How To Purchase Out-Of-Area Real Estate Investments

Critical Steps to Take For Success!

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Chris Clothier, Partner

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How to purchase out of Area Real Estate Investments

by Chris Clothier

My name is Chris Clothier, one of the owners of MemphisInvest.com. As an investment company working with over 650 real estate investors from around the world, we have a little experience in helping investors find success. I'm glad you chose to read our White Paper:

"How To Purchase Out-of-Area Real Estate Investments"

This is such an important decision and the process you follow is critical for your success. That is why I subtitled the paper "Critical Steps To Take For Success". I'm going to show you the process I use to choose a great city or location to invest in, some of the pitfalls to avoid as an out-of-area real estate investor and finally some tips for being as successful as possible when investing in real estate away from home.

Something very important involving this topic is the decision to use a Turn-key Real Estate vendor. They seem to be popping up in every city and in my opinion that is both good and bad. If you're going to use a turnkey vendor, I'm going to show you how to make sure you choose a great turnkey vendor for you that matches your needs with their skills.

I even threw in some of the questions you have to ask to get to the real answers you are looking for as a real estate investor.

Now there are certain steps that you have to follow, so we will go through those one at a time. I'll detail them for you. Make sure you grab a pad and pen or even print this out and make notes in the margin. You can always email me questions and I made sure to include links directly to me throughout the white paper if you come across something you want explained.

So let's get straight to it!

The first part of this process, before we can really get to step one, step two, or step three, is to understand this concept: **take nothing on faith.**

Take Nothing On Faith!

What I've learned through marketing the last few years is that there's a lot of data and a lot of information out there and not all of it is always true. Much of it is marketing mush and has no value at all!

There is so much interest in the real estate investment market today that every opportunist seems to have set up a new company or a new "sure thing" revolving real estate. When you take into account the reporting on activity by Hedge Funds, it appears that buying investment property, even across the country, is as easy as 1,2,3. I can assure you that nothing is further from the truth!

The best thing you can do as an investor is make sure that you develop a relationship with the market and with the company you are going to do business with and, over time, you can start putting a lot more faith in the information you are receiving.

I get asked this question often - “Can I buy properties sight unseen right over the internet and use a delivery service for documents”? I really do. My answer is always the same. If I am being asked “Can I” then absolutely you can, but I suggest they turn that question into “Should I” and the answer is no.

An investor has a responsibility to themselves and their family to do everything they can to ensure they are successful as a real estate investor. Nothing provides comfort and security like a solid relationship and thorough grasp of the investment opportunity.

But until you have that relationship and that comfort level, take nothing on faith.

1. Make sure you do your due diligence.
2. Make sure you are checking and rechecking and then checking again.

Make sure you have all the data that you need and that you keep everything lined up exactly the way it’s supposed to be, about a market, about a team, about a particular property.

The only person looking out for you, especially at the beginning, is you. So take nothing on faith.

Always make sure that you do proper due diligence, and you know exactly who, what, and where you're doing business.

Key One

How do you go about choosing a great investment market?

When choosing a great market, there's a lot more that goes into it than just finding cheap houses. That's going to be a theme throughout this article. **Cheap houses don't make a great market.** In fact, I often tell investors, "Forget the house".

Don't even look at the house yet. Make sure that you know the market first. The condition of the market you are investigating is going to dictate whether you actually decide to invest or not. What good is a "cheap house" if the market is no good?

So when investigating a market, I encourage investors to dig into the details of the area. This is a place where investors can get bogged down in details that can leave them unable to make a decision because the research never ends.

I am not advocating that! I want to make sure you hear me out. This research is one evening on a computer at most.

It is not that difficult to research an area. You will always be able to check out your conclusions for yourself, but before you go off flying all over the country, do a little research yourself.

