TURNKEY RENTAL PROPERTIES

The Definitive Guide to Buying Hands-Off Rental Properties

101

ALI BOONE

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The Path of Least Resistance to Real Estate Wealth and Lifestyle Design

LETTER FROM THE AUTHOR

ALI BOONE

You may think by the title of this eBook that all you're going to get from it is the 'how-to' of buying turnkey real estate. You are going to get that, yes, but before all of that I want to address something a little more exciting. Don't get me wrong, buying real estate is amazing, but understanding *why* you're buying what you're buying is even more fun… and critical.

People buy real estate investments for various reasons. If asked, most will tell you it's because they want to achieve some kind of financial security in their lives. A lot will also tell you they would ultimately like to replace their salaries with passive income so they can quit their difficult or boring jobs. What better reasons to invest in real estate?! But I think a lot of people stop there. I don't want you to stop there. Ask yourself, "why do you want to quit your job?" I assume your answer is so you can do what you want, whenever you want. Am I right? Well what if I tell you that you can start doing whatever you want whenever you want now, instead of waiting until you quit your job? Yes, of course you have to pay your bills in the meantime so you may not be able to do 100% of what you want all the time, but you can certainly start working towards that freedom! Doing so is called creating ***lifestyle design.***

LIFESTYLE DESIGN = CREATING YOUR LIFE HOW YOU WANT TO LIVE IT!

Amazing concept, right? Unfortunately a lot of people in this world have no idea that you really can design your life to be whatever you want it to be. I don't care what excuses you come up with—you rule your life. It can be tricky to fully develop your life how you want it to be, you do still have to pay bills, and it takes a tremendous amount of effort to even figure out exactly what life you want and it may take even more effort to truly achieve it. Developing all of this is part of the journey itself though, and worth every minute of it once you do it.

Lifestyle design, even though I didn't know the term back then, is something I have wanted since I was a kid. Nothing would depress me more than if I wasn't available to join friends at a random event because I was busy with something else. As I got older and started working a 9-5 corporate job, I started noticing more and more that I wasn't able to do all the fun things that were presented to me. I either had to be at work during the time of the event, or I didn't have enough vacation hours, or whatever other inconvenience my corporate job caused. In addition to the lack of flexibility, I also started thinking other things like:

- (I feel like) I am contributing basically nothing to such a big company.
- I do enjoy my every-Friday paycheck, but who cares about that if I don't have time to do anything fun with the money?
- I don't have time to flight instruct (which is my real passion).
- I only see my friends and dogs at night or on the weekends.
- Anytime I travel I have to request vacation time.
- I can't live at the beach because the commute is too far.
- I can only go to the gym in the evenings, and if you are a gym rat like me you know very well how crowded the machines are in the evenings!
- Weekend trips have to be kept short.
- I might as well not even own a bicycle because I hardly ever get out to ride (or hike or surf or whatever fun) because weekends are the only times to do it, and by then I am exhausted from working all week.
- Snowboarding lift tickets are way more expensive on the weekends than on weekdays, but when else can I go?
- Sleeping in is sadly non-existent.
- And the list (I'm sure you have already started your own!) goes on extensively...

I knew I couldn't keep that kind of lifestyle forever, so I began looking for ways to get out of it. As the same for a lot of people, the first book I stumbled on was Robert Kiyosaki's "Rich Dad Poor Dad". The main premise behind this book is passive income. Bingo! I knew that's what I needed. After continuing to study this concept, it became clear to me that there are two ways of obtaining passive income: own a business (in a particular way so as to make it actually passive) or invest in real estate. Years later as I've progressed along my journey, I know this is still exactly true. For me, I started investing in real estate and that eventually ended up becoming a business for me. That's currently how I support myself, but I do have passive income-producing properties as well and plan to keep buying more. The reality though is that not everyone wants to own their own business, which is totally understandable because it's crazy hard work! So if you decide you don't want to go the business route for passive income (remember again that it takes an extra zing to make a business passive at all), make it easy on yourself—invest in real estate! Real estate investing is, to me, the easiest way to begin earning passive income.

No matter which way you decide to build passive income, the benefits are the same. You can work when you want, if you want, from wherever you want, do what you want, whatever! For me, the coolest thing about passive income is the ability to be mobile. I am not tied down to any one location, ever! I can stay home, I can travel, I can road trip it, I can hang out at coffee shops, whatever I want to do! It's my choice. To give you an idea of how cool this really is, to date (in only two years of being out of corporate), I have worked from:

- my house in Venice Beach (a block from the beach)
- various countries in Europe—between sight-seeing and outdoor adventures
- a Colorado mountain house I holed myself up in for 2 weeks during an amazing snowstorm (and between snowboarding excursions)
- Atlanta while hanging out with family and friends for as long as I wanted to (weeks)
- the car during cross-country road trips
- friends' houses if I just didn't feel like hanging out at my own house
- Nicaraguan hostels between ziplining, surfing, and volcano boarding adventures as well as from high-end Nicaraguan hotels while drinking wine or margaritas (yes, while I worked)
- the beach (ah.....)
- Alaska, between floatplane flights, hostel-hopping, bear-chasing, ziplining, ATV-riding, dogsledding, snorkeling (yes, in Alaska!), and salmon fishing
- the hours of 12am-3am after getting distracted with watching movies all day

Granted I'm obviously a traveler and an adventurer, but regardless of what I do with the time, I have the time! That is what ultimately matters. Now I can take on fun side gigs if I want, go to lunch with friends anytime they ask, sleep in as late as I want, avoid rush hour and commuting, travel whenever I want, stay in my pajamas all day, or just not even work for a few days and get back to it later. Whatever I want to do, I have that flexibility now. Powerful concept, isn't it?

So, you ask, how does this relate to turnkey real estate investing, which is what this eBook is supposed to be about? It all ties back into the benefits of true passive income. Passive income is when you don't have to work for your money.

There is a huge misconception about real estate investing that you need to understand, which is:

YOU CAN'T CREATE LIFESTYLE DESIGN WITH EVERY KIND OF REAL ESTATE INVESTING!

