



# NEW INVESTOR GUIDE



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# WHY YOU SHOULD INVEST IN REAL ESTATE.

Real estate is one of the oldest and most desired investments in history. Billionaire Andrew Carnegie once said that 90% of all millionaires are created while investing in real estate to some capacity. It can enhance any portfolio by outperforming the returns of other asset classes and offers low volatility. You can diversify your portfolio with different investment strategies that may offer higher risk with greater return or lower risk with lower return, leverage your capital, explore tax breaks and give you multiple exit strategies. All of this leads up to one answer- it's a great investment.



## CAN YOU DO IT?

### **Do you need a coach or formal education?**

You do not need a college education and you don't need to hire a guru to teach you. The best thing you can do is hop into the field and learn hands on. Connect with investors in the area, discuss areas and values with agents, meet contractors and go over prices or even spend time at your local home improvement store. Of course, connect with a Mitchell Dean Realty agent for a consultation.





## Can you work full time while investing?

Absolutely! With the right team standing beside you your options are limitless. If you are really pressed for time in your day you can make your focus rentals and hire a great management team. Turnkey properties may offer lower cash flow but are an excellent place to put your money, gain a return while watching your equity rise. If you have a little time on the weekends to pick out some colors and finishes then you can dive into a renovation to either flip or hold. Both strategies are right, it just depends on which is best for you.

## Do you need a lot of money to start?

Believe it or not you don't! Real estate is a flexible field to gain access to with a variety of strategies. You can partner with other investors who bring the capital, wholesale, find flexible and creative lending strategies or offer a service in the field to get started.

# HOW TO INVEST IN REAL ESTATE.





## **What is real estate?**

Real estate is the land with, if any, improvements upon the property. While many people think of it as the house itself, a property is not considered to be real estate unless you own the land the structure is on. When finding the proper value of real estate you need to consider the highest and best use for the property, of course while considering the zoning and what local guidelines will allow. Between appreciation, opportunity for improvements and passive income, real estate is a career worth pursuing.

## **Make a plan.**

Simply start. Go out and meet people in the field whether in person or on social media. Research and find the best investment strategy for you. Then put together your plan to execute. Creating a business plan to decide your criteria, timeline and goals is key. Real estate can be a financial and emotional rollercoaster, so be sure to pick your tracks before attempting to ride.

## **Leverage.**

One major tool utilized by real estate investors is the power of leverage. By securing financing to assist in the purchase and rehab you can stretch your funds, increase your return of investment (ROI) and expose yourself to less financial risk. While many of the loans are your standard 20% down conventional mortgages we've all heard of, you can also find creative financing with credit lines, capital partners and other means.

## **What to consider when investing.**

Before you invest, consider where you'd like to be financially and in your personal life. One of the greatest things about this career is the ability to control your schedule and your personal life.

Do you want to continue working your current job and invest on the side or would you like to be in the business full time? Do you want to be actively involved in your investment and gain large returns periodically or to simply invest and collect small returns frequently? Maybe you just want to prepare for retirement and be completely hands off?

Next you will need to consider how you will fund it. You can pay all cash or you can leverage. When leveraging you will need a clear investment criteria so you know what lender to contact and build a relationship with.

Finally, you need to get your team together. Work with an MDR agent to identify an investment based on your goals, find a contractor you trust to complete the work if any, prepare yourself with a real estate attorney and licensed accountant to be sure things are done right.



## Some “Real” Florida Numbers

According to data from the Florida Realtor Organization and Rentometer, as of 2022 this is what you can expect as you invest in our state:

Median SFH Sale Price:	Year Over Year Sales Percentage:	Months Supply of Inventory:	Median Rent:
\$409,730	-22.5%	2.5 months	\$1,800 (3 bed/ 2 bath)

## Investment Strategies

Your strategy determines your future. Pick what works best for the lifestyle and income you desire.



# FLIPPING HOUSES

It's the investment style we all know and love to watch on television- house flipping! The goal is pretty straightforward, buy the ugliest house in the neighborhood and make it the prettiest. However, some of the things they do not mention on the shows are the alternative strategies or the idea of overimproving and losing profits. Don't worry, we have some answers for you.

## Full Flip

This is the one you see while binge watching shows until the sun comes up. You will determine the After Repair Value (ARV) of the house, put together an Estimated Repair Cost (ERC) and confirm it with a contractor bid, close for bottom dollar and execute the plan. Once the renovations are complete you will list the home for sale and collect your profits, simple enough. Some of the things you don't always expect walking into this strategy are the unforeseen issues and changes in the renovation, closing costs and fees, agent fees, over improvements, changes in economic situations and so much more. With great returns comes great risk, while this strategy offers you high profits it does come with a lot of risks and costs, so be sure to have your due diligence completed.

## Prehab

The less talked about flip. This strategy is the same as the full flip but without the renovations. The mistake many new investors make here is not doing as much due diligence as their next buyer. While you are not doing the renovations you do still need to worry about the cost of the repairs, the next owner will.

