



The Sullivan Multi Minute Tip

Interest Rates vs. Price

Interest rates are under 5% for residential loans (2-4 units) and near 6% for commercial loans. This fact makes it a great time to lock rate and go make your best deal.

Most buyers focus on *sale price* and pay little attention to *interest rates*. Understanding the relative importance of each on your cash flow is worth thousands of dollars. Don't just get hung up on price – make a good deal, which includes the financial structure of the investment.

Here are several examples with different angles on the effect of interest rates.

Let's start with the change in monthly payments at different rates of interest. In this example, each percentage rate equals nearly \$200/month (\$2,400/year).

Price	Interest Rate	Payment/Month
\$300,000	7%	\$2,000
\$300,000	6%	\$1,800
\$300,000	5%	\$1,610

Now let's look at a change in price. At 6%, every \$10,000 equals \$60/month (\$720/year).

Price	Interest Rate	Payment/Month
\$300,000	6%	\$1,800
\$310,000	6%	\$1,860
\$320,000	6%	\$1,920

Finally, notice how much leverage is achieved over the price with lower interest rates while keeping your cash flow constant. In this example, a percentage of interest is nearly \$30,000 of buying power (you actually can afford a nicer house if you can get a lower rate). ***A drop in rates effectively drops the price of all properties.***

Price	Interest Rate	Payment/Month
\$270,000	7%	\$1,800
\$300,000	6%	\$1,800
\$335,000	5%	\$1,800

Go out and invest. Get the best price. And get a low interest rate which will allow you to purchase a *good* investment property, not just a cheap one.

--Brit Vitalius

*All figures were rounded to the nearest \$5 and 100% financing was assumed for simplicity.

Sullivan Multi Monthly Minutes are sent to you from Bill Sullivan, Brit Vitalius, John Graham, Chris Sullivan, the 'Multis in Greater Portland, That's All We Do' people. Bill and Brit are principals of Sullivan Multi Family Real Estate, LLC, 306 Congress Street in Portland. FMI Call 207-771-5556 or go to www.sullivanmulti.com