Not only can you not create lifestyle design with every kind of real estate investing, you can't create lifestyle design with *most* forms of real estate investing. Shocker! Like flipping, landlording, or wholesaling (although I'm adamantly against wholesaling even being considered a method of investing at all)… Do you realize that every one of those requires you to work for your returns? Do you realize that *working* for your returns takes time? And isn't *time* what you ultimately want to create for yourself and your life?

The best way to avoid working for the returns on your real estate investment is to invest in rental properties. Technically, you don't have to work for your returns with rental properties because all you need are tenants in the property who are paying you every month, and that is how you collect your money. However, it does take work to make all of that function correctly. If you do all that *work* yourself, you are a *landlord*. Well if you are a *landlord*, you are *working*, and that takes time… so where is the lifestyle design in that?

Because I want the ability to create lifestyle design, which means I have to have as much freedom as possible and I know I can get that from rental properties, I hire a talented property manager to handle my rental properties instead of me being the landlord on them. Boom! By doing that, I don't have to answer maintenance calls at 3AM or spend time finding new tenants when the old ones move out or any of those other headache-ridden tasks required of a landlord. Do you know how difficult it can be if you are traveling through a tropical paradise somewhere and you get a call that a storm just hit one of your properties and tore the roof off? What then?

THE POINT IS, *YOLO.*

For anyone unfamiliar with the term, it means "you only live once". Many make fun of the term, but I think it is amazing because it's true! You only have one lifetime this go around, so why would you waste it working a job you hate and not doing things you love? There are so many amazing things out there in the world, why not take advantage as best you can? The absolute easiest way to do this is to build as much passive income as you possibly can so you can free yourself from the burden of being a slave to a schedule. And the absolute easiest way to build that passive income is to invest in rental properties that you don't have to manage yourself. In fact, buy rental properties that require no work at all and you are golden!

[enter turnkey rental properties – stage left]

This is why I created **Hipster Investments**. Not only to introduce you to new concepts you may not have heard about and connect you with companies who provide those opportunities, but to also prove to you that you really can live the life of your dreams—if you go at it the right way—by investing in things like turnkey rental properties. Real estate investing is by far the best way to help you achieve your dream life, but you have to invest right or you will end up working more than you were before you started. That's why Hipster is here, to make sure you stay on track for your goals and offer you guidance along the way!

I could ramble on about lifestyle design all day long, but I'm going to leave that for later and let you get to learning everything there is to know about turnkey rental properties.

HAPPY LEARNING! - ALI

INTRODUCTION

So many people have misconceptions about real estate investing. I know I did. It sure seemed like to be a real estate investor, and own real estate investment properties, there was a lot of complicated and tricky work that goes into making it happen. Things like: finding motivated sellers, negotiating deals, going through convoluted processes of buying foreclosures and short sales, rehabbing and renovating, finding tenants, and being a landlord. Have you ever heard of true real estate investing that doesn't involve all of these things? How does one even learn all of that? If you've ever thought about investing, you've probably considered the same challenge.

Now, don't misunderstand. A lot of people have a lot of success doing all of that work for their real estate investments themselves, and being willing to roll up your sleeves does have its benefits. If you have interest in learning those types of skills, you really can learn a lot about real estate investing and making it work for you. But let's be honest— not all of us have the interest, or more importantly the time, to learn all of those skills. If that sounds like you, you are far from the only one out there. What people don't tell you is that there are more hands-off ways of being a real estate investor and creating real passive income.

The key to being hands-off with your real estate investments, and with anything else in life, is to outsource as much work as you can. Turnkey rental properties allow you to do just that!

This eBook is a how-to explanation of how you can easily (and realistically) buy a performing real estate investment property via the turnkey method. Just so you know, there are no promises of overnight riches that are next to impossible to obtain in here, so I hope you aren't disappointed when you don't see any. The information you are going to read is based simply off personal experiences and written in simple language so you can actually use it. If you understand everything that is said in here, you will have the knowledge required to go out and buy an awesome piece of real estate. Now, whether you do that or not is up to you, but know that you will have the tools to do it and the folks at Hipster are always here to help if you get tripped up or have questions along the way.

LET'S GET STARTED! [ENTER INSTRUCTOR AND WHITEBOARD]

CHAPTER 1

TURNKEY RENTAL PROPERTY BASICS

WHAT IS A TURNKEY RENTAL PROPERTY?

A "turnkey" rental property refers to a rental property that is sold in fully rehabbed (or redeveloped) condition, with tenants in place and paying rent, and property management already set up to take care of the property once you own it. In theory all you have to do is "turn the key" in the door of your new property because it is ready to go. You might see these properties listed as "turn key" or "turn-key" as well. You can choose your poison for spelling.

WHY TURNKEYS?

Turnkeys are an excellent option for buying rental properties because they take all of the sweat work out of the equation. Turnkeys are especially great for anyone who falls into one or more of the following categories:

- You work full-time, which doesn't leave you much time to work on investing
- What time you do have (even if you don't work), you don't want to spend dealing with rental properties
- You are a new investor and trying to lessen your risk while you get started and learn the fundamentals
- You plan to be a long distance rental property owner, either because the market you live in isn't conducive to buying profitable rental properties, so you have to buy out-of-state, or you just want to buy properties somewhere other than where you live for whatever reason (there are a lot of good reasons)
- You're a seasoned investor and you want to just cash in and relax
- You don't want to work that hard for income

Do you fall into any of these categories? If so, turnkeys are for you. Another cool thing? **Turnkeys are unlisted to the public.** This is very valuable to you because a) you don't have to worry about being in a bidding war for a property, b) the pre-rehab price is likely cheaper than it would be if it were to get listed (that savings gets passed onto you), and c) it feels really dope to know you are getting a property that isn't available to the general public.

Is it a secret handshake kind of a thing to get in with buying turnkeys? Nope. It may seem like it because turnkeys aren't listed and even more because they aren't that widely known (yet). Turnkeys are a newer concept since the big market crash a few years ago, which is what really gave the turnkey business model it's push—so a lot of people don't even know they exist yet.

WHO SELLS TURNKEYS?

Assuming you don't know anyone personally who has a turnkey property for sale, there are two different types of companies who you can find and buy turnkeys through:

1 **TURNKEY PROVIDERS** Also known as turnkey sellers. These are the guys who actually own the properties being sold. They are the ones who do all of the work—they find properties, rehab the properties, find tenants, and assign great property managers. They are the actual turnkey operation.