## Example Flip:

\$450,000 ARV  
- \$235,000 Purchase  
- \$4,700 Est. Closing Costs  
- \$80,000 ERC  
- \$9,000 Est Sale Closing Costs  
- \$22,500 Est Agent Costs

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Estimated Profit of \$98,800

# RENTALS

Purchasing rentals is a great way to buy and hold real estate. Owning rentals gives you many benefits like value appreciation, cash flow and flexible exit strategies. What many new investors don't realize is the great number of options you have with this strategy. Here are just a few that you will likely hear about while attending your next real estate investor networking event.

## **Residential**

Residential rentals are rentals designated for tenants who will live on the property. While any property that is four units or less is considered "residential," apartment buildings with five or more units, while zoned and financed as commercial property, are technically a type of residential rentals as the tenants will reside there. Investors love this strategy as rents are always expected to eventually go up, inflation with a set loan will dwindle your finance cost and people always need a place to live. The strategy is so sound that many investors even consider properties with over 20 units recession proof.

## **Commercial**

Commercial property sounds scary to most newbie investors. Larger properties, higher cost and bigger loans. However, the concept is actually the same only you may be looking for a different type of tenant. Instead of finding someone who will live on the property you are typically looking for someone renting it for business purposes like an office, warehouse or retail space. There are also a great number of finance options like syndications for these properties.

## **BRRRR**

The BRRRR method is a well loved strategy for any rental. BRRRR stands for Buy, Repair, Rent, Refinance, Repeat. You find the property at bottom dollar value, purchase and repair it, place a tenant and then return to the bank to refinance the property at its new and improved value. The benefit here is you still hold equity in the property and get most if not all of your invested funds back on the refinance. If the deal is really good can even pull additional funds when refinancing to get some tax free equity out of the property. The additional funds are tax free as they are technically a loan and not capital gains. You then take your returned funds and increased income of your portfolio and repeat the strategy with another piece of real estate.



### Long Term vs Short Term

These two strategies are typically found with residential rentals but differ greatly. Long term rentals are tenants who will be signing a lease for six months or more, while short term tenants are those who will be renting the property typically for less than 30 days, possibly even for just one night. You may hear some people call rentals between one month and six months “mid term” rentals as well. The biggest differences between the two are the initial investment, the amount of hands-on effort they require and the frequency of the income. Talk to your local MDR agent about your property, or potential property, to find which is best for you.

### 1031 Exchange

One creative exit strategy rental properties offer is a 1031 exchange. This is a tax break that allows you to defer the capital gain taxes from the sale of one investment property and transfer them to a similar property. Upon the sale of your initial property, you will have 45 days to identify and contract the real estate you will transfer your gains to and 180 days from the time of your sale to close on the new property. We recommend reaching out to your real estate attorney to discuss the best way for you to utilize a 1031 exchange!

### Valuing Rentals

Valuing a rental property is based on the type of property, number of units, etc. Work with your trusted MDR agent to be sure you are doing the right due diligence. Some figures you should be looking for are the NOI, Cash Flow, ROI and CAP rate.

When calculating your returns, you will want to pay attention to your potential Net Operating Income (NOI). This is calculated by taking the gross income and subtracting the total costs to operate the rental- ex management, insurance, taxes, repairs, utilities, etc. and determining your total income.





### **Gross Annual Income - Annual Operating Costs = Net Operating Income**

Your NOI does not consider your debt service payments if you have any. Including your debt payments and other conditional costs will be your Cash Flow, in other words your total income in your pocket. By considering the cash you have coming in on the property and dividing it by the cash you have out, you can find your return on investment (ROI).

**Net Operating Income - Debt Service Coverage = Cash Flow**  
**Annual Cash Flow / Total Cash Spent = Return on Investment**





Finally you will consider your Capitalization Rate (CAP). This is one of the most common measures used by investors to determine the viability of the return on the property. The acceptable CAP rate changes per investor, the number of units, the location of the property, etc. You will want to decide where and what you want to buy and cross it with the type of return you realistically want to receive. To calculate you simply take the NOI of the property and divide it by the total cost of purchase and repairs of the property. You can use this rate to quickly decide whether or not a property is worth considering. You will want to pay attention to the CAP upon purchasing the property as well as the CAP after improvements as the rents and expenses will change as well as your total investment.

**Net Operating Income / Total Cost of Investment = Capitalization Rate**



## WHOLESALING

Wholesaling is a common strategy to help you build some capital for your investments. Many people entering the field start here and grow their business while working with other investors. Wholesaling helps you to establish a funnell of property leads, network and learn from other investors and make fast money to either purchase a property, leave your current job or become better established in your business.

The concept is simple, all you need to do is find and negotiate a property, put it under contract and pass it over to another investor who will purchase to hold or flip. This can be done via assignment of contract or by closing on the property with transactional funding and immediately reclosing with your buyer, called a simultaneous close. The task is simple but the process is not always as easy.



### Know your Market

The mistake most wholesalers make, especially those trying to perform virtually, is not getting to know your market before attempting to sell a property. For example, investors in Miami, FL are not the same as those in Jacksonville, FL. The rates at which they are willing to purchase, the price points, the comparable properties you are allowed to use, strategies and everything else about the deal changes. To make matters more difficult for you, all of these factors change with economic situations as investors adjust accordingly. Before attempting to wholesale a deal you need to be sure to understand your market and get to know what your clients are looking for. This will ensure you don't waste yours or the buyers time and marketing dollars. Success happens when preparation meets opportunity.

