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How To Boost Your Wealth With Smart And Savvy Property Investing

Dan Thomas: Hello everyone. I'd like to welcome everyone to the call. This is Dan. I'm here with my father and we have been getting a lot of questions specifically about property investing. We wanted to take the top three questions. We keep getting asked these three questions over and over again. They're the most common ones that we see. For everyone listening, I just wanted to let Paul Thomas answer these questions so you all have the information. You can all move on with your property investing. How are you doing Dad?

Paul Thomas: Hey I'm doing fine Dan. How are you doing?

Dan Thomas: I'm doing good. It's a pleasure being on the call and thanks everyone for being with us. So Dad the first question that we've been seeing over and over again is, and I've kind of reworded it so it flows better, "For someone that is looking to purchase their first real estate investment, what type of property or properties do you want to focus on?"

Paul Thomas: Well Dan, over the many years I've been investing, I have invested in a variety of different types of real estate investments. When it comes to real estate in general and if you're talking real property, a physical, residential piece of property, the single family home cannot be beat when it comes to the first time real estate investor and this is in general.

Dan Thomas: Okay. So if you don't already have a home, if you don't already own your own home, the first thing you want to do is get that single family home.

Paul Thomas: Right. Yeah. But I was assuming that the first time real estate investor already has his own home.

Dan Thomas: Okay.

Paul Thomas: I'm assuming he has a wife, maybe a child.

Dan Thomas: Okay.

Paul Thomas: He's just starting out. He's got his own home now. So the single family residence in general is the best for the average first time investor.

Dan Thomas: Okay. You've already got a single family home. Your first investment property should be a single family home.

Paul Thomas: Right. Right. They're always in demand in normal times as well as bad times as people need a place to live. Number two is, they're the most desirable place. Most families want to have their own piece of land separate from others. They want it to be fenced around it. That's their own little abode. They have their own separate structure that's not tied to any other structures like you would have in a condominium community or in an apartment complex. People like their own yard, their own separate structure. Something that they can make improvements to without having to, you know they can put their own mark on it with few or no restrictions.

[02:56.3]

So the other reasons that I think the single family home is the best for the first time buyer is they typically appreciate faster than any other type of residential property. I'm talking condominiums, I'm talking townhomes, I'm talking apartment buildings. Because they're in such demand, the population continues to increase, and assuming that you live in a community that there's growth, there's jobs, that's a growing area. They will appreciate as fast as an owner occupied house. An investment house will appreciate as fast as an owner occupied house. Okay?

Dan Thomas: Okay.

Paul Thomas: Unlike apartments and other properties which depend more on the gross income from the properties; the total net income, regardless of other aspects. They are more stable in down markets but they don't appreciate as quickly as the investment single family house.

Dan Thomas: Okay. Okay. Great Dad. So the single family home is the winner for the first real estate investment property. For the most part you want to start looking at single family homes. Now real quick before we move on to the next question, I want you to give me maybe three quick criteria that you want to use in evaluating your first single family home purchase as an investment property. So you're going to rent this thing out. What quick, top three criteria do you use to evaluate?

Paul Thomas: I'm glad you asked that because I had that in mind as we went through the types of investment properties. You want to look for the ugly duckling in a nice, really nice, well-maintained neighborhood.

Dan Thomas: Right.

Paul Thomas: You want to find a rundown property that's through an inspector that you have go through their property before you buy it. You want to make sure that it's structurally sound, that

there're no major problems with the electrical, the plumbing, or the foundation, or the roof. You're looking for cosmetic things like it needs paint, like it needs some fresh landscaping, like it needs carpeting. Those are the kind of things that do not cost a great deal of money and that you can do quickly and bring the value of your house up to those much nicer homes, much like yours but they're in much better condition around you.

They will tend to pull you up if you improve the property. So you want to find the ugly duckling in a nice neighborhood. Okay? So that's a very important thing. You want to make sure that you can also afford the fix-up cost as well as be able to cover the principle, interest, taxes, and insurance, the maintenance and any possible vacancy that you would have especially in your first year or two when the income from the property would either be break even, maybe you'll have a little negative cash flow at first. You want to make sure you can cover that until, through the first few years.

