01

Establishing Your Goals

Your investing efforts start with careful planning. Let’s work backward to draw your roadmap.

Why Are You Investing?

Clear, measurable goals are easier to achieve because you can break down each step of the journey. But if you simply want to invest for “retirement” or “financial freedom,” this is your chance to **define what that success would mean.**

Ask yourself

Why am I interested in this goal?

How specific can I get with my goal?

How will this goal contribute to my overall life?

How will I measure my success along the way?

What's my deadline to achieve this goal?

Can I realistically achieve this goal?

What will you do when you hit that goal?

For example, the vague "saving for retirement" goal could become "By 2030, I will own three multifamily properties generating at least $250,000 annually so that I can quit my 9-5 and travel around Europe."

Pro Tip: Save up three to six months' worth of expenses before investing in your first rental. Not sure how? Keep reading.

How to Save for Your Goals

Why do we recommend having enough savings to cover three to six months' worth of expenses? The same reason that insurance is critical - you never know what will happen, and it's better to be prepared.

But how can you do it?

Nerdwallet says to**:**

Automate your savings. Set up automatic transfers from your checking to your savings. The less manual work involved, the more likely you are to succeed!

Save extra money. Maybe you got a raise, a bonus, or a healthy tax refund - sock that money away instead of spending it.

Stash spare change. Apps like Qapital and Acorns round your purchases up to the nearest dollar, then save the change for you.

Use a cash-back credit card. Sock away the cash you earn while treating the credit card like a debit card. Pay it off in full every month!

Consider your debts. If you're paying off your car, is it possible to refinance your auto loan to lower your payments? Have you shopped around for car insurance in a while?

Where to Put Your Savings

Make your money work for you by keeping it in the right place - don't just leave it in your checking account!

You'll likely need to work up to your goal, whether that's six months of expenses or a down payment on a property.

Research the different account types like the ones below.

High-yield savings accounts

Money market accounts

Certificates of deposit

Talk with your local bank or credit union, and ask what would be best for your unique situation.

Pro Tip: The stock market might seem like a good option, but be careful. If your target date isn't at least eight years out, the stock market's volatility makes it a risky choice.

Saving for a down payment?

In this economy, squirreling away a large chunk of change might seem impossible. It's not, but saving for a down payment will take time. *That's okay!*

While you're working toward your goal, Nerdwallet recommends looking up local and state **first-time homebuyer programs**, which:

- Often offer down payment grants, tax credits, and assistance with closing costs
- Are typically run by housing finance agencies or government grants
- Have different requirements, like income restrictions or mandatory coursework

