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Dec 6, 2016 · 6 min read

How I Started As A Rental Property Investor

Ever dream of creating a passive income stream by becoming a landlord? This rental property pro explains how it's done

Over the past 10 years, Christophe Attard, president of Welcome To Realty in Fort Collins, Colorado, has purchased more than 120 properties to flip or rent.

Thanksgiving weekend, 10 years ago, I learned a valuable lesson the hard way about owning an investment property. A group of investors and friends, 10 of us in all, purchased a cheap house in Fort Collins, Colorado, where I live. My parents were involved in real estate, and when I researched investment options, getting into real estate just felt comfortable. I wanted to learn how to "flip" a house.

My partners and I all had full-time jobs when we bought the first property. We had no idea what we were doing, and we wasted a lot of time and money making mistakes. That Thanksgiving weekend we were renovating one of the bathrooms (because, of course we were working on the house on a holiday) and we forgot to turn off the water. We flooded the house.

Needless to say, we made no money when we sold that house. But I saw the experience—the flooding and countless other mishaps along the way—as an investment souvenir. It was a gift to learn every last detail involved in buying a property to flip or keep as a rental property.

A few months later, my wife and I decided to branch out on our own as property investors. Since then, we've purchased nearly one house a month over the past 10 years, about 122 properties total. We've sold a majority of those, but we held onto 18 as rental properties. When you buy and flip this many homes, you learn a thing or two about what to do and what not to do. Here are things to consider for anyone who wants to get into the property rental game:

1. Think about managing your properties yourself—at least at first.

Sure, the ultimate goal may be to have a hundred or more rental properties and a management company handling all of the headaches for you. But I found that doing it all myself in the beginning really helped me learn the nuances of what it takes to make it all work smoothly. (Think of it like starting in the mailroom so you learn every detail on your way up.)

Of course, if you're going to successfully do your own management, you need to have a manageable number of properties. I say, start with one or two properties and try to do as much as you can yourself. The upside: it'll save you money. Management companies can charge between seven and 10 percent of the rent to manage a property. And you'll likely do a better job because it's your own property. You care about it more than a management company will.

2. Be super selective about the property you buy.

We're lucky, because my wife is a real estate agent. But we don't buy many properties from real estate listings. We buy a majority of the properties through different types of auctions.

I've found single-family residences to be the best properties to buy when you're looking for an investment property because they're often the easiest to find tenants for. Most tenants want a yard, a barbecue and the option to have a pet, which you won't get with most condos and townhomes.

However, I wouldn't discount condos or townhomes, especially if I don't live near the property. You'll have monthly Home Owner Association (HOA) dues to pay and there may be fewer renters interested, depending on the market, which means you might not be able to charge as much rent each month. The upside is that the HOA may also provide services related to your property and even cover big-ticket maintenance projects for you.

3. Finding the right renters is like hitting the jackpot.

One of the biggest lessons I learned the hard way: spend the extra time it takes to get the right tenants into your rental properties. A few years ago, we bought nine rentals in two months (mistake number one), which required a lot of cash flow to pay those mortgages. When I realized I was losing money, I rented to the wrong people. I had to evict them after the police broke down the front door and arrested one of the tenants, who was hiding in the attic. I quickly learned that it's helpful when evaluating tenants to look into background checks, do careful credit score reviews and call references to be sure they are truly former landlords—and not just a potential renter's friend.

When you do find good renters, keep them happy. Vacancies cost a lot of money, and turning over the house from one renter to another involves cleaning, painting, and maintenance, which is both expensive and time-consuming.

3. Scout out other property managers and pick their brains.

Networking with other successful landlords can give you a lot of insider information that can help you run your own business. Being a landlord is very different than being a private homeowner. If you want to be successful, you will likely need a business plan. A great way to develop one is learning from others who have experience navigating the business. Search your area for investment clubs or real estate organizations, then find yourself a good mentor if you can.

4. Don't get just anyone involved in handling your business. Hire pros.

After you find a good real estate agent to help you find and buy great properties, get yourself a good accountant and attorney. There can be valuable tax deductions for rental properties, so it pays to get professional advice from people who specialize in this type of business.

5. Know when to flip a property and when to rent.

You will develop your own guidelines, but here's my rule of thumb: If a house is more than an hour away from where I live, I typically flip it instead of renting it. My wife and I manage our rental properties, and it's much easier to keep a handle on everything when they're close to home.

I also tend to sell the more expensive homes right away. When you have a $300,000 home, you will not generate twice as much income as a $600,000 home. That may sound counterintuitive, but think of how much more expensive it is to maintain a bigger house, and how much tougher it is to find tenants when the rent is really high. Another business rule I learned: If I get a screaming deal on a house—say, at an auction—I tend to keep it as a rental.

Overall, we shoot for a profit of about $40,000 on houses we buy. Our model is to buy a house for around $150,000, spend about $8,000 on renovations and updates, and sell it for $190,000. Sometimes we break even; other sales surpass that amount, and sometimes we fall short. Flipping allows us to put big chunks of money toward paying down the mortgages of the homes we keep as rentals. I'd say within a year or so, we'll be completely debt-free. Once we hit that milestone, all of our rental income is pure profit. For us, that's the ultimate goal.

By Christophe Attard, as told to Meghan Rabbitt

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