RentersWarehouse®

Thinking about buying an investment property?

GUIDE:

How to Assess and Survey a Potential Property – Your to Guide to Walkthroughs

Introduction

Want to get started with rental properties? Then you'll want to start by ensuring that the property you invest in will yield the returns that you're looking for.

As an investor, your goal is to make money with rentals. Not just break even or turn a bit of profit. At the end of the day, you'll be tying up a great deal of capital in your investments, so you'll want to make sure that you're getting something back for it.

In order for your rental investments to be a success, you'll want to make sure you secure the right property. This means that you'll want to ensure that you buy in a good market, one that'll allow you to generate cash flow and, in most cases, appreciation as well. Ideally, you'll also want to secure your rental property for a good price. One way to make sure you're getting the most for your money is by performing an in-person walkthrough, where you go through the property in question before you make an offer. This approach will help you to ensure that there are no hidden problems with the property, things that may have otherwise gone unseen, and could end up costing you a significant amount of cash down the road.

In this guide, we'll take a look at some things that you'll want to look at when conducting walkthroughs and highlight some other aspects of a property that you'll want to consider before you sign on the dotted line. We'll also uncover some preliminary steps that you should take before you set boots on the ground, to determine whether a property that you've found online is one that warrants a closer look.

With this in mind, let's dive in now. See how you can find a high-performing rental property that'll give you the returns that you're after.

Establishing Your Investment Criteria

Before you begin looking at properties, it's important to know what, exactly, you're looking for. By taking the time to establish your investment criteria, before you start, you'll be able to find a property that checks out as a solid investment; one that'll generate the returns that you need. It's best to be as clear as possible with your goals.

Set Investment Goals

First things first, it's important to set big-picture goals for yourself. It might seem like one of those steps that doesn't really matter, but it's crucial for generating a profit. Outlining your goals will help you to know exactly what type of properties you should invest in. It'll also help you to identify your investment strategy and even find the best markets to invest in, and locations that are set to help you achieve your goals. Whether you're looking for long-term financial freedom, an early retirement, or passive income, it's important to get clear on what your goals are so that you can know where to invest.

Determine What You Are Investing For

Next, you need to decide what exactly you are investing for. Are you investing for now or for the future? Are you looking to generate cash flow, appreciation, or both? While many investors look for cash flow with their rental properties, most will want to see a certain level of appreciation as well. For some, it's all about appreciation, and cash flow is a secondary consideration, however, this is usually for investors that are in hot property markets, or those who are looking for a fix-and-flip property. For someone who is in it for the long-run and looking for consistent income each month, cash flow is almost always the name of the game.

Investing for Cash Flow

Cash flow is the returns that your property is generating in rental income. It's the amount that you have left after expenses. In most cases you will want to have a positive cash flow, meaning your income is more than your expenses. The exception to this is when you're first starting out, you might find that by claiming depreciation on your tax return, you'll end up showing a loss at the end of the year, even though you've made money.

Most investors who are investing for cash flow will look for properties that produce a certain percentage of cash flow before they will invest in the property. What's the right amount of cash flow? That depends on your goals. A quick, back-of-the-napkin analysis is to find properties that are generating at least 1%-2% returns each year. Anything less than this isn't worth investigating further. See: How Much Cash Flow Is Good for a Rental Property?

Where can you find properties that are producing decent cash flow returns? That depends. Often, markets that are located outside of major cities tend to produce good cash flow. This includes commuter areas that are outside of major cities. Many places in the Midwest, for instance, where appreciation tends to be lower, often have properties that produce excellent cash flow as well. You'll want to do some digging to find a market that offers good job and housing prospects when looking for a place that'll produce cash flow, and run the numbers on the individual property in question to make sure it checks out. See: Spotting a Good Investment Property to learn more.

Benefits of Investing for Cash Flow:

- The Opportunity for Passive Income: Investing for cash flow gives you an opportunity to earn passive income. If you set your properties up to operate independently of you, you'll be able to earn passive income, no matter how many you end up investing in. Learn more about passive income: Are Rentals Passive Income?