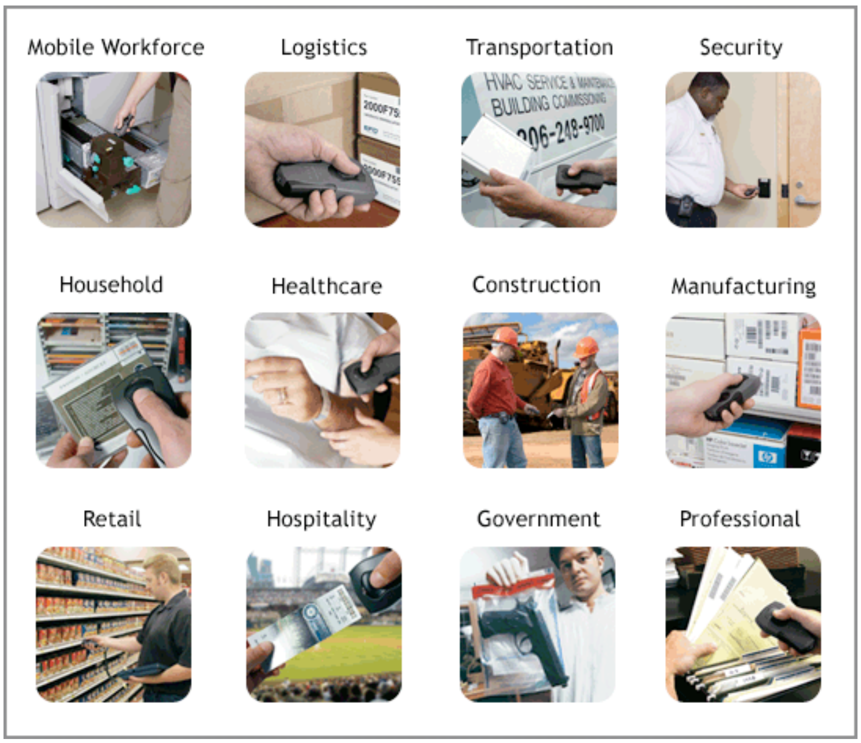
I tell investors to start with a long-term outlook in a market. Take a look at population. Is it going up? Is it going down? Make sure you look at the MSA (Metro Statistical Area) as well and not just the city. We are so spread out with urban sprawl today that you want to know what is going on with all the surrounding bedroom communities too.

Where do you research?

1. Start with Google and ask questions, it will suggest places to visit that has answers.
2. Local business papers and magazines.
3. City-Data.com
4. Go to the Chamber of Commerce website.
5. Local business blogs.
6. Local personal blogs.

I think the importance of a growing area cannot be overstated. It may be small or may be big, but I like areas that are growing. I want to own investment properties as a generational wealth building tool so these properties are for my children. I want them to be located in a vibrant area that is growing.

I always want an investor to look at key industries in an area as well and not just the employers. Employers are important, but what are the **key industries** that drive that market from an economic standpoint?



What's happening with jobs? Not the unemployment rate, but are there net positive jobs being created in a market each year?

Every city is going to have ups and downs and every city loses companies to closure, moving and downsizing. That is a fact of the current business climate. What I want to know is, are there businesses moving in? Are there major companies, major employers, different areas of development and different industries that are showing interest in a city?

Those are key questions that tell me as an investor whether or not the city has good long-term viability. I want to know not only what is happening today, but what can I expect from the future. You cannot get that information from an unemployment rate. You have to get into it and read about it.

This list could actually go on and on and if you want more places to search, send me an email...I have become a master at it!

Tip: Bloggers give you an unfiltered look at a city. That can be both good and bad and not always accurate!

I also suggest that investors search out and read up on local city bloggers. You will find all types from business bloggers to recreational enthusiasts, to local moms who like to share about their city. Either way, there are a ton of blogs out there for every city and this is a great place to get an inside feel for the city.

I encourage investors to find a couple of blogs and make you sure read them. The point is that you need to skim a little. Do not spend time loading up on every detail that a blogger writes, but you want to get a feel for what is happening in a city. The Chamber of Commerce is always going to give you the rosiest picture and best news but that is ok.

