

# Cashflow Opportunities in Ohio

This letter highlights a few examples of investment properties in Northeast Ohio. Within this area, there are two different opportunities available for real estate investors, depending on their individual goals.

On a high level, the two opportunities are:

- 1. Excellent Monthly Cashflow with Limited Appreciation**
- 2. Good Monthly Cashflow with Average Appreciation**

Our home prices in Northeast Ohio remain relatively stable, as we do not have a large inflow of new businesses and employment opportunities. The Cleveland Plain Dealer just reported that home prices in our area are still below pre-recession levels:

*“Price gains here still aren’t matching growth across much of the country. And the broad Cleveland-Elyria-Mentor housing market still hasn’t rebounded to pre-recession levels, despite fierce buyer competition for scarce listings in some communities.”*

This situation obviously isn’t the best for investors looking to maximize appreciation. It IS helpful for investors looking for attractive cashflow, because you can buy nice homes at attractive price points.

These opportunities obviously differ based on the economics in the various counties throughout the area. These different economics provide different opportunities for investors.

Let’s start with the excellent cashflow properties.




## **1. Excellent Monthly Cashflow with Less Appreciation**

The primary city is Geneva, Ohio, which is in Ashtabula County. This county is on the eastern border of Ohio near Pennsylvania. According to Wikipedia, the city of Geneva had a population of around 6,500 in 2010. The median age was 41 years old. It’s a very small city with a historic downtown area like you might see in the older Andy Griffith TV shows. Everyone seems to know everyone in the town, and it’s a great place to live if you enjoy a slower pace.

There isn’t a great deal of job growth in the area, and this lack of new employment holds back demand for homes. The homes in this area do not appreciate significantly and I do not factor in any appreciation when evaluating these investments. There is significant demand for nice rental properties in the area.

The real opportunity is the cashflow that is available. The strategy is to acquire the higher cashflow properties and use the cashflow to invest into different appreciating assets.

Here's an example of one of these high cashflow properties:

	<b>Residential</b> MLS: <b>3934542</b> <i>Active</i>  <b>204 Vine St, Geneva, OH 44041</b> Area: <b>2001-Geneva</b> Twp: <b>Geneva City</b> School Dist: <b>Geneva Area CSD</b> Subdiv: <b>A C Tibbitts</b> Parcel ID: <b>TX 200050004300</b>	List Price: <b>\$69,900</b> Sold Price: List Date: <b>08/22/17</b> List Date Rec: <b>08/23/17</b> Pending Date: Off Mkt Date: Closing Date: Contingent Dt: Exp. Date: DOM/CDOM: <b>36/36</b>  \$/SqFt: <b>\$56.46</b>
	Subtype: <b>Single Family</b> County: <b>Ashtabula</b> Map: <a href="#">Supplements (2)</a> Directions: <b>Rt 20 E, R on Swan St, L on Vine St.</b>	

This home is a three-bedroom, one bath-home in Geneva. The asking price is \$69,900, and the annual taxes are \$1,200. The home is 1,238 square feet and offers a large front porch and a large walkout deck in the back of the home. The home has many updates, including kitchen cabinets, electric, plumbing, furnace, and roof. A newer two-and-a-half-car garage was built in 1996. It's on a quiet, tree-lined street within walking distance to the downtown Geneva area. This property would make an excellent cashflow property due to the lower price and property taxes.

Here's how the numbers would look if offered as a straight rental:

Monthly Rent		\$895
Property Taxes	(\$100)	
Insurance Estimate	(\$50)	
Property Management	(\$100)	
Repairs & Maintenance	(\$100)	
Net Monthly Cashflow Before Debt Service		\$555
Net Annual Cashflow Before Debt Service		\$6,660

If an investor paid \$65,000 cash for this property, their cash-on-cash return on investment would be around 10.2% without factoring in any appreciation. This return is *after* paying taxes, insurance, maintenance, repairs and property management expenses.

There also may be an opportunity to finance this investment. Based on our research, we believe Canadians can finance real estate if they use Canadian lenders with branches in the United States.

RBC seems to be the only lender that can help us with mortgages. They are based in the U.S. (Raleigh, N.C.) and offer investment mortgages in all 50 states.

Here's a summary of their terms/conditions...

- Investor fills out pre-qualification online, good for 3 months
- 30-year amortization, 3, 5 or 7-year arm at 3.25%, 3.375% or 3.5%

- 45 days to close loan
- Minimum credit score 680
- Down payment 40%
- Home must be titled in person's name only

To finance this property, the investor would need about \$26,000 down, based upon the 40% requirement with RBC. The mortgage would be amortized over 30 years, and the estimated interest rate would be 3.5%.

