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Do Your Homework Before Buying Property with Active Renters Under Lease

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Increasingly, more investors are purchasing rental homes from other landlords than from owner-occupied facilities. In doing so, the purchasing landlord needs to understand that there are some significant differences between buying from a “regular” seller and another property investor who may have active renters under lease in the home.

One who wants investment property needs to understand the motivation for the selling landlords. It may be that they want to take advantage of a market that they see as topping off and this may be a good time for them to take their profits out of the property and conduct a 1031 Exchange. Or there could be some underlying factors that may not bode well for an assuming landlord. It is still a difficult market out there for the Independent Owner; you don't need any added problems. So delve into the property and the underlying numbers very carefully.

Keep in mind that when you buy investment property with a renter in the home, you are also buying a cash flow or income stream. The health and vitality of that cash

flow will help you determine a fair price for the property. One cannot solely look at neighborhood comps to help set the price.

Insure that you examine all rental lease forms, present and preceding. What is the direction of the rents? Look at turnover and vacancies. Watch for budget-killing expenses and repairs on the property. Check with the police department to see how many crimes per capita occurred in that area over the last several years. Drive by the home on a weekday afternoon and a Saturday night.

Does the rental income exceed expenses? Check with your own insurance company to determine what your costs will be. Utility companies can be most helpful in assisting you in determining what the utility expenses will be. Call the taxing authorities to confirm tax rates and most recent appraisals. Leave no stone unturned in determining what your expenses are. If your seller balks at providing you any information, walk away.

Experts continually advise investors to know at what price does the return on investment make sense.

Still, there are those who are either brave or stupid, or both, depending upon your perspective, who will throw caution to the wind. This particular investor will purchase the property with full awareness that the rental income will not cover the expenses. Rather, they have solid confidence (or foolish optimism) of rising real estate values to more than cover for their temporary losses in monthly cash flow. This is a risky game to play, and a costly one if the timing is off.

If you find a property with a renter paying a below-market rent rate, do not automatically assume that market rents will be the standard of the day once you take

over. There are many factors out there in play that affect rents, most of which are beyond your control. And always be skeptical about over-reaching pro formas that chart rising income over the coming years.

Being successful at buying, operating and managing investment real estate is difficult in the best of days. These days, with prices pushing at new highs for local real estate and interest rates starting to move up, the game gets trickier. So if you are buying property from an investor who is getting out for a while, your better question may be, “What does he know that I don’t?”

Editor’s note: The suggestions contained herein are meant as guidelines and are based on the experience of Independent owners. Please send your comments and questions to Jeff Young at First Financial Equity Corporation, 480-778-2041.