20 Things You Need to Know When Investing in the Real Estate Market

TORCANA

Thank you very much for downloading our special guide!

In a world where other investment products, even government bonds, are more uncertain than ever, real estate investment remains a predicable, profitable and very accessible option. The dual benefits of rental income and capital appreciation have enabled millions of people all over the world to change their lives for the better.

Everybody has different needs when it comes to real estate investment and there is no “one size fits all” option. Choosing the right property means spending time considering your options and researching them very carefully.

In this special guide, I have summarized my top 20 tips for those wishing to put their savings to work and increase their wealth by investing in real estate.

Kind Regards

Colin Murphy

Director

Torcana Ltd

PART 1 – BEFORE YOU GET STARTED

1. Put your finances are in order before investing

Every now and again, I will speak to a person who wants to put the majority of their savings into an investment property. My answer is always the same – save more money and let´s talk afterwards.

Whether you are a high flying 30 year old or a blue collar guy in their mid 50s, diversity and planning are keys to success. First of all, this means maintaining a healthy cash balance in the bank. Make sure you have enough to get by for 4-6 months if that rainy day appears. If you don´t have a pension plan in place, that should be the next item on your to do list.

Once those two boxes are ticked, it´s time to have some fun investing with real estate!

2. Really think about what you want to achieve

Before picking up a brochure or researching property deals online, go to a quiet place and sit down with a pen and blank piece of paper. Think carefully about what outcome you wish to achieve from this purchase.

- What is your realistic budget?
- How long to you want your money to be tied up?
- Can you purchase with cash or do you need finance?
- Are you looking for a rental income that you can depend on for 10+ years?
- A capital gain from a house that can be renovated and sold for a profit?
- A vacation home that you can use for retirement and rent out in the meantime?

I can guarantee that time spent considering these basic issues will be time very well spent. As Warren Buffett once said, an opinion poll is no substitute for thought.

3. Consider your exit strategy when you buy, not when you sell

Before signing on the dotted line, think carefully about who will buy this property from you in 3, 5 or 10 years time.

- Is it another investor? If so, you need to sell a strong rental yield.
- A tourist? Bear in mind that they can be very fickle and vacation markets can get saturated.
- A local owner occupier? This is the safest option as they are the biggest pool of buyers, but they will want to purchase in a safe neighborhood near good schools.

PART 2 – GETTING STARTED

4. Use common sense and set aside time to study

If you apply common sense and are willing to set aside significant amounts of personal time to research a deal (i.e. evenings and weekends), then it is very unlikely that you will make an expensive mistake. It is far more likely that you will make a lot of money.

Most of the time, when regular people lose money on real estate investment, it is because they haven´t done their homework properly. They bought in a hurry and didn´t spend enough time doing basic due diligence.

5. Avoid deals that look too good to be true

If you find a property that looks like an amazing investment, take a very deep breath and figure out what you are not seeing. Probably one time in twenty, it will be a great deal and you just happened to get there first.

More often that not, others will have seen it before you and will have passed on it for a reason. The best deals are usually the boring reliable ones, not the perfect shiny ones.

6. If you want to make money, don´t use the property yourself

There is a world of difference between buying a long term rental property (pure investment) and renting a property short term (partial investment / partial vacation home).

Income can be earned from a vacation property, but it should not be considered a regular or a reliable income stream. Some months you earn lots of money, and others you earn nothing at all (but still incur running costs). Also, management fees can eat up to 30-40% of your gross income, compared to 7-10% for a long term rental.

7. Double check the rental income the sales person is promising

We have all read brochures that gush about how great a property is and how much you´ll earn from rental income. If an agent tells you the property will rent for $900 per month, double check. It is very easy. Start by googling “rentals for 2 bed condos in zip code 12345” and take it from there.

8. Be careful with rental guarantees

If a rental guarantee is offered, read the small print. Does it cover vacancies and repairs? Who is actually providing the guarantee? Have they set aside any funds in escrow to cover it?

9. Understand the pros and cons of a mortgage

The main benefit of purchasing with finance is that you can acquire a substantial home by paying a 20-30% deposit with the bank lending the remaining 70-80%. In a growing market, the cash on cash return from capital appreciation can be enormous. In a falling market, you could end up in negative equity (i.e. the loan is bigger than the property value).

For example, if the value of a $150,000 property increased by 5% per year for 5 years it would be worth $191,500. That equates to a profit of $41,500/$150,000 = 27%.