2 **TURNKEY PROMOTERS** The promoters do not actually sell the properties themselves. Rather, they connect you with various turnkey providers who sell the properties.

Wouldn't it be better to just deal directly with a turnkey provider and not a promoter? Why add the extra step? There are some major advantages to going through a promoter. Some of those advantages are:

- **MARKET SELECTION** Promoters work with turnkey providers in several different markets, so you are more likely to receive an unbiased opinion on who to buy from and where. Think about it, if you talk to a turnkey provider in market X and you ask that provider where the best place to invest is, they are going to tell you market X. Duh! They only make money if you buy their stuff so of course they will tell you their market is the best. The promoters, on the other hand, make money no matter which market you buy in, so they can give you an unbiased version of the best markets. Promoters can talk you through the pros and cons of various markets. Every market offers something different. You want to buy in the market that best matches your goals, so you need to understand which market that is.

- **EXPERTISE** Turnkey providers are experts in what they do, which is buying great properties, rehabbing them, setting up management and running business on a large scale. Turnkey promoters are experts in market research, understanding what makes a good turnkey provider versus a not-so-hot one, and customer service. Going through a promoter then gives you the full gamut of expertise because you get their areas of expertise plus the providers', not just the providers' which is only centric to their market and properties.

• **PROTECTION** If you work with a turnkey provider on your own, you are exactly that - on your own. Anyone can take advantage of you with little consequence to them. However, if you go through a turnkey promoter you are part of a larger network. If you were to get taken advantage of by a turnkey provider who was referred by a turnkey promoter, it would trigger significant consequence to said turnkey provider because they would be risking losing their entire relationship with the turnkey promoter who referred them which could dramatically impact their business because of how many buyers would be lost. The more people you have on your side, the better. It's not an official or legal protection by any means, but being part of a larger network goes a long way when it comes to people having your back. That goes for anything in real estate investing, not just turnkeys.

Since promoters don't typically charge for their services, it certainly can't hurt to talk to one before deciding to work with a provider directly. If you happen to run into a turnkey promoter who does charge for their services, be leery before moving forward. There is a similar business model out there that is more likely to involve a fee that you should be aware of. This model is similar to turnkeys, but it's not quite the same. This one involves the same process that the turnkey providers follow, but these providers use *your* money to do all of the work. For normal turnkeys, you don't give any money until you are buying the fully-performing property. This other model requires you to give the money upfront before the work ever starts. The downside there of course is it's your money at risk, not theirs, and the wait time before you ever see any income is longer because no income will come in until well into the process; likely months or more. Don't worry too much about this model, but do know that if you see someone trying to charge you a fee, this may be what their company does rather than offer straight-up turnkeys. So just make sure you are clear on the deal being offered. The best turnkey promoters I've ever met don't charge a fee, so I wouldn't see the point in paying anyone a fee to do the same work.

WHERE WILL YOU FIND TURNKEYS?

Turnkey providers (a.k.a. turnkey sellers) typically set up shop in markets (cities) that have enough distressed inventory to allow them to work in large quantities. The turnkey business model is based on buying properties in large quantities so prices can stay as low as possible. Buying in bulk allows for getting inventory and supplies cheaper per unit than when you buy an individual property. It's like shopping at a wholesale club rather than a small local market. Why can you get things cheaper at Costco? Because everything is in bulk (says that 5-gallon jar of peanut butter in your pantry). Bulk discounts in real estate benefit you, the buyer, in the same way. When turnkey providers buy properties in bulk, and therefore at a lower cost, they pass that savings on to you by selling them to you at a lower cost. Same with supplies; because the providers buy materials in such large quantities, they get everything cheaper than you ever could on your own.

You are likely to find turnkey providers in popular markets that other big investors are in. These other investors may be institutional hedge funds or other big groups with heavy buying power. The big guys follow the most advantageous markets out there because they too are looking for the most properties with the biggest returns, which is the same reason the turnkey providers are there. Many individuals are leery to buy in these markets because of the overwhelming presence of the big investor groups for fear of not being able to compete. Turnkeys actually make it easier for individuals to buy investment properties because they are the ones competing against the big investors, rather than the individual, so the individual gets to take advantage of that same level of buying power that the big guys have. Remember, the big guys always go for the best markets out there, so why would you not want to be in the same markets?

HOW MUCH DO TURNKEYS COST?

Oftentimes people look at the prices of properties on the MLS and see those prices are less than that of a turnkey in the same area. **Remember, a turnkey property comes freshly rehabbed (and in some cases fully redeveloped, i.e. gutted from the inside out and rebuilt) which makes a huge difference on value. MLS properties are likely not rehabbed and could be in any condition.** Not only does it make sense to pay more for a fully rehabbed property, but you are also paying more because every single part of the process is done for you. It's like the difference between camping off the grid and staying at a nice hotel—you can always stay somewhere for free or cheap but you better enjoy some manual labor and a hard bed for the night! With turnkeys, you don't have to lift a finger more than doing due diligence and signing papers. So it makes sense to pay more for a turnkey. But! That is assuming a turnkey really is more expensive than a do-it-yourself property, because that may not always be the case. Do-it-yourself properties may appear cheaper on the front-end, but after all the work you may have to put into it (and possibly not knowing what you are doing), you are likely to have spent as much as you would pay for a turnkey if not more. So in fact, turnkeys aren't always more expensive. Either way, a turnkey really is huge bang for your buck.

There is another, less obvious, advantage to paying for a turnkey you may not realize: *expertise*. **With a turnkey purchase comes a huge amount of expertise: professional market research already done for you, expert rehabbing completed for you, and management expertise to run everything.** Do you understand the insanity of how much expertise-required that takes right off your shoulders? What if you took on a rehab yourself? Are you skilled enough to go into a random property right now and have any clue on where to even start? Even if you know what you are doing, how much are you going to pay for supplies compared to the turnkey providers? Way more! Why? You wouldn't be buying in bulk like they are. Never mind the work that then has to be done to properly complete a rehab. Do you have the time or energy for that? Then assume the property rehab gets completed, do you have any idea how to be a good landlord? It's harder than you think! Really sit and ponder how much expert stuff is done for you and the skill levels and experience that expert stuff really requires. A lot of knowledge goes into buying an investment property and when you buy a turnkey, all of that knowledge is already in full force for you.