[06:00.9]

Dan Thomas: Right. Okay. So that's all stuff you need to take into consideration in terms of cost, finance, what you're going to have to bear financially.

Paul Thomas: Yes. Location. I mentioned location in a nice neighborhood so that's very important. Close to shopping, good shopping, good schools, and also it's best to buy your property not too far from where you live so you can keep an eye on it.

Dan Thomas: Okay. Okay. Good stuff.

Paul Thomas: But it's the first best investment for the average investor who doesn't have a lot of money to begin with but really important with single family homes is they're about the only residential property left that you can buy; single family homes and single type homes where you can buy with nothing down or a very small down payment. It's all up to you and the seller as to the terms that you agree to. Whereas with other types of properties, apartment buildings, multiple unit properties, it takes a lot more cash up front, they're a lot more complex, there's a lot more to go wrong. So it takes some experience. That first home will give you a lot of the experience you'll need when you get to the bigger properties. Okay?

Dan Thomas: Yeah that's great. And just so everybody knows, as a kid growing up, my dad practices what he preaches. His first two rental investment properties that he purchased were both single family homes. They were both in nice neighborhoods but they both needed a lot of fixing up; just cosmetically. There weren't any structural problems or anything. I have these memories as a kid just going into these places. My dad did a lot of the work himself in terms of painting it, fixing up the yards, doing all these things. I just remember laying there on the carpet watching them paint and do all kinds of stuff. Those really worked out well for you didn't they Dad?

Paul Thomas: They really have. There's no doubt about it.

Dan Thomas: Okay. Let's move onto the next one. Second question that's commonly asked is, "When is the optimum time for someone to look at investing in their first piece of property in terms of their individual financial status and market conditions?" So when should you look at doing this in the scope of your life? What things do you want to look for?

Paul Thomas: Okay. Anytime is a good time to purchase your first property. When I say anytime...

Dan Thomas: You have to have money.

Paul Thomas: Yes but when I say anytime, anytime assuming, you have to make some assumptions here that you have some money, you have the interest, and assuming that you have the money and the interest, anytime is a good time to look for properties. It doesn't have to be a glowing Goldilocks economy or a recession or a down market. There's always opportunity to buy the run-down, ugly duckling, first time property.

[09:15.2]

Dan Thomas: Right.

Paul Thomas: There is never a bad time to do that. The key is to do their due diligence. You want to make sure that the neighborhood and the schools and the shopping, the location of the property is right. That it is truly the ugly duckling with nothing really wrong with it except for just lack of people taking care of it. It's run down, needs cleaning up, and then it would show well. So there's never a bad time. There's always opportunities to make wonderful investments at lower than market prices at low to nothing down on the single family home.

Dan Thomas: Quick follow-up question on that. If someone followed all of the advice you've given so far, finding the ugly duckling, getting it at a good price, fixing up some of it yourself, say at the height of the real estate market, they did this in like 2005 or so, would they be hurting now? Would they be regretting that decision now in this economy with what's happened to the housing market? Would the value of their rental property that they purchased in 2005 now following your guidelines, would it be worth less than what they paid for now and would they be kicking themselves for doing it?

Paul Thomas: Well if they bought it right - no. If they bought it with a low down payment, I'm talking 3%, 5%, maybe nothing down. If they have very little of their own money in it, they haven't really lost much have they?

Dan Thomas: That's true.

Paul Thomas: And if they're renting it – people still need a place to live and that's the great thing about investing in real property versus buying mutual funds, real estate mutual funds for example.

Dan Thomas: Right.

Paul Thomas: They drop - you have nothing but the value of that paper security. Here you have a house. You have people living in it. They're paying you rent. You're getting tax write offs every time you fix something it's considered a loss and you get tax write off on your taxes. You get tax write offs on the interest that's paid that the renter is paying your mortgage payments anyway. So you're getting tax write offs on the interest he pays for you. It goes on and on. The value, if you bought it right, if you bought it lower than the market value and you paid very little down, you're in pretty darn good shape.

