RentersWarehouse®

Is Investing in Out of State Rental Property Right for You?

GUIDE:

The Ultimate Guide to Out-of-State Real Estate Investing

Introduction

When it comes to investing in rental properties, it's easy to assume that you need to start out in your own hometown.

But while there are indeed a number of benefits to starting close to home, there are a great many reasons to consider expanding your search net and searching for rentals in other markets.

For one thing, expanding your search parameters gives you more options, allowing you to take advantage of markets that may be healthier or more affordable, helping you to find the market –and property that'll give you the best return on your investment.

However, there are some challenges that arise when being a long-distance landlord. Fortunately, though, many of these can be mitigated by conducting diligent research ahead of time, finding the right market, and outsourcing much of the work to a boots-on-the-ground representative, also known as a local property manager.

In this guide, we'll take a look at some of the benefits of casting a wider net, and highlight how you can find success as an out-of-town investor.

Why Invest Out of State?

While there are certainly some advantages to investing in your own hometown, there are a number of factors that drive investors to purchase property out of state. Here's a look at a few key benefits.

- **Affordability**
  One of the main benefits that can come from investing out of state, is the chance to invest in an area where property might be more affordable than anything that's available in your own local area. Widening your search perimeter means you'll be able to research markets where you may get more property for your dollar, which will help you to get on the property ladder a lot sooner.

- **Better ROI**
  For every investor, a high return on investment is usually the number one goal. Expanding your search parameters means you'll be able to find a market where property isn't just affordable, but also generates the type of returns you're looking for. Before you invest, outline exactly what type of returns you'd like to see, then run the numbers on potential properties to see how they stack up.

Tip: Your market matters. Keep in mind, that many areas of the Midwest, and places outside of major cities, while they don't necessarily experience high levels of appreciation, tend to generate excellent yields through cash flow.

- **More Scope for Appreciation**
  When the ratio between local incomes and home prices becomes too high, there's little room for home prices to rise further without significant income growth. These markets are often more risky to invest in. On the other hand, emerging markets –ones that are up-and-coming are often more affordable and offer more scope for appreciation as well.

- **The Chance to Diversify**
  If you already have one or two rentals, investing in a different market gives you the chance to diversify your holdings. If something were to happen on a localized level, and the rental market were to experience a downturn, you'll be better insulated if you don't have all of your properties in one area.

- **Investor-Friendly Laws**
  Finally, when it comes to legislation, some states are more landlord-friendly than others. If your local state has regulations, such as rent control, in place, you may consider looking elsewhere to invest. Likewise, higher taxes can also take a bigger bite out of your profits, while restrictive conditions surrounding security deposits and evictions can make things more complicated as well. Some cities have ordinances in place that may be prohibitive to landlords as well. When researching out-of-state rentals, be sure to do your research first to familiarize yourself with the regulations that are in place.

See: Which States Are the Most Landlord-Friendly?

Tip: Use the Renters Warehouse Research Center to assess a market's viability. This platform makes it easy to see historical data on the housing market's performance including population growth, employment trends, migration patterns, and more. It'll show you what you need to know to make informed decisions about the long-term performance of a potential rental property and can help you to familiarize yourself with areas outside of your own local area.

Analyzing Smart Real Estate Investment Deals

If you are looking to invest in a rental, you'll want to ensure that you find one that'll generate decent returns. Whether you're going local, or casting a wider search net, here are some things to consider that'll help you to analyze –and find, a smart real estate investment opportunity.

- **Set Clear Goals**
  First up, start by setting clear, actionable goals for your investment strategy. First, determine for yourself what your primary investment strategy will be. Ask yourself what you are purchasing for primarily: cash flow, appreciation, or both? This will help you to guide your search when looking for a market to invest in. Different markets tend to offer different types of returns, some experience stronger appreciation, but may not generate yields that are as high. Meanwhile, other areas, particularly in the Midwest, tend to produce decent cash flow returns, but have slower housing price growth.

  Next up, determine what type of returns you're looking for. Many rental investors consider a yield of between 7-8% to be good. There are some places where your return will be higher, but in many cases, these properties may represent more risk. For instance, they may be in areas that don't experience much (if any) appreciation. Additionally, sometimes deferring maintenance can make a property's yield look more profitable on paper, but it won't be when you end up with a house that needs $40,000 worth of work right away.

  Once you've outlined your goals, you'll want to ensure that you only invest in property that meets your criteria. This will help you to be more discerning with your purchases, and save you from tying up capital in a property that just won't generate the returns that you're looking for.

