



# Chicagoland2to4Flats.info

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## Questions beginning investors often ask

### 1. Why should I move from just stocks to having investment real estate?

- a) You can buy property with anywhere from 0% to 30% down—whereas with other investments you typically must invest the full purchase price.
- b) Investment properties tend to offer good **CASH FLOW** *only if* you put a lot down. What drives most investors instead are the **TAX SHELTER** (including depreciation, a tax benefit other owners don't get) and **APPRECIATION** (which is often the biggest benefit).
- c) Once you own two properties where you have 10% or more equity in each, **leveraging** can become the name of the game. Two properties can become three and then four—all while minimizing the cash needed for each purchase (see #4 below).

### 2. What are common investment options to consider?

If I DO have a lot of capital:	If I do NOT yet have a lot of capital:
3-4 Flats rented commercially (not Section 8). Expect to have to put 20% down and even then, in most areas, you won't get much <u>pre-tax</u> cash flow. Commercial property (5 units +). Expect to put 25-30% down for a stable investment with cash flow. 2- to 4-flats to rehab and flip (which means buying foreclosures or property needing rehab).	<u>Owner-Occupied</u> 2- to 4-Flat. Going owner-occupied means having to put less money down—and can give you a lower payment than if you bought a single-family home. <u>Non-Owner-Occupied</u> 3- or 4-Flat rented Section 8. See #4 below on how this can happen with <u>no</u> cash out of pocket.
One option to be careful about is buying condo's preconstruction with the hope of flipping them. While some have made money, there are others who have lost—and some of them BIG. Renting out single-family homes can also be dangerous (as tenants can do a lot of damage). What about Non-Owner-Occupied 2-Flats? It's true that they require less of a down payment, but rarely does a 2-flat bring in enough rent to cash flow (and so few find this a viable option).	

### 3. How do I choose the right area?

Going OWNER-OCCUPIED is the only option if the price of property in an area is too high to support a pure rental (and so almost all that is being sold goes to people who want to de-convert or be live-in landlords). If you want to go non-owner occupied, there are few, if any, opportunities on the regular rental market to cash flow a 2- to 4-flat with any kind of low down. *Many believe the best arm-chair 2- to 4-flat opportunities are for Section 8—and rehabbed, Section 8 ready properties are most commonly found on the south (centered around areas 42, 43, and 69) and west side (areas 23, 26, 27, and 29).*

### 4. How can I minimize the cash I need to invest?

If you already own property in which you have some equity, you might choose to leverage it. How? You might take, say, an 80% mortgage on the new property, but to avoid paying 20% in cash, what many do is to take a 2<sup>nd</sup> mortgage on some existing property. In essence, they now have two mortgage payments to make (one on the new place, one on the old), but they made the new purchase happen with no money out of pocket. *And, in fact, there are some neighborhoods where you can buy 3- and 4-Flats that have been rehabbed and are Section 8 ready that can be pre-tax cash flow positive even with the two mortgages.*