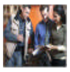
How to Buy an Investment Property

If you have decided that buying a rental property will help you improve your financial future, then you have already considered the pros and cons of becoming a landlord. But are you adequately prepared to purchase your first investment property? Do you know what to look for in an investment property? And do you know what features make an investment property as profitable as possible? If not, don't be alarmed. Many first-time investors find themselves asking the very same questions. Fortunately, with a little thought and a lot of research, you can make a good decision and find the perfect investment opportunity. Being prepared is your best asset when it comes to purchasing any investment property.

How Long Will You Own the Property?

One of the first things you need to think about is how long you intend to hold onto the property. Many investors plan to keep a property for only a few years, while others intend to pass the property on to their heirs. Your expected timeline will most likely fall somewhere in between. The length of time that you own a property will determine how much you will eventually pay in taxes, insurance, and maintenance, as well as mortgage payments that continue until the loan is paid in full.



Deciding how long you will hold onto an investment property will help you decide whether or not you will make updates and upgrades, or simply maintain it. If you purchase an investment property that you plan to keep for only seven years, chances are that you will still owe on the mortgage at the time of sale. The value may appreciate slightly over those seven years, leaving you with some measurable profit once the loan is settled. If you make updates in an amount equal to that expected profit, then you are simply breaking even on the property. On the other hand, if you plan to keep the property for twenty years with a fifteen-year mortgage, the value will most likely appreciate significantly and the loan will be paid in full before the sale. In this case, the cost of updates and upgrades will be less than your eventual resale profit, leaving you with a positive cash flow at the time of the sale.

For this reason, many first-time investors purchase a property with the intention of long-term ownership. The benefit of added income far outweighs the benefit of a small profit for someone who owns just one investment property. This is a good way to start preparing to purchase other investment properties.

Who's Who in Real Estate?

When you want to become a real estate investor, get involved in the community to become acquainted with other local investors. This is important for several reasons. First and foremost, by getting involved in the community and becoming friendly with other local investment property owners, you will have a good chance of getting help and advice when you need it. Also, investors will offer you their referrals for specific realtors, agents, brokers, lenders, contractors, and maintenance providers. Anyone who would like to become a real estate investor can benefit from this sense of community and the networking that evolves over time.

Are You Financially Prepared?

Whenever you are planning to purchase property, you need to be prepared financially for the upfront costs, monthly mortgage payments, and all other expenses. Part of that preparation is having access to liquid assets. But, more importantly, you need to ensure that your credit report and credit score show lenders that you are financially stable and responsible. Commercial loans, used to purchase large investment properties, have much stricter lender requirements than do loans used to purchase single-family homes or small investment properties. Therefore, you need to know exactly what type of financing you need to purchase the property that you are considering, as well as the lender's requirements for that type of loan. One advantage of purchasing an investment property is the rental income that will be generated. Lenders generally calculate 75% of the potential rental income as a part of your income.

Talk to other local investors and work with a realtor who is familiar with investment properties in your area. Become intimately familiar with the local rental market before determining whether a property meets your needs

Being financially prepared to buy an investment property also means knowing how to handle your accounting and tax reporting. Sometimes it is easier to hire an accountant to maintain your records, but many first-time investors prefer to save money by handling the bookkeeping on their own. Either way, a class or a book on real estate management will be helpful, because you will need to learn about tax-deductible expenses, allowable costs, and more.

Are You Familiar with the Local Rental Property Market?

To avoid paying too much for your investment property, you must have a clear idea about the real estate market in which you want to buy. You need to determine whether a specific property will draw enough rental income to at least break even each month, and preferably generate a profit from the first day of ownership. Real estate investors often explain that they generate their profit through the purchase of a property and not so much from the sale. This is a common statement among investors, because investment property does not appreciate on the same timeframe as do single family homes. In addition, many more things can go wrong with investment properties. The risk is significant. Therefore, knowing the area well is critical to ensuring that you are buying a property with the right price for the amount of income you intend to generate.

For example, a low-priced investment property in a dangerous and inaccessible area may seem like a bargain, but if you cannot get tenants to move in, the profit margin will be minimal or even nonexistent.

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Conclusion

By doing your research ahead of time and making sure that you are financially able to manage an investment property successfully, you are paving the way to your future financial success. There is no reason that a well prepared buyer cannot become a successful real estate investor. Pay close attention to each of the items mentioned above and answer the questions honestly. Then you can determine whether or not purchasing an investment property is the right move for you at this point in your life.