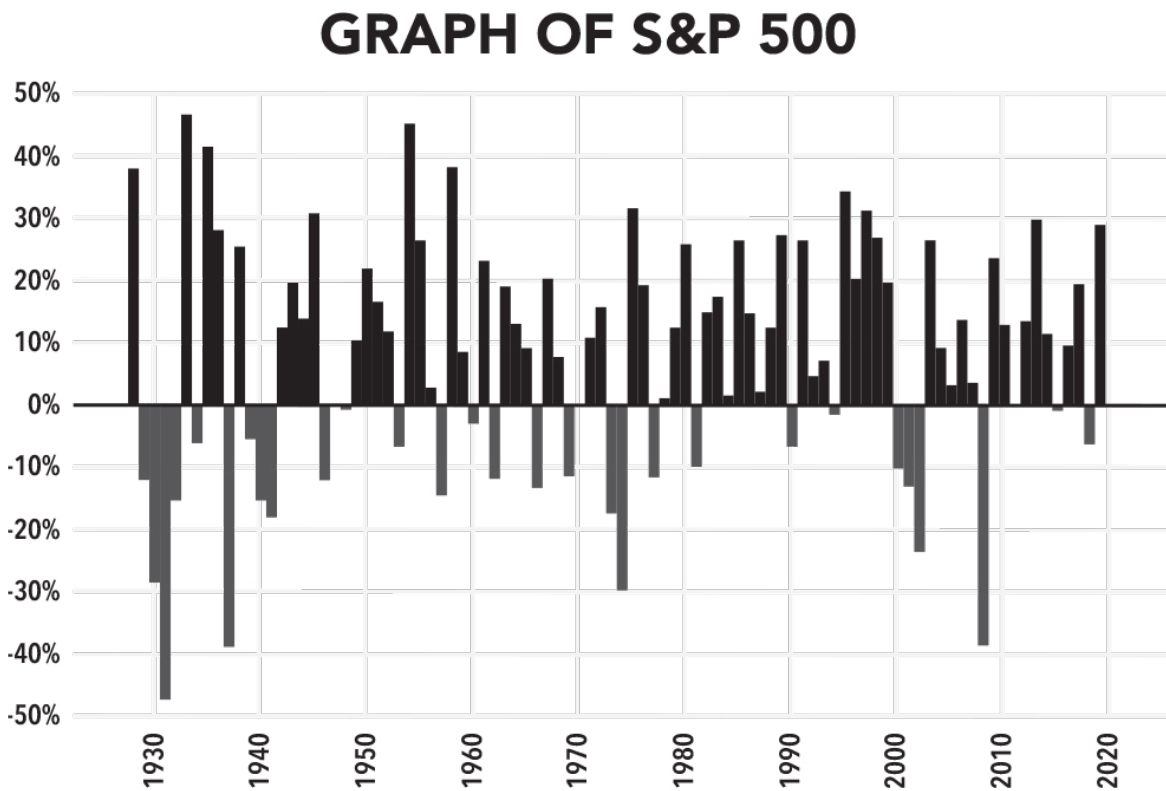
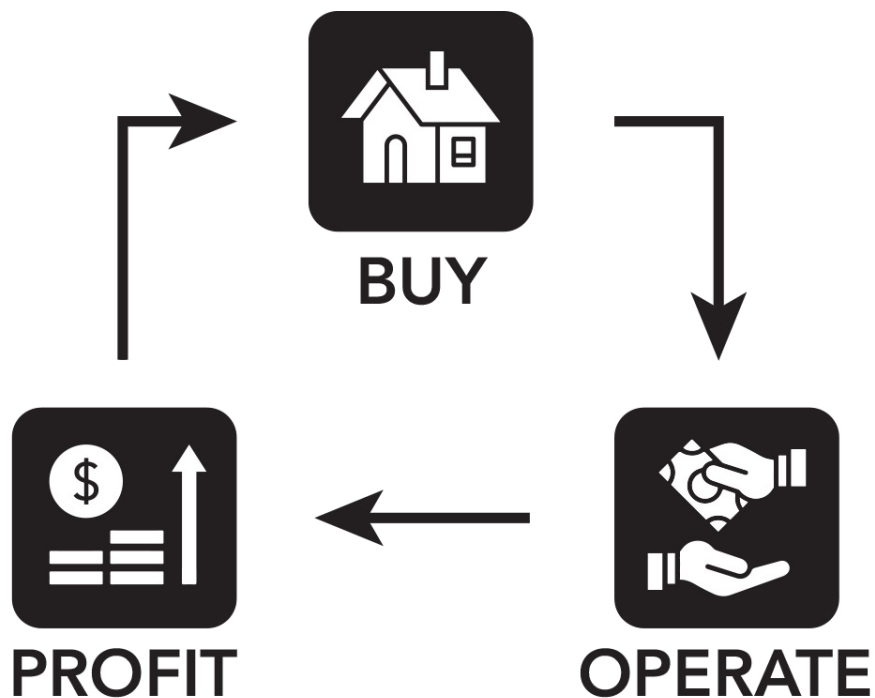


fig. 5

THE RATE OF RETURN ON HOUSING AND EQUITIES

	HOUSING		EQUITIES	
	Capital Gain Share of Total Return	Rental Income Share of Total Return	Capital Gain Share of Total Return	Dividend Income Share of Total Return
Australia	53.0%	47.0%	59.0%	41.0%
Belgium	40.4%	59.6%	62.3%	37.7%
Denmark	38.5%	61.5%	55.9%	44.1%
Finland	57.9%	42.1%	69.8%	30.2%
France	58.8%	41.2%	56.5%	43.5%
Germany	36.6%	63.4%	52.7%	47.3%
Italy	67.6%	32.4%	72.0%	28.0%
Japan	42.5%	57.5%	71.8%	28.2%
Netherlands	40.2%	59.8%	52.6%	47.4%
Norway	36.6%	63.4%	59.8%	40.2%
Portugal	61.6%	38.4%	80.4%	19.6%
Spain	62.3%	37.7%	57.6%	42.4%
Sweden	37.0%	63.0%	62.8%	37.2%
Switzerland	45.7%	54.3%	58.0%	42.0%
UK	58.6%	41.4%	58.2%	41.8%
USA	31.8%	68.2%	60.5%	39.5%