Here's how the numbers would look with financing:

Purchase Price	\$65,000
Down Payment	\$26,000
Mortgage	\$39,000

With a 3.5% interest rate, the monthly principal and interest payment would be \$175.

Net Monthly Cashflow Before Debt Service	\$555
Less Monthly Mortgage Payment	<u>(\$175)</u>
Net Monthly Cashflow After Debt Service	\$380
Net Annual Cashflow After Debt Service	\$4,560

**Annual Cash-on-Cash Return on Down Payment 17.5%**

Financing the property does create additional risk; however, this risk is low as you're not overpaying for the property and you'll have a significant equity position. In addition, it may allow the investor to acquire one or more additional cashflow properties.

## 2. Good Monthly Cashflow with Average Appreciation

The homes for this criterion would be in Lake County, Ohio. The prices in this area are higher than Ashtabula County. However, the area offers more potential for price appreciation because there are more job opportunities, and the county is in closer proximity to downtown Cleveland.



**Residential** MLS: **3940689** Active  
**38408 Dolores Dr, Eastlake, OH 44095**  
 Area: **1107-Eastlake**  
 Twp: **Willoughby-Eastlake City**  
 School Dist: **Willoughby-Eastlake**  
 Subdiv: **Eastlake Garden**  
 Parcel ID: **TX 34-B-027-B-00-010-0**  
 Subtype: **Single Family**  
 County: **Lake**  
 Map:  
 List Price: **\$129,900**  
 Sold Price:  
 List Date: **09/13/17**  
 List Date Rec: **09/13/17**  
 Pending Date:  
 Off Mkt Date:  
 Closing Date:  
 Contingent Dt:  
 Exp. Date:  
 DOM/CDOM: **14/14**  
 \$/SqFt: **\$126.36**

[Supplements \(2\)](#)  
 Directions: **West off Lost Nation**

This home is a four-bedroom, one-bath home in Eastlake, Ohio. The asking price is \$129,900, and the annual taxes are \$2,206. The home is 1,028 square feet and features an eat-in kitchen with newer cabinets, full basement, deck, and a two-car garage.

Here's how the numbers would look if offered as straight rental:

Monthly Rent		\$1,200
Property Taxes	(\$218)	
Insurance Estimate	(\$50)	
Property Management	(\$100)	
Repairs & Maintenance	<u>(\$100)</u>	
Net Monthly Cashflow Before Debt Service		\$732
Net Annual Cashflow Before Debt Service		\$8,784

If an investor paid \$125,000 cash for this property, their cash-on-cash return on investment would be around 7% without factoring in any appreciation. We would estimate that the home would appreciate at 1% to 2% annually.

Using the same financing terms as in our previous example, the numbers would look like the following:

Purchase Price	\$125,000
Down Payment	\$50,000
Mortgage	\$75,000

With a 3.5% interest rate, the monthly principal and interest payment would be \$337.

Net Monthly Cashflow Before Debt Service	\$732
Less Monthly Mortgage Payment	<u>(\$337)</u>
Net Monthly Cashflow After Debt Service	\$395
Net Annual Cashflow After Debt Service	\$4,740
<b>Annual Cash-on-Cash Return on Down Payment</b>	<b>9.48%</b>

As you can see, the property in Geneva offers a great deal more cashflow. This is because the home prices and property taxes are approximately 50% lower compared to similar homes in Lake County. More importantly, the rental rates are only 25% lower, allowing the investor to really capitalize on the price differences.

More than likely, the additional cashflow return from the homes in Geneva would provide more financial benefit than any price appreciation captured in Lake County.

I personally live in Lake County, Ohio, but have a large number of properties in Geneva because of the additional cashflow available. My strategy is to reinvest the additional cashflow extracted from the higher cashflow properties into new income-producing assets. These additional investments boost my overall return, offsetting any sacrifice in price appreciation.

Also, HomeAdvisor.com estimates that it costs approximately \$150 per square foot to build a home in the states. The home in Geneva is available to purchase at just \$56.46 per square foot, and the home in Eastlake is available to purchase at \$126.36 per square foot, both of which are below replacement cost. This provides another measure of safety for both investments.

All of the numbers above have been based upon offering the properties as straight rentals.

An investor could increase their return further with the use of Rent to Own programs, which will provide another \$100 to \$200 of additional cashflow per month.

If you have questions or need any additional information, let me know.

Best,

Rob Minton, Broker  
Dividend Real Estate