- Security Against Economic Uncertainty: Investing for cash flow also gives you a level of security against economic uncertainty. Luxury properties in a major metropolis might take a hit should the economy go south, but mid-tier SFR properties in growing markets that are outside of major cities are a relatively safe bet. These areas will still be rented during a downturn, which means that you'll be able to generate cash flow.

- Easier to Qualify for Future Loans: Another advantage of investing for cash flow is that it'll make it easier for you to secure a future loan. Banks will want to see your income before they'll approve you for a loan, and having rental property income will count towards this.

Investing for Appreciation

Property appreciation is another important consideration when investing in a rental. Most investors try to find a property in a place that's likely to experience some level of appreciation. For many investors, appreciation is nice to have in addition to cash flow, but is a secondary consideration, the cherry on top, if you will. For others, it's an important consideration, with some preferencing it to cash flow. You'll want to determine how appreciation factors into your strategy before you assess a property's viability, as it's an important consideration. For value-add properties, you can purchase a property that's in need of repairs or upgrades, make the repairs, and then sell the property or hold onto it and rent it out. You can also purchase in an area that's long been experiencing appreciation, and hold onto the property long-term, benefiting from both cash flow, as you rent it out and long-term appreciation as it (ideally) increases in value.

Benefits of Investing for Appreciation:

- Tax Breaks: Investing for appreciation can offer some good opportunities for tax breaks. Appreciation is only realized when you sell your property, which means you will want to look for ways to avoid paying excess taxes. If you plan to buy a property for appreciation and then sell and roll the profit into another investment, there are tax breaks, such as the 1031 exchange, that could help give you a break. Learn more about 1031 exchanges: What Are the Benefits of a 1031 Exchange? See how this can be a great way to build multigenerational wealth.

- Faster Profit: In some cases, you can turn a quick profit when it comes to investing for appreciation. Consider, for example, that you plan to buy a fix and flip property, where you buy a discounted property with intentions of fixing it up and selling it for a higher price. While this strategy does have its risks, if you're careful and know what you're doing, it can give you the opportunity to make a profit, faster.

- Long-Term Wealth: Investing for appreciation can also give you long-term wealth. With this option, you will give yourself the security of having a solid asset in your portfolio that is increasing in value and will be ready for you to sell in the future.

Are there any risks of investing for appreciation? That depends! If you have a short-term investment strategy and plan to buy a house to fix and flip during a short window of time, then your returns are very much contingent on the housing market conditions at the time of sale. If, however, you're investing for the long run, you'll be able to wait out any temporary fluctuations in the housing market. You can continue renting it while you wait for the market to recover, greatly reducing your level of risk.

Can you invest for both cash flow and appreciation? Yes! Invest in a rental that will produce cash flow now, use this time to put some value into the home, and as the years tick by the appreciation and market will hopefully grow in your favor so you can sell and earn additional profit.

Decide What Type of Rental You Will Invest In

Establishing an investment criteria or a plan of action can give you a benchmark for potential properties and help make the process smoother in the future and when looking for investment properties. Here are some things to consider when it comes to getting started with investments and setting those goals for your investment properties.

- **Short-Term Vs. Long-Term Rentals**

So which is better? Short-term or long-term rentals? Once again, that depends on what you're looking for, and the market that you're buying in. Short-term rental properties, or vacation homes, are one investment option. They only really work in popular vacation destinations and often come with a lot of competition as well. The returns can be higher on these properties, but the expenses are usually much higher as well since they require more upkeep, cleaning, and management.

Long-term rentals, on the other hand, are your standard rental properties. These typically can be found in any housing market, and offer consistent returns. They require less maintenance and have lower management costs, and typically have much lower vacancy rates as well. Learn more about short-term vs. long-term rentals here.

