

## Is buying an investment property the right decision for me?

*Please review to help you decide if it's the right financial move*

### Advantages of real estate investment properties

1. Appreciation=Increase in home's value (usually over a longer-term period). The median home price in Austin in 1990 was \$73,000\*. However by 2008 the median price had risen to \$188,200, over 2 ½ times the property's original purchase price!
2. Build equity=Tenant pays mortgage for you, while you build up the appreciation
3. Cash flow=Monthly rent paid may exceed your mortgage payment/taxes/insurance so you make additional money (called "cash flow") on the investment.
4. Return on investment=In Austin, historical trend shows very strong growth and market, projecting an excellent return on investment. For example, if you bought a house in 1990 for the median price of \$73,000, its value would have almost doubled to \$144,500 in only 10 years\*!
5. Leverage=control large investment with small amount of money, i.e. if you buy \$20K in stock, you have a \$20K total investment. But you can put down \$20K on a \$180K house and control a much larger total investment. The goal is to continue to multiply your wealth using the profits for leverage on even more investments.
6. Tax savings=all interest and taxes on investment properties are fully deductible on your income taxes which saves you money.

### Drawbacks of real estate investment properties

1. Maintenance and repairs of property=Your property will require upkeep as it ages. You can hire a property manager at an additional cost to handle these issues or you will need to become the landlord of the property requiring an investment of your time and effort.
2. Possible vacancy of property=The ultimate goal is to keep the property rented at all times so the tenant pays your mortgage and you have no out-of-pocket expenses, but there is the possibility that the property could be vacant from time to time. By buying a property in a good neighborhood with desirable features in good condition, vacancy should not often be a problem.
3. Non-liquid asset=You can not immediately cash out on a house like you can on a bank account. It does usually take at least a few weeks or longer to get a house sold if you need the proceeds. Generally your best profit will be made the longer you can hold onto the property.
4. Slightly higher investor rates=An investor pays higher interest rates than a non-investor who buys real estate. All non-owner occupied (i.e. investors) are charged at the slightly higher rates.

\*Source: All stats from Real Estate Center @ Texas A & M University



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