fig. 6



CHAPTER 1

Investment Ideas

fig. 7

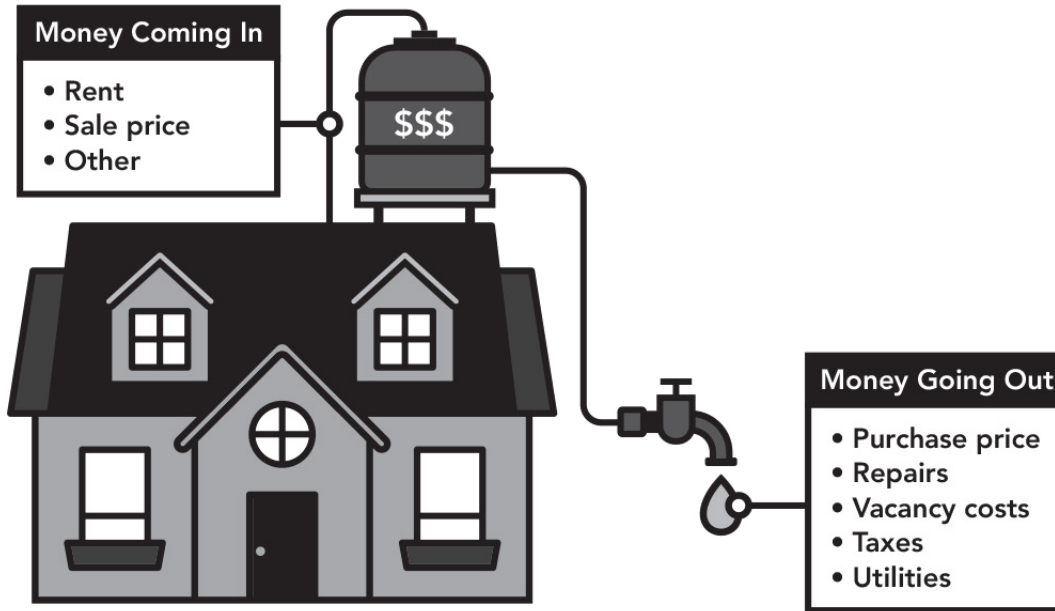


fig. 8

CASH FLOW SCHEDULE FOR GRAHAM AND ANDY

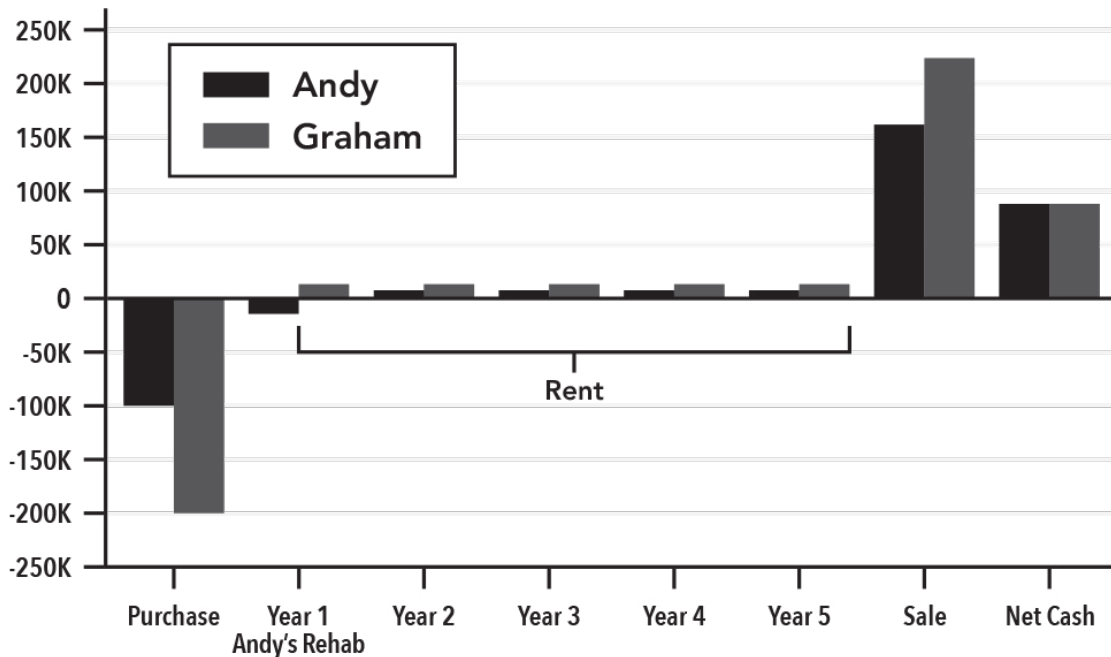


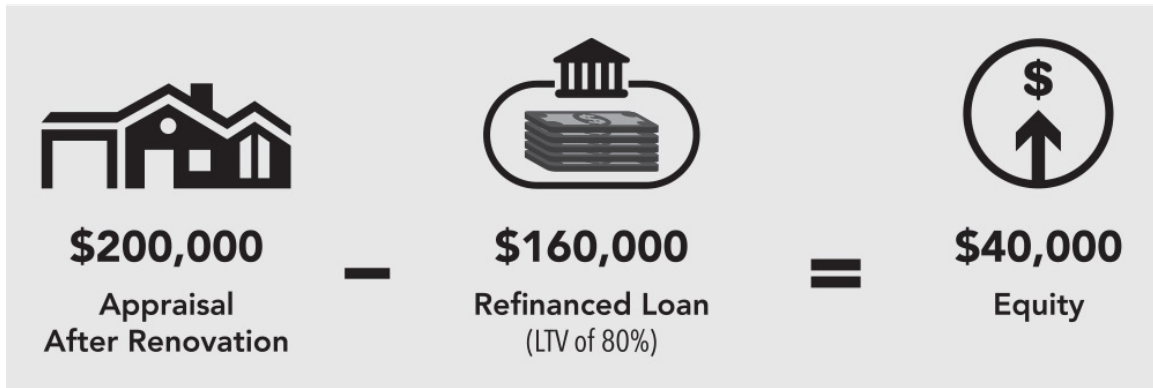
fig. 9



fig. 10



fig. 11



CHAPTER 2

How to Finance Your Investment

fig. 12

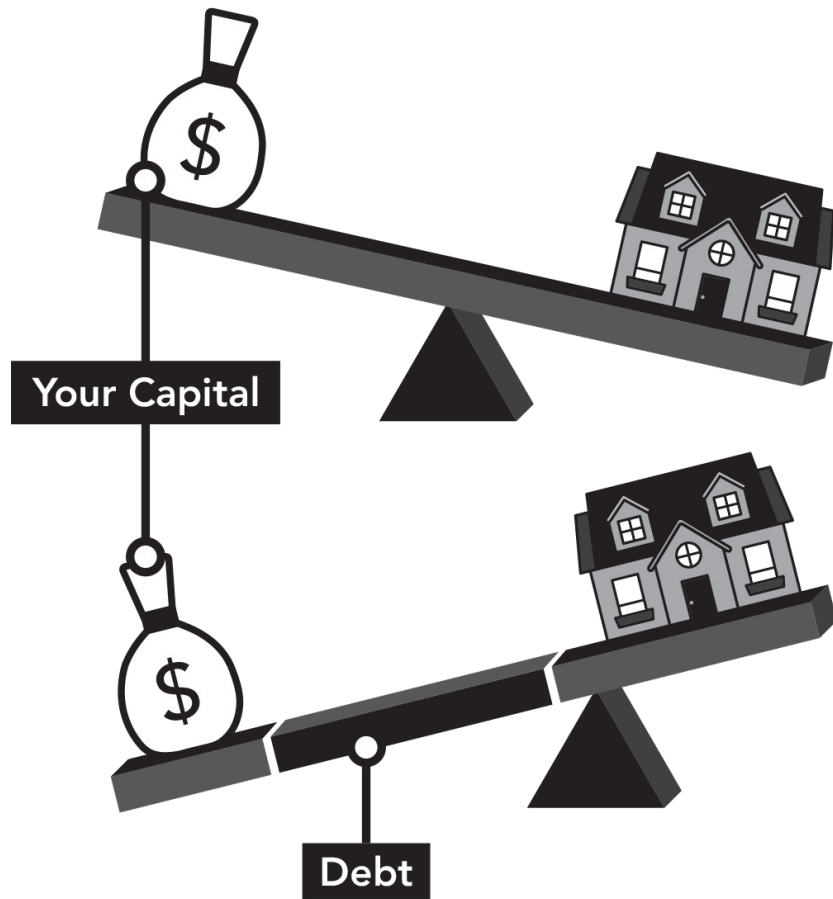


fig. 13

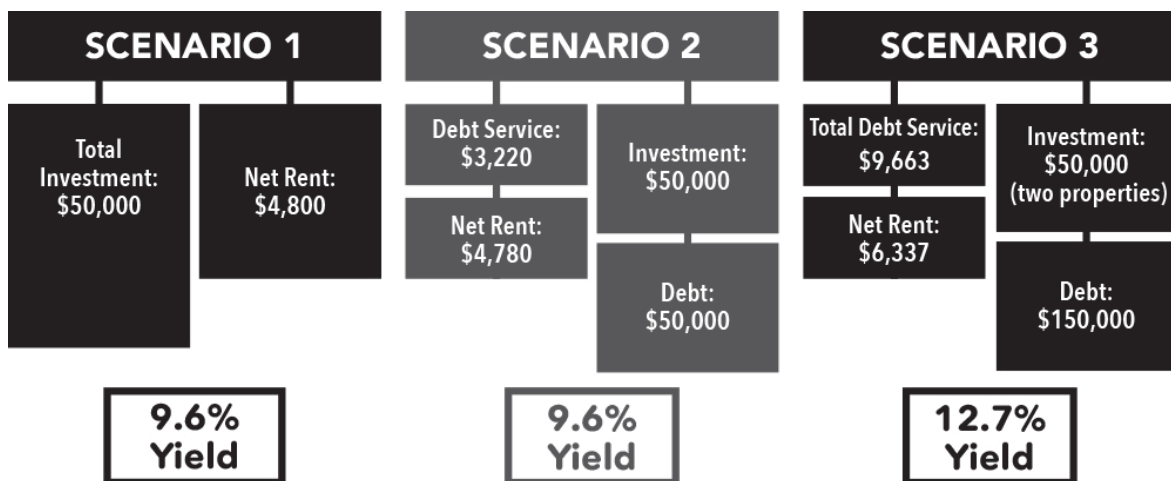


fig. 14

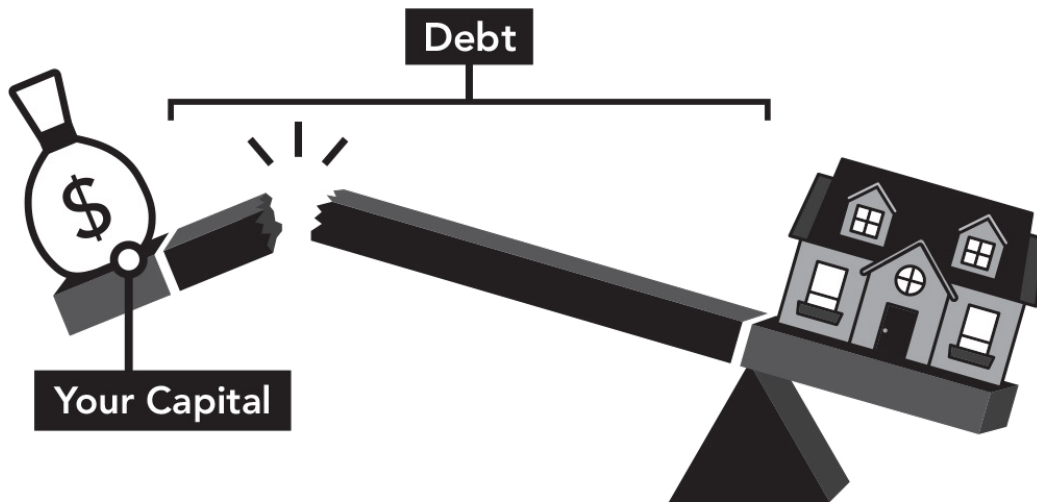


fig. 15

$$\text{DSCR} = \frac{\text{NET OPERATING INCOME}}{\text{TOTAL DEBT SERVICE}}$$

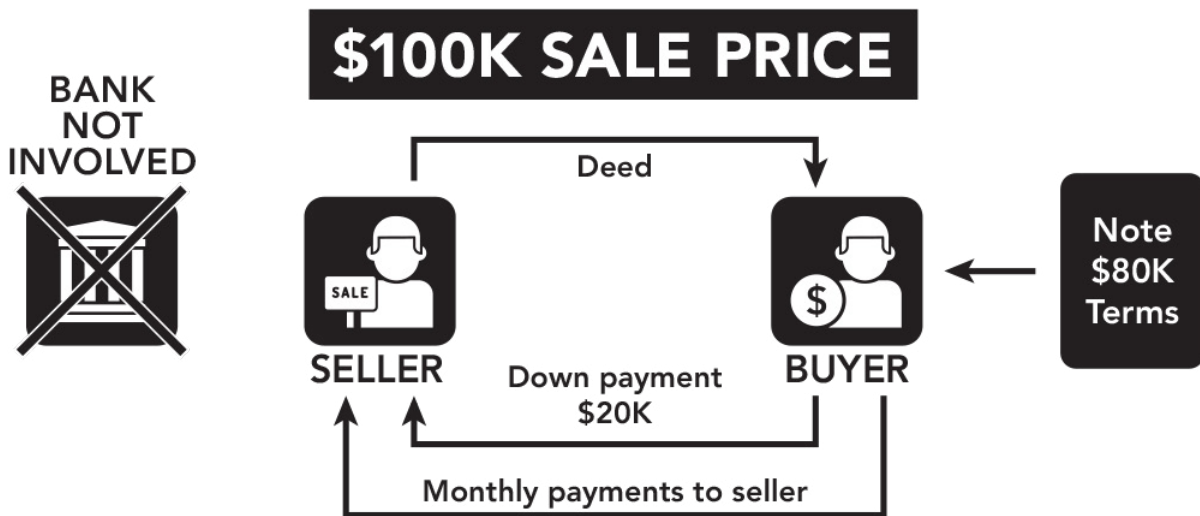
fig. 16

$$\text{LOAN TO VALUE} = \frac{\text{LOAN AMOUNT}}{\text{APPRAISED VALUE}}$$

fig. 17

PROPERTY VALUE = \$200,000		
MAX LTV	LOAN AMOUNT	DOWN PAYMENT
97%	\$194,000	\$6,000
95%	\$190,000	\$10,000
90%	\$180,000	\$20,000
85%	\$170,000	\$30,000
80%	\$160,000	\$40,000
75%	\$150,000	\$50,000
70%	\$140,000	\$60,000
65%	\$130,000	\$70,000
60%	\$120,000	\$80,000
55%	\$110,000	\$90,000

fig. 18



CHAPTER 3

Understanding Real Estate Cycles

fig. 19

PEAKS IN LAND VALUE CYCLE	
YEAR	INTERVAL (YEARS)
1818	—
1836	18
1854	18
1872	18
1890	17
1907	18
1925	48
1973	6
1979	10
1989	10
1999	17

