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“Real Estate Percentage Rules to Invest By”

Article for BAM Capital

Buying and owning real estate can be a lucrative investment strategy, but only if you do it right. There are many factors that come into play, and it pays to know the ins and outs of real estate before you start investing. After all, knowledge is the new currency. And generating positive cash flow truly is king. These real estate investing tips are merely that, tips. Not financial advice.

While BAM Capital only does multifamily syndication, BAM Management started as a Property Management company doing smaller deals. BAM's CEO/Founder, Ivan Barratt, started the company in property management.

To learn more about how BAM Capital can help you or your clients achieve positive cash flow through real estate investment strategies including multifamily syndication, make sure to contact us.

Here are some real estate percent rules that you may encounter while you're learning about real estate investing and acquiring an investment property. These percentages serve more as guidelines rather than strict rules that investors have to follow. Use the one percent rule and all the other percentage rules mentioned here wisely to secure your financial independence as a real estate investor.

Cash on Hand or Liquid Holdings: What Do You Need to Become an Accredited Investor?

The two percent rule in real estate is used by real estate investors in order to identify the best rental property investment opportunities. Out of all the commonly-known percentage rules, this is probably the most extreme.

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This rule refers to the idea that investors should only buy properties that produce a monthly rent of at least two percent of the purchase price. This is often used to determine whether or not a real estate investment would make a good deal. [1]
So for example, if an investment property is listed for $100,000, it would have to generate at least $2,000 in monthly gross rent just to satisfy this rule.
This rule isn't set in stone because it is not realistic under all situations. It's not always practical. It may even be impossible to achieve in certain markets.
In most markets, 0.8 percent to 1.3 percent is more realistic. This may help you find more stable tenants. Consider factors like lot size, number of bedrooms and bathrooms, and included amenities. [2]
If you do follow the two percent rule, you may find that the investment property is able to generate enough money to cover its expenses while also providing a cushion for things like maintenance and vacancies. [1]
The challenge is in actually finding properties that conform to this rule in practice. BAM Capital can help you find these opportunities when it comes to multifamily investment properties.

What is the 50% Rule in Real Estate Investing?

In the world of real estate investment properties, the 50 percent rule provides a ballpark estimate of a rental property's expenses, which can help investors make better decisions. This percentage rule states that 50 percent of a property's gross income would go to its operating expenses, and investors should anticipate that. This includes insurance, property taxes, vacancy losses, repairs, owner-paid utilities, and maintenance expenses. [3]

It means you should expect that only half of the rental income will be left for you after covering all the standard costs of property ownership such as repair costs. It means when the investment property generates an income of $2,000 in monthly rent, $1,000 will go to the different property expenses listed above, except for any mortgage payments. Factor that into your monthly cash flow analysis when considering investing in rental properties.
Another example of this in the real estate market is if a property makes $30,000 per year in gross rental income, you should assume that $15,000 of it will go towards other property expenses like repair cost, operating costs, property taxes, utilities, and property insurance.

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When it comes to rental properties and analyzing deals, it's important to make a decision quickly. Investors need to determine if something is a good investment quickly or else someone may pick it up before them and make more money out of it. So as a good rule of thumb, the 50 percent rule can determine if something is worth investing on. Think of it as an investing criteria that lets you know whether or not you should proceed with the deal.
Your real estate agent may advise you not to rush through your analysis for the sake of your personal finance, and while that is true, you also need to secure that deal before you lose it. So the best solution is to use this ballpark figure that is based on monthly income and operating costs. At the very least, it gives you a place to start your analysis.
Just like the two percent rule, this is just a rule that serves as a guideline because your property's expenses likely won't be an exact 50 percent of your income every month. It's just a good rule of thumb, but doesn't always apply in real-world situations. Still, it's a pretty solid estimate.

What is the 4% Rule in Real Estate Investing?

This next percentage rule isn't specifically about real estate, but there is a connection that's worth mentioning. The 4 percent rule is actually a theory introduced by financial advisor Bill Bengen in the '90s that suggests that an individual should be able to retire and safely withdraw 4 percent of their savings each year—and the money should last 30 years. [4]

Bengen proposed this idea after taking a look at historical stock and bond market returns and determining that 4 percent was a safe withdrawal rate for retirees. Unfortunately, this may not be relevant in today's world. The theory itself raises several questions like: what if someone lives for more than 30 years after retiring? After all, Americans who reach 60 can expect to live into their 80s. The 4 percent rule also does not guarantee 30 years of income. [5]

Real estate investment somewhat ties into this because it gives investors a bigger retirement fund to pull from in the future. Although real estate is not for everyone, it could be a powerful asset towards building your future.