Just balance it out with a real world feel from the blogs. This will really help you determine if this is a place you want to be investing your money for the long-term.

Always remember that this step is to get a feel for the city. You may like it, you may not. If you feel no connection at all and do not see the long-term opportunity, strike it from your list. If you love it or even have good feelings, but are not sure, that is a city to mark down to research further.

At this point, you want to dig into some of the finer details, like what's going on with housing pricing overall? Not just the investment prices, but overall. Are houses moving quickly through the MLS? How long are they sitting on the market? Are sellers being forced to take discount from list price on final contract price.

These simple questions allow you to look inside a market and get an idea of what is happening with housing. How about housing starts? Are they up or are they down? You might even type a Google query of "how many sales are to investors in XYZ".

Generally speaking, a market that has a high percentage of foreclosures sales, will have a lower price point for you to be able to invest.

You also want to investigate the pricing history for that market by looking at certain factors, such as what was the highest price in that market and what are the prices today?

You're looking for a large variance. You're looking for a very high peak, compared to a low price today.

You also want to see, as far as a percentage of sales in a market go, how many are foreclosure sales? The presence of foreclosures does not necessarily mean it will be a good long-term investing market. It is simply an indication of available properties where an investor may be able to find properties at discount.

The last piece that I really look at in a market - as far as the economics are concerned - is what does it cost to live in that market.

I'm always looking for a market that has a relatively low cost of living number.

Specifically, I look for markets where the **average cost of housing** is not more than **three times the average income** of someone who lives there. That's going to be a market where the house is still affordable. As an investor, you can still get a house bought, rent it, and actually make a return on it even if you have to use a property management company.

There are a lot of numbers that go into making a great market and none of those numbers are cheap houses. Unfortunately, cheap is a state of mind and, in my opinion, has hurt more real estate investors than any other single factor.

For me, the house is always the last thing I look at and never before I know the long-term viability of a market. Too many investors today are buying investment properties in out-of-area markets because the property was cheap. When I get calls from investors asking for help with these cheap houses I always inquire why they bought the house and the answer is always because it was cheap. I ask them cheap compared to what?

Cheap compared to where you live does not mean it is a good deal. Cheap for the city you are buying in does not mean it is a good deal. There are so many more questions you have to have answered before you can buy a property. That is why I tell investors to **Forget About The House!**

Long before you decided you're going to invest somewhere, make sure you know what 's happening in that city itself.

Key Two

How do you choose the right team to work with, once you know you've got the right market?

I can tell you from experience that making sure you've got the right team, especially when you are going to be investing out-of-area, is very, very important. I'm a local investor that invests a lot in my own market, as well as a couple of other markets around the country, but no matter where I'm investing, I'm not doing it on my own. I'm always looking for someone else to handle the essential services for me.

ESSENTIAL REAL ESTATE SERVICES

It is a critical part of my business plan as I want to leverage the time and talent of others around me to build my passive income. Even when I invest in the city I live, I leverage the time and talents of my team.

Because, as an investor, I have other things I need to do in my daily life. I have other things that take my time on a daily basis. When I'm investing the real estate, I want to hire the best to handle everything for me. Usually this is a team. I find that it is much easier for me to manage one person (the team leader) than it is for me to manage each individual person.

So I always look for the best team I can find. Oftentimes, those are called turnkey vendors. I'm going to help you make sure that you've got the right questions and answers in place, to get the right turnkey vendor.

The first thing I advise people to look for when hiring a turnkey vendor is... Do they understand investors?

What I mean by that is... are they investors themselves? It takes someone who has been in the trenches and gone through the ins and outs, the good and the bad of being a real estate investor, to really understand and know what other investors want.

What makes an especially good team is if they are led by somebody that has invested out-of-area before. Why?

This is a major sticking point!

