FREE Beginner's Mini Guide to Buying Out-of-State Properties

Buying Out-of-State

There will always be situations where an investor has the motivation to invest in real estate but for any variety of reasons the local market just doesn't provide that many opportunities. Perhaps the town has a relatively small population or maybe the investor thinks the market is overheated and wants to sit the local "boom" out. Or maybe the local real estate market is too rich for the novice investor and coming up with a 20 percent down payment on a home is unworkable. So what does the investor do? The investor can look beyond local borders for opportunities.

Investors learn how important knowing the area is, the economy, trends and demographics. Many investors like to invest in a particular area and regularly visit the neighborhood to drive by the properties they own. But what if you live in California and see an opportunity in say, Ohio? The numbers look good and you're able to pay cash or finance an acquisition, but how can that work? What are the benefits? What is there to look out for?

Here vs. There Economics

Consider a three-bedroom, single family home in Concord, CA. The purchase price is $350,000 and the rental income is $1,900. With a 25% down payment of $87,500 financing the property results in a $262,500 loan and the mortgage, property tax and insurance (PITI) is $1,554 for a $346 cash flow. Real estate values in California leave many out of the cash flow loop.

Now let's look at a four-bedroom single family home in Cleveland, OH with a sales price of $50,000. Yes, this is a real property in great condition. With a 25% down payment of $12,500 the loan is $37,500 and the mortgage, property tax and insurance PITI is $460. The market rent is $925 for this four-bedroom home for a positive cash flow of $465. Which is the better deal?

Who wouldn't want that investment? But there are the concerns that we listed above that need to be addressed.

Look Out!

Buying a property in Cleveland means that, unless you're a native and have family there, you don't know the economic conditions of Cleveland, long-term job prospects, schools and neighborhoods. A home may have an excellent return but how do you know you're not buying in drug-infested area with a high crime rate?

What about property management? What if the tenants don't pay or the hot water heater breaks and I'm three time zones away? And what about vacancy rates, who can make sure the home is constantly rented out and maintained?

You can do your own research locating local real estate agents, plumbers and property management firms but you'll be doing all that research sight unseen. You know your own agent and contractor here but how do you find experienced professionals there?

With Turnkey Solutions, Passive Investors Can Now Go Anywhere

Instead of doing all your own heavy lifting locally you can work with a turnkey real estate investment firm that provides you with a fully operational investment. This is where there is an interesting twist on being a passive investor, which is you can literally invest anywhere. You are responsible for selecting the investment goals, return, property type and so on, then work with the turnkey company that has already acquired the asset, repaired it, cleared title and found tenants. The turnkey can also manage the property and market it when needing new tenants or you want to sell. Your only obligation is to thoroughly review the proposal as well as the reputation of the turnkey organization.

Buying Foreclosures Out of State

You can also invest in foreclosures out of state and there are various online firms that provide foreclosure data including the home, but buying foreclosures mostly sight unseen is fraught with potential issues. Yes, the purchase price will be lower but it's not very practical to hire local contractors to perform any needed repairs, make inspections and shepherd the transaction from start to finish. Many foreclosures will have structural defects and may be in such a condition that a conventional lender won't even finance the transaction.

The tradeoff with a turnkey is the difference between knowing everything about the transaction to knowing very little other than the property address. Buying out of state can provide a wealth of investment opportunities but using a turnkey real estate investment firm can get you to your goals quicker with less risk.

Out-of-State Turnkey Benefits

- Define your goals and timeframes and select the market and partner that can deliver
- Buy fully renovated properties with lower cost of ownership
- Standardized materials make repairs less costly
- Get a warranty on the work completed by some providers
- Long term lease in place with tenants already paying
- Teams are already up and running
- Limited work required outside of normal due diligence
- Fewer variables in the economics, using actuals results for rent, tax, insurance etc.
- Immediate cash flow

Turnkey Cons

- Higher purchase price than buying a foreclosure and fixing it yourself
- A poor turnkey partner means poor returns and problems

How To Pick Your Investment Location

There appears to be good and bad real estate investment markets all over the country. At any given time there are lists made of the best regions in which to invest. Watch out, as the right location for you will depend on your own goals and personalized strategy. Use consistent criteria to select the right market for your goals. These criteria typically include such things as rent-to-purchase price ratios, population trends and economic conditions. See below for a list of data that I like to use.

Market Investment Selection Criteria

- Favorable rent-to-purchase price ratios
- Property is undervalued for appreciation potential
- Stable employment or job growth
- Diversification to its employment industries
- Has investment into industry or redevelopment
- Reasonable levels of crime
- Reasonable vacancy rates
- Landlord vs. tenant friendly laws
- Strong demographic appeal – great for baby boomers or the millennial* generation (*millennial are 70+ million Americans born between 1977 and 2000)

Buying Out-of-State Tips

1. For buy and hold strategies it appears the best markets seem to be concentrated throughout the Midwest right now based on the selection criteria we like to use.

2. Understand the local economy, employers, industry, unemployment rates, vacancy rates and income statistics. See our Markets Reports!

3. For a low-risk approach buy a turnkey product with bigger ticket items replaced or at least with clear life expectancies for them (furnace, roof, water heater and so on).

4. Hire a proven property management company with a long-term tenant lease in place.

5. Get a reference from other investors in the area – get them on the phone and ask them the reference questions provided in the Tools section of this site.

6. Don’t ever buy unseen – get an independent inspection report.

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Discover how to capitalize on this opportunity at HowManyDoors.com

No Fluff, just authentic, practical advice and cool tools for beginners

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