Alumni Exchange
Building Wealth Through Real Estate

July 14, 2022

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REALTOR® & Researcher
&
Nelson Morales
Senior Mortgage Consultant
About Julia

Chicago native & Licensed IL REALTOR® serving the Greater Chicagoland area.

Nearly two decades of coaching individuals, groups and organizations – seamlessly moving clients from vision to strategy to positive outcomes.

Bachelor of Architecture from the Illinois Institute of Technology, Master’s degree and a PhD in Social Work from the University of Illinois at Chicago.
About Nelson

Sr. Mortgage Consultant

Certified Military Housing Specialist

**LENDING IN ALL 50 STATES**
“90% of all millionaires became so through owning Real Estate”

~Credited to Andrew Carnegie, nd.
“There are many ways to build wealth in America...

but real estate might be the safest, steadiest and simplest way to do so”

~David Greene, November 27, 2018, “Why Real Estate Builds Wealth More Consistently Than Other Asset Classes”
Objectives

• Expand knowledge of the real estate market
• Explore the ways real estate can be used to build wealth
• Gain access to the people, information, and resources needed to start investing in real estate
Real Estate Knowledge Poll

• What percentage of the GDP is housing services (e.g. rent from renters, utilities, homeowner imputed rent and utilities)?

• What percentage of Chicago households are rent occupied?

• What is the average down payment most buyers do on the purchase of their home?
Real Estate Knowledge Poll

• What percentage of the GDP is housing services (e.g. rent from renters, utilities, homeowner imputed rent and utilities)? (Answer: 13%)

• What percentage of Chicago households are rent occupied? (Answer: 53%)

• What is the average down payment most buyers do on the purchase of their home? (Answer: 6%)
2022 Investor Market Share

Nationwide Level of Investor Share

- Quarter 1: 28% of Single-family Market (Source: Harvard Joint Center for Housing Studies)
- Record breaking year!

Chicago – Investor “Gateway” City

- Affordable areas attract investors
2022 National Investor Market Share

National Investor Market Share Annual Comparison

- 2022 – Qtr 1: 28%
- 2021 – Qtr 1: 19%
- 2017 - 2019: 16%

National Market Share by Investor Type

- Small (three to 10 properties): 50%
- Mid-Size (10 to 99 properties): 30%
- Large Institutional (100+ properties): 20%
Chicago – “Gateway” City Market

Sales Market
- 4.4% higher sales price than June 2021
- $360k - Median list price
- $247 per sq ft - Median List Price
- 13 - Median days on Market
- $365.5k - Median sales price
- 99.9%, Sale to list ratio
- 5 of 10, Affordability index

Rental Market
- $2500, Median Rent (3bed)
- 9% increase year/year
- Steady for past 3 year
- 53%, Renter-occupied housing (very strong!)
- $1,500 to $6,000+, Rents range (varies by neighborhood)

Midwest Real Estate Data LLC (MRED) – June 2022
Building Blocks for Building Real Estate Wealth
Wealth Building Blocks

1. Know
   • Know Your “Why”

2. Know
   • Know Yourself

3. Find
   • Find Your Niche

4. Create
   • Create a Plan

5. Build
   a. Build Your Skills
   b. Build Your Team

6. Invest
   • Start Investing in Real Estate
1. Know Your “Why”

- Family future?
- Financial freedom?
- Passion for Real Estate?
Real Estate Investment Tax Benefits

- Tax Write-Offs
- Depreciate Costs Over Time (Rental Property)
- Pass-Through Deduction
- Capital Gains
- Tax Deferment with Incentive Programs
- Self-Employment (No FICA Tax)
2. Know Your Self
&
3. Find Your Niche

What passions, skills do you bring to real estate?

What aspects of real estate interest you?
To Build or Rebuild
Simple Kitchen Cabinet Refresh

Tenancy Agreement

This Tenancy Agreement is for letting furnished or unfurnished residential accommodation. It is subject to the provisions of the Residential Tenancies Act 2010. As such, this is a legally enforceable document and should not be altered. This Tenancy Agreement is a legal binding contract and either party may seek advice from a legally qualified person if they are unsure of its meaning. This Agreement was made on the date specified in the Agreement. The Landlord and Tenant. It is a legally binding document created by the Agreement. The Landlord and Tenant.
4. Create a Plan

Set SMART goals
- Investment goals should be specific, measurable, attainable, realistic, timebound
- Aim high. Start small!
  - e.g. purchase 1st primary residence, purchase 1st vacation home

Source Your 1st deal
- Identify target market
- Start building your team (network, call successful people)

Identify/secure financing

Do Your Due diligence

Manage & Grow Your Portfolio
5a. Build Your Skills

**Prioritize**
- Make Real Estate Investment a Priority

**Learn**
- Learn the real estate market. Ask lots of questions!
- Read Articles (e.g. The Oracle, The College Investor)
- Listen to Podcasts (e.g. Biggerpockets Real Estate Podcast, Real Wealth Show)

**Get Help**
- Get a mentor or two
- Build a network of likeminded people

**Be Gracious & Be Patient**
- Be gracious with yourself/others. Be Patient!
Patience is a Real Estate Virtue!

“That’s how you get wealthy. The longer you hold an asset, the wealthier you will become. It is amazing what happens to a portfolio after you’ve owned it for 10 years.”