They often have experiences that help them improve upon their service, so that you yourself get a better quality. They need to know what is going on in the mind of an investor. They need to know what an investor cares about. They need to know what an investor worries about at night. They need to know the things that will, for lack of a better way to put it, make us as investors, feel more comfortable.

The second thing I look for is...Whose houses are they selling?

What we mean is that you really have to make sure that you protect yourself when you're buying houses from out-of-area. You need to make sure that the team you choose is selling their own properties. Too often, individuals and companies simply sell other people's properties either by tying them up with a contract or selling properties for a commission.

You want to buy from a company that owns everything they are selling!

You don't want to buy from someone who is selling someone else's properties for a commission. The most obvious reason is that they are not in control of the property and more to the point they cannot tell you definitely the details of the property. You certainly don't want to buy from a company that is simply selling properties off the MLS. That leaves you open to wasted time, spinning your wheels, and actually losing properties.

Key Three

Do they have business processes set up to make life easier for you?

This is what I call the business-oriented real estate company. Usually the background of the owners may be in another industry or in some other related field, but not necessarily the real estate industry. Some of the most successful companies out there are owned by entrepreneurs and set up by people that understand business much more than they understand real estate.

1. **They PURCHASE the properties.**
2. **They RENOVATE the properties.**
3. **They MARKET the properties.**
4. **They MANAGE the properties.**

Real estate happens to be the product they use to build their company around, but they know how to setup a great business. You are looking for a business where the owners have experience setting up systems and training people.

The business might be predicated and built on great service, great organization, great structure, so that you as an investor, have a successful investing experience. That's what I have looked for and built. As an investor, I want to work with a group that conducts itself like a well-run company. I like to see organization and a flow where every employee serves a purpose and has a function that helps me have success.

I have spoken with and come across a number of companies through the years where the mentality is stay small and keep it all! There is nothing wrong with that attitude, but it makes it very difficult for me as a long distance investor to have comfort that there is enough staff to handle the situations that will always come up.

Some see this as personal preference. I simply see it as common sense. If I am going to purchase a property out-of-area and especially across the country, I want to know that the company I am buying from has a business minded owner looking out for me.

Key Four

Does the company own and operate all aspects of the business?

When we talk about being a business-oriented company, this is really what we mean: a company that is set up for your success. In my opinion, through the years that we have been doing this, investors had the most success when they worked with companies that own and operate every piece of the equation. They don't outsource, they don't choose third- party companies to provide service for them.

They handle everything in house for the investor.

This is a key service for an investor from out-of-area because it give you one contact, not three, four or five different contacts per house, but just one, for everything that goes on in the process of you purchasing an investment property.

That's a piece of this equation that is going to help you make money, because you are not going to spend time chasing. You are not going to spin your wheels. You are not going to waste effort. I like the philosophy as I discussed earlier that making one call is always better than having to make a whole list of calls.

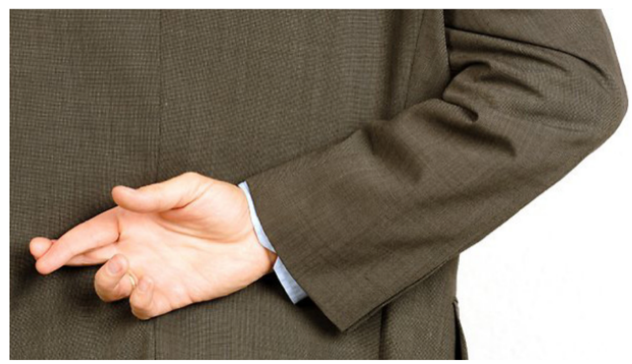
You are going to have one company and one phone call to make with any question that you would have, throughout the entire process.

There is one question that you need to ask **any** company you would do business with, before you move forward. The question I advise investors to ask, every time, before they choose a company to do business with, is, **"What's been your biggest real estate investing mistake?"**

What you're looking for, number one, is honesty. You want someone that can tell you the mistakes they've made as an investor. People with a business back ground who have experience in industry and business building will understand that failure is not a bad thing. They are the ones who can tell you when they have failed and how it shaped their success today.

