



WEST FLORIDA REIA NEWS

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Rent to Income Ratios

By Barbara Grasse

The old rule of thumb is that you shouldn't spend more than 30% of your income on rent. As an article in Bloomberg noted, almost 41 million American households spend more, rendering the rule nearly useless.

A National Association of Realtors study finds that the gap between household income and rental rates is widening to unsustainable levels in many areas of the country. Rental rates are rising the fastest in the obvious markets: New York, San Francisco, San Jose, California (think Silicon Valley), Denver and Seattle. Worse, in some area such as Albuquerque, New Mexico, rent rates are going up while income is dropping.

According to the U.S. Bureau of Labor Statistics, there have been

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How Many Houses Do You Need?

In a discussion with two new investors, one of them casually mentioned, "We only need 13 free and clear houses between the two of us."

Wow is that refreshing! And that statement told me that these two young people are going to be successful. How do I know that? They've done their numbers. They know what they need. They are not looking for pie in the sky, "make-a-million-dollars-in-30-days" results. In short, their goals are **REALISTIC**.

Do you know that most individual investors in the U.S. have between five and ten houses? Think about the income from eight free and clear houses. Say the rents averaged \$800 a month. (Yes,

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Most individual investors in the U.S. have between five and ten properties.

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10 consecutive months of rent price growth over 3%. This sounds like good news for landlords, but is it?

“Sarasotans are spending 47% of household income to rent the median rental property.”

You have to look at that 30% rule in terms of overall income. Someone earning \$250,000 a year can pay 40% of their income towards housing and still have enough left over to live on (aka “residual income”). But someone making \$30,000 a year doesn’t have enough money left for other expenses if they are paying 40% of their income towards housing. It’s a situation called “Shelter Poverty” – when people have to cut back on other necessities such as food or health care due to housing costs.

According to Stan Humphries, Chief Economist at Zillow.com, “Sarasotans are spending 47% of household income to rent the median rental property. About 27% of adults in Sarasota are doubled-up in these homes.” (Yes, I know, we can only hope he’s not the same person who comes up with those Zestimates.)

Just to put that 47% figure in perspective, Los Angeles has the highest rent to income ratio at 50%.

41 million American households spend more than 30% of their monthly income on housing costs.

When so much money is spent on housing, renters can’t save money to buy. They are stuck in a cycle of renting. So the housing market can’t get the traction it needs to crawl out of the mire.

Unaffordable rents are an indicator of trouble in the housing market. Unsustainable rents and a lack of qualified buyers in the market are forerunners of another down cycle. More affordable rental properties are needed in this area, from Bradenton down to Fort Myers. But with inventory artificially tight, it doesn’t look like the situation will change anytime soon

Creative Real Estate Profits Seminar

Saturday, August 8th we are holding a one-day seminar: Creative Real Estate Investing for Today's Real World.

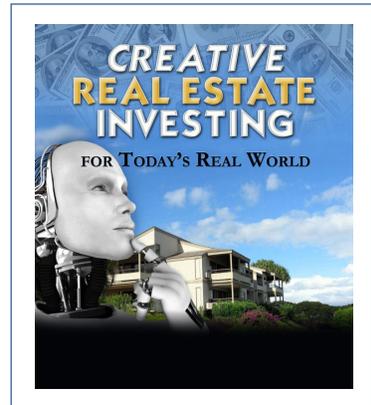
This seminar puts together EVERYTHING (yes, EVERYTHING) you need to find and complete deals using creative techniques. We go through demographics, finding your target market, marketing for sellers and buyers, structuring your offer, negotiating and closing the deal. You also get a 100+ page manual with forms, documents, and contracts.

If you feel like you've got a lot of the pieces to investing, but not an overall strategy, if you want a review of investing or just hope to pick up a few more tips and tricks, then join us for this seminar.

The seminar is **free** (YAY!) for paid annual members of West Florida REIA. Nonmembers are \$125 in advance; \$149 at the door and your seminar fee includes a one-year membership in West Florida REIA. ☺

Saturday, August 8th
Hampton Inn & Suites
881 Venetia Bay Blvd., Venice

Seating is limited. Please pre-register: info@westfloridareia.com
or pay online at www.westfloridareia.com/seminar



How Many? from page 1

we're going with conservative numbers here.) Say the expenses (taxes, insurance, maintenance, repairs, vacancies, heck - throw in property management) average 50% of that income. Eight houses bringing in \$800 per month is \$6,400. Cut that in half and you have \$3,200 per month or about \$38,000 per year. Need more? Add a house or three.

So why do online forums and national gurus tout the need to have hundreds of properties? Because they're selling you something.

John Schaub (*Making It Big on Little Deals*) advocates buying one or two properties a year for ten years. Another formula is to buy three properties a year, hold one and flip the other two to help pay down your "keeper" properties. At the end of ten years, you'll have ten properties, some of which (maybe all depending on how many properties you flip) will be free and clear.

The point is that you don't have to put yourself at financial risk to invest in real estate. In fact, slow, steady growth, while not sexy, is your best bet to long-term wealth. No, that philosophy doesn't sell \$20,000 coaching courses, but then again, your \$20,000 is better spent investing in actual properties. So think again: How many houses do you really need to retire?

*Recommended Read:
John Schaub's Making It
Big on Little Deals.
A Classic!*

Next Month:

In August we are having a split program. First up, **Home Inspector Clay Owens** will speak on what home inspectors look for and what **YOU** should look for in a home inspector.

The second part of our August meeting is **WHOOPS! We don't do THAT again!**

I don't know if we learn **MORE** from our mistakes, but we certainly learn and remember

those lessons **BETTER**. Member John Alexander suggested we invite our fellow investors to share their investing mistakes. Good idea! Thanks, John!

So, don't be shy. Bring any stories of hard-learned lessons in investing—rehabbing errors, buying or selling mistakes, tenant horror stories. We can all learn from each other's mistakes. And probably share a few rueful laughs.

Our Next Meeting:

THURSDAY, August 13th, 2015

Meeting Place and Time:

Sarasota Association of Realtors
2320 Cattlemen Road
Sarasota, FL

Doors Open: 6:30 pm

West Florida REIA Members: FREE

Guests: \$20.00

*In the Port Charlotte/North Port/
Englewood area?*

Our **Port Charlotte Sub-Group** meets every Thursday night at 6:30. Bring your deals, your questions, your experience. Pick up a new trick and talk shop with fellow investors.

Luigi's Restaurant
3883 Tamiami Trail
Port Charlotte, FL

\$5 per meeting

FREE to West Florida REIA members.

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VOLUNTEERS NEEDED

We can always use a helping hand!

We're looking for people who can help check in members, assist with coffee set up and break down and putting together our newsletter.

If you'd like to help, please email us at

info@WestFloridaREIA.com