fig. 20

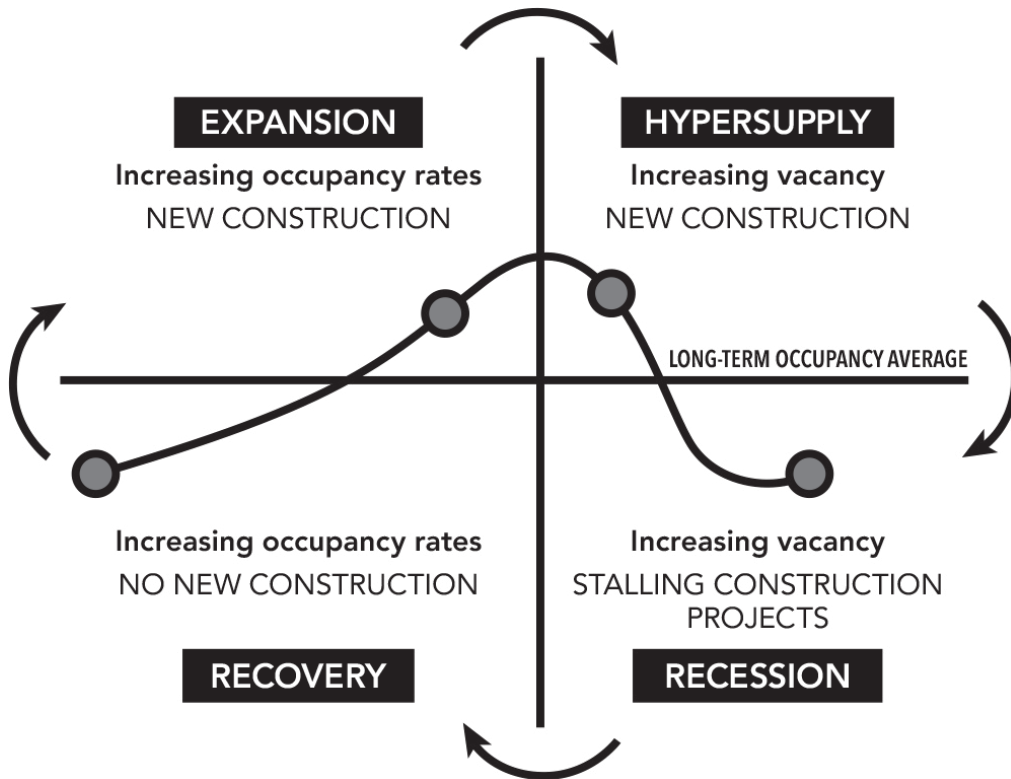


fig. 21

VACANCY RATES FOR CALIFORNIA

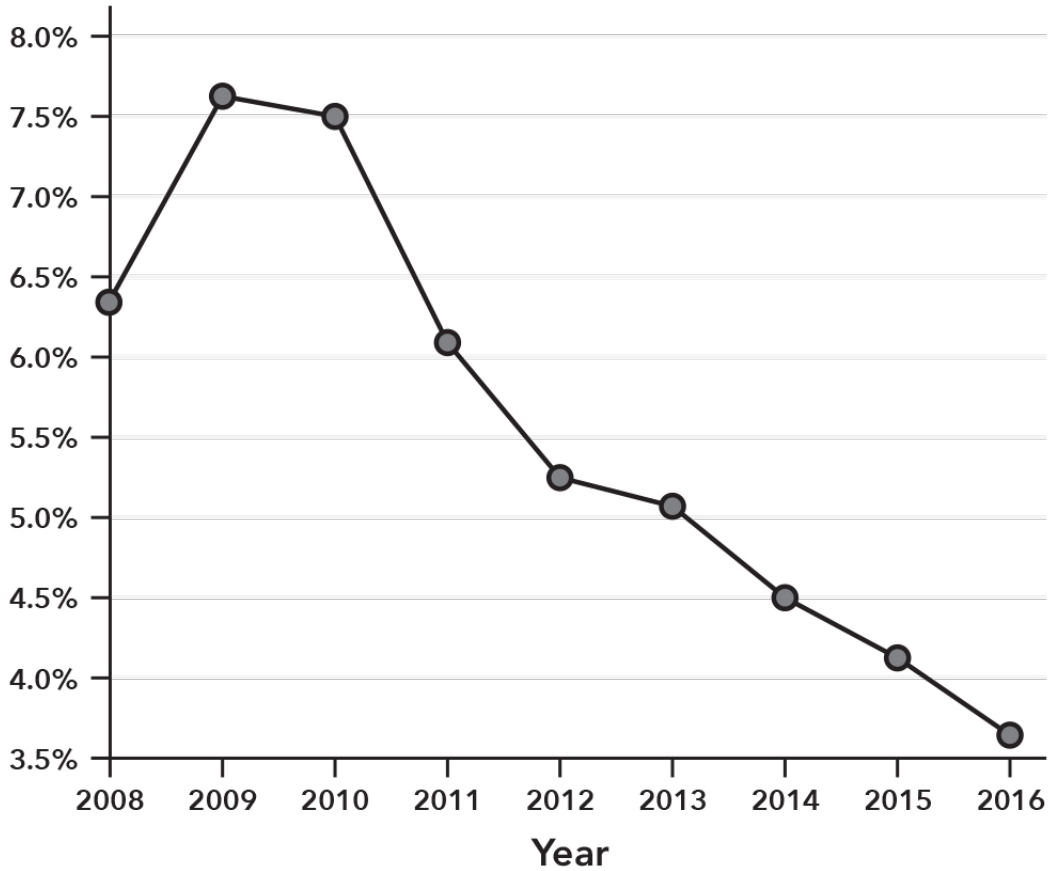


fig. 22

AVERAGE LA COUNTY RENTAL PRICES INCREASING DURING EXPANSION PHASE

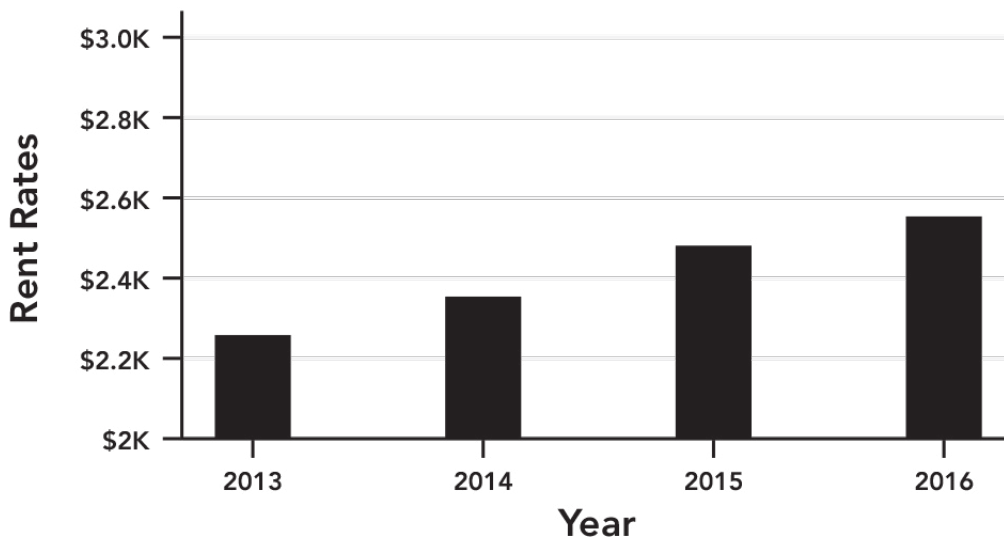


fig. 23

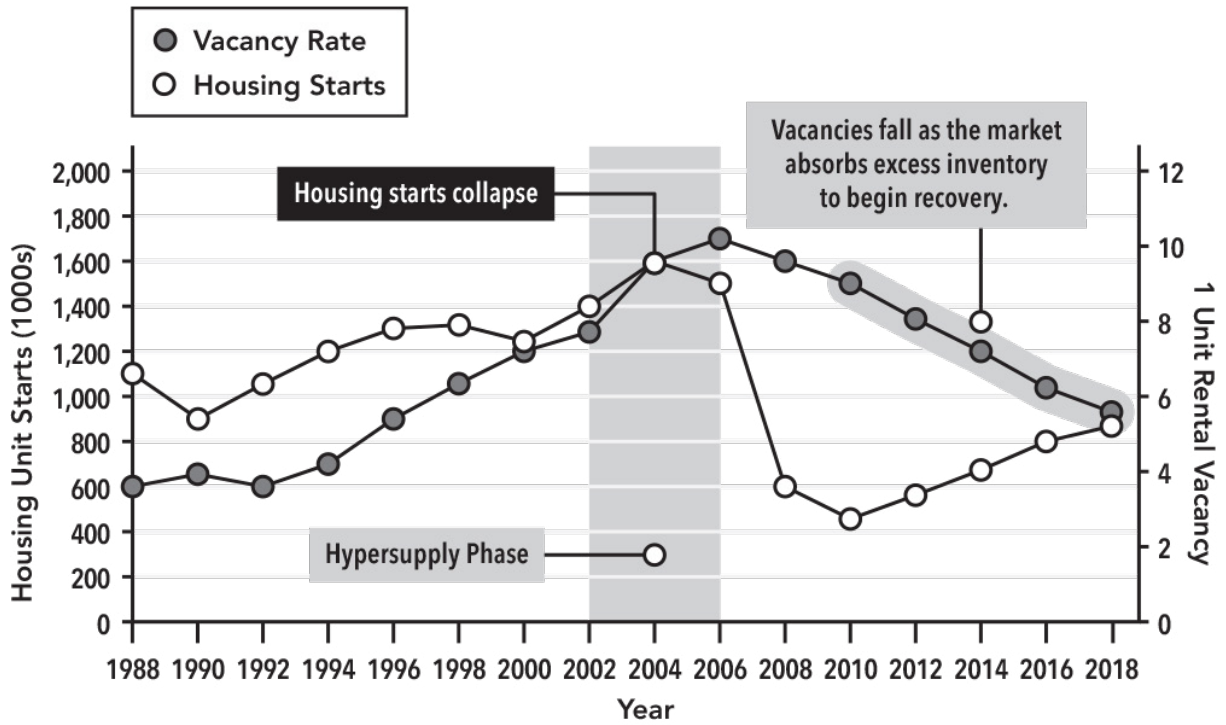


fig. 24

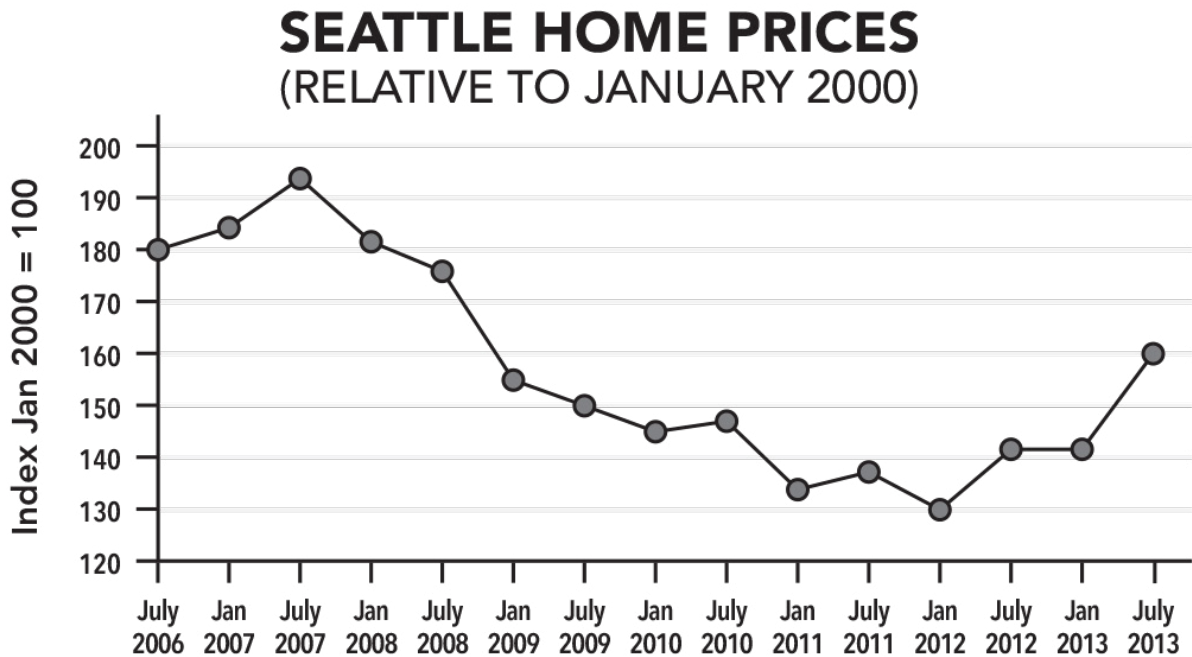


fig. 25

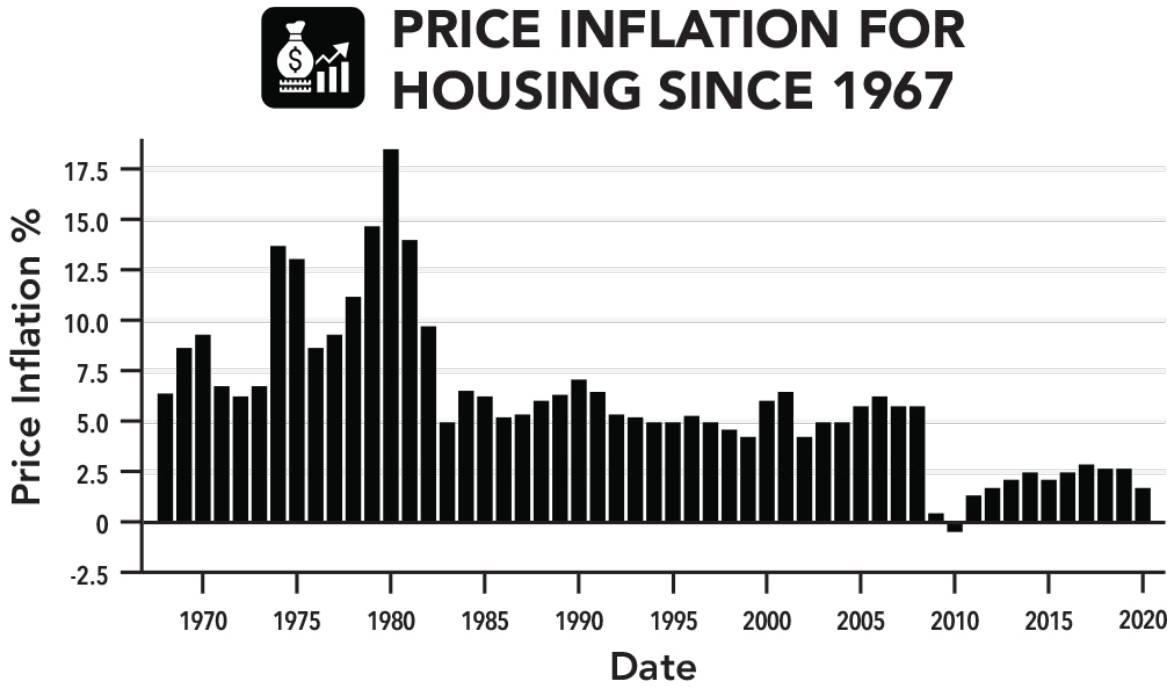
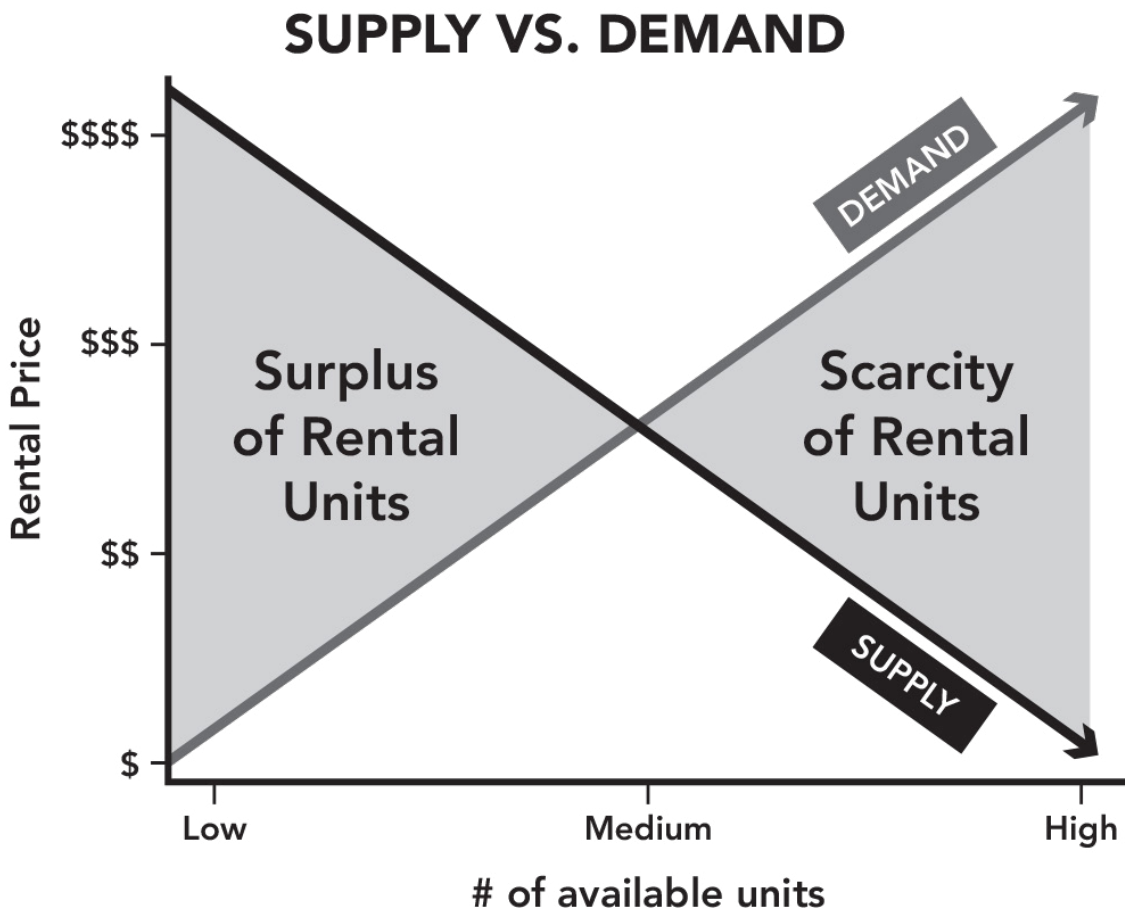


fig. 26



CHAPTER 4

Building Resilient Cash Flow

fig. 27

	LISTING PRICE	PROPERTY SIZE (SQ. FT)	PRICE PER SQ. FT.
San Francisco, CA	\$1,195,000	1,069 (condo)	\$1,118
El Paso, TX	\$1,000,000	7,251 (house)	\$138
Chicago, IL	\$1,000,000	1,611 (condo)	\$621
Austin, TX	\$1,000,000	1,990 (house)	\$503
Manhattan, NY	\$1,000,000	744 (apartment)	\$1,292
Jacksonville, FL	\$1,000,000	5,482 (house)	\$182

fig. 28



fig. 29

PROPERTY	BATHS	SQ. FT.	RENT	YR. BUILT	KITCHEN (1-5)	HEAT? A/C?	YARD (1-5)
3 br	2.5	1,700	\$1,995	1979	1	Y/N	1
3 br	3	1,678	\$2,195	2010	3	Y/Y	5
3 br	2	1,740	\$2,095	2008	2	Y/N	3
3 br	2.5	2,600	\$2,250	2001	2	Y/Y	4
3 br	2	1,939	\$1,950	1979	2	Y/N	1

