Where to Invest?

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I am a firm believer that you can find deals in every market. Some markets the deals are few and far between with marginal numbers. However, others have deals with tremendous numbers and a lot of them.

Most investors like to invest close to home, some will not even leave their neighborhood. Others will venture outside the box, their state, even their region or country. There are some things that are very important when looking for deals. The biggest mistake new investors make is to purchase their first investment property at market value and hope for appreciation. This is called speculation and I do not recommend it at all. Furthermore, these mistake prone investors usually follow the herd and purchase when markets are high. Now who has heard of Buy High, Sell Low? It is supposed to be the opposite. Investors must do extensive research and analysis to target areas they can thrive and duplicate deals for a very long time.

What to consider when choosing a market to invest in

1. **Comfort –** most people invest where they live because they are comfortable in their own backyard. You are sometimes limited in the amount and size of deals. Many savvy investors have more of an entrepreneurial approach and are open to deals anywhere and look for only slam dunk deals. They build systems, teams and knowledge in other areas.
2. **Availability of great deals –** This comes down to supply vs demand. There are many factors that affect supply and demand in real estate such as interest rates, foreclosures, the local economy, job market, affordability, etc. You can find deals in any market, the numbers just have to make sense. Some markets have a lot of competition for very few good deals, other markets have an oversupply of opportunity and you can cherry pick only the best deals.
3. **Home value stability –** During the real estate boom, the writing was on the wall. Affordability became so low in some of the hottest markets that there was just no way home values could stay so high. Be conscious of the trends and direction of the market, there could be a tremendous impact on the success of your deal. Some areas dropped over 40% in value in the last couple years crippling many investors who did not exit.
4. **Ability to successfully duplicate deals –** When you find a market, type of deal, system and team that works, duplicate. It is called cookie cutter deals. Improve your team and system each time and do the same thing over and over. Savvy investors take an entrepreneurial role and delegate

the daily processes and management to their team. Then they can concentrate on growing the business and high level decisions, while on vacation.

5. **Mitigate Risk then Maximize Return –** The best deals have no risk and huge returns. All investments have risk but that risk can be mitigated by finding doing due diligence and eliminating or minimizing as many potential risks as possible. Finding deals at huge discounts under market values that also cash flow extremely well results in multiple exit strategies and really mitigates risk. Also making sure the area and home can sustain rental income and confirm the strength of your many exit strategies. Never maximize your expected return by taking unneeded risks. First mitigate risk then maximize your return.

5 Vital Mistakes and Tips for Real Estate Investors

Real estate investing is a very exciting business. The success stories can get beginners so pumped that they would do just about anything to do a deal. Unfortunately anything is often a slew of mistakes which end with brutal results. Here are some vital mistakes to avoid and tips for real estate investors.

1. **Buy Right –** Stick to your criteria. Sending 10 offers is not enough. It is a numbers game and often takes 100-500 offers just to land one deal. You should be doing only the best deals. It is recommended to implement a solid plan to get a ton of prospects into your pipeline, filter out the duds and write a ton of offers of the worthy prospects.
2. **Focus on one strategy –** Become a master in one strategy and focus 100% of your time in this strategy. Let everyone else try 5 or more strategies and put 20% of the needed focus to become successful in a strategy.
3. **Have multiple exits –** One exit strategy is not enough. Always have backup plans and multiple exit strategies. It is recommended to never go over 70% LTV and also have positive cash flow. Having both significantly mitigates risk and you have many exits that will result in a strong return.
4. **Have good teams and systems –** Don't try to do everything yourself. The most successful real estate investors are entrepreneurs and delegate as much as they can. Create win-win situations with your team members, create automated systems and delegate. You will then have time to do the things that will significantly improve your profits which are the entrepreneurial tasks.
5. **Make informed business decisions –** 95% of people are followers. They believe all media and everything they hear. Is this information accurate? Not always, so be careful and do you due diligence. You wake up, put on pants and make decisions every day. Make sure to gather accurate information, justify sources and their information and you will be able mitigate a lot of risk and avoid unpleasant surprises by making informed business decisions.

Where to Invest?