That means they're in-tune.

They are in-tune with the things that they have done in the past that they don't want to repeat, and more importantly they are in-tune with the mistakes they don't want you to repeat, as an investor! You ask that question looking for a little honesty, a little openness.



If someone that tells you that they've never made a mistake in investing, it is up to you if you want to believe them. You have to be able to decide if that's honest and open, or not. If someone can actual lay them out for you, and say 'Here's the mistakes I've made,' well you know what else they will be able to tell? "Here's the remedy I put in place to not make that mistake again. Here's how I prevent investors from making the same mistakes that I've made."

That's a great way to be able to judge the character and the integrity of someone that you want to business with. They can actually be open and honest, and tell you, "Here are the mistakes I or we as a company have made that cost us money and here is how we made sure not make the same mistake twice."

I think it's a real important question that just leads to other questions that you want to ask as an investor. It leads to conversation and a chance to really build a relationship based on trust. Believe me, there are plenty of great companies out there whose owners will tell you about the little and the big things to look out for. Plenty of good owners will tell you about their mistakes as personal investors and as a company. If you want to choose the right company, then you have to be able to ask the hard questions and listen to the answers they give you.

Key Five

You've got the right market, and you feel like you've got the right team... it's now down to the houses.

The first thing I can tell you about houses is that I will never forget reading a quote from Charlie Munger. For lack of a better way to put it, he is the right hand person to Warren Buffet and seems every bit as intelligent when it comes to investing as his boss. He made a statement that I repeat almost daily to real estate investors. It goes like this:

Price is what you pay.
Value is what you get!

So often investors come to me and they tell me about these really, really cheap houses they can find, whether it's in my market or their market, or anywhere around the country.

I ask them, **"How do you define cheap?"**

As I wrote earlier, cheap is one of those words that really scares me. Is it cheap because it's a low price for the market you're buying in, or is it cheap because you could never find that house in your market? It really doesn't matter.

As a real estate investor, what you need to make sure of is that you've selected houses that are the right price for where you are buying. You need to make sure that the price comes with the appropriate amount of risk for you, as an investor. **Just because it's cheap, doesn't mean it's good.**

As far as choosing houses goes, you're always looking for value. Now, value is defined lots of different ways by investors, but for me value means that I am buying **the right house, for the right price, in the right market, with the right team that is going to get me the right return.** Notice that I don't ever talk about prices, and I don't ever talk about what, to me, exactly, makes the right return. I'm always looking to find houses that make sense and that fit nicely inside my portfolio.

Whether I'm buying my first house or my 21st house, I want to make sure that my long-term goals are met. Some questions I suggest real estate investors ask themselves when they are getting ready to buy an investment property out-of-area include:

1. Do I want to be a long-term investor or a short-term investor?
2. Do I want to get in and out of this property really quick?
3. Is this something that I want to actually hold and maybe pass on to my children?
4. Can I build a portfolio in this city and with this company that I will be proud to pass on to my family?

I need to make sure that I've got my reason for buying this house lined up with the value I get from it. I always suggest an investor does the same. For me, investment properties are my opportunities to assist my kids and maybe even my grandkids in the future. I want to make sure I am buying quality properties with a high likelihood of success as an investment property for years to come.

Key Six

What ’s the difference between “paper returns” and “real-life returns?”

When paper returns come in and they can be very deceiving. Companies can do lots of different things on paper to determine what kind of return you are going to get as an investor. Recently, I had an investor telling me that he gets over 20% return on everything that he buys, but that’s after he includes the appreciation he gets each year.   Of course, he has no idea if his property is actually appreciating, but he likes to include a conservative number (whatever that is) to his calculations.

Whether that’s right or wrong, this is an example of how you can manipulate numbers to make your returns look fantastic. If that makes you feel good, well excellent,... follow that advice as an investor.