fig. 30

PROPERTY	RENT	SQ. FT.	YARD (1-5)	KITCHEN (1-5)
A (1979)	\$1,995	1,700	1	1
B (2010)	\$2,195	1,678	5	3
C (2008)	\$2,095	1,740	3	2

fig. 31

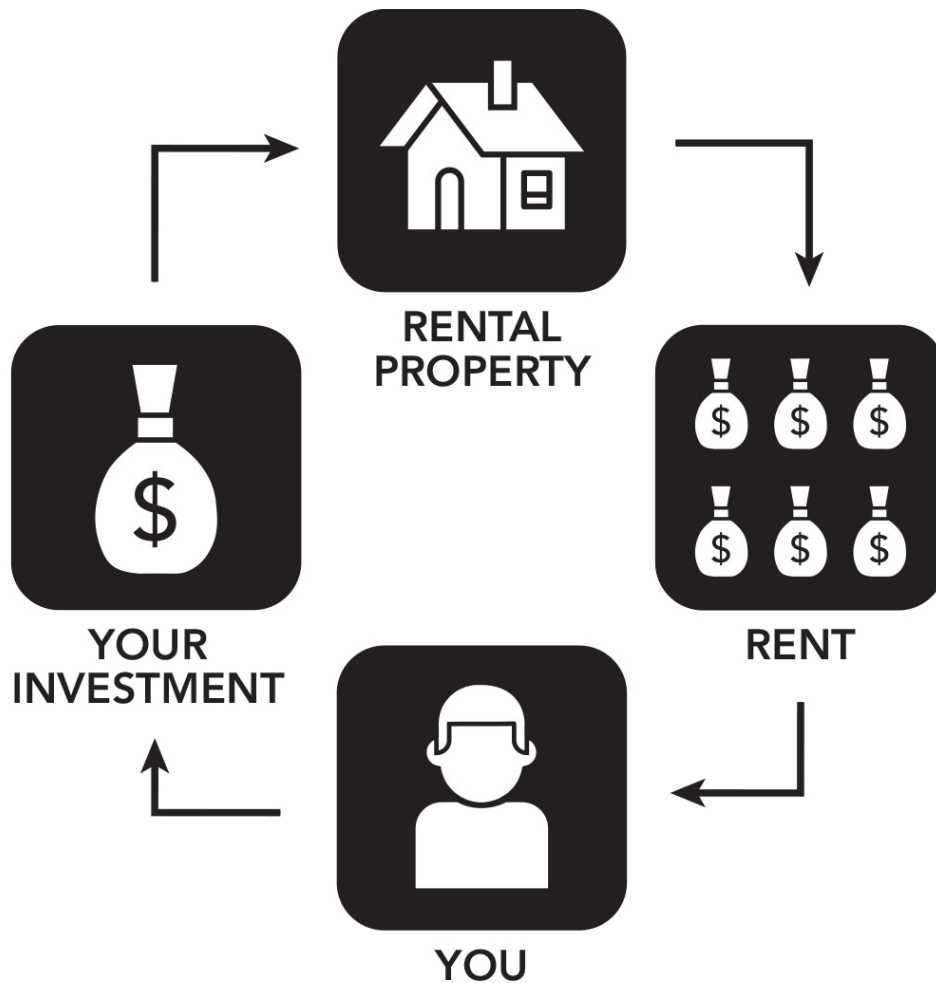


fig. 32

$$\text{YIELD} = \frac{\text{RENT x12}}{\text{YOUR INVESTMENT}}$$

fig. 33

Investment	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
#1	49%	-200	100	100	100	100	100	100	100	100	100	100	1,000
#2	51%	-200	100	100	100	200	0	100	100	100	200	0	1,000
#3	54%	-200	100	100	200	100	0	100	100	200	100	0	1,000
#4	59%	-200	100	200	100	100	0	100	200	100	100	0	1,000
#5	69%	-200	200	100	100	100	0	200	100	100	100	0	1,000
#6	27%	-200	0	0	0	0	500	0	0	0	0	500	1,000
#7	28%	-200	0	0	0	0	500	0	0	0	500	0	1,000
#8	31%	-200	0	0	0	500	0	0	0	0	0	500	1,000

fig. 34

Investment	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25
A	86.2%	-200	172.7	172.7	172.7	172.7	172.7
B	86.2%	-200	0	0	0	0	0

Investment	IRR	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	TOTAL CASH FLOW
A	86.2%	172.7	172.7	172.7	172.7	172.7	\$1,727
B	86.2%	0	0	0	0	100,000	\$100,000

fig. 35

Investment	IRR	Cash Multiple	NPV
A	86.1%	8.6	\$889
B	86.1%	500.0	\$42,703

CHAPTER 5

Exits and Exchanges

fig. 36

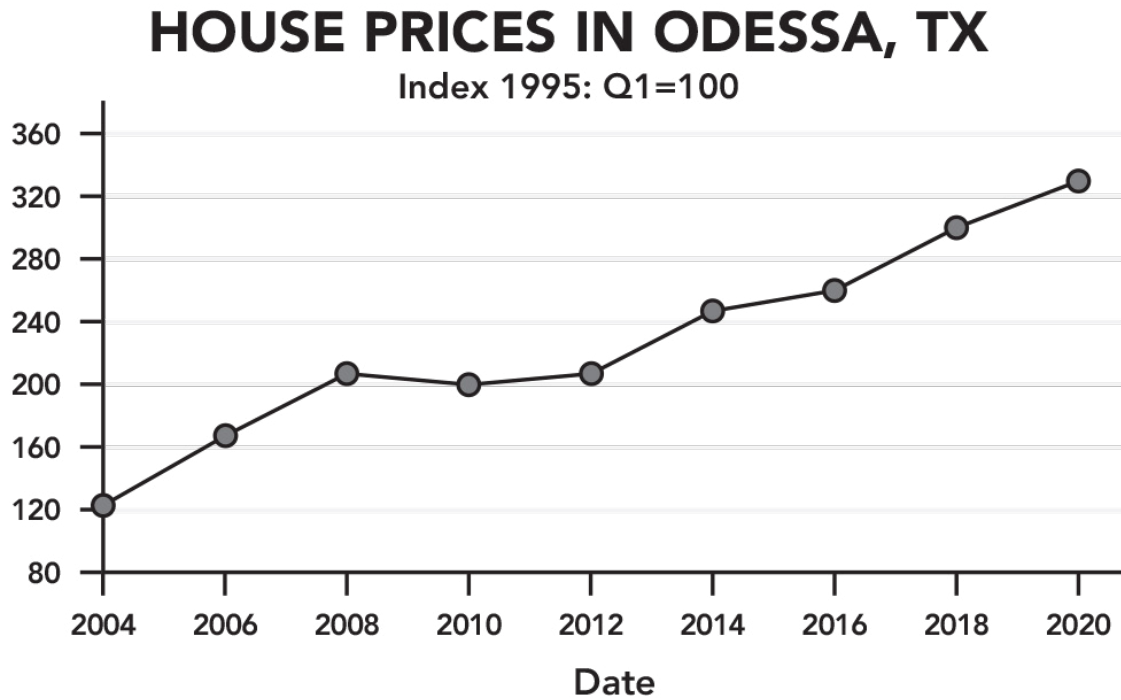
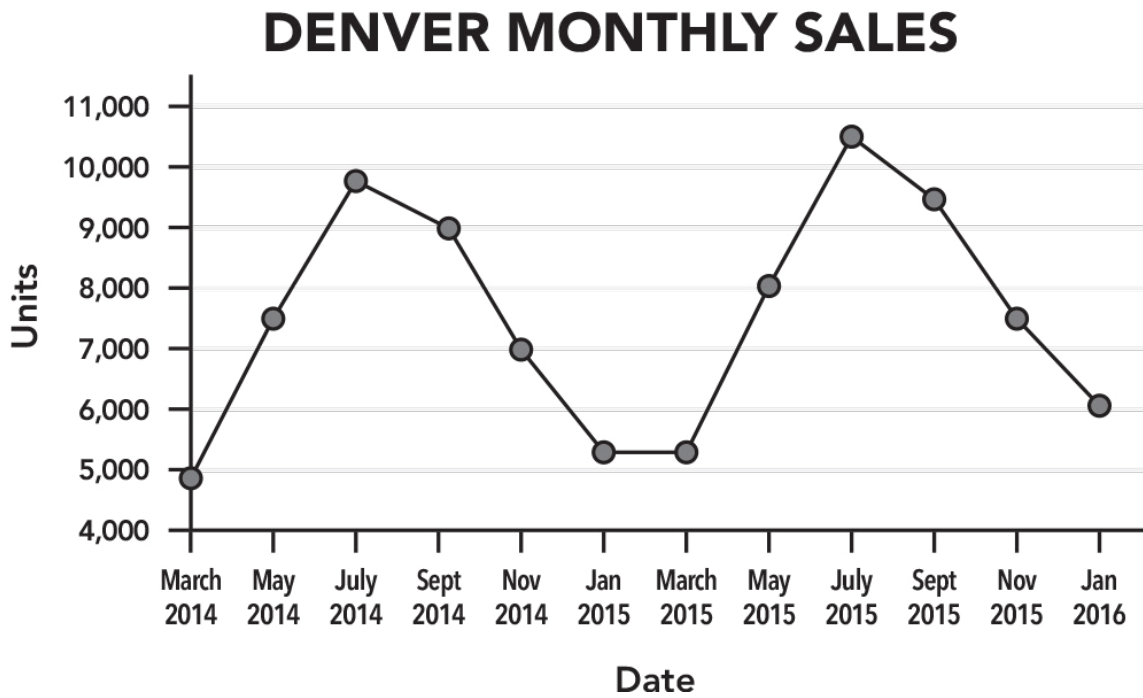


fig. 37



CHAPTER 6

Rental Property Types

fig. 38



fig. 39

REAL ESTATE SCORECARD				
Single Family Homes (SFH)				
Advantages		Disadvantages		
<ul style="list-style-type: none"> Strong long-term fundamentals Tax advantages Easier to get started Attracts quality tenants Easiest to sell Cheaper financing 		<ul style="list-style-type: none"> Limited profit potential per property Concentrated tenant/property/market risk 100% vacancy possible Fewer financing options Repairs and maintenance 		
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
4	5	8	7	9
All scores 1–10 (1 = worst, 10 = best)				

fig. 40



fig. 41

REAL ESTATE SCORECARD				
Townhouses				
Advantages			Disadvantages	
<ul style="list-style-type: none"> • Affordable • Good locations • Less repairs and maintenance • Easier to manage • Tend to be newer • Higher rental yields • More tenant amenities 			<ul style="list-style-type: none"> • HOA fees • Costlier than condominiums • Tougher to finance • Lower appreciation potential • Subject to community restrictions 	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
7	6	4	6	8
All scores 1–10 (1 = worst, 10 = best)				

fig. 42



fig. 43

REAL ESTATE SCORECARD				
Condominiums				
Advantages			Disadvantages	
<ul style="list-style-type: none"> • Affordable • Good locations • Least repairs and maintenance • Easier to manage • Tend to be newer • Extensive tenant amenities 			<ul style="list-style-type: none"> • HOA fees • Harder to sell • Tougher to finance • Lower appreciation potential • Subject to community restrictions • Most sensitive to market cycles 	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
8	7	3	6	6
All scores 1–10 (1 = worst, 10 = best)				

fig. 44



fig. 45

REAL ESTATE SCORECARD				
Multifamily (apartments)				
Advantages			Disadvantages	
<ul style="list-style-type: none"> • More financing options • Additional income sources • Tax advantages • Strong long-term fundamentals • Lowest price per unit • Economies of scale 			<ul style="list-style-type: none"> • Costs more • More sophisticated competition • More regulations than SFH rentals • More complex than SFH rentals • Concentrated risk in single property • More expenses overall 	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
3	9	6	5	10
All scores 1–10 (1 = worst, 10 = best)				

fig. 46

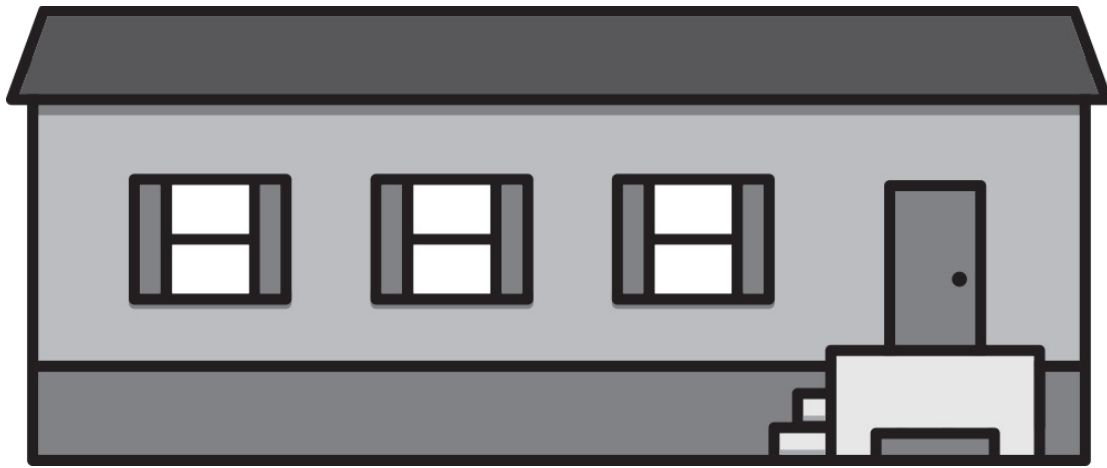


fig. 47

REAL ESTATE SCORECARD Mobile Home Parks				
Advantages			Disadvantages	
<ul style="list-style-type: none"> • Resilience during strong economic downturns • Generally lower cost per unit • Easier maintenance • Strong support from demographic trends 			<ul style="list-style-type: none"> • Potential risks with sewage management • Still have stigma although improved in recent years • Typically located outside of city centers 	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
8	9	5	8	10
All scores 1-10 (1 = worst, 10 = best)				