FINANCING

Most investors either pay for turnkey properties with cash or get a mortgage. The mortgage you can get on these properties is just like a normal mortgage, but it would be specific that the property is an investment property which will trigger a higher down payment than an owner-occupied home. Typically single-family homes will require 20% down (depending on your own qualifications) and multi-families will usually require 25% down. Private financing is also available on a lot of turnkey properties. Hard money loans aren't practical for this type of property because those loans are usually for much shorter terms, and turnkeys are buy-and-hold properties so you'd need a longer term loan with lower interest rates than what is usually offered with hard money. In addition, know that FHA and VA loans will not work on investment properties

Because you are certain to ask, no, turnkey providers typically don't negotiate on price. They have so many buyers already, many paying cash, that they have no reason to lower their price. The good turnkey providers are not known for gouging buyers anyway, and the returns are already good, so just go with it (remember: the path of least resistance). Plus, what you won't see is that a lot of price negotiating has already happened before the list price is presented, especially if a promoter is involved and acts as your advocate.

So now you know about the turnkey industry in general, let's buy a turnkey!

SO NOW YOU KNOW ABOUT THE TURNKEY INDUSTRY IN GENERAL, LET'S BUY A TURNKEY!

CHAPTER 2

BUYING A TURNKEY RENTAL PROPERTY

HOW DO YOU DECIDE WHICH MARKET TO BUY IN?

As suggested already, your market choices will be partially restricted for buying a turnkey (at least for buying from the bigger providers) because turnkey providers are only in so many markets. They are typically only in the most popular investor markets for the reasons already discussed. Be aware though that just because a market is “popular” doesn’t mean you should just jump in. Be selective and understand the market you are buying into. Every market will offer something different.

The big consideration to look at first is risk. How risky is a particular market? All of the markets that turnkey providers are in will offer a different risk level.

RISK LEVEL

For the lowest possible risk, choose a strong, growing market with a lot of solid industry and an increasing population trend. The trade-off is you may have to pay more for properties and earn a lower cash flow every month, but your risk will be less.

Higher-risk markets are likely to have a historically declining population trend, have more unsafe neighborhoods, contain older properties, and/or generally have a lower quality population. These markets are likely to advertise higher returns than the higher quality markets which is often what appeals to investors.

A big note here is that you should always understand that what returns are expected on paper could be very different than what reality is. This is often the case with the latter case above, the higher-risk markets showing better returns on properties. It is very possible to get those high returns, yes, but there are a lot of factors about lower-quality areas with cheaper homes that can wreak havoc on the actual returns that you see. Low-quality tenants can do a lot of unanticipated damage to your property, vacancies may be higher, eviction costs get annoying, appliances can get stolen, and a lot of general fuss. If you decide to buy a cheaper property in a lower-quality neighborhood, that is fine but make sure you understand the ins and outs of managing that kind of property or you really are putting your investment at risk.

That is why the term “advertised higher returns” is used so you are reminded that anticipated returns on paper don’t always carry through into reality. The same can happen with higher-end properties, there is just less chance of it there. So what do you look at in determining where on the risk spectrum a particular market is?

» THINGS TO CONSIDER IN A MARKET:

POPULATION TRENDS **The population trend of a market is usually directly proportional to the direction the market is moving. If the population is increasing, the market is likely growing. If the population is shrinking, the market is likely declining.** So population trends affect some big things for an investment property. One is exit strategy. If no one is moving to the market where your property is, who will you ever sell it to later? Another is tenants. If the population continues declining, you are likely to experience more vacancies and/or lower-quality tenants. Lastly, if you are hoping for appreciation, you are unlikely to see it in a declining market. In general, a declining population increases your risk dramatically. An increasing population, on the other hand, means people want to move there which gives you more options for exit strategy, tenants, and appreciation potential.

INDUSTRY How many major industries are in the market? The more, the merrier. Think about a lot of the Michigan cities when the automobile industry got laid out. The automobile industry was the only major industry in a lot of those cities and losing that industry nearly bankrupted a lot of them, and actually did with some. There is no guarantee that any one industry will make it, so if you invest in a market with multiple big industries, you lessen your risk because if one major industry tanks, the city has enough others to keep the city afloat.

JOBS The more industries in a market, the more jobs will continue to be created, which means the more people will continue to move to that city, meaning all the benefits mentioned before of an increasing population.

RETIREES It’s not bad by any means if retirees aren’t moving to a particular market, but if there is a market that retirees tend to flock to, it’s a suggestion that the market is desirable and people want to move there. Therefore, better upside potential for population increases, appreciation, and exit strategy.

LANDLORD-FRIENDLY VS. TENANT-FRIENDLY Different states have different rules regarding tenants’ rights for rental properties. In some states, the “tenant-friendly” states, tenants have a significant amount of rights to the property they are renting. This can be a problem for an owner (you) because should you get a bad tenant, you could get stuck not being able to get that tenant out of the house in any decent amount of time. This can cost a fortune in expenses.

“Landlord-friendly” states give tenants much fewer rights and are more advantageous for investors because the time to get rid of a bad tenant is significantly less and with significantly less cost. A state being “tenant-friendly” isn’t necessarily a deal-breaker, but it’s something to be aware of.

Not all information about markets is as easy to find or understand as you think it should be. A lot of why the reality of different markets isn’t always written down anywhere and the things that are written down can be misleading in context and can send people looking in the wrong directions. The best way to get the most accurate information is to consult with market experts. You are welcome to ask Hipster for some names of experts you can talk to in order to get a clearer picture on the benefits and differences between all of the markets. ***Email Us!***

PRICE-TO-RENT RATIO

There is one thing that all of the markets turnkey providers are in have in common. Pay attention, this is important. Without this one thing, all of the considerations above become totally irrelevant.