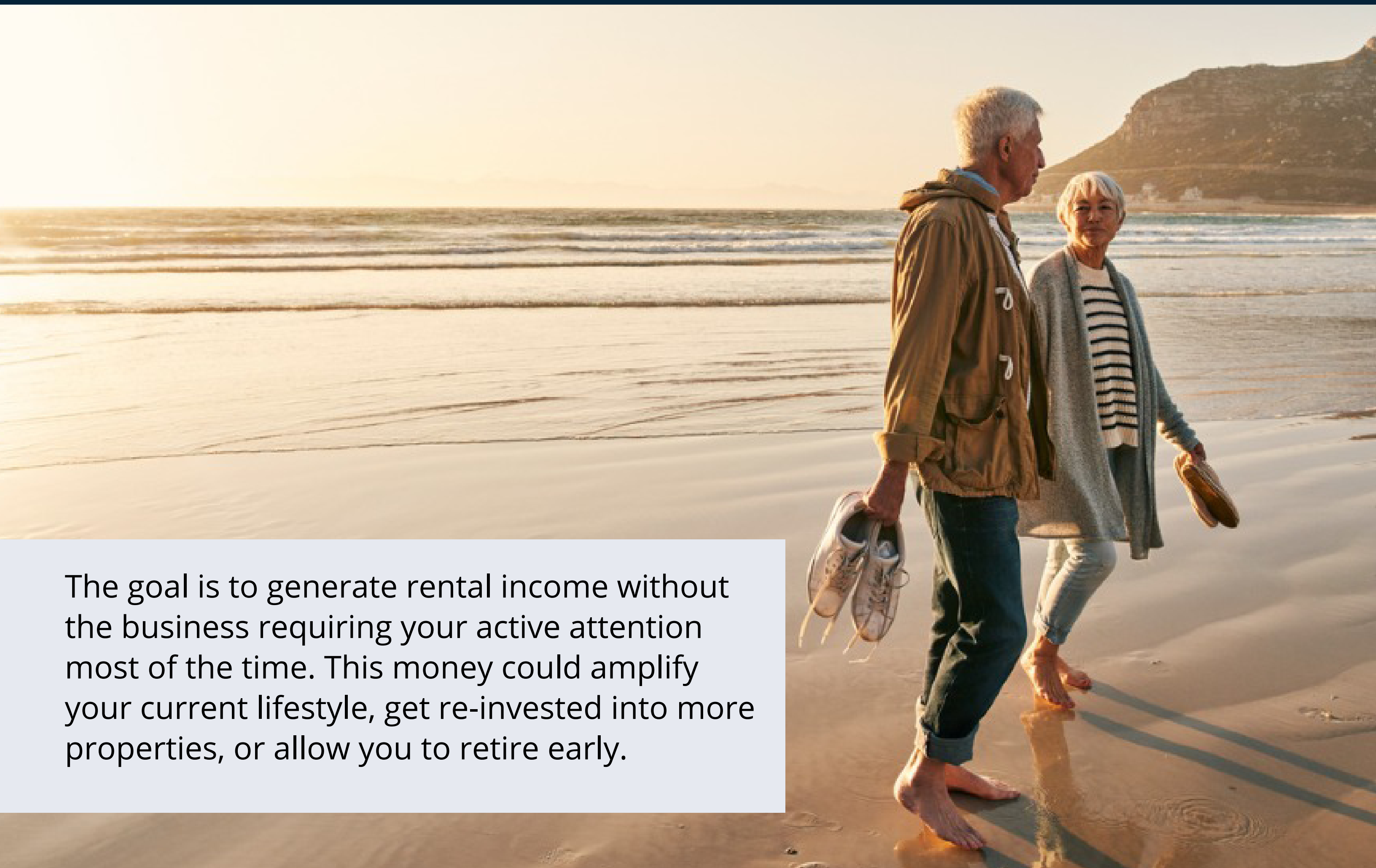
Did You Know? Once you own property, **house hacking** (renting out a portion of your residence) could have someone else paying your mortgage - meaning you can save money while building equity. This is an example of passive income.

The Passive Income Perspective

Is rental property management 100% passive? Not if you want to protect your assets and give back to your community.

Bear in mind:

- **Building your passive income stream takes time.** Most real estate is financed with 30-year mortgages, so make sure you're planning for the long game.
- **There are risks associated with rental property investment** just as there are with every type of investment.
- With the right preparation, tools, and support, **you can rake in regular income with minimal daily effort.**



The goal is to generate rental income without the business requiring your active attention most of the time. This money could amplify your current lifestyle, get re-invested into more properties, or allow you to retire early.

Financial Freedom

Money rules the world, and those with enough to live comfortably call the shots on their destiny. That's what **financial freedom** is all about - having the ability to comfortably meet both your needs and your desires.

So, how can rental property management get you there?

"[My husband and I] had money in the stock market, and we hated that the stock market [bounces] up and down, up and down... [but] with rental property, **we were the ones in control**."

-Nina K., five-door landlord

What does financial freedom look like for you?

The answer varies from investor to investor! For most, financial freedom means attaining the dream of calling your own shots, escaping the 9-5 workday, and living comfortably knowing you have enough money to live life the way you want.

Here's how to calculate it for your unique situation:

- **Tally up your monthly expenses.** Include the average costs of your housing, food, transportation, utilities, obligations, and discretionary spending.
- **Create some breathing room with a buffer.** Add an extra 10-20% to your monthly expenses to cover surprises and emergencies, like a flat tire or an ER visit.
- **Reinforce your financial goal.** What do you want to make happen? Why? Recall your answers any time you're tempted to stray from your path.
- **Do the math.** It's time to run some calculations.

