

4 Factors To Consider When Choosing A Real Estate Investment Market

When deciding on a market for a real estate investment property, there are many factors to consider. While some would prefer a location close to home for the convenience of looking after the property, something out-of-state may offer better returns and with a payoff worth the distance. However, it takes careful research and consideration before landing on the perfect market. Following are four factors to weigh when choosing a real estate investment market.

Brian Jones, SVP, Real Estate Loan Officer

Property appreciation

While narrowing in on a location, look for a property with appreciation potential. With a few simple renovations, cosmetic changes and appliance upgrades, you can attract tenants willing to pay a higher rent. Consider properties both within and above your price range as buyers can often negotiate prices as real estate commonly sells under its listing price. Do plenty of research to uncover locations that will appreciate over time due to future investments and developments in the area. Talk to the economic development corporation in a few cities to better understand the plans for city growth and how that would affect property appreciation.

Local economy

When looking into various markets for real estate, get a pulse for how the local economy is doing. If a city's economy is thriving and their job market is booming, odds are the real estate market is also doing well. In addition, dig into the job opportunities in the area and median household income to determine what tenants you can expect to attract. What is the current unemployment rate and the historic trends in its local economy? Evaluate the long-term growth potential of a city to maximize your real estate investment.

Property expenses

With any real estate investment, it's important to uncover any hidden fees or dues associated with the transaction. Make sure to budget accordingly and build up a replacement reserve to account for taxes and expenses associated with the purchase. As you're narrowing down your market, keep in mind that some states have much higher property taxes than others, which could negatively affect your ability to generate a positive cash flow and return on the investment. Reach out to local homeowners or the municipality's assessment office to get a good understanding of taxes and rates you can expect with the investment.

Property age

Taking into consideration the age of a property can be a huge factor. Because older properties need much more tender loving care both up front and over the years, it can be a riskier investment, but could see nice payoff with some remodeling and renovations over time. Don't shy away from an older property if it's a great deal, just be mindful of the work that you'll have to put in on the property.

Ultimately, you'll have to weigh your risk/return trade-off when it comes to investing in higher-rated, more expensive neighborhoods with lower, steady yields versus lower-rated, affordable neighborhoods with greater potential cash flow.

At PlainsCapital Bank, we understand there are many factors and decisions to face when it comes to choosing a [real estate investment](#) market. We're here to help streamline the process with our [real estate financing options](#). If you have any additional questions about real estate investments, don't hesitate to call us at 866.762.8392 and speak with a PlainsCapital representative.