



Investing in Vacation Rental Property

How to Let Others Build Your Retirement

Year 1

Buy a \$400k investment vacation rental property. After acquisition, get it on the rental market asap. This will take about \$95,000 to get it closed with 20% down.

But wait, where do I get the initial \$95,000. Answer: Setup a Self Directed IRA for Real Estate inside an LLC. (this will take a little effort but not an extremely expensive process)

Purchase Price 400,000 20% down leaves a 320,000 mortgage. At 3.5% PITI will be around \$2,000/mo.

**Rent 24 weeks at an average of \$1800 week

(Note: Assume 12 peak weeks of \$2k each, 12 off season weeks at \$1200/wk) totals = \$38,400 gross

**Pay taxes and insurance of around \$6800 total and still have a positive cash flow.

Rental Income	38400	Mortgage w/T & I	24000	Annual Positive Cash Flow
(with 46% occupancy)		Utilities	5000	9400
			29000	

The above is a very doable scenario..... We did it. This is not where you make money.

** Appreciate the property at 7% for 5 years. Now the property is worth \$561,020. Sell it.

(Current appreciation rate along 30-A over the past 10 years is about 8%)

**After other people paying your mortgage for 5 years you now owe \$282,800 on the mortgage.

This is an increase of \$278,220 on an initial \$95k investment in 5 years using other peoples money.

Keep in mind, this money is still in an IRA with no taxes due.

Year 6

Do a 1031 exchange with your proceeds as long as you reinvest within a given time period it will be tax deferred.

Take your profits and do it again. You now have over \$278k to invest now.

Split this profit in half and put down \$139k on 2 properties.

This time duplicate the effort on 2 \$500k houses. Keeping accurate

rental records will show a lender that you can qualify for the loans of 2 properties now.

Put \$139k down on each \$500k house you will have 2 alike mortgages. (finance \$361k)

Assuming more rentals on the more expensive houses you can begin to have more positive cash flow.

****Rent each house 24 weeks at an average of \$2800 week**

(Note: Assume 12 peak weeks of \$3k each, 12 off season weeks at \$1500/wk) totals = \$38,400 gross

Reinvested House #1

Rental Income (with 46% occupancy)	54000	Mortgage	26400	Annual Positive Cash Flow	22600
		Utilities	5000		
			31400		

Reinvested House #2

Rental Income (with 46% occupancy)	54000	Mortgage	26400	Annual Positive Cash Flow	22600	Total Annual Pos Cash Flow (both)	45200
		Utilities	5000				
			31400				

Year 11 or 12

Both properties together will accrue a positive cash flow of \$45k each year. If the plan is to do this every 5 years then it would be \$225,000 total positive cash flow after 5 years.

Now appreciate your 2 \$500k houses at 7%/yr for 5 years. (Actual return may be different)

After 5 years each house will be worth \$701,275. You will owe \$322,563 on each mortgage.

This is a net increase of 378,712 on each house, a total of \$757,425

So after an initial investment which was not taxed of \$95k you now have \$757,425 over an 11-12 year period.

This money is still inside an IRA but if you time this to match your age properly it can be perfect timing if you start investing in your mid to late forties.

A note: Investing \$95,000 in the market returning 10% would yield \$298,150 in 12 years. This is considered excellent.

Using Real Estate and other peoples vacation money you can get an enormus return.

This hypothetical example shows an annual return, from the initial \$95k of slighty over 19% consistent annual return.

Also, the basic cash flow the first 5 years was about \$47,000

Also, the basic cash flow the second 5 years was about \$226,000

Total Cash Flow over 11-12 years is \$273,000

Add this cash flow to the \$757,425 for a total value of over \$1,000,000 in 12 years. (about a 22% annual return)

This is one way how Real Estate can make you wealthy.