RentersWarehouse®

Wish there were a guide for the best way to leave a legacy?

You're in luck.

GUIDE:

How to Find and Buy the Perfect Investment Property

Introduction

When it comes to investing, there's more to it than simply finding a house that looks good and buying it.

Sure, you ***could*** take that route, and some people do, but to get yourself off to the best start possible, you'll want to ensure that the property you're investing in is one that'll perform well as both a rental and an investment.

As we all know, things aren't always as they seem. A property may look great, and even attract interest from renters, but that's not always an indicator of its performance as an investment or the type of returns you'll get. Likewise, it's not a guarantee that the property will appreciate in the long-term either.

Successful investing largely boils down to three key things:

- **Finding the right property in the right location**
- **How well it's managed, and**
- **How you structure the purchase, and the type of financing that you get**

If you're new to investing or looking to expand your portfolio, here's a look at some tips for getting started, sourcing a winning investment property, and setting yourself up for success.

Looking for an Ideal Investment? Here's What You Should Look For

Currently, some six million homes are sold every year –20% of those, to investors.

When it comes to buying an investment property, your criteria will look a lot differently than if you were buying a home for yourself to live in. Normal factors –such as being located nearby, or having hardwood floors, shouldn't be at the top of your list. Instead, you'll want to consider the property's potential as a rental, and an investment.

In many cases, it makes sense to invest out of town. Investing out-of-state allows you to broaden your search, giving you more to choose from. This means that you'll be able to take advantage of housing markets that are up-and-coming, or ones that have better deals. And today, it's easier than ever to outsource the work of property management to a qualified property manager, making out-of-town investing feasible.

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

Home Price Performance: Is property appreciation part of your investment strategy? If so, you'll want to find a market where homes are increasing in value. Be sure to have a look at the average increase per year.

Population Change: Who's renting and who's selling? It's important to discover if there's demand for rental housing based on changes in population.

Employment Trends: Employment trends are another important piece of data. Check the unemployment rate, and see what the main industry is. Beware of areas that rely too heavily on one industry –such as manufacturing. If that industry goes bust, there will be no recourse for your renters. Compare the unemployment rate to the national average and take a look at the local job market. This will also help you to gain insight into employment in specific trade sectors in your market as well as annual job growth.

Migration Patterns: Finally, don't forget about migration patterns. You'll want to see how quickly the population is growing in order to gauge demand. You'll also want to see if you can find out why people are moving into the area. Is there a new business in town that's advertising a number of minimum wage jobs, for instance? Consider whether those prospective tenants will be able to afford the rent for the property in question. Remember, in most cases, it's recommended that a tenant generate 2.5 times their rent in income (or be able to produce a guarantor).

The Renters Warehouse research center makes it easy to find statistics on market performance, population growth, employment trends, migration patterns, and more. Having access to this data makes it easier for investors to make informed decisions about the long-term performance of their investments and can help you to spot winning investments, even if they're outside your local area –or in a market that you're not familiar with.

For investors, it's also important to focus on identifying an emerging market. This means scouting out areas that are up-and-coming, with great future potential –rather than ones that may be showing signs of a bubble.

