

# FINANCIAL CENTS: How to Fund Your Next Rental Property





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A pair of clear, rectangular glasses with thin frames is resting on a silver laptop keyboard. The background is a dark, textured surface, possibly a desk mat. The lighting is soft, highlighting the edges of the glasses and the keys of the keyboard.

# Introduction

When you've reached the point where you feel like you know your way around being a landlord, this might be a sign that it's time to add another rental property to your investment portfolio. And if you're enjoying the experience, seeing demand and getting good returns, it's easy to start thinking, *why not?* But with the dream of adding to your portfolio comes financial realities that need to be considered. Fortunately, we've put together this guide which will detail several options available to you, and the pros and cons of each.

# What is Rent Estate™?

Owning rental properties has always been a great investment for those seeking consistent long-term income. **Rent Estate** a.k.a. “Real estate for the rest of us” - a term coined and trademarked by Renters Warehouse, one of America’s fastest-growing and highest-rated leasing and property management companies - helps everyday Americans attain financial stability and independence through the joys of income property.

Real estate can be a short-term high-risk venture, while Rent Estate can give you a steady flow of cash-flow, equity and tax benefits for the rest of your life. So which would you rather do – go through the hassle of selling your home in a volatile housing market or keep your property long-term - through marketplace ebbs and tides - and make enough money to enjoy financial freedom and the Rent Estate lifestyle?



A black and white photograph of a person's hands writing in a notebook with a pen. The person is wearing a white shirt and a watch. The notebook is open, and the pen is held in the right hand. The background is blurred, showing what appears to be a desk or table.

## Rent Estate Facts

- ✓ For **the next 15 years**, new renters will outpace new homeowners.
- ✓ The share of US households that rent their housing now stands at a **20-year high**.
- ✓ Recent research estimates that roughly **12 million Baby Boomers** will be renting by 2030.
- ✓ Between 2010 and 2030, there will be **4 million more new renters** than homeowners.

# Do Your Homework

**There are a few steps you need to take to make sure that you're confident that your Rent Estate investment will provide you with a positive return. Ask yourself a few questions before you start procuring financing.**

## **What is the vacancy rate for your location?**

When it comes to evaluating a property and its profitability, knowing the vacancy rate is key. The lower the vacancy rate, the stronger the property value. And vice versa. You can find out the vacancy rate of a neighborhood by checking out this data on the [U.S. Census website](#).

## **What are the average rental rates?**

Knowing this will help you understand what your potential profit margins will be. Renters Warehouse's powerful [Free Home Rental Price Analysis tool](#) will help you determine the best price to rent your home for using 1000s of local market factors.

## **What is the city and neighborhood's demographic?**

The deciding factor for this is to consider whether the area is populated with buyers or renters. Most neighborhoods are a combination of both, but it helps to know if there are more buyers than renters. Fortunately, many real estate sites, like [Trulia](#), have neighborhood guides so you know what you're dealing with.

## **Get fully educated on Rent Estate.**

[Renters Warehouse](#) have created materials that will make you more confident in taking the decision to acquire additional properties. By discovering the philosophy of Rent Estate investing, you'll be well on your way to achieving the lifestyle you've always dreamed of.

**If, after crunching the numbers and analysing properties, you feel confident with the idea of getting the funds to invest in a property, then you should give one (or more) of the following avenues a try.**

# Fundraising for Rent Estate Through Family and Friends

Thanks to platforms like **Fundrise** and **Realty Mogul**, securing money through family and friends no longer holds the stigma it used to. Crowdfunding is considered a viable way to get money for your Rent Estate investment.

## Pros:

- ✓ Because the money comes in the form of donations, there's very little risk involved.
- ✓ You have no board of directors to answer to when you start spending the money. You decide what to do with the money, not anyone else.
- ✓ Many projects that raise money through crowdfunded platforms exceed their fundraising goal. This means you could potentially leave with more money than you asked for.

## Cons:

- ✓ Many of these crowdfunding platforms are in the early stages of development, meaning that you're putting your faith in a company with little to no legacy or established success rate.
- ✓ The money you receive is limited to your circle of friends and family.
- ✓ You have to be completely transparent about what your plans will be, something you may or may not be comfortable with.



# New Types of Rent Estate Financing

The single-family rental market's tremendous growth over the past few years has led to the emergence of a new type of non-bank commercial lender that has changed the way landlords, property managers and investors are purchasing SFRs.

Companies including **Colony American Finance** offer new products to meet this sector's rapidly evolving needs for cash-out equity or leverage to purchase new properties. In the past, smaller investors often used cash, paid higher interest rates from their local bank or borrowed from a hard money lender. Now, Colony American Finance (CAF) makes commercial loans to owners of tenant-occupied single-family rental properties and provides acquisition financing to investors in transitional residential assets, both allowing you to increase your buying power.



# Buy and Hold? Fix and Flip? We Have the Capital for Either Strategy

**We know that not every investor has the same needs. This is why Colony American Finance offers a range of financing solutions that is flexible and tailored to you.**

Our portfolio and single asset term loans provide liquidity and long-term peace of mind to owners of stabilized rental properties. For investors with shorter investment horizons or those looking for acquisition capital to build a portfolio, we have pre-approved lines of credit to provide funds for new purchases or to refinance existing properties.