When it comes to finding great real estate deals, I am a firm believer that you can find deals in any market and any time. But what is the probability that you can cherry pick from many home run deals have little competition and multiple exit strategies? The best markets allow you to consistently find successful deals, create efficient systems and duplicate over and over. The media has a much different approach in that they look at hot markets speculatively as ones that will appreciate, our approach is much different. To identify markets to invest in it is recommended to have not 1 or 2 of the following, but all 4: Little chance of depreciation, lots of available deals, low competition, multiple exit strategies. This is all in an effort to mitigate risk and maximize return.

Probability of depreciation – If you haven't heard of PMI, Private Mortgage Insurance, let me introduce you. PMI provides insurance to lenders to protect them from buyers who default. PMI also applies leading research, analytics, and pricing principles to manage risk concentration, and release a monthly market review and quarterly Market Risk Index report. The PMI U.S. Market Risk Index score translates to a percentage that predicts the probability that house prices will be lower in two years. Based on this report many of the hot areas during the boom such as CA, Vegas, FL, etc have a High probability of lower home values in 2 years. However, many areas of OH, TX and the Midwest have Minimal risk rank.

			PMI US Market Risk Index	
		Risk Rank	**1st qtr 2009**	**4th qtr 2008**
Riverside-San Bernardino-Ontario CA	CA	High	99.9	99.9
Miami-Miami Beach-Kendall FL	FL	High	99.9	99.9
Los Angeles-Long Beach-Glendale CA	CA	High	99.9	99.9
Fort Lauderdale-Pompano Beach-Deerfield Beach FL	FL	High	99.9	99.9
Las Vegas-Paradise NV	NV	High	99.9	99.8
West Palm Beach-Boca Raton-Boynton Beach FL	FL	High	99.9	99.8
Orlando-Kissimmee FL	FL	High	99.9	99.6
Tampa-St. Petersburg-Clearwater FL	FL	High	99.9	99.7
Santa Ana-Anaheim-Irvine CA	CA	High	99.9	99
Phoenix-Mesa-Scottsdale AZ	AZ	High	99.9	98.8
Jacksonville FL	FL	High	99.9	98.9
Sacramento–Arden-Arcade–Roseville CA	CA	High	99.9	97.9
San Diego-Carlsbad-San Marcos CA	CA	High	99.8	97.2
Providence-New Bedford-Fall River RI-MA	RI	High	99.3	98.3

Detroit-Livonia-Dearborn MI	MI	High	98.8	86.3
Edison-New Brunswick NJ	NJ	High	96.7	89.4
Oakland-Fremont-Hayward CA	CA	High	96.4	80.7
Newark-Union NJ-PA	NJ	High	96	84.1
Nassau-Suffolk NY	NY	High	91.9	78.3
Washington-Arlington-Alexandria DC-VA-MD-WV	DC	High	91.7	88.2
Portland-Vancouver-Beaverton OR-WA	OR	High	89.8	66.4
Baltimore-Towson MD	MD	High	89.6	83.8
Virginia Beach-Norfolk-Newport News VA-NC	VA	High	89	77.6
New York-White Plains-Wayne NY-NJ	NY	High	87.8	67.6
Atlanta-Sandy Springs-Marietta GA	GA	High	80.7	55.8
Boston-Quincy MA	MA	High	79.5	56.6
San Jose-Sunnyvale-Santa Clara CA	CA	High	78.4	51.4
Minneapolis-St. Paul-Bloomington MN-WI	MN	High	74.5	58.5
San Francisco-San Mateo-Redwood City CA	CA	Elevated	66.2	31.6
Warren-Troy-Farmington Hills MI	MI	Elevated	57.9	23.6
Seattle-Bellevue-Everett WA	WA	Moderate	46	30.3
Milwaukee-Waukesha-West Allis WI	WI	Moderate	44.6	27.5
Cambridge-Newton-Framingham MA	MA	Moderate	40.6	27.3
Chicago-Naperville-Joliet IL	IL	Moderate	36.2	13.7
Philadelphia PA	PA	Moderate	30.3	27.5
Indianapolis-Carmel IN	IN	Low	28.8	9.6

