



Why Income Property?

Why Invest in Income Property?

- The fundamental benefit of investing in income producing real estate is the opportunity to own a tangible asset that has the ability to both grow in value and generate income. In addition, consider the advantages of owning an asset where the bank may be willing to finance up to 75% of the purchase, the tenants help pay the monthly mortgage, yet you reap all of the benefits, such as a growing income stream, future appreciation, and potential tax advantages. As for risk, while it is certainly present in the short run, an owner's risk tends to diminish systematically over time as the mortgage balance is paid down, rents are raised annually, and property values increase over the long term.

The Power of "Financial Leverage"

- Investing in income property also allows you to take full advantage of the extremely powerful investment tool known as "financial leverage". What is financial leverage? It's simply the ability to purchase an asset of much greater value than the initial amount invested. Why is this so important? Let's do the math. If you were to invest \$250,000 in a stock or mutual fund and that investment appreciated by 10%, your gain would be \$25,000. If you were to take that same \$250,000, apply it as a down payment on a \$1,000,000 apartment building, and it appreciated by the same 10%, your gain would be \$100,000, or four times greater! Probably more than any other single factor, the opportunity to apply the fundamentals of financial leverage is why real estate has always been such an attractive investment alternative for investors.

A Historical Price Perspective

- Over the long term, we know that real estate prices in California have appreciated approximately 6-7% on an annualized basis. As with virtually any investment, however, there is no guarantee the journey will be a smooth ride upward each and every year. For example, witness the whipsaw 13.6% price decline from 1990-1995 and the subsequent 51% gain over the ensuing five years. Then there was the astonishing 124% climb from 2000-2006, followed by a 25-30% erosion since. If you've been a homeowner or real estate investor for any length of time, I'm sure this sounds familiar and you may well have weathered many other market cycles down through the years. Bottom line, ups and downs are simply part of the real estate market . . . or any investment market for that matter.

Interest Rates – Then and Now

- In response to the most recent actions by the Federal Reserve, the current Prime Rate of 3.25% is once again very close to all time historical lows. Believe it or not, the Prime Rate in December of 1980 was 21.5%!
- Conforming fixed rate mortgages for a typical 4-plex are presently around 6.0%, which is one of the lowest levels the market has seen in years. (Note: The new conforming loan limit in 2009 for a 4-plex in L.A. & Orange County is \$1,403,400)
- The current Monthly Treasury Average (MTA), commonly used as an ARM index, is at .901%, the lowest it has been since January of 1955.

So what do all these numbers mean? Well, if you're presently standing on the sidelines waiting for property prices to decline by another 10% or more, consider what your monthly payment might look like if mortgage interest rates were to rise to 7.0% while you wait.

- The monthly payment on a fully amortized \$500,000 loan at 6.0% for 30 years = **\$2,998**
- The monthly payment on a fully amortized \$450,000 loan at 7.0% for 30 years = **\$2,994**

As you can see, from a cash flow perspective, a 10% price decline could easily be neutralized by a corresponding 1.0% rise in interest rates.

Why Buy Income Property Today?

- Certainly no one can argue that real estate prices in California escalated pretty dramatically from 1995-2006 . . . over 239% in fact! Understanding that, we always counsel those investors who may be in the market with the intent of quickly “flipping” a property in the near term to proceed with caution. Does that mean that now is a bad time to invest in income property? No, not at all, and certainly not for the more patient investor. The combination of moderating prices and historically low interest rates, coupled with 3-5% annual rent increases continues to present an excellent window of opportunity.

So . . . what should YOU do? We would suggest that there is never a bad time to invest in real estate for the long term investor and that now is as good a time as any. And, as you should always do before committing your hard earned dollars to anything, we recommend that you do your homework and seek good counsel . . . preferably from a **CA Income Property** professional!

Bottom line . . . don't wait to buy Real Estate, buy Real Estate and wait!