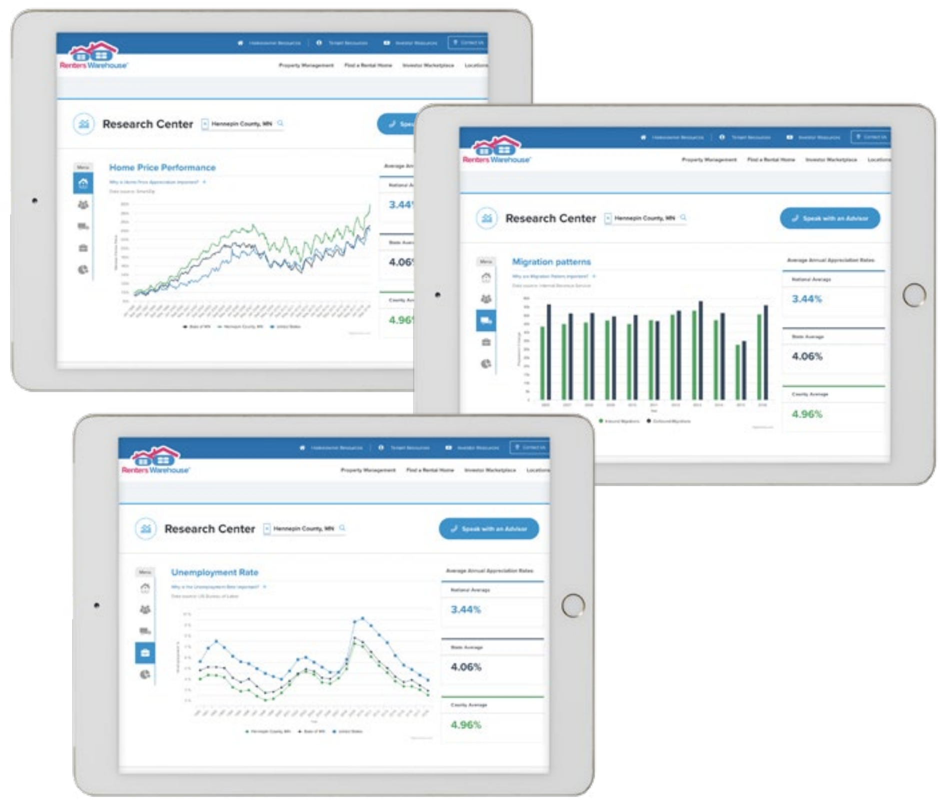
Here are a few tips for identifying an emerging market:

Population Growth and Expected Growth: You'll want to look for an increase, but also find out where the numbers are coming from. Are they high-quality, long-term tenants? Consider talking with an investor-friendly real estate agent to get the inside scoop on population growth.

Building Permits: You'll also want to see how many building permits are being pulled. Pay close attention here. Too many, and you'll want to make sure the area will be able to absorb the supply in the future.

Affordability: You'll want to make sure renters can afford the rents. If the median income is more than 66% of the median annual rent, that's a sign of an affordable market.

Absorption Rates: Are new buildings being rented out quickly? What's the absorption rate like? This will give you a good idea on whether that area is experiencing rental demand.



Projected Hot Markets for 2020

When it comes to investing, your first step should be finding a market to invest in.

Choosing the right area can make or break your success, and ideally, you'll want to look for a place that's up and coming, growing, and expanding. Keep in mind too, that these areas are just general guidelines where you can invest. Each city or market has its own neighborhoods and areas that appreciate faster or more slowly, and that command different prices for rent. There are also individual cycles within each area to pay attention to as well, so in addition to finding a market, you'll also want to pay attention to the local area in question as well.

For 2020, here's a look at some top markets for investors, as recommended by the president of Local Market Monitor and Forbes contributor, Ingo Winzer:

- **Charlotte, NC**
- **Minneapolis-St Paul, MN**
- **Colorado Springs, CO**
- **Fort Worth, TX**
- **Atlanta, GA**
- **Omaha, NE**
- **Tuscan, AZ**

See the complete list here.

Many other experts are touting these areas (and more), as ideal for investment opportunities. No longer is it just about the top-ten markets in the U.S., today, it's increasingly about secondary markets, and you'll also want to focus your search on areas just outside of booming, metropolitan areas.

Despite the fact that San Francisco, Seattle, Denver, and Miami are at the top of many lists today, you'll want to exercise caution when it comes to tremendously popular cities. These areas, and others like them, now have home prices that many experts feel may be venturing into boom territory. And of course, affordability is another consideration as well. Property in these areas is far beyond many investors' budgets.

At the end of the day, you'll want to do your own research to find a market that's worth investing in. Once you have a few promising cities, narrow down your search to find some neighborhoods that you like. Then visit the property in-person before buying.

Commonly Asked Questions

The uncertainty surrounding first-time investments can make them seem daunting, but asking the right questions can help. Here are some frequently asked questions that many people ask when searching for an investment property.

Do properties in warmer coastal climates do better than those landlocked?
While coastal properties certainly have their appeal, they have their risks as well. Coastal properties are in-demand, which means they can bring in a higher gross income. However, they also tend to be more costly, which means that your take-home revenue, at the end of the day, could be surprisingly low.

