

## What costs should I be aware of when considering residential real estate investing?

Contemplating an investment in real estate? Here are a few of the most common “hidden” costs to watch out for and great reasons why every real estate investor should use the services of a qualified appraiser, inspector and real estate agent.

### **1. Rapid appreciating markets = rapidly increasing property taxes.**

One common mistake new investors make is to look at prior year property taxes and assume their property taxes will be roughly the same. That is a big mistake that you may not realize until several months later. The new selling price of the home often results in a more recent tax assessment that can significantly increase the property taxes and eat into your profit margins. This is especially true for investment properties which are rarely covered by homeowners exemptions or other deductions to help hold down the rate of tax increases. Many real estate investors have found their property taxes doubled in the past few years — eating away precious cash flow each and every month. Working closely with a professional real estate agent can help you understand the local trends in your area and avoid these costly mistakes.

### **2. Small repairs and maintenance add up to big charges.**

New investors routinely underestimate the amount of expenses required for renovation, general maintenance and upkeep. Always use the advice of an appraiser and inspector before buying a property. All of those seemingly insignificant items add up. For example, is that cute house outside of town on a septic system? Plan on a service fee of at least \$150 for general maintenance once a year. Don't forget the AC maintenance, smoke detectors, batteries, fire extinguishers and light bulbs, pest control, carpet cleaning, painting, re-keying and much more! You don't even want to know how much it costs to have a tenant do real damages! If you are tired just reading it, don't worry, the government allows you to write off the cost of hiring a real estate professional to take care of all the details for you!

### **3. A vacancy is another big cost that adds up fast.**

Not only do you have to pay the mortgage, taxes and insurance while taking care of routine cleaning, painting, carpet cleaning and so forth between tenants but you have to actually find a new tenant. Vacancies can take a month to fill and cost \$300-\$400 just to advertise! Combine that with having to meet, screen and show the unit to prospective tenants, your time, gas and maintenance fees can quickly become a burden. Instead, consider hiring a property manager. Not only is it a tax deduction, but it easily saves money by filling the vacancy sooner, reducing the cost of advertising and best of all, it takes the stress out of screening and showing the property.

## How do I select a real estate professional?

One of the critical issues when investing in real estate is a trust-worthy broker who understands your needs and the type of investment you are searching for. So what should you look for when selecting a broker? Use these five criteria when evaluating a real estate professional.

1. **Information.** Real estate investing requires an informed, knowledgeable professional who is able to clearly communicate information that you need to know in order to make the best and most informed decisions.
2. **Compete.** When it comes time to sell or rent your real estate investment you need a professional who understands the market. You want someone who is able to showcase your property and present it in the most attractive manner possible. A complete knowledge of the local area, schools, amenities and other factors is essential.
3. **Reputation.** Never underestimate the importance of reputation when dealing with residential real estate. Find a professional who has built a solid reputation in the community. Buyers and sellers benefit from the additional exposure and reputation brought by a knowledgeable professional.
4. **Focus.** Locate a professional with in-depth understanding and expertise in the specific type and area of real estate you are interested in acquiring. For example, do you intend to buy and hold or "flip"? Is your emphasis on single-family homes or multi-family homes? Does your broker have an in-house property management team? Do you want to purchase new construction or previously built homes? Find a professional who specializes in your specific area!
5. **Enhance.** Full-service providers are able to save valuable time and draw upon the combined expertise of a full team capable of assisting through every aspect of your investment.
6. **Process.** Technology has changed the manner in which real estate is sold, rented and processed. Make sure the real estate professionals you deal with are able to use technology to your advantage. Whether buying or selling, the Internet is a great source of information. Ask to see how often listings are updated, how photos are used, websites that showcase your property or allow you to save time by shopping online for potential property.

## How can I increase the value of my home?

Residential real estate can be an excellent investment, but often people worry about the tax increase associated with a major remodeling job.

One of the best ways to increase your return on investment (ROI) in residential real estate is via sweat equity otherwise known as remodeling. Mention remodeling and most people immediately think of the kitchen and while it's true an updated kitchen remains a good investment, the humble bathroom is also a strong candidate!

The bathroom has changed little over the past 100 years *until* recently. Today, the bathroom is no longer seen as a simple utilitarian room, but rather a small oasis of calm and relaxation. Larger more spacious rooms, high-tech showers and even built-in televisions are just a few of the options available for home installation.

Homeowners want to recreate the spa experience at home. The bathroom is the natural space for those small moments of relaxation and personal pampering and even better, an updated stylish bathroom is a good investment! Modern bathrooms are associated with increased home value; on

average \$15,000 more than homes with outdated bathrooms, but little increase in taxes paid (less than \$100 per year on average).

It's important to maintain the proper ratio on the bathroom remodel, so consult with a qualified appraiser in your local area. Small or large, a bathroom can increase the value of your home, but it should reflect a consistent style and value for the area.

## **What do I need to know about real estate investing?**

These tried and true, simple yet powerful real estate investing rules will serve you well in any market.