Regardless of whether you are using a buy and hold, a fix and flip, or any other investment strategy, we have financing products that work for all types of residential real estate investors.



## Portfolio Term Loans Pros

- ✓ Our term loans allow you to unlock the equity in your existing rental properties and use this capital to acquire additional investment homes to grow your portfolio and increase returns.
- ✓ Our term loans enable you to consolidate multiple sources of debt into one blanket loan. This means you spend more time running your business and less time managing multiple different bank loans and payments.
- ✓ We use the cash-flow from your rental properties to qualify you for our loans, not your personal or corporate tax return.
- ✓ We have options that may be available to you (including recourse and non-recourse offerings) even if your community bank or mortgage banker has told you that you don't qualify or that you have reached your maximum number of loans.
- ✓ Lower transactional costs. Banks will charge you fees for each property; we have one attorney fee regardless of the number of units.

## Single Asset Term Loans Pros

- ✓ Our loans allow you to lock in fixed-rate

financing on a single rental property for 30 years, quickly and without hassle.

- ✓ We provide loans up to 75% of value whether you are an individual, LLC, or foreign national, and whether you aim to purchase or refinance.
- ✓ Similar to our portfolio term loans, the cash-flow from your rental property is used to qualify for our loans, not your personal or corporate tax return.

## Lines of Credit Pros

- ✓ With our lines of credit, you are pre-approved for a full year which will give you quick, easy access to funds. No more going through a full bank approval process every time you want to buy a new home.
- ✓ We're fast. We typically provide funds within 5 to 10 days.
- ✓ Our credit lines allow you to put as little as 20% down, so you can better leverage your equity to expand your portfolio.
- ✓ Interest-only payments provide financial flexibility while you stabilize your recent acquisitions.



## Considerations

- ✘ For portfolio term loans, you must have 90% occupancy
- ✘ For portfolio term loans and lines of credit, you must establish a new LLC for each new loan
- ✘ All leases and rents need to be documented
- ✘ Term loans may have prepayment costs

# Taking out Another Mortgage

Often when people hear the word “mortgage,” they think of being bound up in financial shackles for decades. In reality, taking out another mortgage might be one of the smartest things you can do to fund your property or increase the amount of properties you own as part of building your Rent Estate portfolio.

## Pros:

- ✓ Mortgage interest is tax-deductible.
- ✓ The payments become cheaper over time relative to your income.
- ✓ Makes it easier to finance multiple properties.

## Cons:

- ✗ Mortgage insurance doesn't cover investment properties, so you need to put down at least 20 percent.
- ✗ The lower your credit score, the higher your interest rate.
- ✗ Taking out another mortgage increases your financial risk and is more expensive than getting a regular home loan.





# Refinancing

If you're looking for lower interest rates, then refinancing may be music to your ears. Keep in mind that if you have a good credit score, you can use refinancing to invest in even more properties.

## Pros:

- ✓ You can often get a lower monthly payment.
- ✓ Refinancing allows for renovations and repairs, improving cash flow.
- ✓ Using cash-out refinancing allows you to invest in more properties.

## Cons:

- ✗ Has a higher interest rate because investment properties are considered to be riskier than primary residences.
- ✗ Stricter loan-to-value ratio (amount of mortgage divided by appraised property value).
- ✗ Need a credit score of 660 or higher.

# Using Your IRA (if applicable)

An IRA (Individual Retirement Account) is a great (often tax-deductible) way to store money for your retirement) and might be one of the best options for funding your investment. But be aware of some of the downsides of using it to invest in property, like restricted tax deductions.

## Pros:

- ✓ IRAs are tax-exempt.
- ✓ There's no time limit for holding a property.
- ✓ You can potentially earn a larger return.

## Cons:

- ✗ You can only buy business properties, not a personal residence or an occasional rental.
- ✗ You can't get the normal tax deductions—losses and depreciations associated with more traditional methods, like mortgages.
- ✗ You can't buy a property you already own with your IRA.





# Tap into Your Savings

Sometimes what you need is right under your nose. In this case, it might be sitting in your bank account. What better way to reward those years of saving than to invest in Rent Estate in order to reap numerous future benefits?

## Pros:

- ✓ Get to invest the money on your terms.
- ✓ Zero debt.
- ✓ Easy access to the money.

## Cons:

- ✗ If you use up all your savings, you don't have a financial buffer if problems arise.
- ✗ You can't take advantage of deductions that are associated with more traditional methods, like bank loans.
- ✗ Your savings might not cover the complete cost.

# Write-Offs to be Considered

Considering the amount of costs you can amass to get a rental property up to snuff, adding up the numbers can be overwhelming. Thankfully, most of what you spend to manage and maintain your rental property are tax deductible. This applies to temporarily vacant properties as well.

