

## RENTALS

## Single-family and multifamily homes offer both pros and cons.

By Courtney Doi



Agent Tiffany Elder says some consider investment purchases but never pull the trigger.

STEVE WILSON

# Rentals as investment option

Out-of-state investors already know the treasures of rental property in the Triangle. It's time for local investors to reap the benefits as well.

Despite all the talk of the real estate bubble bursting, the Triangle is still a treasure trove for those wanting to invest in real estate rental property, says Tiffany Elder, an agent with Realty Executives Triangle Southpointe in Durham.

Elder receives at least six calls a week from out-of-state investors wanting to buy properties as a hedge against rental properties in more volatile big city markets. These investors are drawn to the Triangle's slow but steady appreciation in prices and a relatively low cost of living.

"Watching the trends over the last couple of years, if we continue on the same path, it will be of benefit to individuals who are here and know the market to ride that wave up as it travels," Elder says.

For those who want to invest in rental property, following is a primer on buying single-family and small multi-unit properties in the Triangle.

#### SETTING GOALS

Knowing your goals is the first step in real estate property investment, Elder says. Are you looking for properties that appreciate or generate a positive cash flow? Do you want your real estate investments to replace your income? Or are these endeavors solely to

raise additional funds for a hobby or pastime?

Once these questions are answered, Elder says the prospective real estate investor must take action. "There are a lot of individuals out there that are curious about real estate, but they never get past the point of putting their toes in the water," she says. "They read every book in Barnes & Noble and every article on the Internet, but knowledge isn't anything until they put it into practice."

She suggests setting short-term and mid-range goals. In the short term, new investors should start off small to get past their initial fears. They could do a small fix-up project on their own house to raise its value and get experience for bigger buy, fix and sell project later. Or they could buy a smaller house or multifamily property that will not financially devastate them if the endeavor fails.

When analyzing goals, it is helpful to take stock of personal strengths and weaknesses, such as financial standing, credit scores and the amount of time available for the project, Elder says. Those with more time may want to buy a property that needs rehabilitation, fix it up, and then benefit from the additional equity. Those with poor credit may need to bring in partners to invest.

Prospective buyers also should figure out how they are going to take care of their new rental property, says Thomas "T" Furlow, a broker at Deaton Investment Real Estate. Management companies will take about 8 to 10 percent of the rental income. Furlow suggests that

first-time buyers handle their own properties for the learning experience alone.

However, time, he says, is a factor. If self-managing a property, it is important to buy within a 15- or 20-minute drive of where the owner works or lives. "You don't want picking up a rent check to be a hassle," Furlow says.

#### WEIGHING OPTIONS

Investment goals will help determine what type of rental property to buy. Both single-family and multifamily properties offer different advantages.

Single-family homes in good areas can be more beneficial than a multifamily property, Elder says. They are easier to sell because there is a broader market of buyers. However, there is often more risk because there is only one opportunity for rental income.

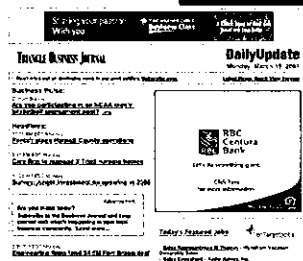
In multifamily properties, investors have more chances for income, Furlow says. If one unit is vacant in a four-unit property, the owner can still count on rent income from the three other units. It's rare that all units will be vacant, so investors are guaranteed income every month, he says.

Whether multifamily or single family, it is important to factor in location, current rent status and past financial history on the property, says Mary Ella Hutchinson, a real

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## RENTALS: Triangle a 'great' market for investing

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estate broker and investor in the Triangle area. "You have to know the value and the income," Hutchinson says. "You have to know whether or not you can make money on it. You can't go into it blindly. You have to do your homework."

### FINANCING SMART

Pre-qualification is key when looking to make your first real estate deal. Good rental properties go fast, and buyers have to be prepared. Once your buying power is determined, you can stop wasting time and be more aggressive in pursuing properties. Being confident in these financial aspects, Furlow says, provides a stronger foundation in the negotiation process.

With rental homes and multifamily properties with fewer than four units, the financing process is the same as the one used to buy a primary residence as an individual, Elder says. If buying something with more than four units, then an investor must deal with commercial financing.

Even with a shaky mortgage market, banks and lenders are eager to lend money to investors. Furlow suggests using conservative leverage and avoiding 100 percent financing options. Financing too much can hurt investors in the long run if their properties do not keep a positive cash flow, he says.

### FINDING THE RIGHT LOCATION

Once the financing in place, it's time to find the perfect property. Prospective buyers must know the neighborhood and

should invest time driving the streets and seeing as many properties as possible, Furlow says.

"Everywhere is a great market in the Triangle," he says. "It varies from area to area, depending on what the investor is looking for."

If positive cash flow is the goal, Furlow suggests buying properties in low-income areas where rental demand is high.

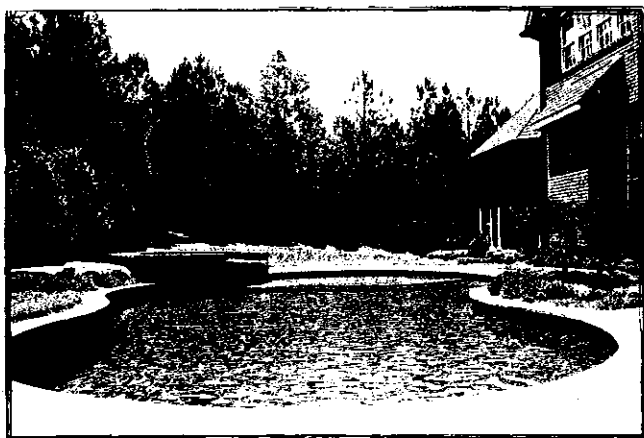
If an investor is willing to take a negative cash flow in exchange for rapid price appreciation, properties inside the Beltline at Glenwood South and Five Points are the best bet, Furlow says.

Then, there are the crossover markets. Properties in north and west Raleigh offer opportunities for some appreciation and a small portion of positive cash flow. Single-family rentals in Cary and Chapel Hill are in high demand and provide steady appreciation.

### LEANING ON LOCAL RESOURCES

The Triangle Real Estate Investors Association provides guidance to both the new and experienced real estate investors. Elder joined the organization when she moved from Chicago to adjust to the differences in real estate practices here. She says the group kept her motivated and ahead of the learning curve.

Founded more than 10 years ago with 12 members, the association now holds monthly meetings, seminars and focus groups. The group now has 450 members, says Larry Williams, president of TREIA and owner of Four Seasons Construction.



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