- **Multi-Family or SFR**

A multi-family property is an apartment building or complex. These investments offer a number of advantages, including the ability to scale easily, but they also have a higher entry barrier, since it's more costly to buy a multifamily complex than it is to purchase a traditional rental house. There's also the risk of having all of your eggs in one basket if something were to go wrong with your building or the neighborhood. With SFR, or single-family residential rentals, you can purchase properties one at a time to grow your portfolio, adding a healthy level of diversification as you go along. You can also manage your portfolio, cutting out low performers at any time you'd like, as SFR is easier to sell than multifamily.

- **Determine What Your Budget Is**

What is your budget? How much financing can you get approved for? What type of down payment can you afford? If you can, try to get pre-approved so that you can further narrow down your property options, as you'll know exactly how much you can spend.

- **Consider Where You're Going to Invest**

Finally, where will you be investing? Many landlords start out investing close to home. This approach offers some advantages. You already know the local area where you're thinking of investing, and that gives you an advantage when it comes to securing a good deal. However, casting a wider net and investing outside of your local area offers a number of advantages as well, namely, you'll be able to take advantage of better housing markets, and could find deals that are better than what's available locally to you. See: Investing Outside Your Home City. What's the best option for you?

Tips for Assessing a Property's Viability

Now comes the fun part. It's time to start looking at properties.

Keep in mind that not all properties are created equal. Some will make much better rentals than others, so having the ability to assess the property in question is an important part of securing a great rental, one that'll generate the returns that you're looking for. Your goal at this stage is to assess a potential property's viability as an investment, and see if it warrants a closer look.

When it comes to purchasing an investment property, being able to run a quick analysis will help you to quickly rule out properties that are underperforming, saving you from wasting time researching properties that don't have potential. In most markets, good deals don't stay on the market for long, so when you see a property that you think is promising you'll want to be as quick as possible to jump on it before it sells.

A good investment will largely come down to three things:

- The property in question, and the market it's in
- The management that you put into place, and
- How well the purchase is structured and the type of financing you secure

Now, here are a few steps you'll want to take so that you can make a quick decision on whether a property is worth investigating further.

Tip: You can head over to the Renters Warehouse Research Center to find statistics on housing performance, population growth, employment trends, and more. Having access to this data will help you to assess the health of the market, and can help you to find good investment opportunities, even if they're outside of your local area.

Assess the Market

Few things are more important than market analysis. It's the step that'll show you how viable the market is from an investment standpoint. Remember: at this point, you're investing for cash flow, appreciation, or both, so choose your market wisely as different markets tend to have properties that offer different types of returns.

For example, you have two properties in mind. One offers decent cash flow and is located in a promising market, one that has signs of new development and good employment prospects. The other property generates a slightly better rate of cash flow, but it's in an area that hasn't experienced much appreciation over the last five years. If you're investing for both appreciation and cash flow, you'll know that your best option would be to choose the better market, since that'll give you both the cash flow and appreciation that you're looking for. Sure, the other property might produce more cash flow, but the overall returns will be lower in the long run.

How can you assess a property's profitability? You'll want to run the numbers. Tally up your projected income and expenses to get your cash flow. Then take the time to see what your cap rate is along with your cash-on-cash returns. Learn more about running the numbers here.

In addition to running the numbers to see what your returns will be from a cash flow perspective, you'll want to assess the local housing market to get an idea about the health of the economy which will have an impact on long-term appreciation. Here's a look at some market data that you will want to check into when assessing a potential property:

- Home Price Performance: If appreciation is part of your investment strategy then you'll want to look for a market where homes are increasing in value long-term.

- Population Changes: Population changes can indicate whether people are moving into, or out of, the area.

- Employment Trends: Employment trends can also help you to assess the health of the local economy. Check the unemployment rate, and try to find out what the main industries are.

In most cases, you'll want to focus on finding an emerging market. An area that's up-and-coming, with good long-term growth prospects.

Here are a few tips for spotting an emerging market:

- Population Growth and Expected Growth: Look for an increase, and try to identify what is responsible for the increase.

- Building Permits: Taking a look at the number of building permits that are being pulled can help you to gauge new development. Just make sure it's not too high, you'll want to make sure the area will be able to absorb the supply.