### Know your Numbers

One vital part of knowing your market is understanding the numbers. What CAP do your buyers need? What kind of spread, percentage of ARV or general ROI are flippers looking for? You need to get to know how to run ARVs and how to get a proper ERC to consider any deal for the buyer. When considering your numbers remember to stay conservative but realistic. One bad calculation could make or break your deal. Reach out to your Mitchell Dean agent and they will gladly assist.

### Know your Laws

Laws seem like an obvious thing to consider but very few do their homework. There are thousands of gurus out there who will tell you how to wholesale but they are selling a course on a national level and providing broad information not relevant to your specific area. So it is up to you to look up your local and state laws to be sure you don't break any laws and cut your career in real estate short. For example, some states have made assignments illegal to some capacity or have laws around what needs to be disclosed in the transaction. Be sure to speak with your real estate attorney before you start.

#### Example Wholesaler Deal

Consider this scenario:



You find that the buyers in your market purchase single family flips at 75% of the ARV.  
The ARV is \$450,000 and the ERC is \$80,000.



$$\begin{aligned} \$450,000 * 75\% &= \$337,500 \\ \$337,500 - \$80,000 &= \$257,500 \end{aligned}$$



This means your investor will want to purchase the property for around \$257,500. You then need to negotiate the property lower than this number to create your profit. So if you would like to make \$7,500 on the deal, you would offer the seller \$250,000.

# RENOVATIONS

No matter what your strategy you will always be considering renovations. This is something best done by a licensed contractor as they will be the ones conducting the work and prices can fluctuate. Using a scope of work sheet can help you to establish your total ERC and see where you stand. Additionally, many banks request a form of this when doing an investment loan. See an example of a scope of work below.





# SAMPLE SCOPE OF WORK

Sample Scope of Work				
Property Address				
Rehab Target:				
Line Item	Repair Type	Quantity	Budget	Special Notes
	Plans and Permits			
	Demolition			
	Dumpster			
	Foundation			
	Framing			
	Insulation			
	Drywall			
	Roof			
	HVAC			
	Electrical			
	Plumbing			
	Windows			
	Pool			
	Exterior Doors			
	Interior Doors			
	Siding			
	Landscaping			
	Fence			
	Exterior Paint			
	Interior Paint			
	Flooring			
	Kitchen			
	Cabinets			
	Countertops			
	Appliances			
	Bathroom			
	Water Heater			
	Tiling			
	Fixtures			
	Trim			
	Garage			
	Driveway			
	Stairs			
	Shed- Storage			
	Porch			
	Remediation			
	Water- Sewer			
	Conversion			
	Cleaning			
	Consultant Fees			
	Other			
			<b>Subtotal:</b>	
			<b>Contingency %:</b>	
			<b>Total:</b>	

# MDR RESOURCES

The road to success requires the proper resources to reach your destination. We understand that there will be breakdowns, bumps and obstacles to overcome and so we created teams and tools to help you to accomplish your real estate goals. While every MDR agent is trained to be an expert around any type of property and investment strategy, our specialized teams help you on the investment journey, and our optional software gives you the steering wheel to determine your own path. This is success by design.

## **Mitchell Dean Realty**

Mitchell Dean Realty is a brokerage dedicated to assisting real estate investors with their investment needs. Every agent is trained to be an expert in all property types and major investment strategies to help our clients to acquire, sell and maintain their assets. We pride ourselves in our ability to create win-wins for all parties involved in every transaction and constantly strive to build products and systems that improve the outcome for our clients.

## **Kosta Coast Vacations Team**

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## **Gold Star Management Team**

Gold Star Management is our property management team dedicated to bringing your long term rental properties the highest success while maintaining the assets value. Our team promises quality tenants paired with easy systems for them to pay rent, put in repair requests and receive fast service from our in-house maintenance team. Your dedicated agent can help you to grow your portfolio and is available 24/7 so that our landlords can reach them at any time, or you may simply login to your portal and track the status of every unit. That's the Gold Star service!

## **REI Stream**

REI Stream is our custom built CRM for any real estate investor, agent or wholesaler to run their business. The system will give you the tools you need to track and acquire your properties, store documents, calculate the feasibility of the investment, and to save time in the day to day as a real estate entrepreneur. This software is designed for anyone in the industry- whether you are flipping single family homes, building a portfolio of multifamily properties or simply wholesaling the deal. Time is money and organization is key, so we recommend the best for our clients.



# CONTACT US

## **Contact**

(813) 725-5518

[sales@mitchelldean.com](mailto:sales@mitchelldean.com)

[mitchelldeanrealty.com](http://mitchelldeanrealty.com)

## **Social Media**

Facebook: [www.facebook.com/MitchellDeanRealty](http://www.facebook.com/MitchellDeanRealty)

LinkedIn: [linkedin.com/company/mitchelldeanrealty](http://linkedin.com/company/mitchelldeanrealty)

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