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MORTGAGE®

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INVESTMENT PROPERTIES: WHAT'S IN IT FOR YOU

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2023 AND INVESTMENT PROPERTIES

Real estate is typically known to be a smart and safe investment. And despite the current economy, that still stands true, especially when using passive income that you may already have through equity and other investments. While we're seeing fluctuating interest rates, lower than normal inventory, and many facing economic strife, let's discuss why owning an investment property is still a key move for long-term wealth.

Here's what investment properties can provide:

- Diverse Financial Portfolio
- Tax Advantages
- Passive Income
- Profit Through Appreciation

INVESTMENT PROPERTIES CAN BE A LUCRATIVE BUSINESS

19.95

million rental properties across the U.S.

34%

of people living in the US are in rental units

47%

of renters are under the age of 30

\$1,879

Median rent for the 50 largest U.S. metro areas

DIVERSE FINANCIAL PORTFOLIO

A diversified portfolio simply means you have different financial investments that are combined to lower your risk of losing money as an investor. This can include stocks, bonds, and real estate.

STOCKS

When investing in stocks, you may choose from different industries. You'll decide what the goal of your portfolio is and then choose stocks accordingly. Stocks can be risky, however, as the market goes up and down.

There are many ways to go about choosing your stocks. We recommend speaking with a financial advisor and making the best choice for your current financial situation and long-term goals.





BONDS

Investing in a bond can be seen as more stable than stocks, depending on which bonds you choose. There are many different types of bonds, all with different maturation rates. The safest of bonds is a U.S. Treasury bond because it offers the smallest amount of risk and can be catered to the goals of the investor.

Bonds such as high-yield, corporate bonds, and mortgage bonds (different than having a mortgage) will have more credit risk associated with them.

REAL ESTATE

Real estate is typically considered to be the safest investment due to appreciation (unless renting) and passive income with minimal risk if you invest in the right market.

TAX ADVANTAGES

Owning real estate can be expensive. There are property taxes to pay, a potential mortgage payment (this is why we recommend using passive income you already have to purchase investment properties), homeowners' insurance, residential upkeep, etc. However, rental properties can also come with some tax breaks such as:

- Mortgage interest deduction (for house loans up to \$1 million)
- Travel expenses to maintain your property
- Insurance premiums
- Lawn maintenance
- Utilities (if not paid by the renter)
- Losses from natural disasters or theft
- Services of accountants, property managers, or lawyers
- Useful life depreciation (deduction of the cost of buying or improving the rental property)

While these tax advantages are a great perk of owning an investment property, make sure you have a trusted accountant on hand to help with any of these deductions.

PASSIVE INCOME



There are many ways to make passive income off real estate investments but we're going to focus on rental properties.

If you own a condo, duplex, or single-family home that you rent out to tenants, you can easily make up for the mortgage plus some in rent. This doesn't mean you won't have any expenses. Remember, depending on the lease, you will need to cover things like broken appliances, the HVAC going out, or even plumbing issues. With the current rental market being hot, you can easily make those costs up.

Some people choose to do shorter rentals, such as a vacation home. This is a lucrative business and allows you to use your investment property when you want but make money off of it when you don't.

Because a vacation rental will have more turnover than a long-term rental, you'll have to adjust pricing for either a property manager to take care of the upkeep, or to do it yourself. This can be challenging if you don't live in the area. When looking at the potential income from a vacation rental, make sure you factor in vacancies, as that can make a BIG difference.

Ask about our Debt-Service Coverage Ratio loan program for investors. It helps you manage multi-market portfolios and take your property investments to the next level!

PROFIT THROUGH APPRECIATION



Under the tax breaks section of this guide, we mentioned useful life depreciation. This is for properties you rent out to tenants. **If you purchase an investment property as a second home, you can still make money off the appreciation of the home.** In 2022, the average appreciation of a home was 20.3%! We aren't expected to see that high of appreciation in 2023, but we will see more affordability in about half the markets across America, making it a great time to invest.

Now that we've given you all the information on WHY owning real estate is a smart investment, let's talk about the HOW. **Here's the top three things to focus on when looking at getting started with any big purchase:**

1. BUDGET

To get started in any real estate investment, it's imperative you have a firm grip on your budget and finances. When it comes to investment properties, we recommend avoiding debt to finance the purchase, if possible. Why? Because taking on MORE debt when trying to make a profit is rarely a favorable decision.

If you have already paid off all other debt and have a diversified portfolio, you'll have more opportunity to buy real estate without needing a home loan. At the very least, you can put more down upfront, resulting in a smaller home loan amount or better financing options.

If you do have to take on a loan, you'll need to decide what you're comfortable spending. **Remember, what you're comfortable spending and what you're approved to spend can be two very different numbers!**

2. MAKE A PLAN

After you know your finances are in order and you have a plan for your real estate investment, it's time to figure out what form of real estate investing will work for you.

- Do you want to rent out your current home while living in something more affordable to make a profit quickly?
- Are you looking to own something that can be a short-term rental in a beach or ski community?
- Do you want to own multiple residences (such as a duplex) to rent out to long-term tenants?
- Are you hoping to purchase a second home somewhere that you hope to retire one day?