fig. 48

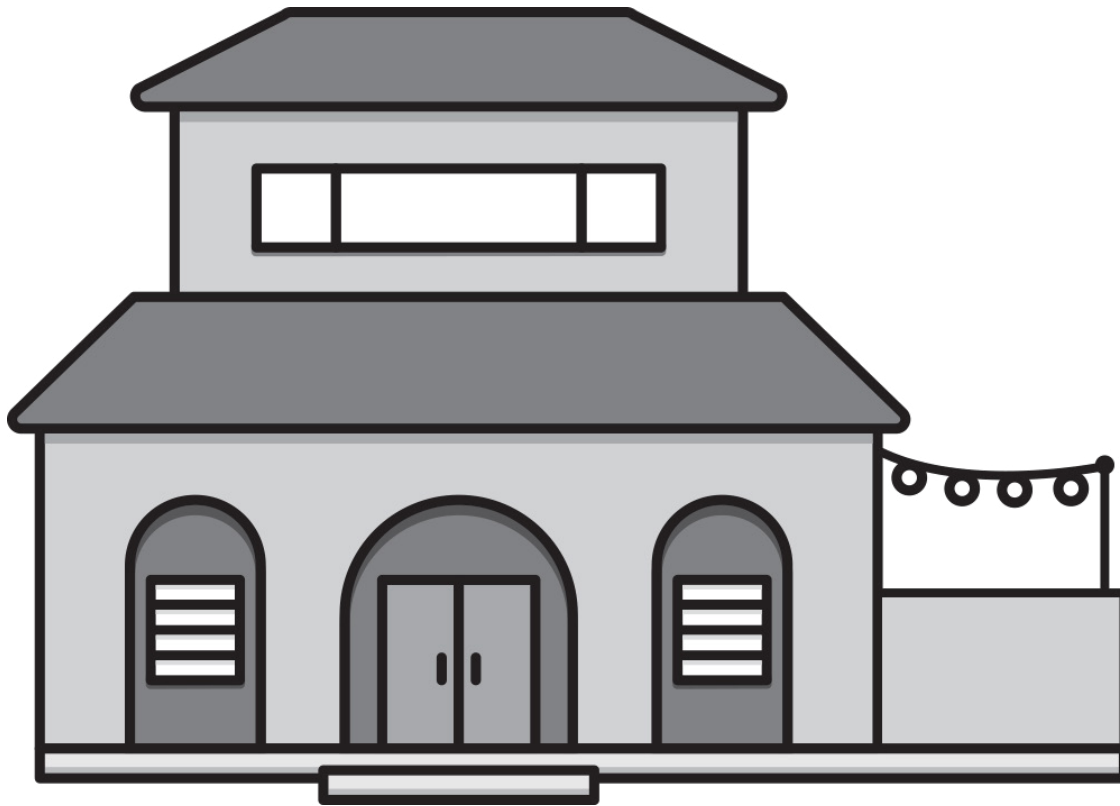


fig. 49

REAL ESTATE SCORECARD				
Short-term Rentals				
Advantages			Disadvantages	
<ul style="list-style-type: none"> Generally higher rental revenue/s.f than traditional rentals, especially in core tourist markets. 			<ul style="list-style-type: none"> Increased regulation will likely limit upside in many cities and requires more active operations 	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
4	8	9	9	8
All scores 1-10 (1 = worst, 10 = best)				