- Affordability: Can renters afford the rents? If the median income is more than 66% of the median annual rent, that's a good sign that it's an affordable rental market.

- Absorption Rates: How quickly are new buildings being rented? What's the absorption rate like? This will give you a good idea of rental demand in the area.

Assess the Local Area

It's also important to assess the local area, and see what the neighborhood and local market is like. Check out nearby schools online to see what they're rated, and take a look at amenities that are nearby. Is it near shops and restaurants, and does it look like a nice, clean area? Are there plenty of parks or green spaces nearby? Try to determine whether it's a good place to live.

Tips for Surveying a Property

When it comes to doing a walkthrough of a potential property, it's important to have a good idea about what you're looking for. It is also important to know what things could be considered red flags and what could be an indication that something requires further investigating. While it can be a lot of work to do a thorough survey, it is something that shouldn't be skipped over. Knowing what you are getting into and what exactly needs to be budgeted can play an important part in your investment.

Here's a look at some things that you should do when assessing a property in person.

- **Bring a Notebook**

While you might think you will remember everything, don't run the risk of forgetting something. Just to be safe, take a notebook with a list of questions in it. Be sure to write down areas of note or answers to your questions.

- **Bring a Small Device**

Bring along a small device that can be plugged in as well. This is a good way to test the electrical outlets.

- **Look at What Isn't Being Shown**

Sometimes sellers will try to gloss over certain areas, like basements, which could be an attempt to hide signs of major problems: such as foundation troubles. Fresh paint could indicate water damage or foundational issues that were covered up. It's also important to consider why the foundation might be covered or inaccessible. Is it to cover up foundational issues? If a seller is trying to keep you from visiting a certain part of the house or highlighting other areas, you might want to take a closer look as well.

- **Always Have a Professional Inspection**

While you can see a lot from a walk-through, unless you are a professional house inspector, there are going to be things you may overlook. The cost of a professional inspection is worth the expenditure as it's something that could potentially save you thousands of dollars in the long run.

- **Consider an Inspection Contingency**

Like what you see? Want to make an offer, but want to have an inspection done as well? No problem! In most cases, you can add an inspection contingency clause to your offer, which will allow you to back out of the sale if the inspection reveals anything that's too significant.

- **Make a List Ahead of Time**

Both for questions to ask, and things to check. If you have a checklist, all the better. Making a list can also help you to ensure that you get all your important questions answered.

Some areas you might consider asking about include:

- The Roof: Asking the age of the roof can help you determine how long it has left. Keep in mind the average asphalt roof lasts between 15 and 20 years while the average life span of a metal roof is usually 40 to 70. If the roof is in need of replacement, you could potentially use that to barter a lower price for the home.

- The Heating / Cooling System: Getting the inside scoop on the heating and cooling system can also tell you a lot of good information. The HVAC system is not a cheap one to replace so you will want to know how often maintenance has been performed and if possible when it was installed. You should also get details on what kind of a system is installed, many older homes don't have a central air system and rely on window A/C units. Be sure to calculate that into your budget if it will need to be replaced.

- Recent Renovations: Find out if there have been any recent renovations or additions added to the home. While renovations or additions aren't always a bad thing, you'll want to make sure they were done to a high standard.

- Easements: Another good thing to find out is if there are any easements on the property. An easement is a legal agreement that the neighboring land owners can access their property by using yours. Often this is in the form of a shared driveway. While not always an issue, it is good information to have, especially if you have plans to change the yard, keep in mind that you might not be able to with an easement.

- Age of the House: Knowing the year the house was built can tell you a lot. If a house is older you should ask about updates to things such as plumbing and electrical systems. These are areas that often are a source of issues when it comes to older homes. While not a deal-breaker, it is important that you know what you are getting into and how much you need to budget for when it comes to upgrades.