Don't rule out properties located in middle America. Right now, there are many up-and-coming housing markets there, and properties in these areas tend to generate decent returns. Although it's worth noting, that in some cases, these properties will appreciate more slowly than their coastal counterparts will. At the end of the day, make sure you can turn a profit that's in line with your investment goals –before you purchase, regardless of whether it's a coastal property.

How can you find an area that has good investment potential?
One of the best ways to gauge whether an area is an up-and-coming investment location, is to watch for signs of development. Signs such as large companies setting up headquarters can be a good indicator that things are happening in that area. One thing that you'll want to look out for are places where an Amazon distribution center is arriving. Last mile delivery is growing tremendously in popularity and an Amazon distribution center moving in is (almost) always a great sign.

Should you buy a turnkey or fix-and-flip?
Perhaps one of the biggest debates about investing is deciding what type of investment you want. With so many popular TV programs showing fixer-uppers being purchased, renovated, and sold during the commercial break, it's tempting to feel that this is the best option. However, it's important to realize that success with fix-and-flips is largely contingent on the housing market, and timing it correctly. If you buy during the wrong time, things could go south quickly.

With a rental property, though, you're in it for the long-term, which means your risks are much lower as well. With a rental, you'll also benefit from monthly cash flow, as well as long-term appreciation as the property, ideally, increases in value. Turnkey properties are one option that's growing in popularity with investors, as they're sold as investment properties, complete with tenants, all ready to go. The great thing about this, in addition to the fact that you'll be able to start generating returns right away, you'll also be able to see, exactly, how much the property is renting for, making it easier for you to calculate your returns. There's no guesswork involved.

See investment properties available today.

How do I know if this is the right investment?
Do your homework, run the numbers, and be realistic. Once you have run all the numbers and looked at the data, you should be able to decide if this investment is right for you. Be sure to include everything from taxes to unexpected repairs, insurance, and maintenance to give yourself the most accurate calculations possible.

- ***How many houses should I buy?***
  The real question you should start with is not how many houses should you buy, but how much would you like to generate in income. Having a big-picture goal in mind for how much you'd like to generate monthly through rental property is the best place to start. Once you've determined this, you'll be able to work backward from there, implementing a plan for how many properties you'll need to finance your future goals.

  One thing that works especially well for many people, is assigning specific goals to each property. Say you'd like to pay for your child's college education or retire early, having one property to help finance your child's education, and another that you can use to pay for the boat is a good way to help keep you on track and working towards your goals.

- ***Should your investment property have a pool or hot tub?***
  That depends on where your rental is located and the property itself. If the climate is one where occupants could benefit from a pool year-round, then it isn't completely out of the question. In Phoenix, a pool could be a good thing. In Minneapolis, on the other hand, it'll most likely end up being more hassle than it's worth. It is also important to consider the neighborhood in which your potential property is located. If the surrounding homes have a pool or a hot tub, then it would be advisable to keep up with what is considered normal for the area.

Taking the Next Step

Okay, so you're serious about buying a rental, where's the best place to begin?

While everyone's path to investing will look a bit different, there are a number of things that you can do to help get yourself off to the best start possible.

With this in mind, here's a look at a few steps that you'll want to take if you're thinking of buying a rental property.

Get Yourself Buy-Ready
The key to successful investing is getting yourself financially ready. If you are hoping to get approved for a loan, you should be working on your credit score –ensuring that it's above 740 will help you to qualify for a lower interest rate. You'll also want to work to pay down debt, keep your credit card balances low, and save up for the down payment. The more you have saved for a down payment, the more options you will have when it comes to choosing a house.

- **Set Big-Picture Goals**
  Investing in income property is a long-term investment that requires some big-picture goals. You should have goals beyond simply 'buying a house.' As we touched on earlier, setting goals that are based on income is a far better idea. Determine how much you'll want to generate in revenue, then convert that into how many houses you will need in order to achieve this goal.
- **Determine How Much Appreciation or Cash Flow You're Looking For**
  Once you have your big-picture goals, you can then break them down. Determine how much money you need, per property, to make this work. How much cash flow are you wanting to generate from your property? What type of returns are you hoping to get? Is appreciation part of your long-term investment strategy? Getting specific will help you to assess the viability of potential investments to make sure your capital is put to the best use.