The one thing all investor-friendly markets have in common is a *good price-to-rent ratio.*

What does that mean? There is a really technical definition if you look up the term online, but here’s an easy breakdown so it’s easy to understand. ***The price-to-rent ratio compares the price to buy a house compared to the cost to rent the same house.*** This ratio is essential! It’s used mostly for determining whether it is more advantageous to buy a house in a particular market or to rent. For the purpose of buying rental properties, it’s more of a measurement of whether or not the rents you can collect on a property are high enough to cover the cost of purchasing that property, as well as the costs to maintain it and, hello, you want a little extra leftover so you actually get a profit. If the price-to-rent ratio on your property doesn’t work, you will consistently lose money every month.

Here is an example of differing price-to-rent ratios:

- An Atlanta property that rents for $1100/month can be purchased for $95,000.
- A Los Angeles property that rents for $1100/month would probably have to be purchased for at least $300,000 or more.

You can already see the difference in purchase prices (huge). If you run those numbers, the Atlanta rent will easily cover the mortgage and expenses and then still leave some extra in your pocket each month. The Los Angeles property rent, however, will doubtfully even cover the mortgage each month much less any of the expenses. See the difference between the two? They bring in the same amount in rent but the purchase prices are drastically different. That difference is the price-to-rent ratios.

One thing to remember too is that just because the price-to-rent ratios of a broad market ("macro-market") are favorable for investors, it doesn't mean the price-to-rent ratios of each localized area in that market ("micro-market") are good for investors. The most advantageous markets for investors are select micro-markets within the broader macro-markets. For instance, don't expect to buy a profitable rental property in the most elite neighborhood in the city because guaranteed the price-to-rent ratio will be horrible (plus who rents those types of houses anyway?).

What if you find a few different markets that fit both the growth and price-to-rent qualifications? Then how do you choose? Check out: [Which Market Should You Buy In?]

APPRAISALS

Finally, there is one other consideration when choosing a market that you must be aware of, although this one isn't a determiner of a market being good or bad to buy in but rather it's just something to think about. *Appraisals.* What is an appraisal? An appraisal is a valuation (or value) that is given to a property. Appraisals only matter if you are financing. If you are financing your purchase, your lender wants to make sure they aren't screwing themselves by loaning you more money than the property is worth.

To confirm [in theory] the property is a good deal, the lender hires a professional appraiser to go out to the property and do a full assessment of the property, including recent sales prices of comparable properties. Based on that assessment, the appraiser will give his opinion (and yes, use of the word "opinion" was intentional there) on what the property is worth. He will report that value back to the lender and one of two things will happen:

1. **The appraised value is at or above what you are buying the property for, or**

2. **The appraised value is below what you are buying it for.**

In scenario #1, you don't have to do anything and you can proceed with the purchase. In scenario #2 however, you don't get off as easy. If the appraised value is lower than what you are buying the property for, you will be required to make up the difference of those two amounts, in cash. This is on top of whatever cash you are already putting in as a down payment. So for instance if you are buying a property for $100,000 and it appraises for $90,000, you will be required to put an extra $10,000 (the difference between $100,000 and $90,000) down on the property on top of the required down payment. The good news is, if you do have the cash available to make up the difference, this can actually be a cool thing. If you put the extra money down, you are lowering the actual loan value which means your monthly payment will be lower, meaning your cash flow will be higher, and you will be paying less interest over time. Yes, not as much leveraging, but still more money. The bad news about it is you have to put more money in. The bad news about that is if you don't have that much extra to put in. At that point, you might be out of luck. If the seller didn't put an appraisal contingency into the sales contract, you might be S-O-L and lose the house (and possibly your earnest money). Some sellers will put an appraisal contingency in the contract that says if the appraisal comes in lower than a certain % of the purchase price, they'll let you off the hook.

Don't stress too much right away about the possibility of a low appraisal. First talk to the turnkey provider and ask him how the appraisals have been coming in recently. He will tell you if you need to be worried about a low appraisal or not. Don't worry about the turnkey provider trying to finagle the truth about the appraisals either because rest assured, they more than anyone want to know if you won't be able to afford a low appraisal because they'd rather give the property to another buyer who can afford it and save the hassle.

If you are worried about why an appraisal would come in lower than the purchase price, don't be. Take a deep breath and check out: Understanding Appraisals

The reason for this rant about appraisals is to tell you to be aware that some markets notoriously produce low appraisals more so than others. Assuming you are financing and want to keep how much you have to put down minimal, whether just out of preference or because you are limited on cash, you'll want to know which markets are more likely to get a good appraisal.

THE ACTUAL BUYING PROCESS

Okay, how do you buy one of these bad boys? What's the process?

1. RESERVING A TURNKEY PROPERTY

2. SALES CONTRACT AND EARNEST MONEY

3. DUE DILIGENCE PERIOD

4. CLOSING ON THE PROPERTY

» STEP ONE: RESERVING A TURNKEY PROPERTY

How this works can vary slightly depending on who you are working through. There may be an online reservation form if the property is listed online and if not, tell the seller you want the property you want and ask the next step to claim it. **Remember, reserving a property does not signal full obligation to go through with buying it.** You still have plenty of time later to go over the sales contract, ask questions, conduct more due diligence, get a property inspection, and secure financing. If for any reason any of those things don't check out or you don't like something, you have every right to bail on the property with no repercussions (assuming you decide within the specified due diligence period), so don't worry about putting in a reservation. You aren't locked for life into anything.

Since the reservation doesn't force the sale, if you really do think you might want a particular property, go ahead and reserve it. Turnkeys can go very fast and reserving the one you want is the only way to hold it from getting sold to another investor. Although on that same note, don't just constantly keep reserving properties you aren't that serious about. It annoys everyone involved. If you are serious though, reserve it or you risk losing it.

» STEP TWO: SALES CONTRACT AND EARNEST MONEY

Once you reserve the property, the turnkey provider will send you a sales contract for you to review and he will also attach wiring instructions to use for sending your earnest money.