- **Find a Good Location**
  When it comes to finding a successful rental property, location is everything. Where you invest will impact your returns, both from a cash flow perspective, and when it comes to long-term appreciation.

What to Look For?

So what do you look for in a good investment property? How do you know if it is worth your time and money? Investing in the right property is more than buying a property that looks good. You'll want to assess that market conditions as well.

Here's a look at some key market data you'll want to look at when analyzing a prospective property:

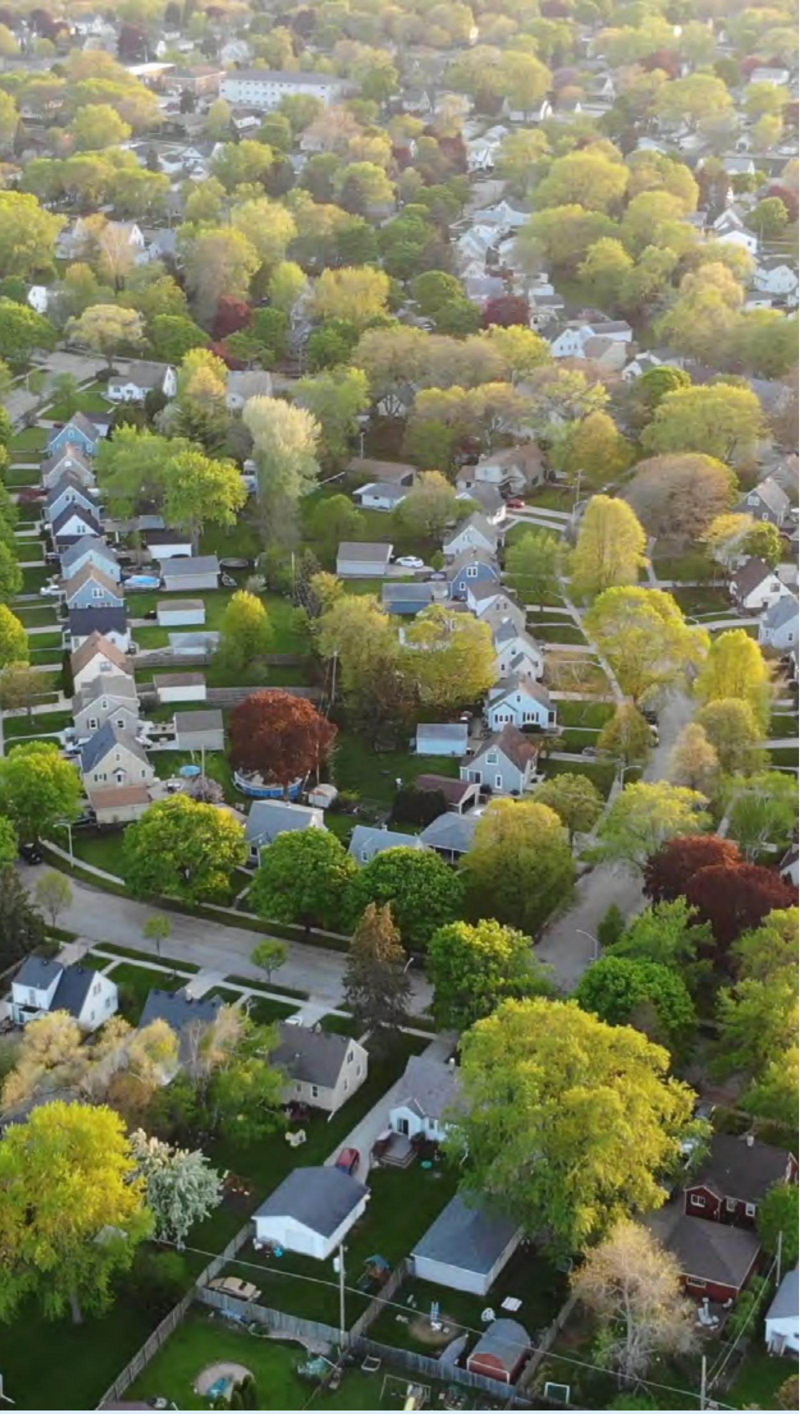
- **Home Price Performance**
  If housing appreciation is part of your investing strategy, you'll want to look carefully at home price performance. What have housing prices done over the last decade or so? Take a look to see what appreciation has averaged per year (going back at least ten years) to get an idea about what you can expect in the future.