- **Locate a Market That's Performing Well**
  Next, you should find a market that is performing well. Today, it's easier than ever to research markets, run the numbers, and get instant access to important data –like population growth, employment trends, migration patterns, and more; all information that's tremendously valuable, and can help you to make an informed decision. Be sure to visit the Renters Warehouse research center to see how your potential rental's market is performing.
- **Find a Potential Property and Run the Numbers**
  Once you've found a potential property, it's time to start crunching the numbers to see if things will add up. Consider the upfront costs, insurance, maintenance, and repairs. Determine the amount of rent you will be able to charge for this specific property in this location. Do the numbers add up? Will you be able to turn a profit? If not, then it isn't the right property for you and you should keep looking. Don't settle for something less than ideal, find a property that will produce returns that are in-line with your big-picture goals.
  - **Cash Flow**
    Cash flow is one of the first things you'll want to determine. This is how much your property will generate in rental income, minus your expenses.

    As Steven Edward of Berkshire Hathaway puts it: if your property is "cash flowing," then it is producing a solid 10% or higher return and it's a good deal. But if it's not, then you'll want to reconsider.

"You can mess up a lot of things but if your month-to-month income is more than your outgoing, you can weather changes in the market and mistakes won't be fatal to your investing success," Edward says.

  - **The 1% Rule**
    The 1% rule is a fast and simple way to run an initial analysis of whether a property's worth considering further. This rule says that an investment property should generate at least 1% of its value in rent. For this rule, simply take the upfront cost of purchasing the property (including any initial repairs expenses), then calculate 1% of that figure to get your estimated rent. Can you charge that, realistically, for that property? If the answer's no, then it's likely not worth your time.

- **The Cap Rate**
  Moving on to the cap rate. This is essentially the return that you'd generate if you paid for the property upfront in cash. To find your cap rate, take your net income (income after expenses), and divide it by the property's cost.

  Here's the equation:
  Annual income / purchase price = Cap Rate

  For example, say your property cost $150,000, and you're confident that you could rent it out for $1,000 per month. Subtract your expenses from this figure. For this example, let's say that you'll be left with $600. This means your net operating income is $600 per month or $7,200 per year.

  $7,200/$150,000 = .048 or 4.8%.

  Is this a high enough return for you? That depends on what type of returns you're hoping for, and the property itself. Say you can get good tenants, and you expect appreciation. In this case, you may be willing to accept these returns. If, however, the property is in need of extensive repairs or in an area that's not expected to appreciate very much, then you may not want to take the risk.

- **Cash-on-Cash Returns (CoC)**
  Finally, we have the CoC. This a number you'll want to run if you're planning to finance the property. The CoC looks at the return you'll get on the money you've invested. If you're paying all-cash, then this figure will be the same as the Cap Rate.

  Assuming you are financing, you'll want to use the amount of money that you've invested, rather than the purchase price of the property.

  Here's the equation:
  Annual Income / Money Invested = Cash-on-Cash Return

- **Set Up a Plan for Management**
  Finally, you'll also need a plan for management –whether that will be you, or hiring a reputable property management company. A property manager is especially important if you've bought a property that's out-of-town. Even if you don't plan to hire a property manager right away, it's still a good idea to factor in the costs of one into your expenses, so if you change your mind down the road you'll have options.

Rental property can be a great investment, and real estate has long been the investment vehicle that many people have used to grow their wealth and find financial freedom. At the end of the day, though, it's important to remember that not all properties are created equal. Some houses that seem like they'd be a good investment could end up costing too much in property taxes or other expenses, preventing you from generating much of a profit –while in other cases, a house that may seem like they're not worth considering, could turn out to be your diamond in the rough. For this reason, it's important to never operate on assumptions alone, but instead, to back up your gut feelings with numbers and data.

It's never been a better time to be an investor –with the availability of data today, no longer is it necessary to make educated guesses. Instead, you can find exactly what you're looking for, and validate your assumptions with key pieces of data. Take the time to do your research before you buy; and find a winning investment property –one that'll get you off to a great start.

So what's next for you? Are you ready to take the next step? Visit Renters Warehouse today for a FREE Investment Consultation. Or, view turnkey investment properties that are ready to go, and take that first step towards building your own Rent Estate™ portfolio.

**Note: The information contained in this handbook is intended for informational purposes only. It should not be used as a substitute for professional investment advice. This handbook provides examples only. Actual results may vary.*