Financial freedom number =

$$\frac{(\text{Monthly expenses} + \text{Buffer}) \times 12}{\text{Annual safe withdrawal rate}^{**}}$$

**An annual safe withdrawal rate is the percentage of your savings that can be safely withdrawn each year without depleting your account.
Most experts use 4%.

Example of Financial Freedom Calculations

Monthly expenses: $4,000
Buffer: $4,000 * 20% = $1,000
Annual safe withdrawal rate: 4%

Let's plug our example numbers into the **financial freedom number formula.**

$$\frac{(\text{Monthly expenses} + \text{Buffer}) * 12}{\text{Annual safe withdrawal rate}^{**}}$$

$$\frac{(\$4{,}000 + \$1{,}000) * 12}{0.04}$$

$$\frac{\$60{,}000}{0.04} = \$1{,}500{,}000$$

If your monthly expenses are $4,000 and you have a buffer of $1,000, your financial freedom number would be **$1.5M**.

Does that number seem daunting? Don't be discouraged! Real estate investment is the perfect venue to make it happen - particularly as a landlord. Having someone make regular rent payments means you have income flowing in that can be saved to meet this goal.

> Real estate makes a good long-term investment for a few reasons, one of which is something people understand - [it's] one of the three necessities, one of the three essentials. You've got food, clothing, and shelter.
>
> **[People are] always going to need a place to live."**
> *-Brent D., six-door landlord*

How Rentals Unlock Your Financial Freedom

Many investors look to rental property management to supplement their financial independence due to its:

- **Cash flow:** Rentals should generate enough money to cover the mortgage, property taxes, insurance, and other expenses - ideally with some left over.
- **Appreciation over time:** Real estate usually appreciates in value, giving you built-in equity.
- **Tax benefits:** Owning rentals unlocks a number of benefits, including the ability to deduct mortgage interest and depreciation.

Preparing to Invest in Real Estate

Whether you're already a homeowner or you've never purchased property, there are a couple of to-do's to check off your list before seeking out rental units:

Have available money in savings. Many would-be landlords forget that when tenants can't pay rent, the mortgage won't get paid - so you should build up a monetary cushion in case of the worst-case scenario.

Pay off your existing debt. You'll struggle to get ahead financially if you're bound to debt. Work on paying off the highest-interest debt first.

Consider how to get into the real estate game. If you're a tenant, buying a piece of property and renting out a portion of it might be the perfect strategy. Maybe you're a homeowner with space to spare. Perhaps you inherited an estate, or you're trying to escape **golden handcuffs.** *Almost every living situation in which you own property can be leveraged for this*

Once you have enough money in savings and a rough idea of whether or not you need to purchase property, it's time to talk financials.

Putting the Numbers to Work
Part 1

Larry Landlord was born to manage rental properties - and he's ready to get started. Let's help:

Larry's monthly expenses total **$4,700**.

- **$2,500** of that figure is his monthly rent.

He qualifies for a first-time buyer FHA loan with a **3.5%** down payment instead of a conventional loan which can require **20%** down.

The average single-family home in his target market costs **$600,000.**

- He'll need to put at least **$21,000** down.
- Larry makes it his mission to save enough for his down payment, closing costs, AND three months' worth of expenses.
  - **$21,000 + ($4,700*3) + ($600,000*.035) = $56,100**
  - To reach this goal, he'll need to decide how much to save each month - based on when he wants to buy.

Down Payment Savings Breakdown

Number of Months Away From Purchase	Amount Saved Per Month
12	$4,675.00
24	$2,337.50
36	$1,558.34
48	$1,168.75
60	$935.00

If you're like Larry, saving this much money might seem overwhelming - but it's doable with proper planning. In order to save money. Aim to:

- **Decrease your monthly expenses**
- **Increase your monthly income**

Expedite the savings process by picking up another job and saving as much of that income as possible.