The sales contract you receive will be a standard contract used on all their properties with the specific information about you and your property filled in. A lot of turnkey providers even use a state-specific standard real estate transaction form, which is nice for not having to worry as much about the legality of the jargon in it. Don't worry if you see hand-written lines or marks through any of it; those just mark out irrelevant information that comes standard on the contract that isn't applicable to you for whatever reason. As with any document during this process, you can hire a lawyer but be very selective in who you hire. Lawyers can tell you all day long they have knowledge in certain areas but verify they really do have (recent) real estate investing experience and knowledge. When they have that experience they know better what they are looking for and won't naively turn you away from a great property when there wasn't really a problem. Lawyers are not required during any part of the turnkey buying process, however, it is up to you as to whether you want to hire one or not. Should you have any questions about the sales contract though, don't hold back on asking those either to the seller, the promoter, or anyone else who is helping you (even the Hipster folks!).

Along with the sales contract comes the requirement for earnest money. Earnest money is like a down payment to officially hold the property. **The earnest money you put down goes towards the purchase price, it is not in addition to it, and it is fully refundable should you decide during the due diligence period that you no longer want the property.** Earnest money is typically $5,000 but the amount may vary between the sellers. It is (or should be) held by a third-party escrow company, rather than the seller so there is no risky business associated with giving that money out.

» STEP THREE: DUE DILIGENCE PERIOD

The absolute most important thing to do during the due diligence period, which is a specified amount of time defined in the sales contract, is exactly what the name implies—due diligence. **It is up to you to decide whether buying the property is a smart move or not.** Understand that when buying a turnkey property, or any investment property, there is very little about the whole thing that you can't check up on and verify. And by that I mean—Is the property legit and a good one? Is the location and/or market a good one? The due diligence period is your time to look into all of this and do your best at verifying what you can about the purchase. It can sound overwhelming with how much you may need to check up on but it is very manageable, promise.

Keep in mind: your first time through the buying process will always be the hardest just because you aren't familiar with what to look for and verify, but once you go through it the first time it will be like second nature to you for subsequent purchases.

You are more than welcome to not do any due diligence if that's your preference, but at that point you officially lose any right to go crying to someone later if something is wrong with your property or your investment.

Basic due diligence tasks include, but are not limited to:

- Confirming the numbers on the property*
- Asking for references from the turnkey provider and/or promoter
- Comparing things you are told to what you've heard elsewhere (sounds dumb but it helps)
- Listening to yourself and deciding if everything makes sense, to the best of your ability (same about sounding dumb)

- Visiting the market and touring the properties offered by the turnkey provider
- Having an additional person look over the sales contract and asking any questions you have about any part of it
- Hiring a 3rd party inspector to conduct a thorough property inspection*
- Requesting comparables in the area to know if the rents being charged are realistic
- Talking in detail with the property managers
- Looking over the tenant leases
- Getting title insurance (your lender will take care of this if you are financing)
- Discussing any questions or concerns with Hipster*

*If you do nothing else in this list, do these things (personal recommendation). Everything in this list is optional, but be smart. There is no reason to not do most of it. Of course something like visiting the market may be out of scope, but most things on there are easy to do so why not just do them?

For an extensive list of due diligence items that should be done if you're purchasing a turnkey rental property, check out our eBook: Due Diligence on a Turnkey Property

PROPERTY INSPECTION

A major task in those due diligence options is the property inspection. As with general due diligence, you are more than welcome to forego the property inspection, but let's be honest: don't be stupid. Don't ever buy a property of any kind without getting an inspection.

Whatever repairs need to be done to the property *before* you buy it are financially on the seller. Whatever repairs need to be done to the property *after* you buy it are financially on you.

The last thing you want to do is find out something major was missed in the rehab and because you didn't know about it before you bought the property, you now have to fix it, paying for it out of your own pocket. Hello, cash-flow buzzkill. Or less costly but still annoying, paying out of your own pocket for small repairs that were missed during the rehab. Turnkey providers aren't perfect, nor are their rehabs. There will almost always be minor things that need to be touched up to truly complete a rehab. Sellers expect there to be, so they won't be offended if you ask them to fix those things.

Here's the standard process of handling the property inspection and consequential repairs:

1. Hire the inspector. You can find one on your own through Yelp or by asking people for recommendations, or you can ask the provider to give you an idea on where to start.

2. When he is done with the inspection he will submit an inspection report to you with his findings. **Don't freak out if there are things wrong with the property!** Anything wrong with the property at this juncture doesn't matter yet. There shouldn't be anything drastic in the report, but even if there is, don't panic. It is completely standard that there will be items that come up in the property inspection. It's the whole point of the inspection.

3. Using the report as guidance, construct a repair request list to submit to the seller. Don't be shy on this! List out every single thing the inspector found, even if it's something tiny. You are buying a turnkey house, which should be fully rehabbed, so there is no reason to not request perfection

4. The seller will agree to the items he's cool with fixing and let you know if any of the items won't or can't be fixed and why. He will then put the items he agrees to fix into an addendum that will be attached to your sales contract. This addendum says that he is agreeing to fix all of those items (they will be listed out specifically) as a contingency of closing.

5. It is at this point you can make your first decision as to whether you want to stick with the property or not. If the seller says he is going to fix everything you asked for, give him the chance to do so, even if you don't think it's feasible that he can. You'd be surprised.

6. After those repairs are made, this is next chance to decide if you want to stay with the property because you can see whether or not those repairs were made in full. The seller will submit either pictures or videos or other proof of the repairs to you so you can confirm all the repairs are done. Make sure this happens before closing. Again, any repairs after closing are on your dime and nobody wants that. You can have the property re-inspected if you are more comfortable with that as well.

Whatever you do, don't bail out on a property after the initial inspection! If you don't like the look of things, give the seller a chance to fix everything before you tell him to jump off a cliff. If he doesn't agree to fix anything that you see as critical or if he doesn't fix it to your standards, you can let the property go then.

Remember! The minute you have a signed sales contract, get an inspection scheduled. You only have so long in your due diligence period so you want to get an inspector out as soon as possible so you have ample time to talk to the seller about any repairs needing to be done. If you go under contract on a property before the construction on it is complete, which is common, the due diligence and inspection period will start immediately after the construction is completed so get an inspection set up then, not before.

FINANCING

Another major thing you will be doing during the due diligence period, if you are financing, is staying in touch with your lender. **Make sure you are working with an investor-friendly lender.** Don't use any of the big banks because they will likely kill the whole deal for you just because they don't work with investment properties often enough to have any idea what they are talking about when it comes to them. Investor-friendly lenders know the ropes and can make it happen, and they are also great at helping you strategize on how to build a real estate portfolio as best as possible using leveraging.