- Condition of the Foundation: Another big-ticket item is the foundation. While you can certainly ask questions, it is also important to get your own look at the foundation to see what you can see. Often a walkthrough will tell you all you need to know. Look for cracks in the walls, sloping floors, or recently spackled drywall as hints into foundation issues. You can also inspect the foundation by looking for crumbling or cracks. If the foundation is covered, you should ask about taking a closer look as this could be an indicator the buyer doesn't want you to see something.

Checklist for Walkthroughs

As you plan to do a walkthrough, it is important to have a checklist of things you want to check out. Having a list will help you remember everything as well as give you a place to make notes to remember key items later.

Here are some of the areas you should consider checking out or inquiring about while you do your walkthrough:

- **Turn Light Fixtures On and Off**

Turning lights on and off will help you determine if the electricity is in working order. While it might not tell you everything about the electrical system in the house, it's a good place to start. Be sure to check all light switches, including indoor and outdoor and ceiling lights. While it's possible that they won't work if the bulbs are burnt out, you should be able to get a pretty good idea of what works and what doesn't. If possible, you should also check the outlets, doorbell, and security system. Be sure to check the breaker box to confirm it is functional and not outdated.

- **Run Water and Check for Leaks**

Keep in mind that if the house has been sitting for some time, the water might have been disconnected. However, if it is turned on, you should be sure to turn on the taps and look under the sink for signs of leaking water. Be sure to check every tap that has water to ensure it turns on and doesn't leak. If there are leaks, be sure to take note of how extensive the repairs will be and how much damage has already been done.

- **Test Appliances**

If the house comes with appliances, you should give them a test run to see if they turn on and appear to be in working order. If they aren't too outdated, you might be able to reuse them. If they're significantly dated or don't work, be sure to budget in replacement costs as well as removal and disposal fees.

- **Exhaust Fans**

Exhaust fans that don't work or are non-existent can be problematic. Be sure to check that there are exhaust fans in the bathrooms and kitchen and that they work. If not, be sure to note that they will need to be replaced or installed so you can budget these items.

- **Test the Heating**

Running the heat, or firing up the heating system can help you determine if it is in working order. You should also check for maintenance stickers to see how often it's been maintained. You should also be sure to check the thermostat and the controls to ensure they are updated and in working order. Be sure to check the ductwork as well to see if there are proper vents.

- **Test Air Conditioning**

Much like the heating, the air conditioning is a system that you will want to give a quick run through as well. If there is an air conditioning system, you will want to check the ductwork to ensure there is not any mold present.

- **Open and Shut Windows**

Be sure to check all the windows to see if they open and shut, many older homes have windows that won't open and don't shut properly. Windows that won't open or have trouble opening and shutting will need to be replaced. Be sure to take measurements of these windows so you can get a proper estimate. If you live in an area that uses screens, be sure to also note how many windows have screens and how many screens will need to be replaced.

- **Test Garage Door Openers**

If the home you are looking at has a garage, you should also do a quick run-through to determine the condition of it as well. Be sure to check the garage doors and see how smoothly they open and close. If the garage door has an opener, be sure to give that a test run as well to ensure that it's working.

- **Open and Shut All Doors**

Opening and shutting all the doors you come across can be beneficial. If a door has trouble opening or shutting you might want to further investigate. Often houses that have shifted due to foundational issues have issues with doors opening and shutting properly. You might also consider the condition of the doors and if they will need to be replaced in the near future. If you need to do any replacements, you should be sure to take measurements and note what style door you will want to replace it with. Be sure to write down what doors need replacements and which doors have issues so you can compare your notes later.

- **Flush Toilets**

If the water's turned on, flush the toilets to make sure they're working as well. Listen and see if the toilet continues to run, leaks, or has troubles. You should also do a quick inspection of the toilet itself to make sure it's in good condition.

- **Inspect Ceilings, Walls, and Floors**

When doing a walkthrough, be sure to look up and down. Often one can get so caught up in the details that the structure of the home goes overlooked. Be sure to check the ceiling for cracks and signs of water leaking. Check the walls for cracks or damage as well and check the floors to note their condition as well. You should also pay attention to whether the floor slopes when you walk as this can indicate foundational issues as well.