If you paid a 30% deposit ($45,000) to acquire the property, that $41,500 profit represents a 92% return on the initial cash invested ($41,500 / $45,000). These returns will get higher the longer you wait as the balance of the mortgage loan decreases over time.

The flip side is that there are always fees attached to borrowing money (approx 3% of the purchase price) and your annual running costs will include hefty mortgage repayments.

In other words, the cash on cash return on a financed property is WAY higher when you sell at a profit, but you need to absorb MUCH HIGHER running costs in the meantime. These overheads can be offset substantially by renting the property out during the year, but you should not expect to earn a meaningful income from on a financed property for quite a few years.

Also, please don´t assume that you will be able to get a mortgage for a property. Lending standards are still incredibly tight, especially for investment properties. Most of the properties Torcana have sold in the US since 2008 have been to cash buyers.

10. Make sure you are buying at or below market rates

With websites like Zillow.com, Trulia.com and Realtor.com, there is no excuse to be caught paying over the odds for a property. Use the map features to zoom into the streets you are looking at and check with other properties have sold for recently.

11. Study the local neighborhood

This is crucial. Use zipdatamaps.com to research local demographics and household incomes. Use city-data.com to research crime data plus a lot of housing and business information. Use trulia.com to check local rental and sales comparison (as a rough guide only, it is not 100% accurate).

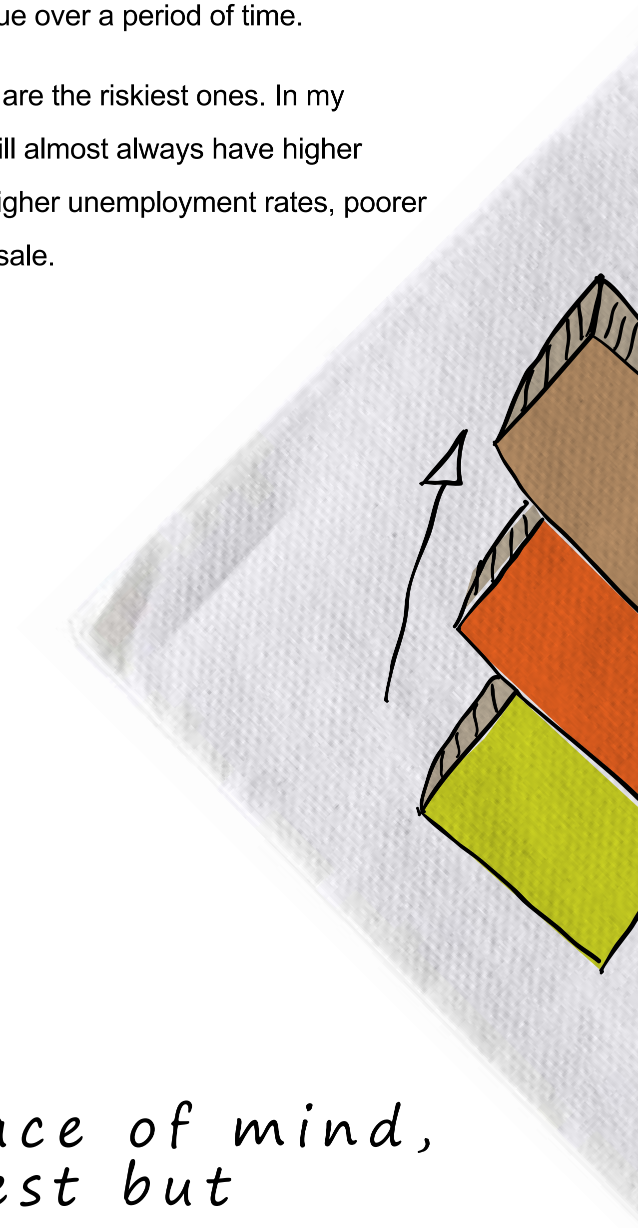
12. Study the community you are purchasing in

If you are purchasing in a community ask for a copy of the rent roll and try to ascertain the numbers of vacancies and foreclosures. Ask for a copy of the HOA (home ownership association) accounts and try to verify if there is a lot of postponed maintenance or bad debts building up. Better still, go and visit it and talk to the neighbors.

13. Make sure you are buying at or below market rates

It is important to remember is that returns are directly proportional to risks. This is a fundamental truth in every asset class and real estate investment is no exception. Low risk properties with high rental returns can´t be bought off the shelf – they only happen to people who add value over a period of time.