To start, you will be filling out more paperwork than you can imagine. The lender will ask you about three times to confirm everything but your first name, of which he'll ask you four times. The lending process these days is repulsive so be ready for it — just keep yourself focused on your goals!

Your closing date will be in the hands of the lender because they have a certain process they have to go through and that can take some time. **Staying on top of your lender and keeping tabs on where they are in the process is critical.** Lenders are typically in no hurry to loan money so they won't lose sleep at night if they keep pushing your closing date out, so pay attention and get on them if necessary. The lender will also be ordering the appraisal during this time, but don't worry, they handle all of that so you don't have to worry about scheduling or anything.

» STEP FOUR: CLOSE ON THE PROPERTY

Closing on a property means: buying it! Sign on the dotted line and make it yours. **You've done all your due diligence, the house is in tip-top shape, and you're ready to sign ~~your life away~~ for your property.**

If you are paying cash for the property, you can close on it as soon as your due diligence is done. The seller will give you instructions on how to get and sign the paperwork, where and with who present.

If you are financing, your lender will instruct you through the process. The lender will overnight all of the closing documents to you in a fancy envelope. Consider yourself warned—it is possible lenders assume you need practice signing your name because they will give you so many papers to sign that you will want to saw your hand off. A notary will be required for signing the papers but the lender will instruct you on this part too. They will either have you take the packet of papers to a notary of your choice or they will schedule a notary to come to your house. A lot of lenders prefer scheduling the notary themselves. All of this will be done when the lender says they are ready on their end to close on the property.

Once you sign the papers, BAM! You are a real estate investor. Congratulations! Welcome to the rather exclusive, yet way cool and very hip, club of turnkey owners. The coolest thing about buying a turnkey property is you will be making money from the minute you close on the property. Do-it-yourself properties often force a lag on when you get to start collecting income because of everything you have to do on the properties, so in this regard turnkeys definitely pose an advantage.

» SUMMING UP THE BUYING PROCESS:

1. Reserve the property you like

2. Sign the sales contract and send in your earnest money

3. Do your due diligence

4. Close on the property

5. Tell Hipster how pumped you are! Email us!

CHAPTER 3

OWNING A TURNKEY RENTAL PROPERTY

While you're basking in the glow of easy and passive income, you'll see that owning a turnkey is no different than owning any other rental property. ***Turnkey is only a method of buying a rental property, not of owning a rental property, so all standard rental property ownership guidelines pertain once you own it.***

PROPERTY MANAGEMENT

There is no feasible way (without being completely obnoxious about it) to truly convey the criticality of having good property management. Property management refers to either yourself, if you decide to be the landlord, or a property manager you have hired. Since the focus here is turnkey properties, it is assumed you are using a property manager.

A well-to-do investor/developer in the past once said,

"I would rather own an average property with an excellent property manager than an excellent property with an average property manager."

This statement could not be more true. Good property management is a rental property owner's best friend.

Turnkeys are great for property management because good property management is crucial for their business model to succeed. Real estate investors rarely just buy one property, they tend to buy a few or several. So if an investor buys a turnkey from a particular provider and the property management is bad, that investor will never buy from the turnkey provider again, which is bad for their business. So more than most property management companies, the ones tied in with the turnkey providers tend to be a lot better than others and you should feel fairly competent about having these guys manage your property.

There is a lot that goes into what makes a good or bad property manager. For more details on this, or if you are concerned about your current property manager or one you are thinking about working with, contact us at Hipster and we can talk in more detail about it **Email Us!**

TAX BENEFITS

One of the biggest financial benefits to owning rental properties is the tax benefits. Hooray! If done correctly the income you earn on your rental properties essentially becomes tax-free, which doesn't sound that exciting or hip, but that can be a lot of extra money in your pocket! The reason the income may become tax-free is because all the write-offs you can put on your taxes balances out what you would normally have to pay in taxes on the rental income you receive. You may even get additional profits on top of that. Aside from writing-off all of the more obvious expenses, which includes things like: travel, repairs, mortgage interest, and maybe even some home office space, you also get to write off a less obvious expense, which is *depreciation*. This is a big one! Real property is considered a depreciating asset, meaning that your property will experience wear as time goes on. The government allows you to write-off the assumed expense of that wear. Woot!

Now add to that—rental properties are one of the few investments considered to not only be a depreciating asset, but also an appreciating asset at the same time. This is because houses usually appreciate in value allowing you to build equity over time but still experiencing that wear too. Hello, how many streams of income are you up to now with just one property!

Because of the level of tax benefits associated with rental properties, don't skimp out when it comes to hiring a good CPA to handle your tax returns. The CPA you hire needs to have a lot of real estate investor clients, have a lot of (recent) experience with investment properties and should always be updated on the latest changes to the tax laws regarding real estate. Don't be fooled—not all CPAs have this! The cheap tax service that does your best friend's 1040 every year certainly won't cut it when you're a true real estate investor. Even if you try to do your taxes with TurboTax, you are still likely to not get it right. Let the pros do it so you are sure to reap every last penny of the tax benefits you are entitled to as a rental property owner. And using a CPA is another way to practice hands-off investing)!

BUILDING EQUITY

If you finance your rental property, every principle payment you make towards that mortgage will increase the equity you have available in that property to do whatever you want with. **Since you are buying a performing rental property with tenants who are covering your mortgage, you are essentially building free equity!** This can get huge over time because you are not only gaining the equity from the mortgage being paid down but then you also gain additional equity with any appreciation and inflation that happens over time. Once you've built this equity, you can either keep it in savings or, better yet, you can use it to buy more real estate investments so you start snowballing passive income into true financial freedom!