CHAPTER 7

Market Analysis

fig. 50

MARKET ANALYSIS

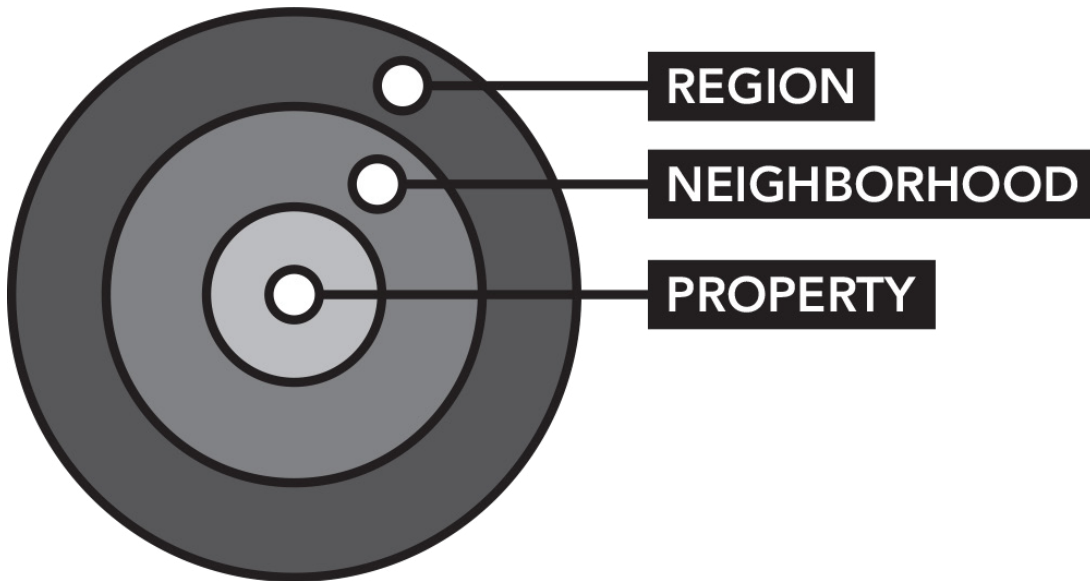


fig. 51

CHANGE IN HOME PRICES OVER TIME

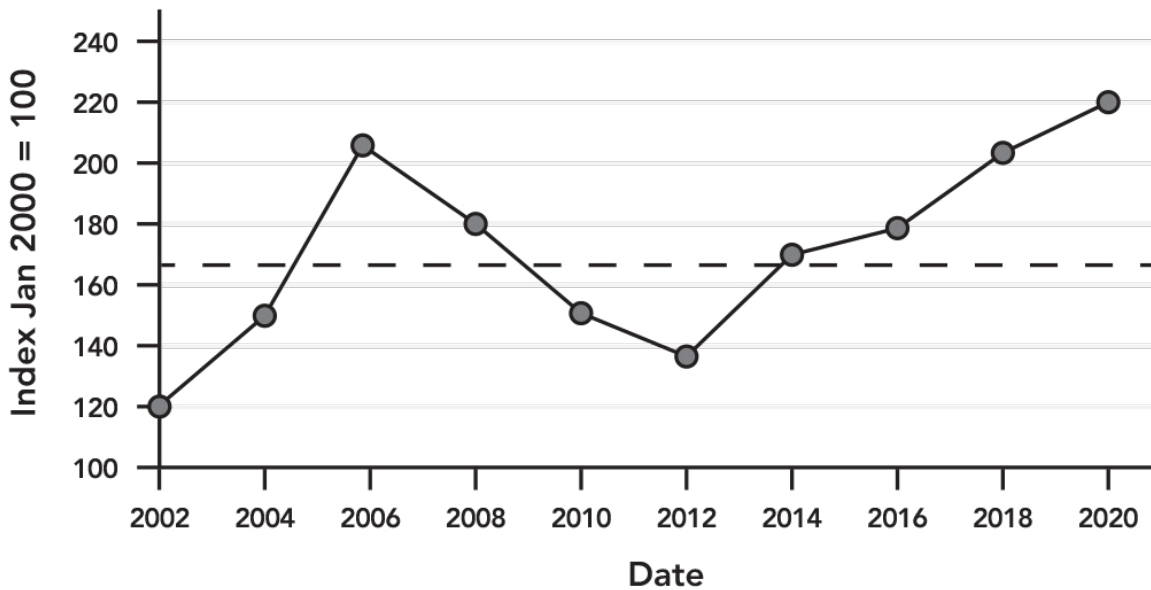


fig. 52

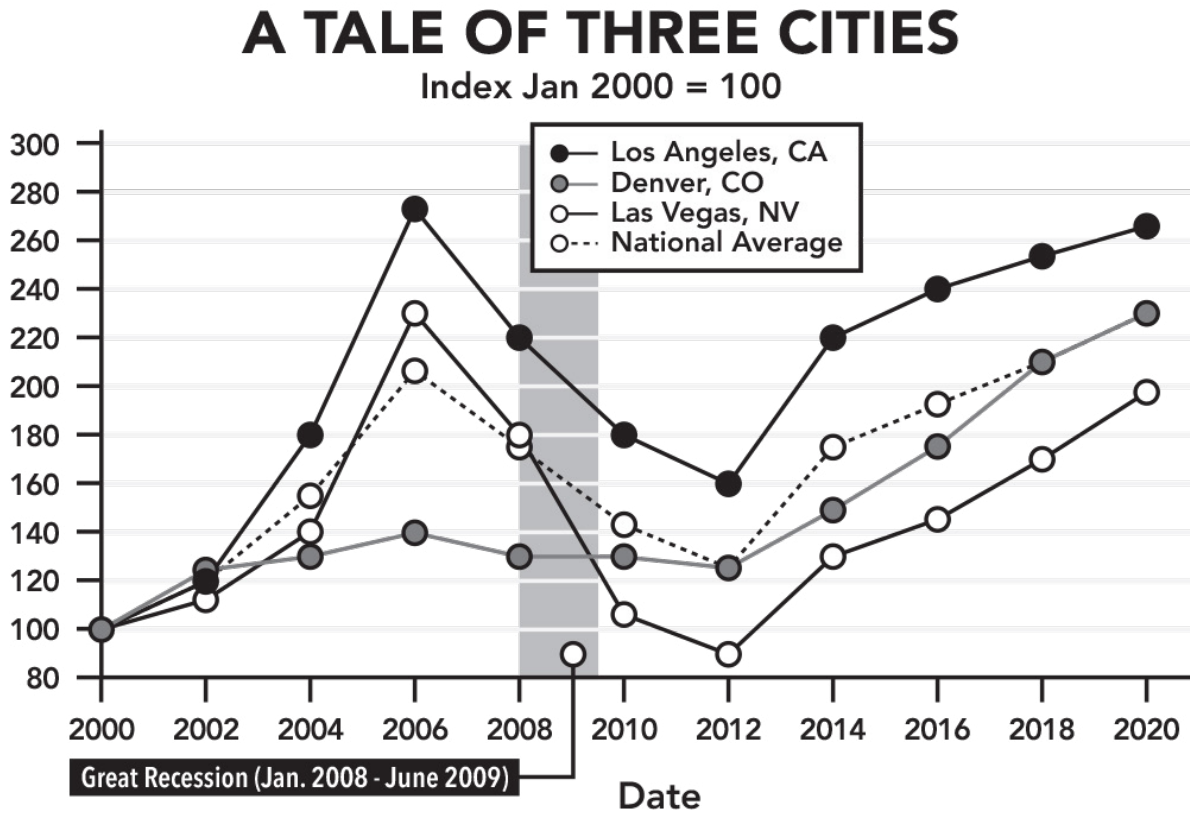


fig. 53

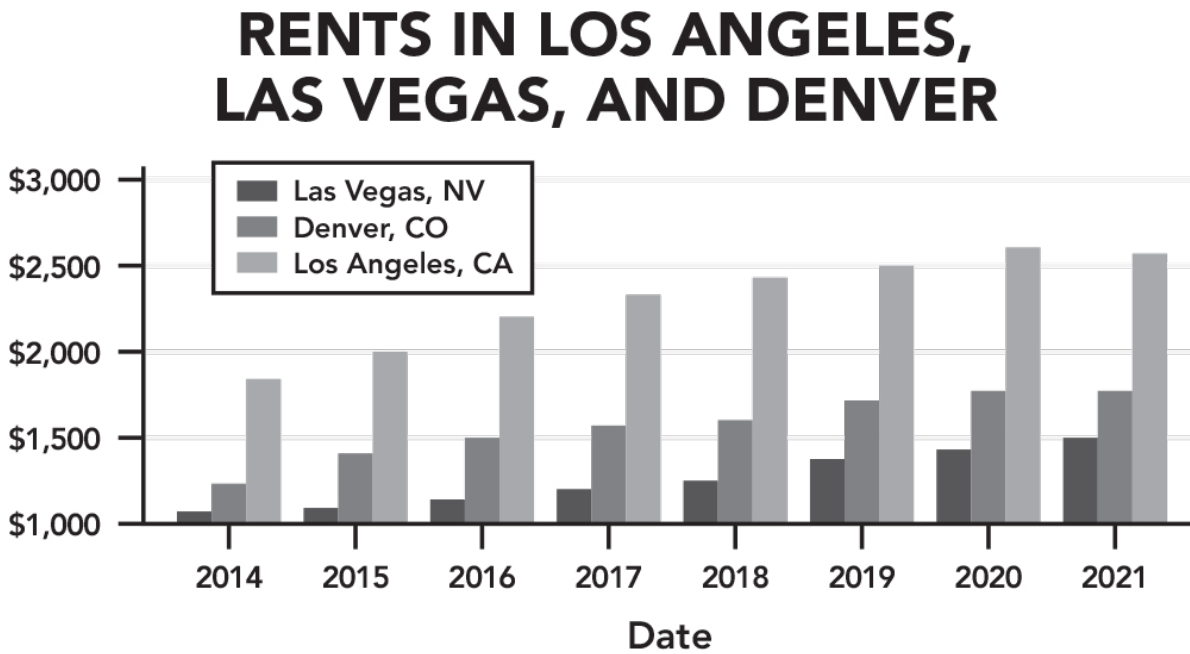


fig. 54

YEAR-OVER-YEAR CHANGE IN RENTS

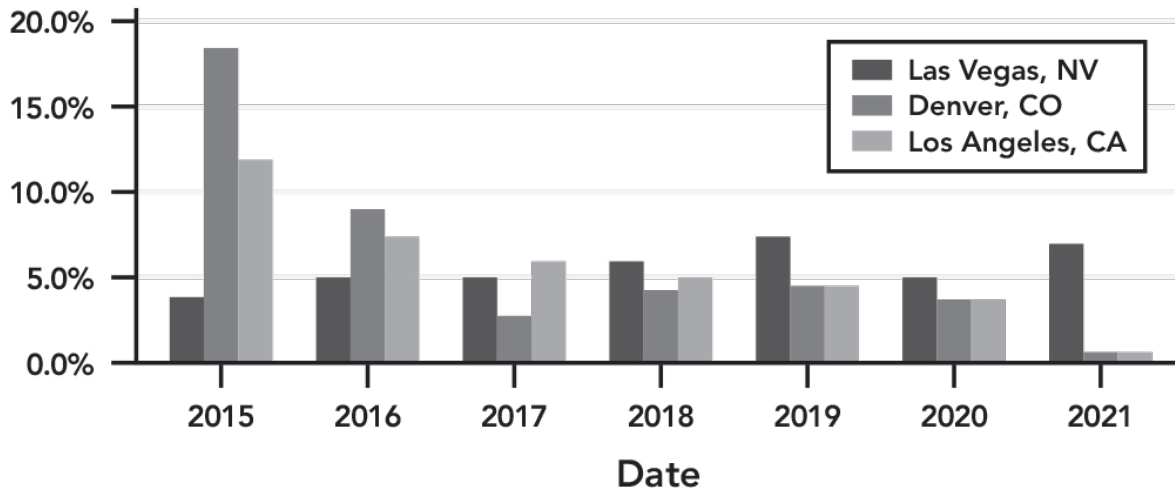


fig. 55

	EFFECTIVE PROPERTY TAX RATE	MEDIAN HOME VALUE	ANNUAL TAX BILL
Hawaii	0.29%	\$620,400	\$1,799
Alabama	0.40%	\$130,500	\$522
Louisiana	0.51%	\$147,200	\$751
West Virginia	0.53%	\$97,600	\$517
Wyoming	0.55%	\$226,300	\$1,245
South Carolina	0.56%	\$165,100	\$925

CHAPTER 8

Where to Find Property Deals

fig. 56

Real Estate Listings

Price: No min to \$500K

Property Type:

- House
- Condo
- Land

Beds: 2

Baths: No min

Map price tags: \$108K, \$403K, \$210K, \$300K, \$189K, \$111K

fig. 57

Glenville, NY

For Sale Price Bed/Bath More

For Sale

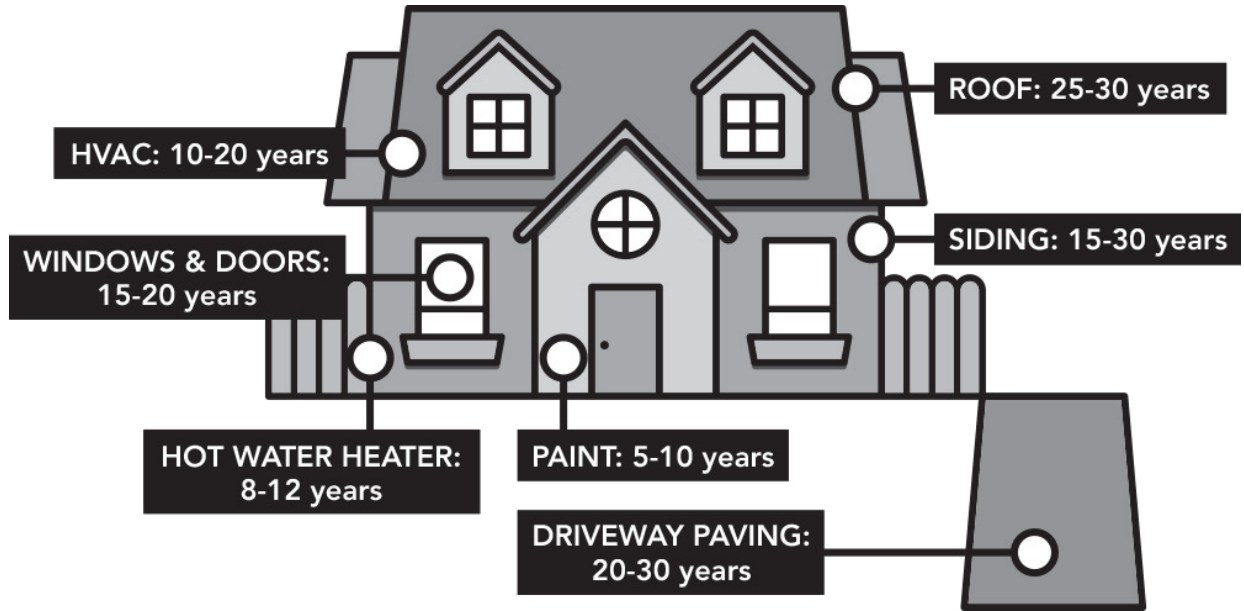
- By Agent
- By Owner
- Auction
- New Construction
- Coming Soon
- Foreclosures
- Foreclosed
- Pre-Foreclosed

Map price tags: \$403K, \$189K

CHAPTER 10

The Basics of Landlording

fig. 58



CHAPTER 11

Buyers and Sellers

fig. 59



fig. 60



CHAPTER 12

Ongoing Management

fig. 61

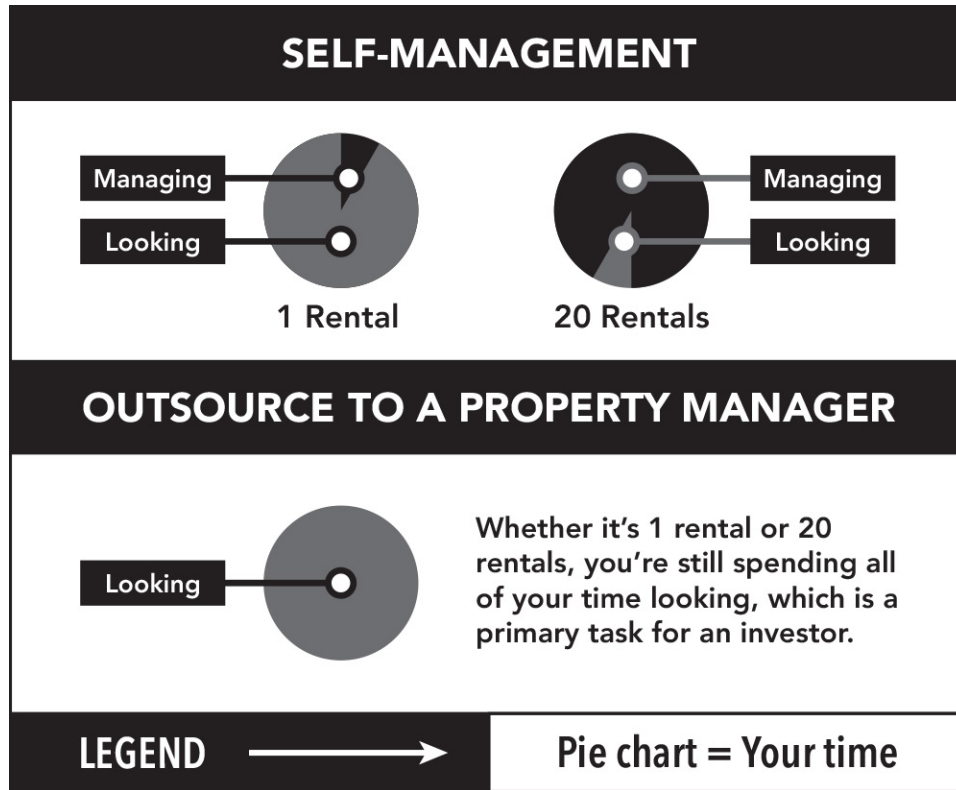


fig. 62

FEE	HOW IT'S CALCULATED	WHEN IT'S APPLICABLE	PAYMENT FREQUENCY
Management Fee	Percentage of rent	Receiving rent from tenant	Monthly
Leasing Fee	Flat fee	Upon signing the lease agreement	Once (per each new lease)
Advertising Fee	Flat fee	While vacant	Monthly
Lease Renewal Fee	Flat fee	Upon lease agreement renewal	Yearly
Set Up Fee	Flat fee	When creating account with company	Once
Vacancy Fee	Flat fee	While no rent collected	Monthly
Eviction Fee	Flat fee	If tenant is evicted	Once (per eviction)
Early Termination Fee	Remaining contract balance	If ending contract early	Once
Non-resident Fee	Flat fee	Payable if investing outside of the country	Monthly

