

Five Reasons to Invest in Residential Real Estate Rentals

There are many reasons to invest in real estate. I have been investing in cash flow properties for about 15 years now and wanted to share my personal five reasons why I love investing in residential real estate rentals.

1. Cash Flow

Cash flow is my personal favorite reason for investing in rental homes and commercial real estate. Investing in hard assets that produce income is a huge benefit of buying and holding investment property. Your tenants pay your mortgages, and the cash left over after all your expenses is your net cash flow. Imagine making \$500 per month in net cash flow and not having to work much to produce it except on the management side. If you invest in 10 houses, you could create \$5,000 of monthly cash flow while enjoying all the other benefits of single-family homes.

2. Multiple Exit Strategies

A number of exit strategies can produce great results. You can be a landlord and enjoy rental income; you can use lease options as your exit strategy; you can sell with seller financing and enjoy income from your note, or you can sell the house outright to a new buyer (flip it).

3. Tax Shelter

Did you know that when you own a rental one of the expenses you can write off on your taxes is property depreciation? Most landlords depreciated their properties on a 27.5-year depreciation schedule. Simply put: If you purchased the property for \$275,000 you can depreciate the property \$10,000 a year, which you can use to offset income from the property, thus lowering your current year's tax burden. Be careful here, though, because once you sell the property you will have to recapture the depreciation.

4. Future Appreciation

We call this the icing on the cake. When you purchase a rental future, appreciation is not always a given. However, if you buy an asset in a growing metro area and a nice neighborhood, the appreciation will take care of itself. When we buy rentals, we always buy into existing equity. We never really count on appreciation. We evaluate primarily on cash flow.

5. Invest Locally

Every time you buy a single-family home, duplex, or apartment complex, you are investing in your local area. You are improving your local city and neighborhoods one house at a time and providing housing solutions for the people in your local market.

I can personally say that it has been very rewarding and profitable investing in various types of rental real estate deals. I think the flexibility that it affords is the best reason of them all!

2021—Growth in a Consolidating Market

Clear Sky Financial LLC loan production in 2021 grew by 50% compared to 2020. This is a remarkable achievement considering that 2020 was also a growth year. At the same time, we have innovated with new loan products for clients that are more profitable than interest-only loans. The risk of the portfolio is very tightly managed, and the real estate owned (auctioned properties) rate has not moved over the generally low 3–4% range. What is going on, and how do we continue to grow and manage risk?

There were far fewer good value distressed properties for sale in 2020 and 2021 than in 2019. We saw the market for good value contracting, so we let our borrowers know. When evaluating deals over the past 2 years we have let them know that they shouldn't invest in overpriced assets. Our candor and support for borrowers looking for good deals has kept borrowers coming back. In 2020 when other hard money lenders withdrew from the market, we continued to lend and promote our products. When the market started to come back for renovations and flips, the borrowers recognized our commitment to the industry and came to us for loans.

Our direct control over lending and construction draws earns us repeat and loyal customers. A borrower who can get a highly responsive principal on the phone is often willing to pay a premium for the loan service. Our borrowers want to get their investment assets into inventory and turned around as quickly as possible. When they reach out to us and have a same day answer to their loan request, that makes a huge difference. When they need a construction draw and must get it on the same day on which they request it, that accelerates their workflow. Comparatively, it might take a week to get an answer on a loan from one of our competitors, and draws can take several weeks.

Product innovation is critical. We pre-draw our borrowers who have construction loans. This is the practice of evaluating a project before it begins and advancing the first dollar that is spent on it. Most lenders wait until work is complete before they advance the money to pay for it, which slows down the borrowers and adversely impacts their cash flows. We control for the pre-draw risks by taking time to understand the project in its entirety and carefully monitoring the design, permitting, and construction processes. Furthermore, when a borrower has an excellent buy price on their investment, we can offer them payment deferred loan products. These are very short-term notes that command a higher interest rate. The borrowers enjoy the benefit of a payment deferral, and we get the benefit of a higher return.

We are looking forward to another great year in 2022. More innovation and more value for our customers should lead us to additional growth!

November Deals



3207 Lockheed Blvd.



217 Locust Ave.



6909 Thorneton Rd.



3710 26th Ave.



11229 Trisler Dr.



9910 Belhaven Rd.



8201 Deerbrooke Ct.



144 Thomas Humphrey Rd.



212 16th St. SE