How to Buy Rental Property in the U.S.

If you are an investor looking to go from residential to commercial real estate, you need to know how to play the game. There are advantages to buying commercial property over residential property. For one thing you can make more money faster than you could by selling residential real estate. An example of this is if you owned a single family dwelling, you would have equity in that home, if you lived in it. If you rented it out you would collect monthly payments to apply toward your mortgage. But it still is not a descent cash flow cow. However, if you were to invest in a commercial property of say 10 units, and rented them all out at $1000 a month per unit or apartment, and your mortgage on the property is about $150,000, with a monthly payment of $1500, you would not only have a steady cash flow, but you would pay off your mortgage quickly and have a nice profit to boot. How? Think of it this way. If you owed $1500 for a monthly mortgage payment, but you collected $1000 from each tenant per month ($1000 * 10= $10,000 per month), you would have the opportunity of either paying the mortgage off faster, or you could send in the regular payment, but keep $8500 for yourself as a cash flow or passive income, per month.

Advantages to Buying Rental Property

It is obvious the advantages to buying rental property are the immediate cash flow you get from it. You can make millions just by buying rental property. You set the rent price according to market conditions and keep all units occupied. This way your tenants would be paying for your mortgage while you reap the benefits of monthly passive income.

Disadvantages of Buying Rental Property

If you have one rental property that has vacant units, you are losing money and income dramatically. What if times are tight and you only can rent out half your units. You are in serious trouble. This will result in serious negative cash flow, which could lead you to selling the property to get out before suffering a major financial loss.

Making it Big with Rental Property

When you have a rental property you must keep your eye on the donut not on the hole. This means you must know where your profits come from at all times. Unlike single-family homes, you can make instance cash with apartment buildings. Once you become the owner, you will immediately start receiving passive monthly income. And depending on how many units you have, you could very easily make a killing.

Making money with rental property is not restricted to apartment buildings. You can also make money buy investing in commercial buildings. Commercial buildings work the same way as apartment buildings. You have tenants who rent out space in the building. The more you charge each tenant, the more you can make per month. There is one stipulation with commercial buildings. If you have a mall for instance, you normally will not charge the tenant on the second floor the same rent as on the first floor because of less traffic, unless you arrange for people to have direct access to the second level from the parking lot or garage.

You can also make huge profits in office buildings. You simply charge so much for floor space. This is usually in square footage on a monthly basis. These types of properties can be rented out fast, especially in areas where there is a lot of traffic, and business.

How to Buy Rental Property for Profits

The best way to buy rental property, irregardless whether it is an apartment building, commercial building (mall), or office building, is to start out small and work your way up. If you haven't bought and rented out single-family homes first, don't try going commercial until you do. This way you get the experience under your belt.

You can find apartment buildings for sale by simply keeping your eyes open for possibilities. You may find one in your own neighborhood. Contact the owner to see what he is willing to sell it for. Then you just check his financials to see what the average monthly rental is. This is one way you can tell the market value for the property. Another way is to use the gross income multiplier method. This will help you produce an estimate quickly and that is accurate.

The way this could be done is to take the annual gross amount of the property and multiply it by ten. An example of this is a property you are looking at. The property has 10 units with rents at $750 each. This gives a total monthly income of $7500. The yearly amount is $90,000. Now multiply this by 10 and you get $900,000. This is what the property is worth.

If you keep your ears and eyes open, you'll be surprised by the deals you can come up with. For instance, an investor found an apartment owner who was an 83 year old lady. Her husband had invested in the property 10 decades ago. Although her husband died, she kept the mortgage payments going until she finally paid it off. She owned the property outright. But her health turned for worse, so she had to sell the property fast. He gave her a reasonable price that was below market value and she accepted it.

You never know where deals will come from.

Secrets to Investing in Rental Properties

If you want to know how to double the value of your building you can do so by simply doubling your yearly rental rate. Let's say you college $800 for rent and you have about 10 units. You collect $8000 a month in rents. You can either double the monthly rental rate or yearly rental rates to get the value of the building. So in this case you have rental income of $8000. If you double this you will have $16,000. So the value of the property would be $16,000 or $192,000.

When you buy any commercial buildings you want to make sure you strengthen the tenant leases. Change the leases to long-term leases with tenants you know will stay at the location for years to come. You can assure yourself of this by offering your tenants incentives to keep them there.

If you are looking to purchase a commercial rental property life a strip mall, you must look for properties that have anchors. These are stores that are famous enough that they draw customers to the location. Such stores could be McDonald's, Burger King, Macy's, or Nordstrom's. By having these stores in place, you are guaranteed constant traffic to your property. This way if you have any vacancies, you can fill them by advertising the stores that are there already. You will find your phone will ring off the hook with offers from potential tenants, wanting to have a part in it.

When you look for rental properties to invest in, find out what the seller's motivation is. This will help you determine the offer you will present. Keep an open mind and realize that not all offers are etched in stone. If you can negotiate with the seller and convince him or her to sell, the seller will go for it. Just give the seller a win-win situation and you'll be surprised how you can actually purchase property that is below market value, or for pennies on the dollar.