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PERSONAL REAL ESTATE INVESTOR

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THE BIGGEST AREAS OF CONCERN FOR THESE INVESTORS WHEN EVALUATING A POTENTIAL PROPERTY FOR PURCHASE.

Red Flags

KELLY EDWARDS & CHRIS EDWARDS

MANAGING PRINCIPALS,

THE EDWARDS COMPANIES–INVESTMENT REAL ESTATE GROUP

The goblins of the Halloween season have come and gone, but the horror of a poor investment decision can haunt investors long into the future. You're familiar with the upside of a property purchased at the right time, price and location. You also hear tales of investors anxious to snag the next "great deal" only to realize they have acquired more problems than profits.

Here are three areas to watch out for when evaluating your next purchase:

NO. 1 EXISTING TENANTS AND LEASES :: If tenants are in place, during due diligence we ask to review the lease documents and to meet the current residents. If the owner objects, problems could arise.

NO. 2 PERMITTED USE OF LIVING AREA :: The owner thought it was a great idea to convert the garage into a bedroom to increase rents. Buyers should ensure the local building authority certified the work as a livable unit to avoid fines—or make sure it wasn't ruled an uninhabitable space. For example, our company operates within a niche converting a traditional single-family home to a quality shared-living space—but the work is performed correctly.

NO. 3 COMMUNITY DECLINE :: This may seem obvious, but if you're unsure of the area, perform your due diligence carefully. Look out for items such as increasing community crime rates, new zoning restrictions and recent business closings.

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SENIOR PARTNER

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Two of the biggest and most important red flags that I watch out for in evaluating a potential investment property are "For Sale" signs and DOM (days on market).

"For Sale" signs are the first red flag. You'll want an "in-demand" area that commands a certain rental or sales price tag. If your chosen area is flooded with "For Sale" signs, be aware that could very well be a neighborhood in transition or one that is falling out of popularity with buyers and renters.

Additionally, make sure to pay attention to how many days on the market a property has remained. If a property has been sitting for months on end, it is often an indicator that there is something wrong. Whether it's excessive damage to the property, a poor school system or even inactive community development, proceed with caution.

With that said, purchasing investment properties can be a complex process, so to ensure your investment is safe, you must do a bit of homework. That includes things like driving the neighborhood, asking questions of potential neighbors, teaming up with Realtors in that area or using free online real estate websites, such as Zillow.com.

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ALI BOONE

FOUNDER

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I buy rental properties, and the biggest red flag I look out for when evaluating them is the numbers. People will tell you all day long what the supposed return on the property will be, and I'd venture to say four out of five times that number will be total bunk.

Don't trust what is on paper—ever. It's seriously nuts how people will concoct phenomenal-looking "returns" to sell you a property.

Another major red flag—though kind of an indirect one, for me—is the risk factors. This strongly ties into the numbers, too.

If you buy a cheaper property in a so-so (or bad) area that needs some work, that combo of factors in itself should suggest a bit of a red flag. Specifically, that indicates a potential impact to your cash flow if the condition of the property goes kaput and the tenants are bad because it's not in a great area.

Trust me, bad tenants are the most expensive part of owning a rental property, and repairs will eat you alive. Too many of those types of risk factors, in my opinion, add up to one gigantic red flag!

Last words of advice: Don't ever buy a property without a property inspection.

Happy investing!

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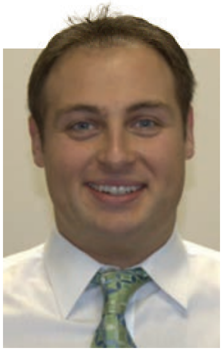

STEVEN GESIS

EXECUTIVE VICE PRESIDENT

SMARTLAND

In-house property management for turnkey investing is the secret sauce behind every asset. Beyond the brick and mortar lies the most critical element to the continued success of any investment purchase: the management team.

Seeking out a turnkey investment provider offering a comprehensive solution offers assurance and confidence. In today's fast-paced global economy, turnkey providers are a-dime-a-dozen, as turnkey is the new, sexy way of investing.

Anyone can find a home and renovate it, but not everyone can offer a one-stop solution. Having the turnkey provider be accountable and staying on board with the client for the life of the asset or investment is critical to the well-being of the investment. All-encompassing turnkey providers offer a unique solution; they can be held accountable for the entire process.

Comprehensive accountability is the tried and true passive solution that investors are seeking today. When questions arise there is no finger pointing, because there is only one party responsible.

Do not fool yourself when shopping for turnkey assets; the key to success is finding a provider who has the proper hyper-local knowledge and a talented team of brokers, leasing agents, construction crew and maintenance staff—all in-house.

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SEAN GILLILAND

FOUNDER AND PRESIDENT

BLACK BELT INVESTORS

When I'm evaluating a property to buy, I watch for these four major red flags:

NO. 1 POOR LOCAL FUNDAMENTALS :: ROI predictions on a specific property are no more accurate than calling a psychic hotline, unless the wider fundamentals back it up. Specifically, run the numbers on the strength of the local economy, business development and growth of jobs and population.

NO. 2 LACK OF SAFETY AND SUSTAINABILITY :: I personally want to invest in working-class neighborhoods that are transitioning for the better, versus neighborhoods that may be declining.

NO. 3 NO CLEAR AND SURE EXIT :: I need to know how to get out before I get in. No exceptions. The more exit options on the table, the better.

NO. 4 NOT CHECKING THE FOUR ESSENTIAL BOXES :: Knowing the numbers and investing in the right area allows me to capitalize on all real estate investing has to offer. Specifically, look for:

- Cash flow (building income streams)
- Appreciation (the quickest path to wealth)
- Tax deductions (legally allows me to keep the IRS out of my pockets)
- Equity (instant wealth)

When I combine all these ingredients, this produces a wealth builder!

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