JANUARY 4, 2022

12 RED FLAGS WHEN EVALUATING A RENTAL PROPERTY

Real estate investors constantly flex their analytical muscles. From the physical to the financial, diligent evaluation of every investment opportunity not only sets the stage for success but avoids big problems.

TOO CHEAP

Everyone loves a good deal. Unfortunately, a lot of “great” deals on real estate come with caveats and baggage. If the price is rock-bottom, especially in this market, there’s something you aren’t seeing. Cheap properties may be that way because of extensive, difficult-to-fix structural issues, a poor location, or because of a low-income area. Low-income areas aren’t inherently bad investments, but they do come with some complications and risks that mid and high-income areas don’t: namely, the financial stability of the people who live there. Not only are you more likely to run into rent payment issues, but the resale value will be hindered by the area.

NEEDS TOO MUCH WORK

If taking a house down to the studs and renovating from the bottom up isn't your bag, don't try to pick it up. Buy-and-hold investors don't usually get that involved in rehabbing. A cheap property might need so much work that it's no longer cheap. Plus, it's more difficult to leverage money for rehabs versus a traditional property loan. You don't want to spend months waiting for the reno to wrap up – you want your property rented out and generating passive income ASAP.

TOO OLD

Older properties can be advantageous in that they're often in established neighborhoods and are more likely to be at better price points. Just don't go too old. The older the property, the more you must contend with potentially hazardous building materials like lead and asbestos. Older layouts may not accommodate modern sensibilities (and building codes) and outdated insulation or wiring can pose expensive problems!

WEIRD FLOORPLAN

Weird can be fun and funky but save it for your personal residence. Investment properties need broad appeal, and that means no questionable design choices or clunky layouts. Sometimes renovations can fix layout issues, and sometimes they can't. Be realistic about the possibilities for maximizing functional space.

BAD LOCATION

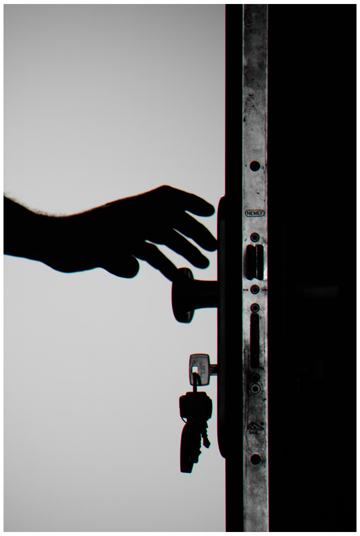
Location is everything. If the property you're looking at is in a poor location, move on to the next opportunity. What makes the location bad? Crime rates, poorly rated school districts, too rural, and noise pollution from proximity to train tracks, highways, and other loud industries all can tank a property's rental and resale potential.

UNCERTAIN MARKET

The property itself might be fine, but if the market isn't rock solid, you're barking up the wrong tree. Be wary of economic red flags like high unemployment, local business closures, poor infrastructure, population decline, and a lack of economic diversity.

HOSTILE LOCAL LAWS

Are local laws investor-friendly? From property tax rates to eviction laws, you want to know how amicable the market is going to be towards your business. If local laws make it more difficult and costly to be a successful, risk-mitigating investor, you may want to look elsewhere.



SELLER WON'T LET YOU SEE INSIDE

Seller wants you to buy sight unseen? Encourages you to waive the property inspection? Run far and run fast. Some sellers will try to make you jump through hoops to see a property in person (or virtually) and it probably means they're hiding some nasty surprises that they don't want you to know about until it's too late.

DIY NIGHTMARES

Did the last owner do a bunch of quick-fix projects? If there are signs that less-than-professional work has been done on the property, you're going to want to figure out what you would need to do (and pay) to bring everything up to safety standards to protect yourself from liability. If the DIY projects are out of hand, you're going to want to think twice.

STRUCTURAL ISSUES

Some things are easy to fix. Some things aren't, both because of time and cost. Foundation problems and other structural issues can jeopardize the safety and value of your property. Plus, they cost a fortune to fix!

SHIFTY SELLER

The property might be great. The location could be awesome. But if the seller is dragging their feet, think twice. Motivated sellers are those willing to negotiate and get moving. Beware sellers who have an emotional attachment to the property, such as those selling a long-time family home or the home of a deceased loved one. They might have other reasons for delays, immovable asking prices, and a lack of commitment. Regardless, you don't have time for sellers who don't want to play ball.

NUMBERS ARE IFFY

Mind your metrics. If the numbers aren't making sense or barely meet your standards, it's not worth the time. Unexpected things can crop up that totally blow your budget. You want the numbers to be positive and provide a bit of wiggle room in case of the unforeseen.