~Mike Zuber, How to build wealth from real estate investing, according to 7 couples and individuals who have done it, Business Insider, Apr 14, 2022
“Buying that tiny studio was the most important decision I made because it got me in the game.”

—Barbara Corcoran, founder of The Corcoran Group, podcast host of “Business Unusual,” judge on “Shark Tank”
5b. Build Your Real Estate Team
You CANNOT source deals alone!

- A REALTOR® and/or a Lender are often the real estate investor’s 1st stop
- Budget-conscious property search
- Facilitates smooth closings
Its All About the Comps!

- A REALTOR® will help you make an offer based on “comps”.
- What are comps?
  - Comps are comparable properties that are as similar as possible to the subject property
Comp Analysis

• Condition of the property
• Age of the property
• Size of the property
• Construction and style of property
• Location
After Repair Value (ARV)

- ARV = Property value before repairs/reno + Value of the required renovations
- Pay up to 70% of a property's calculated ARV
- Suggested Bid Price (SP)
  - SP = (ARV x .7) - renovation costs (RC).
Additional Key Real Estate Investment Team Members

- Attorney
- Title Company
- Inspector
- Contractors
- Accountant/Bookkeeper
- Insurance Agent
Financing Your Goals

• Sweat the Financial Details with a Trusted Lending Partner
Mortgages
My Story

Nelson Morales
Senior Mortgage Consultant

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NMLS ID: 1174028

**LENDING IN ALL 50 STATES**
Types of Mortgages

In the Mortgage Industry there are different types of loans.

Any loan out there, will fall into one of these categories.

<table>
<thead>
<tr>
<th></th>
<th>CONV</th>
<th>FHA/VA/USDA</th>
<th>PORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOWN PAYMENT</td>
<td>3% to 20% down</td>
<td>0% - 3.5% down</td>
<td>20% plus down</td>
</tr>
<tr>
<td>CREDIT SCORE</td>
<td>620 plus</td>
<td>550 plus/620</td>
<td>640 plus</td>
</tr>
<tr>
<td>INCOME</td>
<td>31/50 ratios</td>
<td>29/45 ratios</td>
<td>can vary...</td>
</tr>
</tbody>
</table>
The Pre-approval

What 4 criteria make up every loan?
Credit
FICO scores range from 350 to 800
Owner Occupied (O/O) Vs. Investments(NO0)

What goes into my score?
What hurts my score?

What Counts?

- Payment history: 35%
- Amount owed: 30%
- Length of credit history: 15%
- New credit: 10%
- Types of credit used: 10%

- Not paying bills on time
- Opening to many accounts
- Closing old unused cards
- Signing up for Retailers cards
- Maxing out your cards
Income

W-2’d employee or Self-employed?
• Length in Current job and line of work?
• Salary, Hourly, Commission or Bonus?
• Dividend's, Social Security, Pension or Alimony?

What the difference between Owner Occupied (O/O) vs. Investment (NOO)?
• *Income* – Your income VS. Property Vs. Both
• *Rental Income* – calculations, Lease Vs. No Lease, *Operating Income Statement*
Assets

• Savings/CD’s/Stocks
• Gift Funds
• IRA/401k loans
• Seller Assistance

What the difference between Owner Occupied (O/O) vs. Investment (NOO)?

• Down payment
• Cash to Close
• Reserves

• All 3 of these in terms of Owner Occupied Vs. Investment
Property Type

What type of property are you buying?
- The Type of Property of use of the property will affect your loan and interest rate

• Condos
  Warrantable Vs. Non-Warrantable, Owner Occupied (O/O) vs. Investment (NOO)

• Single Family Homes
  Primary, or Second Home, Owner Occupied (O/O) vs. Investment (NOO)

• Multi Unit - 2-4 Units
  Owner Occupied (O/O) vs. Investment (NOO)
# Down Payment – O/O Vs. NOO

FRM = Fixed Rate Mortgage  
ARM = Adjustable Rate Mortgage

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Number of Units</th>
<th>Maximum LTV, CLTV, HCLTV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal Residence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>1 Unit</td>
<td>FRM: 97% (1)</td>
</tr>
<tr>
<td>Limited Cash-Out Refinance</td>
<td>2 Units</td>
<td>ARM: 95%</td>
</tr>
<tr>
<td></td>
<td>3-4 Units</td>
<td>FRM/ARM: 85%</td>
</tr>
<tr>
<td><strong>Investment Property</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>1 Unit</td>
<td>FRM/ARM: 85%</td>
</tr>
<tr>
<td></td>
<td>2-4 Units</td>
<td>FRM/ARM: 75%</td>
</tr>
</tbody>
</table>
6. Invest

*Start Making SMART Money Moves!!*
Build Your Own Portfolio

- Real estate investment portfolios can have various points of entry and pathways, including:
  - Purchase
  - Hold
  - Renovate
  - Rent/Hold
  - Etc.
Not Sure Where to Start?

• Buy rather than rent your primary residence
• Buy residential property to live in one unit and rent out the other
• Homeowner? Buy a rental property or vacation home
Wealth-Building Recap

Know your “why”

Know your strengths

Find your niche

Create a plan

Build your skills & team

Invest
What Questions Do You Have?
We’re Here to Help!

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**LENDING IN ALL 50 STATES**
References

• The State of the Nation’s Housing 2022, https://www.jchs.harvard.edu/calendar/state-nations-housing-2022
