



10 Secrets to Investment Success

There are nearly as many investment-hunting strategies as there are investors. Yet experience provides some universal truths that pay off.

1. Compare comparables - Fast-and-loose rules-of-thumb to estimate value, such as 6 or 8 times annual gross rent or 10 times net operating income or 100 times monthly rent, may not reflect an area's values. There are 4 factors to consider when establishing value: income, depreciation, appreciation, and financing. Because exact comparables of investment properties are much more difficult to find than regular residential homes it is important to do your homework. The best method I have seen is the "Float and Desire Worksheet" method. Call me, I'll show you how it works.

2. Tax laws - A good investment is a good investment before it's a good tax shelter. Tax laws change. The right property in the right place with the right financing and management will weather inevitable tax code changes.

3. Specialize - Start in a market segment you know. Whether you focus on fixer-uppers, foreclosures, starter homes, low-down payment properties, condominiums, or small apartment buildings, you'll benefit from experience by specializing in one aspect of investment real estate properties.

4. Run the numbers - Operating expenses from repairs and maintenance, loan payments, taxes, vacancy costs, and more will determine the difference between smooth sailing and a sinking ship. Up-front number crunching is your best strategy. Run before and after-tax cash flow statements with confirmed figures. NOTE: if the seller will not provide you with a copy of their Schedule E (IRS reporting form showing income and expenses) I guarantee something is fishy with their numbers.

5. Determine last rent increase - If the rents were recently increased, your future income may be limited and, worse still, tenants might move. Check the date of last increase to know where you stand. Also, make sure the current tenant isn't on a short-term lease and living there simply to tempt the unsuspecting buyer. Examine existing leases and be sure to get tenants' security deposits from seller at closing.

6. Check tax assessment - A current assessment that will increase

after your purchase - because it is old or doesn't include unrecorded improvements-could change your property tax expenses.

7. Investigate insurance - If seller's coverage is based on lower-than-current replacement value, your insurance cost may increase when you pay a higher purchase price.

8. Confirm utility costs - Ask the local utilities to verify recent utility expenses, especially if any of these costs are included in your tenant's rent.

9. Ask your accountant - Especially on the tax questions, as well as your basic investment analysis, be sure to get a second opinion from your tax advisor or CPA. Inspect, inspect, inspect - Never buy a property sight unseen. Nothing replaces on-site inspection and nosing around the property like a blood hound. Hire professional inspectors for structural and mechanical system opinions.

What You Should Look For

You'll want to look for what's good - a good property in a good neighborhood with a good price and good financing. Your real estate agent has the hands-on experience to help you find what's good.

As an investor, you may start looking in or near your own neighborhood so you can "keep an eye" on the property. That doesn't mean, however, investors should look for the best home in the best neighborhood. You'll find rents often don't cover the higher mortgage payments. Look for a home in a neighborhood where renters want to rent, not particularly where you want to live.

Look for:

- a well-maintained neighborhood
- ready access to public transportation, highways
- a style of home that appeals to the most renters in that price range
- a property that fits comfortably into the neighborhood - the "typical" rather than the unusual
- a property that doesn't require a lot of maintenance or repairs, unless you're looking for a "fixer-upper"
- a property where you can afford the carrying costs in the event of a temporary vacancy



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