Austin-Round Rock TX	TX	Low	28.1	17.4
Cincinnati-Middletown OH-KY-IN	OH	Low	27.4	12.1
Kansas City MO-KS	MO	Low	26.2	11.2
Denver-Aurora CO	CO	Low	21.2	14.2
Nashville-Davidson–Murfreesboro–Franklin TN	TN	Low	16.6	12
Charlotte-Gastonia-Concord NC-SC	NC	Low	15	5.7
St. Louis MO-IL	MO	Low	12.9	13.8
Fort Worth-Arlington TX	TX	Minimal	5.8	2.5
Dallas-Plano-Irving TX	TX	Minimal	3.8	2.5
Houston-Sugar Land-Baytown TX	TX	Minimal	3.7	2.7
San Antonio TX	TX	Minimal	2.8	3.8
Columbus OH	OH	Minimal	2.1	2.4
Pittsburgh PA	PA	Minimal	1.5	1.7
Cleveland-Elyria-Mentor OH	OH	Minimal	1.5	2.3

Lots of available deals – It is safe to say that the US economy has impacted every market in the country. Foreclosures have hit all time highs and many areas have an oversupply of opportunity. Some areas have more deals than others, but there are plenty of distressed properties out there.

Competition – Have you ever been in a bidding war? 5-10 offers and the seller counters or asks for best and final? I have experienced this many times and almost always the property sells for much more than I am willing to pay. Competition drives up prices. A perfect example is the way prices soared in hot areas like CA, Vegas and Florida. Homes would be put on the market for 15% higher than the comparables justify and still multiple offers as much as 20K over asking price. Investors are in the best situation where they are the only offer and thus have much more leverage in negotiations. My experience is that there is a lot of competition in the desirable areas that were very hot during the boom such as CA, Vegas, Florida, TX etc. Other less desirable areas have less speculation and competition which often results in lower purchase prices for distressed properties. Many smaller cities and areas of the Midwest such as OH have much less competition.

Multiple Exit Strategies – I have written about this topic in the past articles. Having multiple exit strategies is often crucial to avoiding loses. If you are unsuccessful flipping a property you may be able to rent, lease option and even get a lower payment or take cash out with a refinance. Or if you cannot find good property management or good tenants then you can flip or wholesale the property because you have plenty of equity. Multiple exit strategies give investors backup plans if your 1st exit is unsuccessful. Simply put, multiple exit strategies will lower risk, not to mention, let you sleep at night. Many high priced areas are difficult to cash flow and have multiple exit strategies. Again, many smaller cities and areas of the Midwest such as OH have an oversupply of deals with tremendous equity, tremendous cash flow and multiple exit strategies.

Summary – It is strongly recommended to identify areas with all 4. High priced areas that were hot during the boom have a high probability of depreciation based on PMI's research, there is a lot of Competition and Multiple Exit Strategies is difficult to achieve. While there are many foreclosures in CA, Vegas, Florida, etc, they are not areas that are recommended. Many people will do well on deals, but many deals will also tank. TX is an interesting market as it is very stable. You can achieve multiple exit strategies but there is a lot of competition fighting over the available properties. Many smaller cities, areas in the Midwest and OH however hit on all 4. Minimal chance of home values decreasing, tons of available deals, low competition and ability to find deals with tremendous equity and tremendous cash flow. The success of a deal is still dependant only on that specific property and not the market as a whole, but the Midwest and OH are the areas strongly recommended as areas to invest at this time.

I am going to focus on markets with Minimal to Low PMI Risk Rank and that hit on my other 3 criteria. I did extensive research on 3 of the TX markets and it seemed a screaming deal on a foreclosure was 20% below market. While you may be able to find a great deal, I found the availability and competition to not be as favorable as some of the other markets. While the markets are very stable, the TX cities I am passing on but savvy investors can do very well. I found the same thing in NC, SC, Kansas City, Oklahoma City and Alabama. You can find good deals, but it is more difficult to find a great deal or that diamond in the rough. A great deal I consider to be around 50% LTV and rents are 1.5-3% of Total In (Purchase+Rehab). The markets I found to be overflowing with great deals and hit on all 4 criteria are Cleveland, Columbus, Cincinnati, Indianapolis and Memphis. You can cherry pick from incredible deals that have multiple exit strategies, tremendous cash flow, tremendous equity and you do not run into much competition. We have found deals around 50% LTV with rents of $1400 for only 60K. That is great cash flow and equity. Cleveland, Columbus, Cincinnati, Indianapolis and Memphis are the cities to invest in. There are many others that offer great opportunities, most are smaller less hyped markets but the 5 I mention above I find to be prime. Check out some current deals we have done in these areas with tremendous numbers http://www.realreturnrealestate.com/index.php?option=com_content&view=category&layout=blog&id=57&Itemid=88.