The highest yielding properties are never the safest investments. They are the riskiest ones. In my experience, high yielding properties where you have added no value will almost always have higher maintenance fees, higher management fees, more transient tenants, higher unemployment rates, poorer access to schools, employers & amenities and difficult prospects for resale.



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14. If you want peace of mind, look for a modest but predictable return

It is much better to earn a modest but consistent rental income compared to a volatile rental income that varies sharply from year to year. In other words, it is better to earn $7000 every year, as opposed to $9000 some years and $5000 other years. The reason is simple: it is very difficult to plan future investments if your income stream is unreliable.

PART 3 – AFTER YOU HAVE PURCHASED

15. Make sure your property is very well managed

Many investors are able to manage their own properties directly – they collect the rents and deal with the tenants. If the properties are nearby and you have the time and temperament to do it, great! If this is not the case, you need to hire a professional property manager with a solid track record.

A professional who manages your portfolio and your tenants well over a number of years is worth his/her weight in gold. The better your property manager is at doing his/her job, the happier the tenants will be and longer they will stay. Having tenants move in and out on a regular basis is a stressful and expensive experience that should be avoided at almost all costs.

The best management companies are those who know how to keep tenants happy and nip problems in the bud. Don´t fall for new /inexperienced management companies who advertise lower fees to win your business.

16. Don´t underestimate the value of a stable tenant

Renting to professionals in full time jobs with a good credit history and decent salary is the best way to ensure a continuous and hassle free income stream. People outside of these categories tend to move around more and take less care of their property.

17. Treat your tenants with respect, but demand it from them too

If a tenant makes a request, make sure they get a polite reply and that action is quickly taken to solve their problem.

Don´t delay or refuse to make requested repairs to your own property. All you will achieve is time consuming disputes and disruption to your income stream. Make sure you have cashflow set aside for these things and keep track of the cost.

Do not put up with tenants who are consistently late with rental payments. You need to be very strict from day one and don´t be afraid to evict if they are not honoring their rental agreement.

18. The bottom line is all that matters

The predicted rental returns on the sales brochure will never match up to the actual rental returns. They might provide the correct market rates (i.e. $900 per month), but they certainly won´t list all the overheads you´ll have to deduct.

- Home Ownership Association (HOA) fees if it is a condo community
- Pool maintenance, trash, landscaping & pest control if it is a single family home
- Property Insurance (this is an optional cost, but you need it)
- Property Tax
- Property Management Fees (unless you are doing EVERYTHING yourself)
- Repairs & Vacancies (budget at least 1 month gross rent per year)
- Income tax (lots of deductions available, but you´ll probably need to pay some)

19. Keep on top of things.

Sometimes people switch off after they´ve bought and tenanted a properly only to find huge problems building up without their knowledge. Do not let that happen to you. Keep a close eye on money coming in and out of your property investment at all times, update your folder storing the paperwork every month and make sure you file your tax returns every year.

20. Stay calm and don´t be afraid to take the plunge

It is not uncommon to suffer from “analysis paralysis” – having so much information that you don´t know what to do. It is just a phase and you can get through it by double-checking that you´ve covered the basic steps outlined in this short guide.

Once you have spent time figuring out what you want and have researched the opportunities that match this criteria, my advice is to take the plunge and don´t look back. There are huge wealth building opportunities out there.

SUMMARY

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ABOUT TORCANA

Torcana Ltd is an award winning investment specialist which promotes a variety of real estate products worldwide. We have found that one of the best ways of building relationships with like minded people is to write about the market from the point of view of a long term investor. We do this by publishing a wide range of blogs, newsletters, market reports and buyers guides.

Our primary goal is to find ways of putting both our own funds and those of trusted clients to productive use without taking unnecessary risks. Through rigorous due diligence and a long term “on the ground” approach, we help people to grow their net worth by taking ownership of assets that are stable and offer genuine long term value.

Our focus is on established and affluent areas with strong domestic rental and resale demand. We only deal with cash flow positive properties which have all of the fundamentals in place (location, price, unit size, build quality, interior fittings, amenities, transport links & management).

Our knowledgeable and experienced team provide a wide range of sourcing, marketing, sales
and aftersales services.

CONTACT US

Thank you for reading our short guide and we hope it has given you a brief insight into how this fascinating market works.

Are you still keen to learn how you can take advantage of the real estate opportunities out there? If the answer is "**yes**", then the next step is to schedule a friendly consultation call with myself or one of my colleagues.

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