- **Population Change**
  The population changes in an area can have a big impact on your investment. Some areas haven't grown in years while others are experiencing rapid increases (or decreases) in population. It is important to ask yourself why there is the change and will it hold steady? Are people moving in for a short period of time? Are these people looking to buy or to rent?

- **Employment Trends**
  It is also important to keep an eye on the employment trends for the area. While a sudden rise in employment could bring a rush of people, it might not result in long-term employment. Try to identify the main industries in the local area, and see whether any developments are happening nearby. In many cases, it may be risky to invest in an area where economic activity is based largely on one industry. If something were to happen to the primary employer, that area could suffer economically.

- **Migration Patterns**
  Finally, we have migration patterns. This is a measure of how quickly the population is growing, and can help you to gauge demand. You'll also want to see why people are moving into the area, and what's drawing them in.

These data points will help to provide good insight into the area you're thinking of investing in, and give you the information that you need to assess the profitability of prospective rental properties.



To learn more about finding great deals, download your FREE guide: [How to find and buy the perfect investment property.]

Try to Identify an Emerging Market

While there are deals to be found in a number of markets across the country, not just in emerging markets, finding a market that's up-and-coming can help you to scout out an area that has great long-term potential. This will help you to get the best of both worlds in terms of both cash flow and appreciation. It also tends to be a lot less risky than investing in a major metropolis, where prices are usually sky high –and in some cases, more at risk of approaching bubble territory. Here are some signs of an emerging market.

- **Population Growth and Expected Growth**
  Population growth is a good sign that an area is going places. As the population increases, the demand for housing –both to rent and to buy, grows as well. Getting in before things become popular is key, so look for signs that could indicate growth in the near future. Signs of development, including new infrastructure, or a major employer like an Amazon Distribution center coming to town means more workers, and increased demand for housing.

- **Number of Building Permits Pulled**
  You'll also want to see how many building permits are being pulled. Pay close attention to this number. Too many could mean that the area will have trouble absorbing the supply in the near future.

- **Affordability**
  How affordable are rents as a ratio to the average local wage? Too high, and you risk purchasing a rental that may be out of your tenants' price range.

- **Absorption Rates**
  Are apartments in new buildings being rented out quickly? Or do they sit on the market for a while? What's the absorption rate like? This is a good way to gauge rental demand. A good way to get an idea about housing demand is to head over to Trulia or Zillow, and take a look at homes that have recently sold. You can check their listing history to see how long the property took to sell, and whether they sold for the price they were listed at. A consistent pattern of houses that took a while to sell, or were reduced before the sale could indicate that things aren't moving very fast.

Tips for Success With Out-of-State Rentals

Investing in property out of state can open the door to plenty of different markets and potential rentals –including the chance to secure some excellent deals. But all of this choice means that you'll want to ensure that you take the time to carefully research each market and potential property –before you invest. Don't get caught up in an investment simply because investors are calling the market hot, instead, do your own research to make sure the market, and the property in question are in line with your investing criteria.

Here are some tips for success for out-of-state investors:

- **Do Your Research**
  Before you dive into rental investing, you'll want to make sure you take the time to do your research, and learn everything that you can about the niche you're thinking of investing in. Will you be buying SFR? Multifamily units? Commercial property? Will you be looking for foreclosures? What will your investment strategy be? Are you looking for cash flow or appreciation? Get some good books on real estate investing, and frequent helpful blogs and forums to learn from other investors. See what mistakes you can learn from, strategies that successful investors use to find success, and learn how you can spot a great investment.
  See: Tips for Success From Experienced Investors.

- **Familiarize Yourself With Local Legislation**
  When it comes to investing out-of-state, make sure you take the time to familiarize yourself with the local and state laws. Legislation varies considerably from state to state, so make sure you understand the ordinances that are in place before you invest. Also keep in mind that different states have different tax laws as well, so consider consulting with a local tax professional to see what type of taxes you would owe if you invest in that state.

- **Research the Area**
  When investing in local properties, one advantage is that you already know the area and are familiar with the local housing market. But when looking into properties that are out of state or in a market that you're unfamiliar with, you'll want to take the time to really research the area before investing. Just because a property is priced attractively, doesn't mean that it's a good investment. You'll still want to run the numbers to see how it will perform as an investment –both from a cash flow, and appreciation standpoint. See how much your property could rent for by looking at Zillow or Trulia to see what other similar properties are listed for. You'll also want to determine what the current market value is for nearby properties to make sure the one you're thinking of buying is priced accordingly.