CHAPTER 4

SUMMARY

So what's the deal? Are you super stoked about owning an actual rental property now that you realize how easy it can be? Let's go over some basic things to know, or to remind you, about turnkey rental properties:

- Turnkeys let you make money on day one after you buy! No waiting around for income.
- No, you aren't likely to see a cheaper price if you go directly to the turnkey provider instead of working with a promoter. In fact, promoters are often able to negotiate cheaper prices with the provider themselves and pass that onto you (welcome to being a V.I.P).
- Only hire professionals who have *current* real estate investing experience (lawyers, lenders, accountants, etc.).
- You may see 'guarantees' (rental guarantees or maintenance guarantees) given by turnkey providers. These definitely help with reassurance but do not assume that if a provider does not offer a guarantee that he/she is not credible. In fact, sometimes it's often the other way around.
- Don't worry about what everyone in the process is making. First of all, turnkey providers are running a business. How could they do that if they don't make a profit of some sort? They do a lot of work, they deserve it. Good ones won't gouge you. More importantly, nothing in the whole process matters except for what you are getting for your money. If you get a bangin' awesome rental property that you had to put absolutely no work into it, don't have to stress over, and you are seeing great positive returns… who cares about everyone else?
- **To buy a turnkey property: reserve the property, send in the signed sales contract and earnest money, conduct due diligence, close on the property.**
- You can still work the equity play with turnkeys. If you want to gain appreciation, buy at the beginning stages of a growth market (don't wait or hesitate or you will lose the maximum appreciation benefit!). Some markets are declining, some are stable and typically don't fluctuate one way or another in terms of value, and some markets are growth markets. It's the latter you want to focus on if you want to maximize appreciation.

- You can always change the property management of your property later if you want to. Once you own the property, you are the boss and there is nothing tying you to any one property manager. You are allowed to choose who you want to use. You can even manage it yourself if you really want to, or you can even live in it. Doesn't matter. You 'da boss!
- No matter where or what you buy, the price-to-rent ratio should support a profitable rental property investment.

FINAL THOUGHTS

In some ways, real estate investing has gotten easier since the advent of the internet since there are so many resources and how-to guides available and seemingly infinite networking possibilities. But for the same reasons, real estate investing has almost become harder because it can feel like there is almost too much information available and that information can be insanely difficult to sift through. There's either an annoying guru screaming at you about how you can make $10,000 in your first month of investing if you follow his (or her) program, or there are a gazillion real estate investing blogs that don't quite seem to resonate with you and they leave you more confused than when you started, or there are so many conflicting opinions about the right way to invest that you just throw your white flag up and call it done. Don't let all of that frustrate you. Sifting through everything and figuring out what is right or wrong or fits your goals or doesn't can be difficult, but invest the time to do it and it will pay out dividends later.

Some final thoughts for you to the bank (figuratively or literally, your choice):

Real estate investing is very smart. For several reasons:

- You can earn significantly higher returns on your money than leaving your dollars in a bank account
- You can earn significantly higher returns on your money than leaving your dollars in a bank account
- It's always smart to keep your money in several different places (diversification) for protection from one source or another falling out
- Owning real property offers additional income incentives above the obvious cash flow every month
- Owning real estate is one of the few ways to earn tax-free income

SUMMARY

- Real estate investing can actually be a hedge against inflation (inflation actually benefits rental property owners versus hurting them)
- Passive income is the only way to get you to true financial freedom.
- It’s always smart to keep your money in several different places (diversification) for protection from one source or another falling out
- Owning real property offers additional income incentives above the obvious cash flow every month
- Owning real estate is one of the few ways to earn tax-free income
- Real estate investing can actually be a hedge against inflation (inflation actually benefits rental property owners versus hurting them)
- Passive income is the only way to get you to true financial freedom.

Not only is investing in real estate financially a smart move, but it’s the best move you can make if you truly want lifestyle design—that magical state of being so few people know exists! We only get one life and the whole idea of making it your own has been so far suppressed in society that people don’t even know it’s possible. Once you realize it is possible though, you can start forming everything you do around designing it how you want it.

Okay, time to go rock it out. Are you ready? Ready, set, GO! Hipster is here to support you. Let us know how we can help. Ask questions, share any concerns, or share how pumped you are about buying your first turnkey rental property!

Remember **— TO ACHIEVE TRUE LIFESTYLE DESIGN,
THE MOST IMPORTANT COMPONENT IS FREEDOM.**

Contact Us!

YOU CAN ALSO FIND HIPSTER ALL OVER SOCIAL MEDIA, SO TRACK US DOWN!

ADDITIONAL RESOURCES

FREE DOWNLOADS!

Rental Property Calculator Download Here

7 Rookie Investing Mistakes and How to Avoid Them Download Here

HELPFUL ARTICLES

Calculating numbers

How to Calculate the Numbers on a Rental Property

The Difference in Various Cap Rates on a Rental Property

Understanding Cap Rates and Cash-on-Cash Returns

Property Management

How to Survive Property Management

LLC and Entity Structuring

Should You Put your Properties in an LLC?

Market Advice

How Markets Evolve and When to Buy in Which One

Finding Team Members

Investor-Friendly Lenders

Investor-Friendly Real Estate Agents

Yay for Turnkeys!

Active Income vs. Passive Income

When Having a Property Manager Comes in Handy

ABOUT THE AUTHOR

ALI BOONE

Ali Boone is a lifestyle entrepreneur, business consultant and real estate investor, and has literally defined non-conformity when it comes to her career. Ali left her corporate 9-to-5 job as an Aerospace Engineer, despite the "dream job" status that came with it, to follow her passion for being her own boss and creating true lifestyle design. She did this through real estate investing.

Her own real estate portfolio started with pre-construction investments in Nicaragua and then she moved on to investing in turnkey rental properties in various markets throughout the U.S. She managed to invest in her first five properties in 18 months using primarily creative financing. After starting out as a real estate investor just for herself and her own financial benefit, she went on to create her company *Hipster Investments* which facilitated over $18M in real estate investment sales in its first five years of business. She's written 170 articles for the BiggerPockets website, she's been featured for her writing in Fox Business and The Motley Fool, and she offers hands-on support for new investors and those going through the investing process. She still owns her first turnkey rental properties and she is also a co-owner and the landlord of a local property to her in Venice Beach.

Her primary focuses revolve around passive income and passive investment options, and she is most involved with turnkey rental properties.

In addition to running *Hipster Investments*, she's a pilot and teaches flying and she can often be found snowboarding, hiking, or volunteering in California prisons. Her ultimate goal is to one day challenge Tim Ferriss to a lifestyle design duel.