For me, this is what I'm looking for when I review my expected returns on an investment property. What are all of my hard costs? I want to know exactly what my taxes, my insurance, my principal and my interest (if I'm using leverage) are going to be on that property.   I call these hard costs because you know they are coming each and every month. Once I know what my hard costs are, I know exactly how to factor what my return will be.

Now from there, I need to make sure that I start reviewing my soft costs like vacancies and maintenance. These are costs that you know are coming, but they are unpredictable and are not set in stone each month. Now, I am not a big fan of "Spreadsheet Selling", which is a pretty common practice in the turn-key industry. What that means is that the company relies on a spreadsheet number to sell their home. I am a big believer in talking one-on-one with a company and finding out how they keep soft costs down. Don't just plug in some figure and tell me 'This is what we think it could be'. I want to know what the averages are for a whole portfolio. I want to know what other investors are experience with move-outs and monthly repairs. I want to know what you are doing to improve my bottom line.

I'm looking for properties or processes that can lower the soft costs as much as possible. Make sure you include it, make sure you always think about it, and make sure that the company you are dealing with has answers in place for holding down soft costs.

This is a big deal for investors because, on paper, things can be made to look one way, whereas in real-life, they will be quite another. As an investor, it is important that the company you choose has a plan to keep those costs as low as possible.

That could include high level renovations eliminating deferred maintenance and it could include tenant services or both. Either way, without such programs, the ability to hold down costs is not going to exist and any possibility of hitting sky high paper returns is impossible.

One of the big no-no's that I tell investors all the time, and one that should throw up red flags, is **guarantees.** I'm not a fan of guarantees, and I'm not going to sit here and tell you that every guarantee is done with a sinister outcome in mind. But I will tell you that, in my experience, most guarantees are in place not for the benefit of the investor, **but for the benefit of the company selling the property.**

They are there to be able to help the company sell. They are not there to help you, as an investor, succeed.

Oftentimes, guarantees are in place to hide the fact that without one... there would be a big problem.

The guarantees I'm talking about are, "Guaranteed 12 months of rent in the first year," or, "Guaranteed no maintenance costs in the first year." It doesn't matter how long the amount of time is. The problem is, if that guarantee were not in place how would that property perform?

If the guaranteed rent was not in place, would the property go vacant in the first year? If the no-maintenance guarantee were not in place, would there be maintenance during that first year?

There is a big difference between a guarantee and being willing to stand behind your work, and oftentimes guarantees, inflate first year returns, and hide what's going to happen after year one.

As an investor, make sure that you don't allow a guarantee to sway you into buying a property, or changing the numbers in your mind that you know aren't real. Make sure that you always calculate what will take place if that guarantee were not there.

Key Seven

Always buy "neighborhood normal."

I know that if you're reading this right now, you have probably heard the story that **you should never buy a two-bedroom, one-bath house.** Now, oftentimes, when I'm told this by an investor, I'll present to them a scenario where I think it makes sense.

The scenario is, quite simply, you have the opportunity to buy a two-bedroom,one-bath property and you have to decide if it makes sense or if you are going to follow that piece of advice that says to never buy such a property.

Let's say it's near a university. The price point versus the rent you can get makes sense to you. You want to add this to your portfolio. But you've been told **"never buy two-bedroom, one-bath homes."** So you look around the neighborhood and every home in the area, because it's near a university, is a two-bedroom, one-bath.

In that scenario, would you buy it? Most investors say yes, because it's normal to that neighborhood. You should never buy a two-bedroom, one-bath home in a neighborhood of three-bedroom, two-bath, or whatever it ends up being. You should never buy the lowest end of the home. I think that's really what the advice is supposed to be saying, not so much that it's hard and fast, **but always buy what makes sense for that neighborhood.**

Personally, I only buy properties in a neighborhood that make sense, ones that match the other properties. I would never buy a home in a neighborhood that did not have a two-car garage, if every other home around it had a two- car garage... that means I would be **below the neighborhood normal.**

So, my advice is this: on any property you are going to buy, make sure that you are buying at or above normal for the neighborhood.