- **Dial in on the Neighborhood**
  Once you have a potential property in mind, dial in your research to the neighborhood level. You'll want to consider whether there's a demand for rentals in the area, what type of returns you can expect from a house in that area, and what type of tenants you will attract. Is it located close to amenities? Close to good schools? Once you're serious about a property, you'll want to go see it in-person to view the neighborhood, and the property, yourself.

- **Run the Numbers**
  While it can be tempting to rush into the purchase of a rental, especially if it's in a hot market –make sure you run the numbers on each prospective property to make sure it checks out. Take care when calculating your monthly expenses; make sure you add up the cost of insurance, taxes, maintenance, repairs, and interest. Then, subtract this figure from your estimated rental income. The resulting figure is your cash flow. Now, multiply this figure by 12, and divide it by the total property's value. This should show you what your property's yield will be. You'll want to ensure that it's in line with your investment criteria.

Continued: Tips for Success With Out-of-State Rentals

- **Avoid Purchasing the Property Sight Unseen**
  When it comes to buying out-of-state, you may be tempted to purchase a property sight unseen to save yourself the hassle of having to travel there. But this can be tremendously risky. There are often things that you won't notice when viewing a property online, that a visit in-person can reveal. Maybe the property's overshadowed by a large industrial center. Perhaps there are issues with the foundation that were hidden in the photos. You'll also want to have a professional inspection done before you close on a property to ensure there are no hidden issues that arise after you buy.

- **Work to Establish Local Connections**
  Once you've purchased a property, you'll want to get to work establishing local connections. This approach will make it easier when problems arise and you don't know where to turn. It can be stressful trying to arrange to have a plumbing disaster taken care of if you don't know any good plumbers, but your job will be much easier if you take the time to make connections with professionals early on.

- **Ensure You Have a Rental Agreement in Place**
  Next, make sure you protect yourself with a rental agreement. This should outline the terms of the tenancy, and helps to ensure that everyone is on the same page. You may want to consider running your rental agreement by an attorney in that state; just to ensure that you've covered all of your bases and to make sure it's in compliance with the law.

- **Get Landlord Insurance**
  Landlord insurance is essential for any investment property, especially one that's out of town. You may also want to look into additional coverage just in case a smaller problem escalates into something more major. You'll also want to check into what risks the area is prone to such as flooding, hurricanes, or severe storms. In some cases, you'll need to take out additional coverage to protect against these contingencies.

- **Conduct Careful Tenant Screening**
  Careful tenant screening is your key to success as a long distance landlord. It's crucial that you find a qualified tenant, especially since you won't be able to visit your property as much. Make sure you implement an airtight screening process, where you check an applicant's ability to pay the rent (proof of income, and credit check) and their ability to abide by the terms of the lease (a reference check). Be sure to call their references, place of employment, and the previous landlord to verify that the information that they've given you is correct.

  While you're screening, make sure your screening process is in compliance with the law and that you don't inadvertently violate the Fair Housing Act. According to this act, you cannot discriminate based on religion, race, familial status, nationality, and a number of other factors when choosing tenants, so make sure they're not part of your screening process in any way.

- **Automate Rent Collection**
  Collecting rent can be a hassle for long-distance landlords. But automating rent collection will make life easier. With this approach, your tenants will arrange for a bank transfer set up ahead of time. No more forgotten rent payments or lost checks in the mail.

In Conclusion

Finally, your real estate investment will depend largely on the type of management that you have in place. You can certainly create a team yourself, putting together a list of professionals who you can call when issues arise, but you'll still have to oversee everything from advertising vacancies, rent collection, tenant screening, showing the property, and more –on your own.

A good property manager, on the other hand, will not only be able to take on all of these day-to-day issues and tasks, but they'll also make it easy for an investor to own and operate multiple rentals in different locations –especially crucial once you start expanding your property portfolio.

At the end of the day, there are benefits to investing in your own hometown, especially when you're first starting out, but if there are better deals to be had in different markets, you don't need to miss out. Just make sure you've done your research, and run the numbers on any potential investment. Finally, make sure the logistical management details are handled by hiring a property manager, or piecing together your team –then set your property up to run independently of you.

Are you a long-distance landlord, or considering investing in an out-of-town rental? At Renters Warehouse, our team of professional property managers can help. From tenant sourcing and screening, to fielding repairs and maintenance requests, and being your boots on the ground –we'll take on the day-to-day tasks so you don't have to.

Visit Renters Warehouse today to learn more about rental property management services for long-distance landlords.