



# Money Managers for the Real Estate Investor



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## Why You Need A Real Estate Investment Plan

In the days of the Real Estate boom, most people knew of investors who purchased properties in Arizona, Nevada, Florida or anywhere else without doing much research. They listened to a friend, read articles such as "Where Are the Top 5 Hottest Markets" in money magazines and hopped on the bandwagon. The Realtors welcomed these impatient California investors who were on a mission to buy as many investment properties as they could afford. These investment properties seemed like bargains compared to the Bay Area. With prices going up 20% locally and out-of-State properties going up 25%-40% annually, no one imagined what would follow. The strategy was to take out equity from their homes, put as little down as possible (remember 5% down was an option 3-4 years ago), buy multiple properties and retire in 5 years. Sure this seemed like a smart plan and everyone else was doing it. However the wheels starting coming off this get rich strategy in late 2006.

Most of these investors did not have a **Real Estate Investment Plan**. A good plan consists of portfolio diversification much like that of stocks and bonds. If all of the Real Estate Investors had a

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### SIF Featured Property



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plan during this boom and bust in the market, loss and foreclosure numbers would be significantly lower. Below are some very important questions that should be part of every investment plan:

1. **What percentage of my assets should I put in Real Estate?** As with any form of investment, it depends on your retirement age, cash flow, and risk/reward tolerance. Many of our clients have as little as 10% and some have as much as 75% of their assets in Real Estate. A balanced portfolio should include some real estate.
2. **Should I consider my primary residence as part of my Real Estate holdings?** You should consider it as part of your holdings only if you plan on selling your house and using at least some of the proceeds for retirement. If you plan to live in your home through retirement, then it is not part of your Real Estate holdings.
3. **What percentage should I put as down payment on my investment properties?** The most important factors in figuring out the best down payment are your current cash flow, percentage committed to your real estate portfolio, and your risk/reward tolerance. All of these factors will play a role on the size of your down payment. Most lenders require a minimum of 25% down on residential investment properties (1-4 units) and 35% down for commercial properties (5+ units).
4. **What types of properties should I have in my portfolio?** Much like stocks, different types of properties have different risk/reward factors (a duplex varies tremendously from an 8 unit property in terms of annual return compared to risk). Some of the important factors are cash flow, vacancy risk factor and leverage possibility.
5. **What should be my holding period expectation for my properties?** The holding period expectation should be a minimum of 7-10 years.
6. **Where should I invest?** At SIFF Investment Services we evaluate viable areas to invest looking for significant potential gains over the next 10 years. Being short sighted and "timing the market" is not how we suggest investing. In addition, we evaluate the micro markets of investment areas. Too many investors overlook the micro markets of where they invest their money.
7. **What is the expected rate of return on my investment properties?** In order to calculate the return on your investment property you would need to know the down payment, commissions paid (to Realtor), annual cash flow, type of loan, purchase price, current value and your net income. Here at SIFF, for our clients, we estimate a return between 10%-12% net annualized over a 10 year holding

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period assuming a 25% down payment.

As you can see, investing in Real Estate is a very complex process that involves many decisions ultimately affecting the return on your properties and overall financial picture. At SIFF Investment Services we believe all investors should have a sound plan when investing in Real Estate.

For a complimentary meeting with one of our advisors please call us at 415-954-0808 ext. 201 or email us at [info@siffinvestment.com](mailto:info@siffinvestment.com).

Sincerely,

Scott Fong  
President and Founder

SIFF Investment Services, Inc. **Money Managers for the Real Estate Investor.**

SIFF Investment Services, Inc.

(415) 954-0808

[info@siffinvestment.com](mailto:info@siffinvestment.com)

[www.siffinvestment.com](http://www.siffinvestment.com)

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