



REAL ESTATE THAT'S OUT OF SIGHT

By: Staff writer from www.realestateinvestментtv.com

In certain parts of the country it has become increasingly difficult for real estate investors to purchase investment property that provides cash flows, or comes close to it. The solution for many investors has been to buy investment property out of town or out of state. Many real estate investors have been flocking to some of the less expensive or newly appreciating parts of the country and plunking down their hard earned cash in order to get into the game. In this Special Report, we are going to take a look at what you need to know before you invest in real estate that's out of sight.



One of the mistakes that many real estate investors can make is to confuse what seems like inexpensive investment property with investment property that is a smart buy. This happens especially when real estate investors are used to the high prices of hometowns such as Los Angeles, New York City and Washington D.C. Real Estate investors that hail from these cities must take off their hometown "real estate goggles" and heed the advice of local experts in the cities they are considering for investment.

Ron Akin, owner of Sunridge Management in Dallas Texas, says, "I have seen real estate investors come to Texas from places where the property is expensive, like California, and they get so excited to see apartments selling for \$22,000 per door when they are used to \$80,000 - \$120,000 per door. The key is to understand that what seems inexpensive for your home town does not mean it is inexpensive for our town. There is a lot more to consider than the price of the property before you purchase in a new market."

Once you leave the comfort of your own town to venture out to exciting new real estate destinations, real estate investors need to be aware that if property prices are lower it is also going to mean that rents are most likely lower. Sometimes rents are so low that properties won't cash flow even if they do seem "cheap". Another consideration is maintenance and management expenses. When buying out of state you are going to be at the mercy of someone else watching your building and you aren't going to have the ability to do things as inexpensively as you would if you were close to your property. "Here in L.A. I have access to a very large, very reasonable labor pool. In New Jersey, where I own investment property, the available labor pool is extremely limited and at least two to two and a half times as expensive," says real estate investor Sandy Shaud.



When you are considering investing out of town or out of state, one of the first things to do is find a local investment real estate agent. It is crucial to be aware of all of the special considerations of your potential new city. Joanne Ferraro of Prudential Fox and Roach in Margate NJ says, "Our city has restrictions on renting, like how many occupants you can have per unit and also restrictions on how you can't terminate a tenant, even if their lease is up. Unless you get assistance from a local real estate agent,

there is no way you can know all that you will need to know as a new property owner in our town."



If you are considering a larger purchase like an apartment building, have a few professional property managers check out the building and the rents and expenses to see if they are realistic. Ron Akin says, "I have seen a lot of cases, especially sales of buildings that were managed by private

owners, where the number of vacant units or the monthly expenses were not the least bit accurate. A good property manager can review the building and the books and give you their neutral opinion on whether a property can give you the cash flow you are looking for."

Another consideration is property taxes. Property taxes can vary greatly and have a great impact on your bottom line. The latest run up in real estate prices has been great for many real estate investors net worth yet bad for their monthly cash flow. If you own property in an area that reassesses property values every year, you could see a big jump in your tax liability since your property value has gone up. Sandy Shaud says, "My property taxes in California are set permanently at 1.25% of the purchase price of my property. In Dallas, where I have a large apartment building, my taxes are about 3% and reassessed every year. Three percent is a huge bite out of my monthly operating budget."

Finally, you want to look at the tenant base and vacancy rate of your potential new investment town. You can buy plenty of inexpensive rental property all across the country, but will you be able to rent it out for at least a break-even cash flow? Again, this is where your local real estate agent comes in handy. They can tell you the going rents and how difficult it is to find tenants in the neighborhood you are considering.

Another consideration is the type of tenants you will most likely attract depending on where you buy. "I have an investor who bought a property for \$55,000 and it cash flows, but he wants to sell because he is having trouble dealing with the tenants. He bought in a rough part of the city and the occupants of his property are of a different mindset," says Megan Weil of Prudential Fox and Roach in Philadelphia. "Frankly, he is scared to deal with them." Sometimes it works out better to buy a more expensive property in a neighborhood where you will be dealing with like-minded tenants, even if the cash flow isn't as good.



There is a lot to consider before you jump into a real estate investment outside of your home town. Many seasoned investors will not buy out of town or out of state due to the increased expenses of managing a property from afar and the lack of control. Randy Bach, a CPA from Encino, advises, "I tell my clients that they shouldn't buy out of town unless they have the time and money to visit their property at least once a year." Hormoz Azizzadeh, a long time investor in Los Angeles says, "I won't buy rental property out of my area as it is too expensive and difficult to manage from far away."

However, many new real estate investors need to start in less expensive areas, as they don't have enough money to buy in a more expensive town. Investor Sandy Shaud says, "It is possible to have a successful real estate investment outside of your own home town. Just be prudent, do your homework and personally inspect the property and neighborhood. I do not recommend buying property from a meeting or on line without a personal visit."

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