REIN MEMBERS ASK AN EXPERT

BY JARED HOPE

1 With a lot of cash and players competing for the same real estate, how do you set yourself apart while making a decent return? How do you get deals done when everything is so expensive?

THE KEY IS TO WAIT FOR THE RIGHT PLACE. Real estate is like waiting for a bus, if you miss one there will be another one coming. Buying a rental property is all about the math and making sure you have allocated proper amounts to repairs and maintenance and reserve funds. Make sure you've factored in tax increases and mortgage rate changes.

When buying a rental, look for houses that already have work done to them. Renovated homes will attract better quality tenants who will pay a higher amount to rent. This will mean more monthly cashflow.

2 I met with a property management company who is charging a finder's fee of ½ month's rent for every new tenant, even when managing 30 units per client. Is this common and reasonable or do you recommend negotiating NOT paying a finder's fee when owning, say, 50 units or more?

I WOULD SUGGEST NOT TRYING TO NEGOTIATE WITH THE MANAGEMENT COMPANY. It's a business to them as it is to you. The key is to buy the right properties so the math works when it comes to renting your unit out. The management company may be the most important person on your team. Try to find a company that has an owner who owns many rentals themselves. Managing rentals from the place of "this is what I do for my own" is different than managing from a place of "this is how I think I would want it done." Also ask how many doors they manage and how many staff they have. If they have 100 doors per staff member, you may want to ask yourself if you could manage that many doors before going ahead with that company.

So the charge of 1/2 month's rent may seem high but if they are able to rent the unit out to a qualified tenant with the proper checks done, then the payoff is huge.

3 I'm looking at an apartment right now for $1.29 million. After financing, it will be positive cash flowing at approximately $2,000 per month. The roof will likely need to be replaced for $50,000 in two to three years. How should I analyze this?

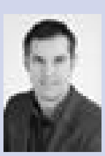
WELL IT'S IMPORTANT TO FACTOR THIS NUMBER INTO THE MATH FROM THE START. If in 2 years you will need the money then you have two options:

1. Find the $50,000 now and put it in the bank and wait.

2. Take the $2000 a month and allocate it to the roof fund which will leave you with no cashflow each month for two years.

My suggestion is the first option. Buying a property and not allocating expenses and funds properly can be scary and potentially bad business. Been there and done that myself. I have learned over the years that cash is king and things come up. When they do, I need money to fix them. Depending on the size of this building, $2000 a month cashflow may not be enough either.

One thing I like to do when I do my math is to use the lowest rents seen in the past five years. I don't just use today's rents. Make sure your math is tight and you have factored in all the "what ifs."



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