- **Run the Garbage Disposal**

If there's a garbage disposal you should give it a quick run to see if it turns on. A garbage disposal can be an expensive replacement so be sure it works or jot down a note so you can get an estimate on replacement.

- **Look for Signs of Pests**

Looking for signs of pests such as termites, ants, or mice can indicate deeper issues. Keep your eyes open for dry rot, spongy floors, and wood dust as this can be an indicator of termites. You should also look for mouse droppings as you walk through. If you suspect pests, you might consider getting a WDO (wood destroying organisms) inspection done to see if termites are present and how much damage has been done.

- **Gutters and Roof**

Heading outside now, do the gutters and roof look intact? You may not be able to climb up on a ladder, but you can get a rough idea about the condition of the roof and gutters from the ground.

- **Siding**

What about the siding? Is it in good condition or will it need to be replaced soon? Sometimes vinyl siding looks worse than it is, and a simple pressure wash will bring it back into good shape. Try to gauge whether this is the case.

It's also a good idea to talk with the seller or real estate agent first to ensure it is okay to perform this walkthrough inspection. Ask if the water is running and if the electrical is connected. If these things have been disconnected, find out how long the house has been without heat/air conditioning. Locations with extreme temperatures can be rough on homes that have sat empty, so keep this in mind as well.

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Tips for Assessing a Property's Viability

Once you've decided that you'd like to take that first step toward financial freedom and purchase your first rental property, then comes the question: what next?

Now it's time to lay the groundwork for your investments. Here's a look at some things that you can do to get yourself ready to invest.

Financial Readiness

- Save Up: When it comes to investing, cash reserves are critical. Building your reserves allows you to make a down payment, do renovations, or enable you to cover any other expenses that arise at the time of closing or shortly after.

- Build Up Your Credit: A good credit score will make it easier for you to qualify for the best loan terms possible, which can help you to qualify for a lower down payment and even secure a lower interest rate.

- Pay Down Debt: It could also be helpful to work on paying down any previous debts that you currently have. This could help your credit score and it'll also make it easier for you to get approved for a loan.

Obtain Financing

Unless you're planning to pay for the property outright, you'll need a plan for financing. Here are a few options you'll want to consider:

- Traditional Bank Loan: A traditional bank loan is your standard loan from the bank. Many lenders require a 15 to 20% down payment for investment properties, but with creative financing, you might be able to finance your first property for less. Lenders will also take a close look at your credit score and credit history before approving you for a loan.

- Private Money Loans: Private money loans involve borrowing money from private investors. The terms of these loans vary, but they are a viable option for investors.

- Home Equity: If you currently own a house, you may be eligible for a home equity loan. In most cases, you'll be able to borrow up to 80% of your home's equity.

Assemble Your Team

Being a landlord can be a full-time job, depending on how many properties you have. When it comes to investing in real estate, there are a number of professionals that you'll want to have on your team. Here's a look at a few people you'll want to have in your phone.

- General Contractors
- Electricians
- Plumbers
- Property Manager
- Attorney
- Accountant

Have a Plan for Management

Finally, you'll want to have a plan in place for property management. If you're investing in a property that isn't close by, are investing in multiple properties, or would like to create passive income, then you'll want to consider enlisting the help of a property manager. A property manager can help you to operate your property in a way that's in compliance with the law, something that can prove to be especially valuable if you own properties that are out of state, where there may be laws that you're not familiar with.

Getting started with your first rental property is an exciting time. Just make sure you go into it with your eyes open. By taking steps to carefully assess each potential property, you'll be able to ensure that you end up with a winning investment at the end of the day: a property that performs well as a rental and generates decent returns, ones that are exactly what you're looking for.

Want to get started with rental investments? Be sure to check out Create Wealth With Buy and Hold, and see how you can start generating wealth through rental properties. You'll also want to check out our marketplace to see rental properties for sale ready to go, many of them are already rented. You can see estimated rental data for each property, including cash flow and gross yield, allowing you to see at a glance, what type of returns you can expect. Take a look at available listings today.

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