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What is the 1% Rule in Real Estate Investing?

The one percent rule in real estate is exactly the same as the two percent rule, except you are screening for potential rental properties that produce a monthly rent of at least one percent of the purchase price. This rule is used by investors to analyze whether or not an investment property is worth putting money into. [6]

An example of this would be a rental property with a total purchase price of $200,000 that has a monthly rent of $2,000 per month. According to the one percent rule, this is a good investment based on the rental income.

Compared to the two percent rule, this one applies to more properties because it is a much more realistic figure. And while it shouldn't be the sole factor for judging potential investments, it does highlight the importance of having a disciplined mindset when it comes to buying real estate properties.

This percent rule is not necessarily a strict rule that you need to follow, but rather a guideline for improving your investing style. As a real estate investor, having a disciplined approach to real estate investments is important so you don't lose money. Investors should check if properties meet certain income criteria that will help them avoid common investing pitfalls. [6]

Use the one percent rule as a prescreening tool so you can train yourself on becoming a wise and disciplined investor.

What is the 70% Rule in Real Estate Investing?

The 70 percent rule applies to real estate investors who fix and flip properties. According to this rule, an investor should aim to pay no more than 70 percent of a property's ARV or after repair value. This includes the price paid for the investment property itself and the estimated repair costs. [7]

This rule relies on a simple calculation:

After-repair value (ARV) X .70 – Estimated repair costs = Maximum buying price [8]

This maximum buying price should give you an idea of how much you should spend on a home that you are planning on renovating and reselling.

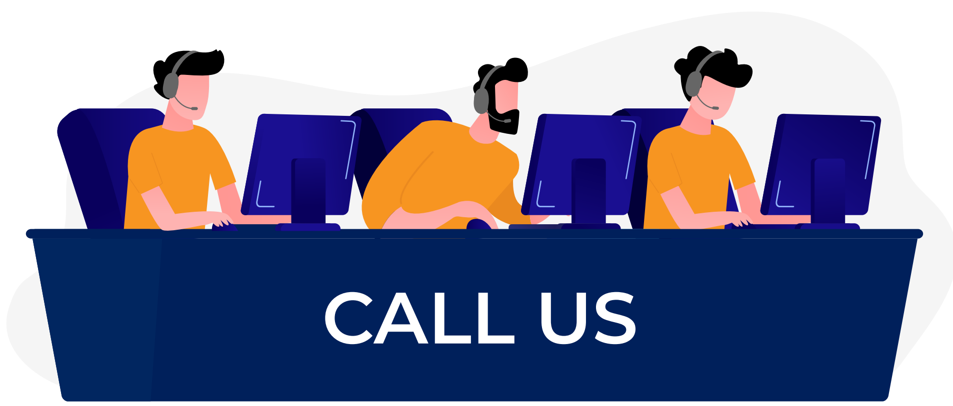
Because this rule requires a bit of estimation, you need to use a realistic estimate of the property's value after repairs are completed. You should also estimate what the repairs will cost. It's actually very easy to use this rule: just multiply the property's ARV by 0.7. This will help you determine your maximum all-in cost. So for example, if a property's estimated ARV is at $200,000, you should spend no more than $140,000. [7]

Why Partner with BAM Capital for Multifamily Syndication Deals

Investors who are looking for a safe investment should consider multifamily syndication. BAM Capital is an experienced multifamily syndicator that prioritizes B++, A-, and A multifamily assets with in-place cash flow and proven upside potential. We help analyze the gross rental income as well as potential property's monthly cash flow including comparable market comps in the area. Knowing what a competing property rents for, helps plan out gross rent and generate positive cash flow.

The one rule of buying investment properties is that if it makes dollars it makes sense. BAM Capital knows our Midwest market more than any other real estate investing company because we are local. We know rental rates for potential real estate deals, we know how to calculate a monthly mortgage payment, net operating income, and how to factor in all the property management costs and repair costs including taxes, insurance, and closing costs. BAM Capital provides unmatched expertise via vertical integration and transparency. It is trusted by investors because of its low-risk model that achieves maximum benefit.
BAM Capital is committed to buying the right assets and staying disciplined in its investment thesis. Currently, BAM Capital has $593M AUM and 5,000 units. [9]

Want to learn more? Schedule a call with BAM Capital today.



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