Deed to value in the worst case may have dropped below your mortgage, but if you understand that markets come back, they always come back and you still have a property that's providing you income. It's a real tangible asset unlike a piece of paper, like a security where you may have bought a paper security that was invested in real estate, the various forms of real estate. I don't think that a recession, a down market like that should make anybody regret if they invest properly, the way we're talking about here.

[12:35.6]

Dan Thomas: And if that person had gotten a solid loan, not one of these reverse amortization deals or these balloon things. As long as someone did their due diligence and got a good loan.

Paul Thomas: Well there's a lot that could be said about all you're saying here but for the purposes of this interview here and answering your question, we could go into a chapter or two on this. That's to follow. We can provide this to people in the future as to some of the wonderful ways you can buy real estate other than just the standard down payment.

Dan Thomas: Yeah.

Paul Thomas: There're a lot of wonderful negotiating tools that one could use to buy properties very cheaply, very effectively.

Dan Thomas: Fair enough. Okay sounds great Dad. Now we've got one more question we want to cover before we sign off for this part of it. The third question that everyone's asking is, "What percentage of your overall portfolio should consist of real estate investments?"

Paul Thomas: Generally there is no one best answer. Okay?

Dan Thomas: Okay.

Paul Thomas: It depends on the individual. In the last question I mentioned a little bit about securities, you know stocks that are REIT, Real Estate Investment Trusts. I think a lot of people are familiar with REITs. You can purchase, for somebody who's not interested in becoming a landlord, who is not interested in becoming a manager and owner of property and dealing with the issues that a landlord deals with, with tenants and problem calls and this type of thing. Then there's wonderful opportunities to invest in residential, commercial, industrial property in the form of REITs, in index mutual funds which I recommend the index; either nationally or

internationally or both have wonderful diversification and very little correlation in one's portfolio of stocks and bonds and cash.

So that's one way to go. It's very liquid. You're very diversified. That's one way to go. For somebody who wants to own real property, who has an interest in owning a real property and there's a certain amount of pride in having a piece of property other than just a piece of paper. I mentioned that in bad times, the security if you own a REIT security or a mutual index fund drops in value, that's all you've got. You've got that piece of paper with that lower value. With real property, you have a real tangible asset that's always going to be providing you value through income and rents and over the long term that single family home is going to appreciate tremendously over the years. It's a little gold mine of income and appreciation, the growth and the value. Plus you've got all the tax write offs and any pride that you have in the fixing up and being able to call a property your own is something that's important to some investors. Okay so how much in a portfolio for the fellow who invests - the investor who invests in a REIT through a stock or mutual fund? 5% to 15% of your total equity in your portfolio.

[16:08.6]

Dan Thomas: Okay.

Paul Thomas: For somebody investing in real property, that single family home and other real estate investments that he or she might buy in the future, no more than 30% to 50% of your total portfolio.

Dan Thomas: Right.

Paul Thomas: Now the reason I have it a lot higher for the, I believe that you can have higher in the real property for some of the reasons I've talked about. It's a physical asset that always has income.

Dan Thomas: Yes. Yep.

Paul Thomas: Okay? It can be doing fine in your community. It's totally uncorrelated with the national or international economies in most circumstances other than the horrendous market that we've been going through the last couple years.

Dan Thomas: Well Dad if it works for you, I think it will work for everybody else as long as they follow your guidelines and this is a great way to end this one. We really gave a lot of great content. I hope everybody enjoys it. My dad's been doing this a long time. He knows what he's doing and he's coached me to success with all this stuff and I think he can do the same thing for all you guys. So thanks a lot Dad for your time.

Paul Thomas: You're welcome Dan and we'll be talking soon.

Dan Thomas: Yes we will. Okay bye everybody.

Paul Thomas: Okay bye.

[17:27.3]