**Here's a list of deductible expenses that may apply to Rent Estate:**

- ✓ Marketing
- ✓ Commissions
- ✓ Cleaning and maintenance
- ✓ Depreciation
- ✓ Utilities
- ✓ Dues and condo fees
- ✓ Pest control
- ✓ Insurance premiums
- ✓ Interest expenses
- ✓ Local property taxes
- ✓ Management fees
- ✓ Professional fees
- ✓ Equipment rental
- ✓ Rents you paid to others
- ✓ Repairs and supplies
- ✓ Trash removal fees
- ✓ Travel expenses

But just because you can deduct expenses, doesn't mean you should go overboard. ***Only deduct what is necessary.***





**Now for the nitty gritty of what you can deduct. Travel is only deductible if the main goal of the trip is to keep an eye on your property or accomplish tasks related to the property. As always, mixing business with pleasure complicates things. You have to differentiate between personal and business expenses.**

**For example:**

Matt lives in Georgia, but he loves to snowboard. He owns a rental property in Park City, Utah. Every winter he visits the property to prepare for that season's tenants. If the main purpose of his trip is to clean and paint the property, then his travel expenses are deductible. But what if during a five-day visit to the property Matt spends two days snowboarding and three days cleaning and painting? Some advisors might say that, since 60 percent of the time was spent on the business of tending to his rental property, then he gets to deduct only 60 percent of his travel costs.





That's a mistake that would cost Matt in the end. His full transportation to and from Utah are actually deductible since it's mainly a business trip. What needs to be allocated are the costs accumulated while there. That means that 60 percent of the cost of a rental vehicle would be deductible, plus the cost of meals during the three business days. Unfortunately, another tax law restriction limits your deduction for business meals to 50% of the cost.

If Matt snowboarded for three days and only worked on his property for two days, then none of his travel expenses would be deductible. But the direct costs of materials used for working on the property, like the cost of cleaning and paint supplies, would be deductible rental expenses.

**The takeaway here is the importance of keeping good records. All deductibles demand documents to back up your expenses. So keep track of all cancelled checks, bank statements, and receipts.**

*The information contained in this document should not be construed as legal or tax advice. Please consult a legal or tax professional to find out how becoming a Rent Estate investor impacts you.*

# Conclusion

Many people enjoy the opportunities and challenges that come with property management. And like any endeavor, there are good times and bad times. But if it's something you truly enjoy and you have been seeing great return on your investment, don't let funding stop you from adding more properties to your portfolio. With increasing numbers of renters seeking housing, the time is right to become a Rent Estate investor. You've already been through the process of purchasing a home and know all of the ins and outs - so now's the ideal time to secure funding for your next rental property.

If you can create systems and processes to keep management smooth and flowing, or have hired some pros to help lighten the load, you can ultimately design an amazing lifestyle with more time to spend your investment gains. **Now, seriously, ask yourself again, why not?**



Colony American Finance is a leading provider of financing solutions to residential real estate investors including landlords and property managers. We provide attractive long-term debt products for stabilized rental portfolios as well as credit lines for new acquisitions. For more information about how Colony American Finance can help grow your rental and rehab business, please call 844-CAF-CAF1 or email [info@colonyamericanfinance.com](mailto:info@colonyamericanfinance.com). Please also visit our website at [www.colonyamericanfinance.com](http://www.colonyamericanfinance.com).



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Renters Warehouse is one of the fastest-growing and highest-reviewed residential property management companies in America, and the largest in Minnesota. Backed by growth equity investor and majority stakeholder Northern Pacific Group, and under the leadership of President and CEO Kevin Ortner, Renters Warehouse now manages more than \$3 billion in residential real estate, servicing 12,000+ investors across 16,000+ residential homes in 33 markets and 18 states. NPG Managing Partner Scott Honour, who in 1999 was a founder of YapStone, a leading online rental property payment service provider, serves as Chairman. Renters Warehouse expertly serves everyday single-property homeowners as well as real estate investors. In 2015, the company officially trademarked the term Rent Estate™ to redefine the entire SFR (Single Family Rental) industry as more traditional real estate gives way to this new lucrative asset. Through their dedicated Portfolio Services Division led by Chief Investment Officer and President Anthony Cazazian, the company also brings professional, scalable and efficient single property management solutions to investment portfolios with both centralized services and local market expertise and staff. Not only has Renters Warehouse received the prestigious honor of being included on the Inc. 500 | 5000 list of fastest-growing privately held companies in America seven consecutive years in a row, it was also named one of the “Best Places to Work” in Minnesota (where they are headquartered) by the Minneapolis St. Paul Business Journal in 2010, 2011, 2012, 2014, 2015 and 2016. The company was also honored as a best place to work in Arizona (a centralized corporate services center) by the Phoenix Business Journal in 2013 and 2014, and achieved a spot on the prestigious 2016 Top Companies to Work for in AZ list. Nationwide, Renters Warehouse has been honored as one of America’s “Best Places to Work” in 2012, 2014, 2015 and 2016 by Outside Magazine. Recognized as pioneers in real estate, business management and innovation, Renters Warehouse has been awarded 18 Business Stevie Awards both internationally and stateside.

**Contact Renters Warehouse today for your FREE HOME RENTAL PRICE ANALYSIS!**

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