CHAPTER 13

Long-term Rental Income

fig. 63

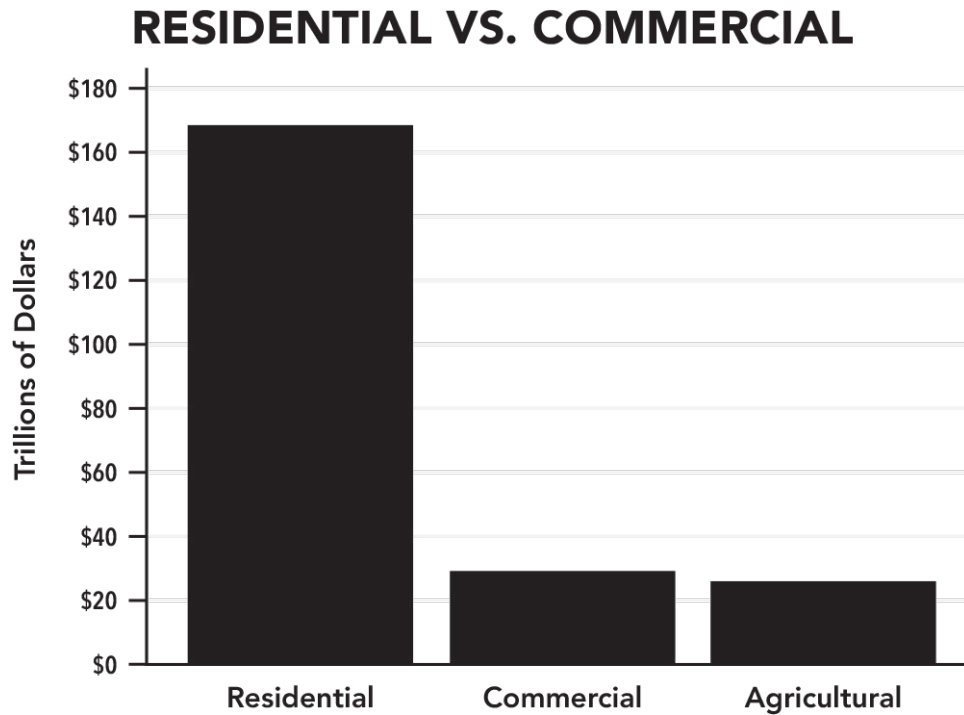


fig. 64

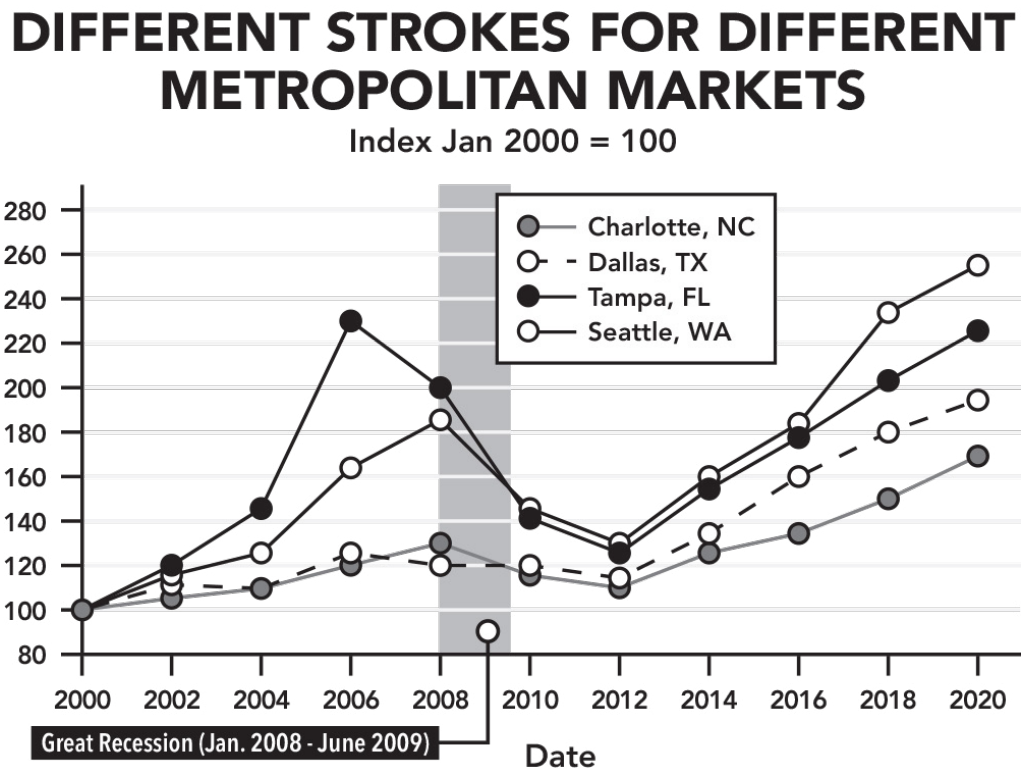
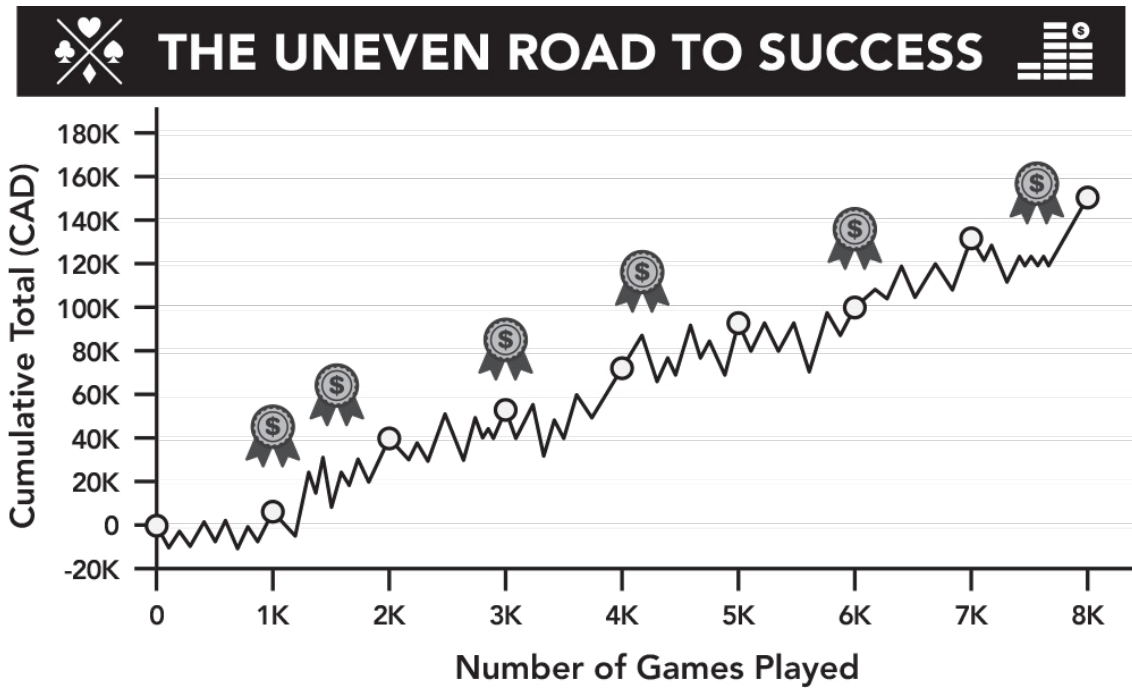
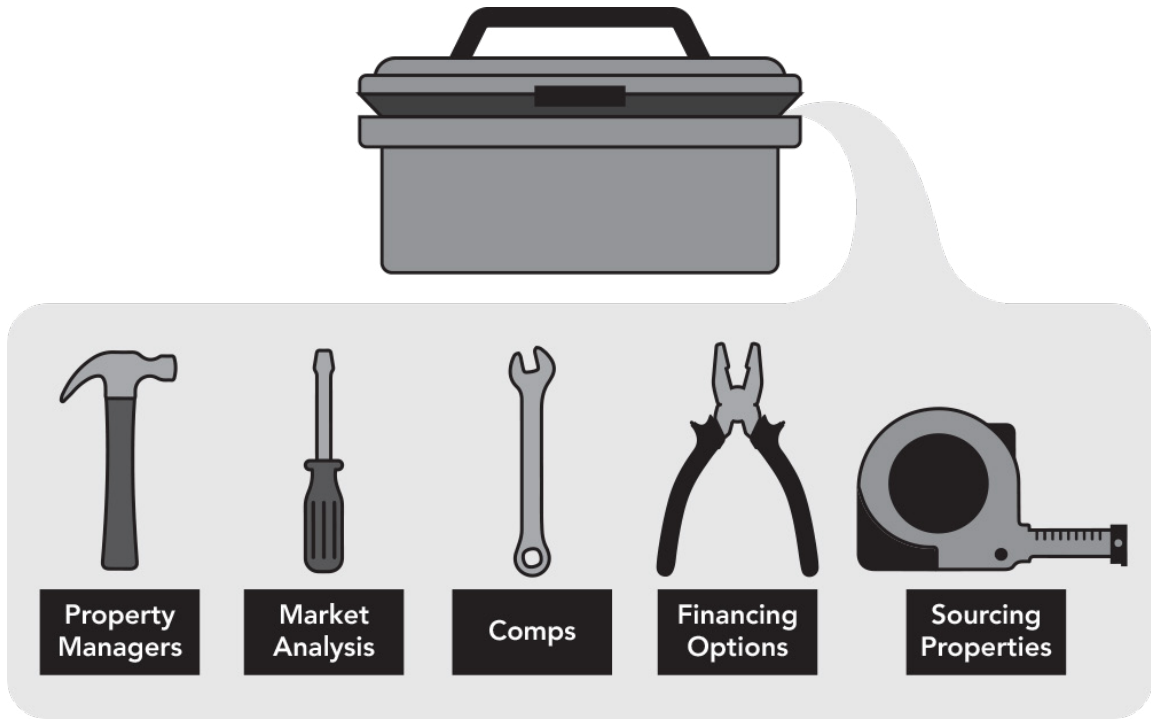


fig. 65



CONCLUSION

fig. 66



APPENDIX I

BRRR(R) Case Study

fig. 67

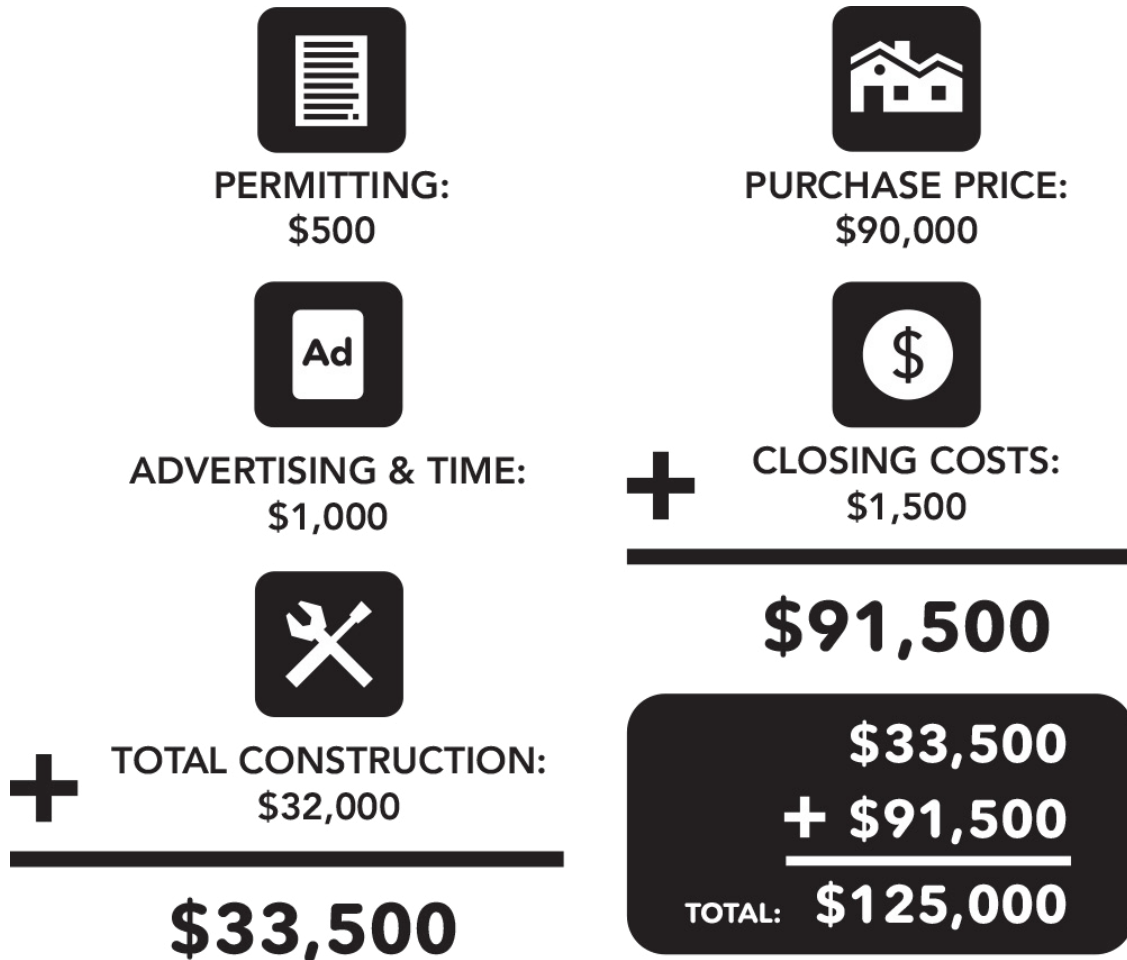


fig. 68

FINANCING:



**EQUITY %
OF TOTAL:**

20% - \$25,000



**DEBT SERVICE
COSTS:**

\$600 - 4 Months



**TOTAL CASH
IN HAND:**

\$27,400

LOAN BALANCE:



[\$100,000]

\$125,000 - \$25,000
Down Payment

fig. 69



**REFINANCED LOAN
(LTV of 80%):**

\$124,000

—



**INITIAL LOAN
(Total Costs):**

\$100,000

=



**REMAINING
CASH IN HAND:**

\$24,000

APPENDIX II

A “Back of the Envelope” Analysis Case Study

fig. 70

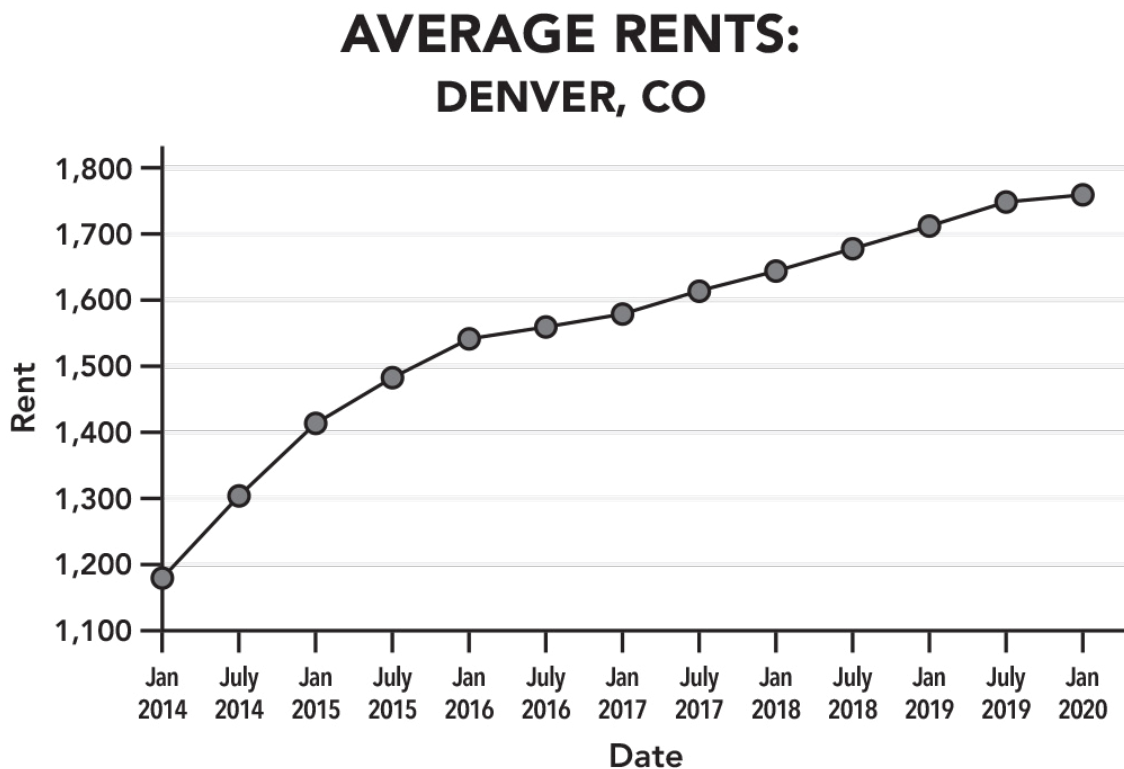


fig. 71

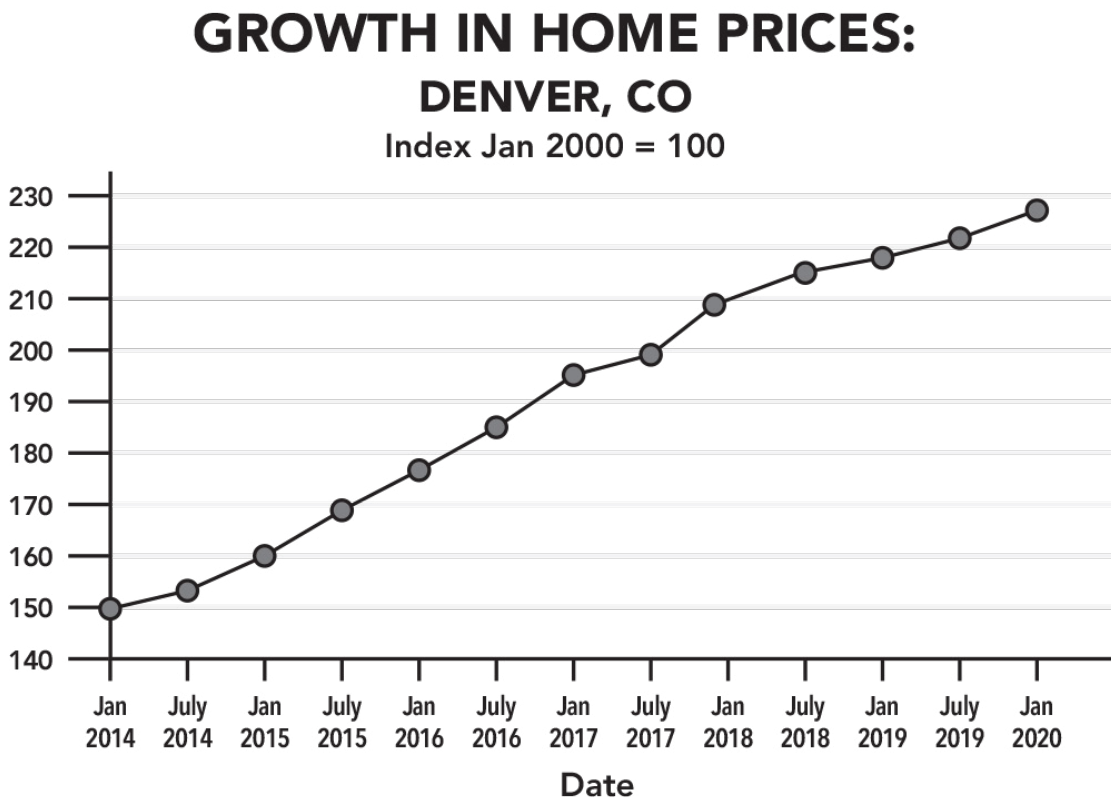




fig. 72



Assumptions		
Monthly Rents	\$	2,600
Vacancy		4 Weeks Per Year
Property Taxes	\$	2,520 Per Year
Repair & Maintenance	\$	150 Monthly
Insurance		\$450 Year
Utilities	\$	75.0 Monthly
HOA	\$	- Monthly
OTHER	\$	- Monthly
OTHER	\$	- Monthly
Purchase Price	\$	420,000
Closing Costs	\$	4,200

