



## Tips For Buying An Investment Property in Memphis, TN

Buying an investment property with hopes of making income from rent or flipping the home for a profit is a somewhat different process than buying a home to live in. Often times buying a home for flipping involves a quick transaction with cash or a ready to use line of credit used to purchase the home. When buying a home with the intent of renting it out for income the lender will look at your credit worthiness and asset base. Residential rental properties require active management and the legal requirements for dealing with residential tenants are much stricter than they are for commercial tenants. By understanding what is involved in the process of buying an investment property for rental income or with the intent of flipping for a profit you put yourself in a better position to make a smart decision as opposed to one that could cost you money in the long run.

## FIX AND FLIP INVESTMENT

With a fix and flip investment the idea is to purchase a home with the intent of updating the home and repairing any issues that the home has. Once repairs and updates have been made the home is put back on the market in hopes of making a profit based on a higher value due to the repairs and updates made. Usually fix and flip investments are held for a short time frame while the repairs are being made. Before buying a home to fix and flip you should make sure you are very familiar with the home repair and remodeling process as there can be hidden issues within a home that can blow your entire repair budget which will then require you spend more than you anticipated. Be especially on the lookout for lead paint issues, asbestos issues and foundation issues which may require licensed contractors to fix the issues.

There may be temptation to do the repair work without getting the proper permits from your local municipality. This may be ok when the work is mainly cosmetic such as repairing drywall holes, installing new carpet, repainting walls, resurfacing hardwood. When major upgrades are done like home additions, major home remodeling requiring rerouting or entirely new installation of plumbing, electrical, HVAC, and more without a permit there can be problems. When it comes time to sell that home you just fixed without applying for permits you may run the risk of a buyer walking away from buying the home or even the possibility of having to undo some of the work and then redo with permits. Buyers who are purchasing the home you just repaired for flipping can and will bring in their home inspectors and/or experts to look over the home and give them an opinion on the home's condition. If the home inspector finds faults with some of the major remodeling work and suggests the buyers request permits for the work, the failure to provide permits could lead to the buyer walking away. So be careful when doing major remodels and use licensed contractors while going through the permit process to ensure all the work is done to code.

While a home inspector can be used when purchasing a fix and flip investment home it is not common. More often investors team with home contractors who are fully trained in the process of home repair and upgrades or the investors are themselves skilled in home repairs and have a full understanding of the running on moneywork involved.

When buying properly priced real estate with flipping in mind often times there are multiple buyers looking at the same property so the luxury of time is not always available. By having skilled eyes walk through the home with you the first time you will be better able to know what costs and repair issues you will face in any particular property.

#### INCOME INVESTMENT PROPERTY

Buying an investment property with the intent of collecting rents may sound easy but you need to be prepared for all the extra duties required as part of being a landlord. Tenants can call you at all hours for repair issues and you may find yourself going out in the middle of the night during winter with spare heaters to lend to your tenants to keep them warm if the heater goes out. Landlord duties and requirements are usually spelled out strictly under state and local laws. Depending on your location the local laws may have a tendency to favor tenants over landlords so it is best to do your homework and read up on the landlord/tenant laws in the area where you will buy your rental home.

You can save yourself some hassle by hiring a property management company to collect rents, process evictions and handle maintenance requests but the fees may eat into your bottom line making the investment a money loser. An alternative is to contract with a local handyman who can handle maintenance calls as they come up, get to know a local attorney to hire for evictions and you can handle yourself the collection of rent. Some maintenance professionals will charge a monthly fee for you to retain their on-call services and then will charge extra for each service call based on the nature of the service.

#### FINANCING YOUR INVESTMENT PROPERTY PURCHASE

When paying cash for a fix and flip or rental property home one must be sure that they are paying what the property is actually worth and also properly budgeting for the costs to repair, update or maintain the property. If your credit is great and you don't have much debt it may be possible to finance a lower value fix and flip purchase with your credit card. You can even save money if the credit card gives you a zero percent interest rate for a period of time thereby not having to pay the interest. This is a much riskier proposition though since if you can't fix the home and sell before the interest free period is over you could find yourself with large

interest payments quickly eating away any profit you may have expected ,so use this method very cautiously.

Money can be borrowed to purchase a fix and flip home and to also cover the cost of repairs. One way of borrowing money to finance a fix and flip is to borrow money from a hard money lender. A hard money lender is usually an individual lender or a lending company who will lend you money secured by the investment property and your personal property in order to fund the loan. Hard money loans have higher interest rates and are short term in nature due to the higher risk associated with those types of loans. Since hard money loans are more used for short term purchases a long term investment property may not be approved with a hard money loan unless the lender can be shown there is a plan for paying back the loan in a short period of time.

Generally you will not be able to get a traditional mortgage for a fix and flip investment. You can qualify for a traditional mortgage when buying a multi-tenant unit where you live in one of the units yourself. A number of mortgage loans allow you to borrow to purchase up to a 4 unit rental building where you will be living in one of the units. These is a great and cost effective way to get your first rental unit and not have to worry about the residency requirements that most mortgage loans have. In addition to closing costs associated with registering the deed and closing company there will also be closing costs associated with the type of loan you use. Check with your lender to get an idea of what their closing costs will be.

#### BOTTOM LINE

By understanding the types of lending programs there are for purchasing and investment property and knowing whether you qualify for a loan to purchase a property you will start off with an idea of what properties will fit your wants best. Make sure you work with contractors and professionals or make sure you have a good understanding of how to manage rentals and/or how to do your own home repair or modeling is part of the process of owning an investment property. While you may see others making money off of investment properties that does not mean it is an easy undertaking.