JUMPSTART SERIES VIDEO TWO

YOUR INVESTOR FOUNDATION

One of the most important principles to for success in real estate investing is to understand the difference between capital gains investing and cash flow investing. Most real estate investors focus on the capital gains approach, they think of real estate like a stock, meaning that they attempt to buy low and sell high. There are TV shows on just this topic of “house flipping”. Cash flow investing is buying based on the underlying economic value of a property and managing it over a longer period of time.

CAPITAL GAINS

Capital gains investing is the process of buying undervalued real estate (potentially improving it) and then selling it for a profit. This becomes a very attractive strategy in a raising market, as the overall market drives up property values and profits can be made in a relatively short period of time. The challenge with this strategy is that it relies on short term market circumstances to work and focuses more on speculative guesses rather than building a long term asset with true economic value. In addition, this strategy can have significant taxes and real estate commissions related to it and; ultimately investors end up back with their cash that needs to be re-invested in order to reach their longer term goals.

VS

CASH FLOW

Cash flow investing is the process of buying real estate in such a way that the income from tenants is greater than your operating expenses and debt. This method gives protection from the short term ups and downs of real estate market prices because it doesn’t matter what the market does as long as you can keep your tenants paying their rent. Overtime, part of the cash flow from the property can be re-invested in the property allowing for rent to be increased. On a longer term time horizon of 3, 5, 10 years the property will raise in value and the debt will be paid down at which point, the investor can chose to refinance by putting a larger mortgage on the property with the difference between the old debt and the new debt being distributed to the investors on a potentially tax free basis.

speculative

long-term