What is Real Estate Investing?

Worksheet

Real estate investing is purchasing residential or commercial property to earn rental income, profit from appreciation, or both. It provides cash flow, tax benefits, and leverage unavailable in stock investing.

Questions

1. Real estate investing primarily aims to…

A) Speculate on short-term price swings
B) Generate cash flow and/or appreciation
C) Avoid paying taxes entirely
D) Flip every property within a year

2. If a property costs 200K, you put 20% down, and earn10K/year cash flow, what's your cash-on-cash return?

A) 10%
B) 20%
C) 25%
D) 5%

3. Capitalization rate (cap rate) is calculated as…

A) Annual rent × property value
B) Net operating income (NOI) ÷ property value
C) Property value ÷ square footage
D) Total return × 100

4. Which is a residential real estate investment?

A) Shopping mall
B) Office tower
C) Multi-family apartment building
D) Industrial warehouse

5. Tom buys a duplex for 300K with 20% down (60K). Monthly rent is 2,500 (each unit1,250). Expenses average $800/month. What's his annual cash flow?

6. Lisa invests 100K in a rental property 10 years ago. Today it's worth250K, and she's collected $120K in net rental income. What's her total return?

7. A commercial property earns 50K/year net operating income (NOI) and sells for500K (NOI method). What's the capitalization rate?

8. Define: What is real estate investing?

9. Define: Two main types of real estate investment returns?

10. Define: What is the capitalization rate (cap rate)?

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Answer Key

1. B) Generate cash flow and/or appreciation — Real estate investing focuses on long-term cash flow and appreciation, not day trading or tax evasion.

2. C) 25% — Down payment = 40K; cash-on-cash return =10K / $40K = 25%.

3. B) Net operating income (NOI) ÷ property value — Cap rate = NOI / Property Value; a metric for comparing property profitability across markets.

4. C) Multi-family apartment building — Residential includes single-family, multi-family apartments, condos — properties designed for tenant housing.

5. Annual rent: 2,500 × 12 =30,000 Annual expenses (mortgage, tax, insurance, maintenance): 800 × 12 =9,600 Annual cash flow: 30,000 −9,600 = 20,400 Cash-on-cash return:20,400 / $60,000 = 34% first year

6. Appreciation: 250K −100K = 150K Cash flow collected:120K Total gain: 150K +120K = 270K Total return:270K / $100K = 270%

7. Cap rate = NOI / Property Value Cap rate = 50K /500K = 10% Higher cap rate = higher risk or better undervalued deal; compare to market averages (6–8% typical)

8. Buying, owning, and managing property to earn rental income, profit from appreciation, or both.

9. Cash flow (rental income minus expenses) and appreciation (property value increase over time).

10. Annual net operating income (NOI) divided by property value; used to compare property returns and market valuations.

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