Smart Investors Know These 5 Rental Property Secrets



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Between the rising popularity of investing in real estate and the growing demand for rental properties, now may be an excellent time to purchase a property for rental purposes. For those looking to enter this market for the first time, finding the right property probably seems like a daunting task.

Real estate investors can make informed decisions that lead to higher returns by researching and analyzing a number of different factors that will help them find the right property for their needs, whether their goal is cash flow, appreciation, or a nice balance of both. Here are the top six things to consider when looking to purchase a rental property.

1. Location, location, location

Location is paramount when it comes to choosing the perfect rental property. It’s crucial to analyze locations based on factors such as nearby amenities, market trends, demand for rental properties, and potential for growth.

Properties within close proximity to amenities such as good schools, shopping and entertainment centers, parks and recreational facilities, and transportation hubs are more desirable and, therefore, tend to yield higher returns on investment. Additionally, it’s helpful to identify the demographics you are targeting. Research local datasets to find age distribution, income levels, and lifestyle preferences of the local population.

For instance, are you looking to cater to retirees, families, business professionals or college students? Determining your renter’s “persona” ahead of time will help you assess which amenities (golf course, strong school district, business park, university, etc.) are most important to complement your rental offering. Purchasing a property in a location that is appealing to your ideal renter can greatly influence the success of your investment.

Aside from matching amenities with demographics, understanding market trends is vital. Look for dwellings located in high-demand areas with strong economic growth. Indicators of strong rental demand include population growth, job opportunities, and the presence of universities or business districts. Also, keep in mind the area’s potential for growth. Cities and towns that are investing in new developments, revitalization projects or infrastructure improvements can predict future appreciation in property values.

2. Determine your ROI

Doing the math can help assess the potential rental income and return on investment. It's critically important to conduct a thorough financial analysis to determine affordability before making an investment. Always budget for the unexpected to avoid underestimating the costs of property ownership. Don't forget to take additional expenses of property ownership into account, such as property taxes, maintenance costs and potential vacancies.

When evaluating rental market trends in an area, consider factors like rent prices and vacancy rates to determine the potential rental income of a property. Using that information, you can estimate the rental yield – how much income your property is likely to generate over the course of a year as a percentage of its value—to determine the profitability of the investment.

Since time is money, also consider the time it will take to manage the property. Property management technologies can help simplify and streamline many processes, and there are some affordable solutions to choose from that offer a broad spectrum of features. Be sure to weigh the costs against the benefits you can get out of these platforms.

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3. Establish the right rental property for your needs

What kind of property best suits your needs and personal preferences? This is a crucial question. If you're someone who enjoys a challenge and is looking for a project in addition to a source of rental income, a fixer-upper might be the perfect property for you. It would likely allow you to invest less

money upfront, but once you are done renovating the property, you can charge more rent than you could have initially.

If big projects are not your thing, then you'll want to look for either a turnkey property that is ready to rent immediately or one that only requires minor improvements. These options, typically newer construction, may result in a higher investment, but if the property is in the right location and you've identified and marketed to its ideal renter effectively, it should offer a good return on investment. In addition, built-for-rent (or "BFR") neighborhoods are a rising trend, offering turnkey homes that are built specifically for rentals, with the building companies taking on most of the property management tasks, including finding the tenants.

It's also worth considering non-traditional types of properties for rent. Investors can generate passive income by renting out parking spaces, storage spaces, garages, and even mailboxes. A trend called "house hacking" involves a property owner renting out a spare room or multiple rooms to other tenant(s). Tapping into these creative ways to rent property eliminates the need for an upfront investment while providing a good source of income.

4. Look for off-market deals

Also, consider looking at off-market real estate deals as well. An off-market property is one that is not listed on the Multiple Listing Service (MLS) or is not currently being offered for sale. The advantages of pursuing off-market properties include reduced competition and more favorable pricing. By circumventing the traditional real estate market, buyers can access properties with untapped potential and negotiate advantageous terms.

The most popular and direct way to find off-market deals is through direct mail. Once you define your target audience, the

trickiest part of the process may be to locate contact information. Locating deals that are not publicly listed can be as simple as using Google Maps to look at houses in your preferred location that have certain amenities. Once properties that fit your profile are located, send postcards or ads to reach out to owners to ask if they're willing to sell.

Other strategies for finding off-market deals include tracking real estate auctions and public records to find foreclosures, pre-foreclosures, short sales and REOs. "Driving for dollars" involves driving around desired neighborhoods looking for vacant or distressed properties, which should be easy to spot.

Additionally, networking with people who are "in the know" about off-market deals can help you find them. Real estate agents are privy to properties that are about to go on the market but haven't been publicly listed for sale yet. Builders and contractors may be aware of projects that were abandoned by original buyers or investors due to lack of financing.

5. Join an informed online community

Joining online communities that are dedicated to real estate investing can be a great resource, providing a wealth of information, tips, tricks of the trade and networking opportunities. Aspiring and experienced real estate investors alike can join these communities to connect, collaborate and share ideas with a network of like-minded individuals. Whether you are looking for guidance on finding the right property, financing options or property management strategies, these communities provide a supportive environment where valuable information is readily available.

Likely the most popular online community is the National Real Estate Investors Association, which has many local and

regional chapters across the United States (often referred to as “REIAs”). These organizations help investors achieve financial independence through real estate. Other online communities include the Real Estate Investor Forum and BiggerPockets, both of which offer members a wide range of resources, including educational articles, e-books, webinars and podcasts. They also focus on building connections among investors by offering well-attended industry events, such as BPCON, where attendees can learn from leading experts in the field. In addition to these online communities, you can join interest groups on social media platforms such as Facebook and LinkedIn to connect and share valuable information.

Related: How to Start Investing in Rental Properties – Your Step-by-Step Guide

6. Get your financing in order

While searching for the perfect property, you should weigh financing options early on in the process. Determining your method of financing as well as your budget, is an important factor in deciding which property is right for you. From traditional financing, such as mortgages or bank loans, to more creative financing, such as private lenders, hard money loans, crowdfunding platforms or self-directed IRAs, there are a range of options available. It’s best to consult with industry professionals to determine the best financing strategy that fits your unique situation.

Property investing can be a lucrative endeavor. Putting in the effort to research and find the perfect property that satisfies your preferences and your financial goals is crucial to success.

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