1. Know the area inside and out. Know which states, and then which counties and cities in each state, are slated for growth. This includes population, employment, tax basis and amenities, like hospitals and schools. If you aren't familiar with the specific areas, be sure to work closely with a professional who has a long standing reputation.
2. Find residential real estate properties that generate consistent above-average profits. This is easier said than done, so it's imperative to have the advice and expertise of a solid professional at your disposal. Use a residential real estate appraisal service every step of the way. Remember, you make money when you buy not sell. This means you must buy right in order to make money. How do you know if you are buying right? One way is to compare the cost to another investment to see if it will garner more profit. Another is to compare the cost to what it will bring in each month (cash flow, for example). This is not an area to "guess" at. Instead, use the advice of a local professional who can assist you in determining prior sales, fair market rental rates and other important information.
3. Buy your real estate investments at a substantial discount. Typically speaking, you should seek to purchase properties at a minimum of 20 percent below market value in order to assure instant equity and the ability to break even should you be required or desire to sell for any reason. For a breakdown of all the numbers and examples, consult with a professional broker or real estate agent in your area through [homesandland.com](http://homesandland.com).

## **What Do I Need to Know Before Investing In Residential Real Estate?**

Residential real estate is an attractive investment that has historically created opportunities for wealth creation, tax advantages and a variety of other benefits to owners but how can you differentiate between an investment versus speculation?

Here are three quick steps for any potential investor to use when evaluating a real estate investment:

1. Understand the numbers: Are you looking at Future Performance or Past Performance when analyzing your investment? Investors typically use industry or market "norms" or averages for

comparisons whereas speculators tend to use “possibilities” or “potential”. Norms and averages are derived from past performance whereas potential or possible is derived from future. One has been demonstrated and proven, the other is untested and at best, a good hypothesis or guess. Your local real estate agent will have all of this information available so be sure to request it.

2. Good investing is a lot like medicine: The basic tenant is “First do no harm”. Investors focus on creating profit while minimizing risk. Speculators focus on maximizing profit but at the expense of safety or security. It's important to understand the local market and use the services of trained professionals such as appraisers, real estate agents and inspectors.

3. Know your exit strategy: Investors anticipate time and profit level at which they will sell in order to gain the greatest return on investment (ROI). Speculators tend to not have an exit strategy or a profit level at which they are satisfied.

Consult with a broker who specializes in the type of investment and area you are interested in. A broker provides valuable information on the local trends, rental rates and other metrics that impact your investment decision. Information is the critical component.

## What are the Top Growth Markets for Real Estate?

Location, location, location. You have likely heard that bit of real estate advice repeatedly and with good reason! Location is widely recognized to have a tremendous impact on the value of any real estate investment so how can you determine a good location?

One of the most simple and often overlooked real estate investing strategies is to seek out high growth areas and avoid those areas with declining populations. Not sure which locations are growing? Don't worry! We are here to help!

According to the most recent data published by the US Census, the top projected growth markets for the USA between now and 2030 are as follows:

1. Arizona
2. California
3. Florida
4. Nevada
5. Texas

Notice that it's GROWTH, not total population but rather the percentage of population increase. While selecting a growing or contracting market is one piece of the puzzle when it comes to making an informed real estate investment decision, it's not the only one. House Prices, location and return are each important aspects when making any decision. Always work with a professional who understands the local market. If you don't have a current agent or broker, visit [homeandland.com](http://homeandland.com) to use the convenient agent finder.

## Should I hire a property manager for my residential real estate investment?

One of the biggest mistakes novice real estate investors make is trying to do everything themselves instead of hiring an agency to handle it for them. Let's take the area of residential real estate as an example.

Driving around looking for property might be fun, but it's also time-consuming and it takes away your ability to use your energy toward more income producing activities. Likewise, showing the house, doing paperwork and other routine management issues steal away precious time and resources from your daily life.

Even worse are those novice investors who think they will save a little money by doing small repairs, cleaning or maintenance themselves. While Uncle Sam does allow you to deduct reasonable costs and repairs, many investors are surprised to learn they are not allowed to charge for their own time. Hir

ing a property manager to show the house, take care of administrative concerns, perform inspections, oversee repairs and collect rent is a great way to save time and maintain full tax deductions.

Many landlords and residential real estate investors decide to make the tenant responsible for small repairs under a specified amount. This is not only a potential liability, but it is almost always a sure way to create a situation where the tenant either attempts to perform a repair on their own or simply ignores the problem until it has become a bigger problem. Either way, it will cost you more in the long run! Instead, work with a reputable property manager or full service real estate agency to save both time and money while taking advantage of the full tax deductions available.

Courtesy of:  
**Homes & Land**

Presented by:

**Nautilus Realty & Management**

1405-D W. 15<sup>th</sup> Street

Panama City, FL 32401

Office: (850) 215-2800

[www.nautilusrealtyandmanagement.com](http://www.nautilusrealtyandmanagement.com)