Knowing what you want ahead of time will make a big difference when you go to buy!

Decide what market you want to buy in, especially if you plan to rent your property out.

PROFITABILITY IS PRIORITY

The last thing you want to do is invest money into a property only to find out it won't be profitable.



AVERAGE RENT IN THE AREA



ECONOMIC GROWTH



JOB OPPORTUNITIES



NEARBY ENTERTAINMENT



SCHOOL DISTRICT



LOCATION

3. EDUCATE YOURSELF

Speak to other investors. While everyone's experience is different, finding someone to mentor you based on your goals can be incredibly helpful.

If you have someone in your network who has found success in investing in properties, ask them to sit down with you and learn what they did to succeed. Then, ask if they would be willing to look over your goals and budget and help you find a good place to start.

Understand the rules and regulations of owning multiple properties. This will depend on the type of property you own and can include things like renters' rights, tax laws, and needing different permits to work on properties, among others.

Knowing exactly what is required of you as a multi-property owner will give you peace of mind and help you decide what types of properties you want to invest in.

Know the risks associated with investing. The market can change at any time, so there is no guarantee you will make a profit on your investment when you go to sell. Educate yourself on the risks vs. the rewards so you can make the best choice for you.



FIND A TEAM YOU TRUST

The team you choose to work with will make all the difference. This includes your Realtor, accountant, financial advisor, attorney, potential property manager, and of course, your Churchill Home Loan Specialist.

Each of these people will play a pivotal role in ensuring you have all the financial backing, credentials, and knowledge needed to invest wisely.

Your Churchill Home Loan Specialist should be the person you call after your accountant and financial advisor and before your Realtor.



Your Home Loan Specialist will be able to help you with:

- Your current budget, and how to purchase an investment property without having to take on a large amount of debt. (Remember, this is where passive income you may already have will be useful).
- Helping you find the right home loan for your short- and long-term goals.
- How to pay off your mortgage more quickly. (This is why making sure other debts are already paid down before buying will be important!)

Having a mortgage lender that's committed to doing what's right for you will make all the difference when investing. In fact, **Churchill even has specialty programs to help make buying an investment property as easy as possible.**

CHURCHILL PROGRAMS



**CERTIFIED
HOME BUYER**

by Churchill Mortgage

This is considered the gold standard of pre-approvals and sets you up similarly to a cash buyer. Not only does it make your offer stand out to a seller, but it does most of the underwriting (the approval process on your finances) upfront, making for a quicker and smoother closing.



RATE SECURED

by Churchill Mortgage

This allows you to cap your interest rate for 90 days while looking for your property. If interest rates go up during this period, yours will stay the same. However, if interest rates go down, we'll offer you the lower rate.



**HOME BUYER
EDGE**

by Churchill Mortgage

This program is unique to Churchill and sets you up for success from every angle. It encompasses Rate Secured, Certified Home Buyer, and a \$5,000 Seller Guarantee. If your loan falls through for any reason due to financing, the seller will receive \$5,000 in addition to the escrow money you provide as the buyer.

LOOKING AHEAD

We've seen why investing in real estate is a great idea, how to get started, and the ways Churchill can help. The question is ... what's next?

It's safe to say inflation will have an impact on the housing market in 2023 and the market will continue to balance out. While interest rates are expected to level out, home buyers should not look for any of the historically low rates we saw in 2020 or 2021. Experts are hoping we see rates lower throughout the year.

New home sales are expected to be around 600,000 houses with existing home (already-built) sales being around 4.5 million.

Renters saw a 17.6% increase in their monthly rent in 2021. Rent has gone down slightly as of fall 2022, with increases expected to slow down.

However, because of that 2021 increase, many landlords are still enjoying profits, especially in cities such as Nashville, San Diego, Boston, and Savannah.

BOTTOM LINE

Choosing to invest in real estate requires secure finances, a higher up-front cost, and potential man-hours (especially as a landlord). It's also one of the safest ways to build wealth and potential passive income. It all depends on the decisions you make and the team you work with.

If you're hoping to diversify your financial portfolio through real estate investment in 2023, our team at Churchill Mortgage is here and ready to discuss your options.



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NEED MORE INFORMATION?

Just reach out to your local Home Loan Specialist

888.562.6200

churchillmortgage.com



The Churchill Certified Home Buyer program is not a commitment to lend funds and is not an approval but is a conditional approval subject to your acceptance of the terms and the conditions being fully satisfied prior to closing. All conditions are subject to final underwriting and final investor approval. The certification is subject to the financial status and credit report(s) of everyone on the application remaining substantially the same until closing, an acceptable contract of sale on a suitable property, collateral (the appraisal, title, survey, condition, and insurance) satisfies the requirements of the lender and loan selected is still available in the market. All closing conditions of the lender must be satisfied including the clear transfer of the title, acceptable and adequate title and hazard insurance, flood certification, and any inspections that are required by the real estate contract.

In the initial 90-day period. Rate Secured is available on Conventional Conforming (primary and secondary homes), High Balance and No Score fixed-rate products. Not available on investment, government or jumbo.

Seller Guarantee is for qualifying borrowers and select loan types only and are not available in all states or locations.

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