I would love to own a four-bedroom, two-bath home if everything around me was three-bedroom, two-bath. For that matter, I would love to own the only home in the neighborhood that had the attached two-car garage, if everything else did not. That puts you above everything else around you, and that's a good investment for you.

In Closing

My personal advice to you boils down to this..

Never buy an investment property without KNOWING the people that you're doing business with.

It only makes sense. This is **your** investment, this is **your** money. Regardless of how you're buying, this is something that you're doing for you, or for your children, or for generations to come. So you want to know **exactly** who you are doing business with.

Now, I'm not saying that investors can't be successful if they choose to go the other route. I'm not saying that you can't somehow find success, and find the right people to do business with, if you haven't personally met them. At MemphisInvest.com and DallasInvest.com we have a lot of clients that we've never met face-to-face, and today we manage over 1,700 properties with a value over $150 million for those investors.

That's not to say my advice isn't still to go out and personally meet the people who you are doing business with. We have investors in our offices every single week and it's a great, great way to get to know exactly who you are doing business with. Personal interaction and asking questions are the two best ways to get to know those who you are trusting to help build your investment portfolio.

Thank you again for taking the time to go through the ins-and-outs of purchasing out-of-area real estate investments with me. I hope that I've provided you with some of the key things to look for if you're going to invest out-of-area, especially if you are going to choose a turnkey company. If you have questions for me directly, feel free to send me an email at:

ChrisClothier@MemphisInvest.com.

I'd like to leave you with one final piece of advice, and it's the exact same thing I told you at the very beginning...

Take Nothing On Faith!

Make sure that you always protect yourself, because **you** are the only one looking out for your back. **You** are the only one that can protect your investment. Make sure you do your due diligence, hire great companies with great teams, in great markets, and you will have great investments.

Thanks a lot, and I'll talk to you soon.

Chris D. Clothier

If you'd like to learn more about Memphis Invest, GP...See below!

Send Chris an email if you have any questions and don't forget to connect and share! We love reading comments on Social Media...

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The Memphis Invest Branded Companies Continue to Grow!

MemphisInvest.com and DallasInvest.com are two family-owned real estate investing companies that specialize in passive investing. Both companies were developed by working with clients from around the world who want to build passive, cash flow positive portfolios of investment properties. Memphis and the Dallas/Ft. Worth area are ideal cities for investors seeking cash flow due to their economic outlooks and real estate climate. When purchasing investment property from out of state, a company like MemphisInvest.com and DallasInvest.com are essential for an investors' success.

The Clothier family has built a reputation for developing incredible customer service, excellent property management and for surrounding themselves with proven individuals and companies. The Clothiers are active investors themselves and many of their employees are active investors in each market as well. Having been entrepreneurs all of their lives, the Clothiers developed Memphis Invest and Dallas Invest to provide the top-level services that investors needed in order to feel safe and secure in their investments far from home.

Memphis Invest has grown into one of the top private, single-family home buyers and sellers in the country and the largest in West Tennessee. As the company transitions into growing their second market with Dallas Invest, our commitment to quality and delivery of the highest level of customer service will only grow.

"Becoming A Category of One" Real Estate Investment Company

The 1,700 plus properties that are managed by Premier Property Management will continue to grow through 2013 and include over 2,000 homes. Premier Property Management Group was designed from the ground up as a service extension for real estate investors. Premier has offices in both Memphis and Dallas and primarily provide property management services to real estate investors who have purchased investment properties from either Memphis Invest or Dallas Invest. Today, those investment properties represent over $150 million in value for our clients. Managing that portfolio is an awesome responsibility considering that 97% of our clients reside outside of the area they are investing. It is that responsibility that drives us to continue to improve not only our services, but also the way we deliver those services to our clients every day. That commitment to excellence is part of our long-term plan to become a business with no equal - To become a company in a category of one!

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