fig. 73



Total Equity Investment		25%	\$	106,675
Loan Amount	\$			320,025
Interest Rate				3.0%
Loan Term (Up to 30 years)				25 Years
Length of Hold (Up to 50 years)				20 Years
Renovations @ Purchase	\$			2,500
Renovations @ Exit	\$			-
Rental Growth Rate				3% Annual Rate
Expense Growth Rate				3% Annual Rate

fig. 74



	Unlevered	Levered
IRR	7.4%	12.9%
Yield	5.4%	12.7%
Cash Multiple	2.71	6.34

fig. 75



YEAR	Investment	1	2	3	4	5	6
Gross Rental Revenue	\$ 31,200	\$ 32,136	\$ 33,100	\$ 34,093	\$ 35,116	\$ 36,169	\$ 37,254
Vacancy	(\$2,400)	(\$2,472)	(\$2,546)	(\$2,623)	(\$2,701)	(\$2,782)	(\$2,866)
Property Taxes	(\$2,520)	(\$2,520)	(\$2,520)	(\$2,520)	(\$2,520)	(\$2,520)	(\$2,520)
Repair & Maintenance	(\$1,800)	(\$1,854)	(\$1,910)	(\$1,967)	(\$2,026)	(\$2,087)	(\$2,149)
Insurance	(\$450)	(\$464)	(\$477)	(\$492)	(\$506)	(\$506)	(\$506)
Net Rents	\$ 23,130	\$ 23,900	\$ 24,692	\$ 25,508	\$ 26,349	\$ 27,231	\$ 28,139
Sale Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169,200
Renovations	(\$2,500)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Loan Payments	(\$18,211)	(\$18,211)	(\$18,211)	(\$18,211)	(\$18,211)	(\$18,211)	(\$18,211)
Towards Interest	(\$9,481)	(\$9,216)	(\$8,942)	(\$8,660)	(\$8,370)	(\$8,209)	(\$7,909)
Towards Principal	(\$8,730)	(\$8,995)	(\$9,269)	(\$9,551)	(\$9,841)	(\$10,002)	(\$10,302)
Loan Payoff	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,335
Loan Balance	\$ 320,025	\$ 311,295	\$ 302,300	\$ 293,031	\$ 283,480	\$ 273,639	\$ 263,637
Levered Cashflow	(\$106,675)	\$4,919	\$5,688	\$6,481	\$7,297	\$8,138	\$9,020
							(\$74,207)

APPENDIX III

A Short-Term Rental Case Study

fig. 76

Purchase Price	\$	420,000	🔍
Closing Costs	\$	-	
Total Equity Investment		25% \$ 100,000	
Loan Amount	\$	300,000	
Interest Rate		3.25%	
Loan Term		30 Years	
Loan Repayments	\$	1,305.62	
Renovations @ Purchase	\$	-	
Renovations @ Exit	\$	-	

fig. 77

Monthly Rents	\$	2,000	🔍
Vacancy		4 Weeks	
Property Taxes	\$	5,400	
Repair & Maintenance	\$	- Monthly	
Insurance		\$400 Year	
Utilities	\$	- Monthly	
Net Profits		54.00	

fig. 78

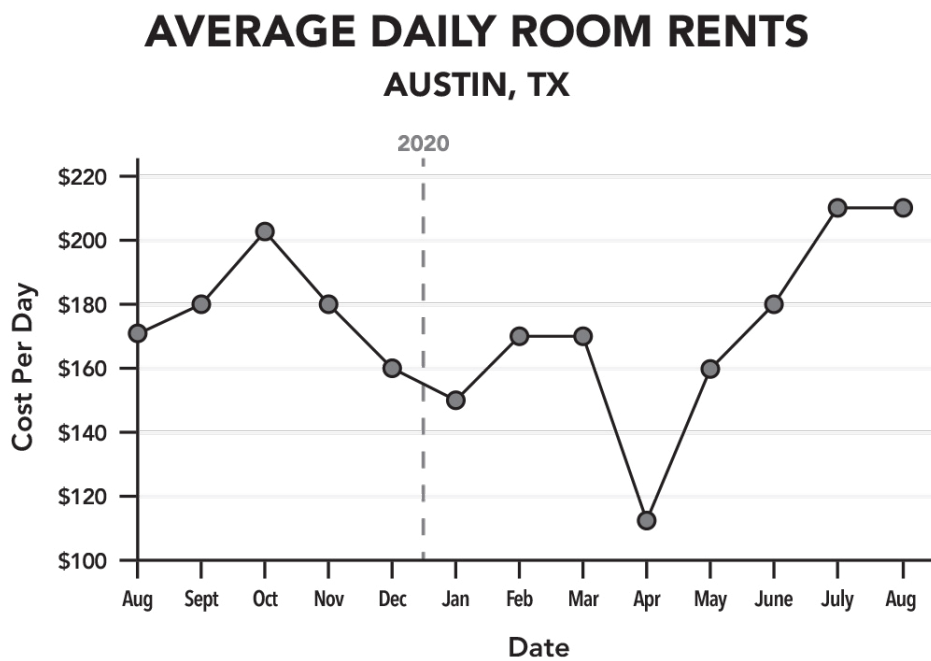


fig. 79

		32% occupancy \$212/night
	AS LONG-TERM RENTAL	AS SHORT-TERM RENTAL (7/20)
MORTGAGE	\$1,306	\$1,306
GROSS RENTAL REVENUE	\$2,000	\$2,100
NET RENTS	\$694	\$794
EST. PROPERTY TAX + INSURANCE	\$490	\$490
OTHER EXPENSES	\$150	\$456
EST. PROFITS	\$54	(\$152)
EST. HOURS OF WORK	1 hour	8 hours
EST. PROFIT/HR	\$54	(\$19)

fig. 80

		32% occupancy \$212/night	65% occupancy \$212/night
	AS LONG-TERM RENTAL	AS SHORT-TERM RENTAL (7/20)	AS SHORT-TERM RENTAL (7/22)
MORTGAGE	\$1,306	\$1,306	\$1,306
GROSS RENTAL REVENUE	\$2,000	\$2,100	\$4,200
NET RENTS	\$694	\$794	\$2,894
EST. PROPERTY TAX + INSURANCE	\$490	\$490	\$490
OTHER EXPENSES	\$150	\$456	\$732
EST. PROFITS	\$54	(\$152)	\$1,672
EST. HOURS OF WORK	1 hour	8 hours	16 hours
EST. PROFIT/HR	\$54	(\$19)	\$105

GLOSSARY

1031 exchange

A strategy that allows investors to defer paying capital gains taxes on the sale of one property when they use the proceeds to buy a similar, often larger property. Named after Section 1031 of the Internal Revenue Code.

Asset class

A group of investment properties that behave in a similar way under identical market conditions. Within an asset class, there can be several types of investment options.

Capital

The money provided by an investor, either through debt or paid out of pocket, to secure an investment.

Case-Shiller Index

An index based on single-family homes that tracks sales prices in nine divisions of the US. The index is standardized and set to January 2000 = 100.

Cash Flow Schedule

The measurement of the flow of money in and out of an investment.

Cash Multiple

A measurement of the money each dollar invested is expected to return. Cash flow income is divided by the cash invested to derive a ratio that determines profits per dollar.

Commercial Property

Any real estate property that is intended to be used to generate a profit. Any residential property with five or more units is considered a commercial property.

Comparable

Properties similar to a given property in the same market that are used as comparisons to help determine fair market value of the given property.

Consumption

The resources spent on goods and services.

Conventional Mortgage

A loan offered by a private lender, such as a bank, for use by a borrower to buy property. Conventional loans are not secured by a government entity.

Core Investment

An investment that requires minimal effort from an investor in order to return profits. Often considered to pose low risk for failure.

Creative Financing

Securing the funding to purchase property outside of the traditional loans offered by private lenders and government entities.

Debt Service Coverage Ratio (DSCR)

A metric used by lenders to assess the risk of a borrower. In real estate, the metric is calculated by dividing the cash flow income of a property (before expenses) by the debt payment costs of the loan.

Discount Rate

A risk-adjusted rate measurement used by an investor to calculate present rates from future earnings.

Diversification

A risk management strategy of spreading investments across a variety of assets and types.

Earnest Money

A deposit made to a seller in conjunction with a buyer's offer, intended to represent the authenticity of the offer.

Equities

A type of investment comprised of ownership shares in a business or real property.

Equity

The degree of one's ownership, represented as a dollar amount.

Estoppel Certificate

A signed statement provided by a tenant certifying the conditions of a lease agreement such as rent, security deposit, and term of lease.

Financing

Procuring funding for the purchase of a property.

Geographic Arbitrage

Taking advantage of the disparity between low-cost-of-living areas and high-income areas, often through remote working arrangements.

Hard Money Lenders

Individual money lenders that offer private equity as a loan for an investment.

Homeowners Association

An organization populated by the residents of a community for the purpose of enforcing rules within that community.

Internal Rate of Return

A measurement used to analyze the efficiency of an investment's returns.

Leverage

Using debt to finance a property, increasing the potential returns of the investment.

Limited Liability Company

A business structure that separates the assets and liabilities of a business from those of the owner.

Market

A defined system where commodities are bought and sold. The term "real estate market" can also refer to the properties within a specific city or region.

Months of Inventory

The measurement of time, in months, that it would take to sell all listed properties in a certain area. Assumes no additional listings and a consistent rate of sale.

Multiple Listing Service (MLS)

A network of active listings in a certain market.

Negative Leverage

A situation in which the cost of the debt used to buy a property exceeds the profits made by that property.

Net Present Value (NPV)

An investing metric used to assess and compare risks of an investment. Calculates all future returns as if paid in one lump sum today.

Opportunistic Investment

An investment that requires maximum effort from an investor in order to return profits. These investments are often considered to pose high risk for failure.

Overleveraged

Having too much debt owing on an investment. Can also refer to having zero equity in an investment.

Passive Income

Cash flow earned without the active involvement of the investor.

Portfolio Lenders

Lending institutions that do not sell existing loans to new lenders but keep the debt on their own books.

Positive Leverage

Debt used to finance an investment that allows the investor to earn higher profits than with a cash-only investment.

Principal

The borrowed money portion of a loan upon which interest owing is calculated.

Pro Forma Rent

The potential rent a property could earn when operating at peak efficiency in ideal market conditions.

Property Manager

A professional service that manages the daily operations of a rental property, including locating tenants, collecting rent, and maintaining the property.

Real Estate Owned (REO)

Repossessed property held by the lender that has not sold at a foreclosure auction.

Refinance

The replacement of one mortgage with another mortgage, often at a better interest rate or with a different appraised property value.

Residential Property

Property designed exclusively to serve as a domicile for residents.

Return

Cash flow income due to an investor from an investment. In real estate, returns come in the form of rent and as lump sum payments from the sale of property.

Risk Tolerance

The ability of an investor to withstand the potential failure of an investment and loss of capital.

Short-Term Rental

Property designed to house tenants, often referred to as guests, for short periods of time. Although legal definitions vary by region, the term often refers to any stay of less than six months.

Staging

The act of dressing up a vacant property with tasteful furnishings to boost its appearance in order to attract buyers.

Tenant

The occupant of a property who pays rent to the property's owner, or landlord.

Turnkey Providers

Professional services that offer renovated properties that need no additional work before being put up for rent.

Underwriting

The agreement of an individual to accept the risk of an investment or deal.

Vacancy

A period of time during which a property is without a tenant paying rent.

Value-Added Investment

An investment that requires moderate effort from an investor in order to return profits. These investments are often considered to pose low-to-medium risk for failure.

Distribution Waterfall Framework

A structure of equitable assignment of the profits from an investment that accounts for the capital and time invested by each contributor in a partnership investment.

Yield

The earnings due to an investor over the life of an investment. Can also be calculated as the cash flow income divided by the capital spent by the investor.