

## 8 Steps to Buying a Rental

### Step 1- Cash-flow ability

- The 1% rule
  - Does property generate at least 1% of the purchase price per month rent (e.g. \$1,000 per. month rent for \$100,000 home)

### Step 2- Drive-by-properties

- Good neighborhood (pursue)—mature, new
- Bad neighborhood (go onto next deal)—shows signs of decline

### Step 3- Telephonic interview

- Interview owner and/or listing agent.
  - Common Questions would include:
  - Why are you selling?
  - Are units currently rented?
  - Are tenants of good credit status/ do they pay rents on time?
  - How long have the tenants been in the rental? (Any problems)?
  - Can I speak w/tenants, their telephone #s
  - What are your monthly expenses? (Water, utilities, lawn mowing, etc.)
  - \*\* Can I get your last 3 years of tax returns/\*\*Schedule E\*\* \*(without these you will not be able to do subsequent steps)?
  - May I see the *owner disclosure of property defects (if listed)*?
  - How long have you owned rental property?
  - Any deferred maintenance?
  - How old is the roof, furnace, electrical, plumbing, appliances, etc
  - What is the area like in terms of crime, appreciating property values?
  - What can you tell me about your existing loan?
  - Willing to carry a portion of the mortgage (e.g. owner finance)?
  - What else can you tell me about the property?

### Step 4- Validate income w/ Schedule E

- Doesn't look good when expenses are not covered by rents
  - Unless unusual circumstances (recent renovation, major change in surrounding area like new business coming to town with large customer base)
  - Need to factor in cost of money (principle & interest)
  - Need to factor in cost of property mgt, vacancy (estimate 5%)

### Step 5- Develop projections

- (Income/cost) (Adjusted for what rents could/ should be)
- Request good faith estimate of closing cost.
  - Will show how much to get into property.
- Research lenders. (www.bankrate.com)
- Develop total income picture.
  - Include wash or dryer or other income streams.
- Develop total appreciation and accurate equity projection.



- Good to capture 1<sup>st</sup> – 5<sup>th</sup> year projection.

*Step 6-* Convene team for decision

- Make a decision with the help of a team of investors.

*Step 7-* If decision is to pursue the deal then develop negotiating strategy.

- Determine what seller's true objective is.
- Develop strategy that meets seller's objective (within your \$ parameters)
  - Focus on solutions that are cheap and effective and conserve cash if possible
- Position yourself for seller's likely counteroffer.
- Build in "giveaways" as part of your negotiating strategy to maintain the impression of flexibility to the other side, develop bottom-line projection of what the price must be to be satisfactory.

*Step 8-* Negotiate into contract, do your due diligence, close deal (if due diligence yields no deal-breakers)... Use of owner financing for maximum leverage is to be emphasized if at all possible.

