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## How to build a real estate portfolio

**1. Background on Kathryn King**, owner of KJK Properties and an investor

**2. What are the benefits of having a real estate portfolio?**

- Tax Write Offs
- The benefit of tenants paying off your appreciating asset
- Identity / Autonomy as the owner of your own business
- In a few years, the opportunity to move or leverage equity to improve positions
- Strategies for wealth and retirement

**3. What does it take** - Checking out the realities of being a landlord

**A. What type of property interests me?**

Residential – Single Families, Multi Families, Apartments  
– lower vacancy rates, more legal concerns

Commercial – small commercial – one to a few tenants, restaurants, storefront,  
Industrial

– Higher vacancy rates and higher pricing, not dealing with landlord tenant  
law

**B. Am I a good business person? Am I up for the challenge?**

Being a property owner has obligations - knowledge of forms and rule of law, filing entities to protect against liability, business licenses, and filing additional tax returns in some instances. Can I withstand a tenant who may manipulate me? Can I remain impartial with applicants? **Are you up for the challenge?**

**C. Delegation - Am I good with repairs?** Who would you hire to do your handy man services or larger items of repair?

**D. Cash flow?** Anticipate that a lender considers 25% of the income to cover expenses. Should you use this rule of thumb? Always be prepared that additional costs are not generally covered by rent in the Portland Metro Area.

#### **4. Education, where to go for it:**

- Rental Housing Association of Greater Portland, Land lording 101, 503-254-4723
- City of Portland Area Wide Landlord Forums - Roseanne.lee@ci.portland.or.us
- Westside landlord meeting - 503-292-0494 Claire Sheldon
- Annual Landlord 101 Class sponsored by City of Portland – [www.portlandonline.com](http://www.portlandonline.com)  
<http://www.portlandonline.com/shared/cfm/image.cfm?id=96790>
- [www.metromultifamily.com](http://www.metromultifamily.com)
- Obtain a mentor
- Retain an attorney
- Establish screening criteria, learn to read a credit report, understand qualifying a tenant financially

#### **4. What to look for in a rental:**

- Amenities a tenant or resident appreciates
- Safe area
- Obtain a mentor
- Retain an attorney
- Establish screening criteria, learn to read a credit report, understand qualifying a tenant financially

#### **Case scenario 1:**

**John and Diana own their first home. It is a 2 bedroom and they have outgrown it. It is in an up and coming part of town that is close to transportation. They have grown to like the area but they can't stay, they need something bigger.**

**Solution:** Qualify for a new owner occupied loan with lender. Take any equity necessary from the existing home for the down payment on the new house and potentially additional reserves.

Once qualified for the new home, begin shopping for it. At same time ready existing home to become a rental. Fix all maintenance items and attend landlord classes. Become familiar with the landlord documents. Meet with an attorney and create an LLC. Once moved in to the new home, clean and advertise the prior home. Taking applications, until one passes screening criteria. Transfer title of prior home into newly established LLC. Meet with tenants to accept rents

and deposits in verified funds. Do paperwork and take photos at move in. Follow up in a week for a punch list and get with the mentor for guidance along the way.

In a matter of years John and Diana will have the opportunity to revisit additional leverage to purchase additional rentals, if desired. They will have landlord experience to qualify for investor homes, or they can repeat the process, buying another owner occupied residence.

### **Case scenario 2:**

**Hector and Martha are well established and have had several investment accounts for the past 15 years. Their children are finally finished with college and they have disposable income and a great deal of equity in their large home. They would like an investment that does not take regular action from them, but still pays financial rewards.**

### **Solution:**

Meet with lender. Determine amount of debt load that is comfortable for new investment and where the down payment will be accessed from. Consider rate and terms for borrowing from home equity or loss of income off investments. Vet out what type of investment interests them. Does their amount to invest qualify them to build a portfolio of more than one property? How is the best way to do that, considering the learning curve and desire to be hands off? Retain a mentor and good Realtor to advise on the purchase and structure of the portfolio. Don't anticipate that in the Portland market an investment property, residential or commercial, will offset any borrowed funds for down payment.

**Option 1:** It is determined that the couple has \$150,000 to put toward down payment on property. 35% down payment on a commercial property purchased through a qualified Realtor and using a leasing agent could allow the buyers to obtain a building with a price of \$500,000. Leases are renewable, with built in increases on an annual basis. Many investments are "NNN" or "Triple Net," with tenant paying all utilities and maintenance. Consider buying in an urban renewal area where Portland Development Commission has storefront improvement grants. This would be good for increased value, lower day to day involvement (if any), potentially lower costs.

**Option 2:** Split the down payment into 3 different rental homes. Look in area's that have lower price per square foot, newer homes, with higher rent values. A good scenario is Southeast Portland, or a few pockets I prefer throughout town.

Buy 3 homes valued in the range of \$250,000. 3 – 4 bedrooms, 20% down, increasing the offer price to cover the closing costs. Rent homes in the range of \$1450-\$1500 / month, outflow on each house on a monthly basis \$1659. Cash loss \$150 - \$200 a month per home. Consider it a payment toward retirement.

Take depreciation and maintenance expenses against your W2 income and gain from the appreciation of the properties. Hold for 10 years, having an exit strategy in place for retirement. Expect to cash flow even within 18 to 24 months.

**Option 3:** Split the funds into 2 different rental homes for 30% down, total payments on two homes in similar area would be \$1399, total rents \$1450 to \$1500, cash flow \$150 a month on each home on average at outset. Expect rent increases over time.

### **Case Scenario 3:**

You are married and the husband was the original owner of the house. You are now both on title but you have no mortgage obligation. You have great credit, no unsecured debt, and can borrow against retirement to purchase a first rental.

How should you go about it? Qualify for your own investment property using your own income and the advantage of no mortgage debt on your credit report. Purchase that investment with a 2<sup>nd</sup> from the existing home shared with the husband. Add husband to title, or better yet, create an LLC and become joint members for purposes of liability and sharing of assets.

### **Case Scenario 4:**

You are a single person with a home you have owned for 7 years. You have roughly \$100,000 in equity and you would like to buy a four unit multiplex.

How should you go about it? Take out a 2<sup>nd</sup> with a mortgage broker or a direct lender bear in mind that the higher the loan to value ratio on your home will be, the higher your rate will be. That becomes your down payment and you can purchase a 4 unit rental in the price range of \$400,000 to \$500,000. I would be inclined to go higher and get larger units with nicer amenities such as 3 bedrooms in combination with 2 bedrooms, garages and fireplaces. This makes the units attractive to a higher priced tenant and gives you ability to push rents as a nicer unit.

What are the pros and cons of this scenario? Borrowing the equity in the form of a 2<sup>nd</sup> could increase the debt service "against" the 4 plex so that you do not have any cash after debt service. Benefit in foreseeable future would be write off and increase cash flow with pushing of rents at turnover or on an annual basis. 4 doors require more energy than 1. Harder to sell a multi family in a pinch. Harder to tap the equity of the rental, if not impossible, without refinancing first mortgage.

### **Case Scenario 5:**

You are a gainfully employed first time home buyer more interested in investment property than a home. You would like to live in one side of a duplex and rent out the other side.

How should you go about it? Obtain FHA owner-occupied financing, with 3% down, or by using a non owner-occupant, but related, co-borrower. This scenario allows a gift down payment from a relative.

What are the pros and cons of this scenario? Living by your tenant is not always easy. Could be the best way to cash flow in the short term. Live in for 2-5 years, save additional down payment, rent out owner unit and buy another investment property.

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If you have any further questions please do not hesitate to contact me.

Kind regards,

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Principal Broker