15 Questions to Ask Before Buying Turnkey Rental Property

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Photo by ddpavumba

Not all turnkey rental providers are created equal. Make sure to ask these 15 questions before buying turnkey rental property.

(Newswire.net -- January 18, 2015) Layton, Utah -- Turnkey rental property is a term that has become ubiquitous since the burst of the housing bubble in 2008.

But what is it and how do you navigate it?

To get an idea about this relatively new market we asked Joe Nielsen of NielsenConsulting.net. He says, "In simple terms it is a real estate investment typically a single family home that produces rental income. Often times the property will have been renovated and a tenant in place with property management already contracted as well. All this before going to the closing table."

Buying turnkey real estate is similar to investing in the stock market. Future growth and profits are assumed to have a reasonable expectation before the initial capital investment is made.

True turnâ€key investments are completely passive similar to the way stock brokers handle everything short of making the actual decisions for their clients.

There is no need for you as the investor to be involved with the day to day workings of the investment like repairs or tenant issues.

Those seeking to buy a turnkey rental property as well as those first time real estate investors who want to ease into the market without being experts themselves face far too many options to make this decision willy-nilly.

With all the pitfalls that come with real estate in general here are 15 questions to ask when investigating a turnkey rental property outfit.

1) Eliminate the middleman and the mark-up by asking if they own the property or are they marketing it for someone else.

Many turnkey sellers don't actually own the properties they are selling. They are middlemen between you and the owner. This isn't bad per se but as an investor you want to limit your expenses from the start.

2) Are they local to the properties they are selling? If so, how long have they been in that market?

Again eliminating as many costs as possible is the one of the best ways to make a good investment. It is truly difficult for an out of area seller to be as efficient as the local provider.

Chances are if they aren't local to the property then they are a middleman thus increasing your costs.

3) How long have they been a full time turnkey real estate investment provider?

Obviously the longer they have been in the game the better their business will operate. You want to be certain that they are a fullâ€time professional. This is not a part time gig.

4) Make sure to ask how many rental properties they personally own and manage?

Remember the old saying, "You can't trust a cook who doesn't eat thier own cooking."? You want an organization who is actually using their product, not just selling it.

5) Finding out if they have ever lost their own investment properties to foreclosure or other mishaps is important.

There are sellers who are great at marketing but have failed as real estate investors and now are just trying to make a quick buck off the unsuspecting.

Like anything, do your homework and ask questions even if the questions seem a bit invasive. After they give you the answer do your own research and verify what they have said. You owe it to yourself to protect your investment.

6) When you see a business model that is selling properties in distressed condition while promising a quality renovation after purchase; make extra sure you get referrals.

Get a firm timeline for when the renovations will be done and with what kind of quality is to be expected. As a rule of thumb; simply steer clear of promises before any work is done. It isn't unheard of that some will take your cash and leave you with a property that still needs lots of work.

As far as quality of work? Ask if they provide a home warranty for the first year or so.

7) When you see properties in the same city where some are selling for $75,000 and others for $40,000 with the same $250/month cash flow, make sure to determine what differences there are between the two.

Going along with this same thought, always determine what type of neighborhoods the prospective properties are located in. There are different types of areas in every city.

The Good, The Bad, and The Ugly

In every city there is at least one geographic location that holds the best opportunities. Low crime, good jobs, good schools, affordable housing, good tenants etc..we call it the sweet spot and that's where you want your properties to be located.

8) Do you own the property management company that will be managing the property you are selling?

A turnâ€key provider who manages the properties they sell are vested in making your property perform its best because they too are profiting from the investment. The majority of turnkey sellers however, won't own or operate the management company.

Some people believe having a third party manager is not as good as one who is the owned by the seller. Just be sure to do your homework.

9) The quality of property management will, to a large degree, determine how well your investment performs.

Again don't be shy to ask what they are going to provide and how. There are stories everywhere about great investments that were managed terribly where the oweners lost money. On the flip side there are also stories about how the property was not ideal but the management was high quality and turned a "bad investment" into a performing asset.

Learning about and understanding the property manager is just as important researching the property.

10) Make it a point to check the market rent in the area and see what their properties are renting for.

Most good property managers know that vacancy is the number one return killer in a rental property. Slightly lower than average rent actually helps retain tenants longer term thus reducing the cost of high vacancy and turnover. Don't shy away from a lower than market rent.

11) Are the properties currently occupied?

Purchasing a vacant property may come with potential problems.

Problems may include: buying a property based on "anticipated returns", knowing how long it will be before a tenant can be secured, vandalism and theft incidents are more common in vacant property, most Landlord insurance policies have a 30 day vacancy clause which places you in a predicament if the something happens to the house after that 30 day window.

Better to have it occupied from the beginning but be aware this can't always be done.

12) With any property management or turnkey provider who manages their property you want know how many vacancies are currently on the books and what the occupancy rates are. Also be sure to ask what the longest vacancy is at present.

Vacancy is one of the best key indicators of how well the company is doing. A good seller/manager will be able to quote you current stats about their operations.

Always ask how they market the properties, the average length of vacancy, their criteria for tenants etc… You want to determine if the property is a right fit for the market that it is in.

Is the market a three bedroom or two bedroom market? Like we mentioned above, is it in a good neighborhood? Once you know what the problem is you can avoid purchasing similar properties.

13) Are prospecting tenants charged an application fee?

The majority of turnkey providers will charge an application fee. This is a source of revenue for them. If you happen to find one that doesn't charge the fee then you might have found a good company.

By not charging a fee, the best tenant can be found from a larger pool of potential tenants.

14) Are aggressive dog breeds allowed in the property?

What you are wanting to avoid is a liability issue.

It’s not to say there aren’t perfectly well behaved and peace loving dogs of those breeds, but like any investment if you can eliminate a potential issue before it happens you will sleep better at night. Breeds such as: Pit bulls, Chows and Rottweilers are popular.

15) Every property, will at some time, require a major repair and turn over.

You as the property owner want and need good documentation about the condition of the property and what is being done.

Picture are said to be worth a thousand words but a video is priceless and won’t cost the property management company a mint to put forth this little bit of extra effort. You want to be able to see before and after documentation.

Doing your homework about your 50th or your first real estate investment is well worth the time and effort to ensure it will perform as expected and will be taken care of so you can focus on doing what it is you love to do.

About NielsenConsulting

Joe Nielsen founder of NielsenConsulting.net provides consulting services nationally for completely hands free real estate investing, brand/authority/reputation building online for individuals and businesses, and offers comprehensive estate planning services via state of the art cloud based technology.

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