

TIP OF THE MONTH:

Investment Strategies

By Jim Straub, Oregon Rental Housing Association Legislative Director

Investment properties are not for the faint of heart. In fact, I look at 75 - 100 properties for every property I make a sales offer on. So whenever someone asks me about my investment strategy, the first thing I always say is that you've got to be willing to put the time and effort into it. If this sounds like something you could be interested in, read on.

When I look for properties to buy, I look for the ones that aren't for sale. Sounds counter-intuitive I know, but that's where I've always found the best deals. I cruise neighborhoods looking for properties that are neglected but solidly built. Maybe the house needs painted or the shrubs haven't been groomed. These are properties ripe for negotiation. Once I've focused on a property, I call a local title company and ask for a listing kit, which they will provide for free. This kit includes information on the owner, occupant, prior purchase prices and dates of sale. Then, if it is owner-occupied, I simply knock on the door one Saturday afternoon.

My biggest rule of thumb in dealing with the owner is to be very complimentary about the house. It may need some work but it is the occupant's home, and you are not going to get anywhere insulting him. I ask if they would consider selling the home, and I work hard to establish a cordial relationship before I ever talk price. I am honest up front that I am an investor looking to buy a property in their neighborhood. This honesty helps establish good communication and also helps during the price negotiation, as they know right away that you are an investor. All through this process, though, I continue to compliment the property and highlight the good qualities. I can assure you that if you insult them or the property, you've lost the deal. Pointing out the problems with the property won't get you a better price, it will just offend them.

If the owner seems at all interested, I ask to see the rest of the house. I look for several things in particular. Concrete cracks in the foundation, especially ones that have lateral movement, can be a deal-breaker. I look to be sure there are no bellies or sags in the roof that could be indicative of prior damage or leaks. I examine the siding, especially around windows, to be sure there is no water intrusion or damage. I look for water stains inside the house, especially on walls or ceilings, as this is indicative of a leak. I look at the bathroom carefully and in particular I step on either side of the toilet to be sure the floor isn't soft or moving. Finally, I find out if any additions or improvements to the property were done without a permit. Not only could these illegal improvements come back to haunt you if the city finds out about them, without proper inspections how do you know if the work was done professionally, properly or safely? (Know

also that accessory improvements can expire when the original owner sells, so many people think they are buying a legal duplex when in fact they are buying a unit that can't be used for that legal purpose.) If I find work done without a permit, I factor that into the price I am willing to pay. My motto is to plan for the worst and hope for the best!

Now, about price. The key to purchasing investment properties is not to get attached. You must be willing to walk away from the deal at any moment until the final papers are signed. In terms of arriving at a price, you want to make sure you are not going to feed this investment. In other words, some people buy investment property that they actually lose money on every month, waiting for the time the market will turn around. This is a bad strategy. Your investment property should earn you money from the beginning to be a good investment. The other mistake people make is not figuring improvements into the purchase price and/or making too many improvements. Any improvements you make should be part of your investment strategy from the beginning and should be factored into your purchase price. My rule of thumb is this: purchase price + cost of improvements + taxes + insurance = worst case scenario rent amount. If your costs outpace the least amount of rent you believe you can receive, then you should walk away from the deal.

Now I'll tell you a secret. I don't use a real estate broker. Although many people are not aware of this, it isn't required in the state of Oregon. Don't get me wrong. There are many great brokers out there and many people feel more comfortable with one in their corner. I'm just telling you about my experience, and it has been my experience that I can get the best price for the property by sitting down face-to-face with the owner. Once you arrive at a sales price, all you need in Oregon is a land sales contract (which you can buy at any stationary store) and an earnest money check. Both these go to the title company of your choosing, and they do the actual paperwork.

Again, the trick to negotiating the best price is not to offend the owner. They care for the house and won't close the deal if they believe you are trying to devalue the house. Don't mention all the improvements you are going to make to the property, as all they will hear is that you really don't like the house. Be polite and sincere. Don't lie or mislead them (although you don't have to volunteer everything!). Don't let your excitement show through or they might think they are being taken advantage of. Finally, be timely. Don't let your negotiations drag on. Do any research quickly so that you are armed with all the information you need.

What are some of the most common mistakes made? Doing too much renovation work after buying the property, particularly if you haven't factored it into your purchase price. Always know when to say when, both in terms of the purchase price and the renovations, so always set a "not to exceed" price for yourself. You should put the least amount of work into the property for the maximum return. Remember, this isn't going to be an owner-occupied property. A

dated look is ok (retro is returning) as long as the unit is clean and cared for. Be choosy about your projects. Curb appeal is important, so consider painting the outside first. If money is tight, you can even just paint to the front of the house and get to the other sides later when you have more income. Remember, any time spent working on the unit while it is unoccupied is costing you money. I have even seen people lose their investments this way. So once you've secured the property, do a reasonable amount of improvements and rent your unit quickly.