Announcer:

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Nadeska Alexis:

Hey, I'm Nadeska, and welcome to the final episode of season two of Beginner to Buyer. Beginner to Buyer is powered by Chase Home Lending. You can get helpful tools and resources to buy your first home by visiting beginnertobuyer.com. Last time, we learned about ADUs and how to generate income from your home. Now you might be ready to make the leap to an investment property.

What are the pros and cons, and where do you even begin? Alexis Hart McDowell is here to answer some essential questions about investing in property, but first we're going to hear from a homeowner who's thinking about buying a second home and renting one out as an investment.

Matt Sesateta:

My name is Matt Sesateta. I grew up here in the East Bay in the San Francisco Bay Area, out of near Walnut Creek. We ended up buying a home here a couple years ago in 2019, just before everything kind of went crazy. I work out here. I live out here. I do all my fun stuff in this area, so I'm looking to buy our next home out here as well.

Nadeska Alexis:

That's great. A beautiful area. Definitely a high cost area. It's nice that you were able to buy your first property before things went a little bit crazy. I know you're already looking at your second one, but tell me what that process was like for you buying your first home.

Matt Sesateta:

Yeah, the first one was more difficult than I thought it would be. Prices were high. Myself and a bunch of other people in my situation and life point were saying, "Oh, I'm just going to wait until it cools down, wait until it cools down," and I just saw it kept ramping up. I'm like, ah, I'd rather just take the risk and put money in the market and see what happens, rather than just wait for that hopeful cool off period than everyone's been waiting for for probably a decade now. At that point, I had just transitioned from teaching and realizing that after I got married, I'm like, there's no way I can make a living in the Bay Area on a teacher's salary.

I ended up jumping ship and jumping into the training world in the corporate environment where I had much higher levels of income and much more security in that front. I was able to save. I did make probably a risky and might have been a dumb choice at the time, but I liquidated what was our like 401(k) in the teaching environment called Helpers, for anyone who is a teacher and California, that's just what everybody has. I liquidated it all and threw all that money into my first home so we can close and get property here in the East Bay.

It worked out. I mean, it's gone up considerably since then, but it was definitely very risky. I don't know if I'd advise it for everybody, but if that's the way you have to get in, that's the way you have to get in.

Nadeska Alexis:

Well, look, sometimes you have to take a calculated risk, especially in an area like the Bay Area where property is so expensive. Obviously you made the right decision it seems. What would you say has been the best thing about owning your home?

Matt Sesateta:

I think being able to dream and have fun with it. This is silly and kind of dumb, but even the wall directly in front of me has a mishmash of colors that we put together. My wife and I designed how we wanted our home to look and what we wanted do with the inside. We did buy the space from a flipper, so everything was already aesthetically beautiful, and there were issues that we had to deal with because of just poor choices on the flipper's end. We had a really good chance to dream.

And then eventually a few years ago we got pregnant, or about a year ago we got pregnant, and so we were able to design the baby's room and make that colorful and set up the way we want. I'm just grateful for the opportunity to have a home and really enjoy dreaming in it and making something our own. As opposed to renting, you're always going to have to dovetail back and fix something if you make any changes.

Nadeska Alexis:

Absolutely. I mean, at the point that you and your wife bought, were you looking at that property as your forever home?

Matt Sesateta:

This is definitely a starter home. Because I come from education, I know what the schools are in this area. I know how to evaluate what's good and what's bad. It's not terrible, it's just not optimal. I knew that if we were in for a few years, and hell, for three to five years, then we could sell it and use the funds from this property in our next one.

Nadeska Alexis:

Are you currently just considering buying a new home, or have you already started that process?

Matt Sesateta:

Definitely started the process. It started with just jumping on the Zillow, Redfin, whatever site of your choice, and looking and saying, okay, what's the market like? Where do you see homes popping up? Are they desirable? Can I even see myself in any of these? And just play fantasy world about like, oh, this is what life could be like.

Nadeska Alexis:

Yeah, of course, it's nice to dream. I think browsing those property apps is my favorite. I love it more than social media. As you guys were thinking then about the next home, what did that home actually look like for you? What are the things that you felt would be mandatory for you and your wife and now the new baby?

Matt Sesateta:

We have some requirements based on family needs. We have family members that need a little extra support, whether it's financially or just a place to be for a while. We're looking at square footage. We're looking at number of bedrooms. We're weighing that along with the feeder-patterns in schools and where our kid's going to end up. I know there's some concessions that I have to make just to be realistic with the budget and what we can afford. The prices of homes right now, especially in this area, are just so considerably high.

Even a very, very good budget doesn't buy as much as I thought it would when I started this process. Right now I'm looking at, okay, what square feet? How many rooms can we afford, because we might have to bring in family members or whatnot? But I'm waiting against, okay, maybe I can put my kid into a good middle school, or excuse me, a good elementary school. But if the middle and high school aren't that great or maybe are lower rank than other schools in this area, at least have that time to get into a second property and let it grow.

And then by the time the kid is sixth grade, then we'll reevaluate and look at what homes can we buy in better middle schools and better high schools. I know I'm thinking super far ahead, but those are all the things I'm kind of weighing now as we look at our next opportunity.

Nadeska Alexis:

I think when it comes to purchasing homes, it really pays to look that far ahead. It gives you more options in the long-term. Since you first started looking and then realized that maybe you should have gotten you said the pre-qualifications first, have you reached out to a lender? Have you been able to really assess your financials now, especially with the new job, to see what's realistic for you?

Matt Sesateta:

We have. I did a lot of homework there and just spoke with a lot of different lenders, partly because I'm a big fan of getting multiple quotes and multiple bids and identifying who I like working with, who's responsive versus who might be a little too pushy and too responsive, if I may.

Nadeska Alexis:

I mean, unlike being a first time buyer, owning a property means that you have either some equity or you have the option to sell for a profit hopefully, especially in a market like yours, or you could hold that property and potentially rent it. What are you guys considering as you're looking at a new home?

Matt Sesateta:

Considering all those. In the perfect world, own property in the Bay Area and never sell it. My goal is to hold onto the property for as long as possible. But now with prices being so high and everything being walking in the market, it's hard to know which way things are going to swing. We do see some cooling off, homes that maybe went for a million are going for 970. Not a huge cool off, but it's definitely not jumping like it has been the last six months to nine months.

Right now we're evaluating what's best for us. Should we sell and get something that's two steps above where we're at now, or should we hold and just get something that's maybe a baby step but in a better district or has more square feet than what we have today?

Nadeska Alexis:

Let's say you did end up just holding and deciding to rent the property. Have you thought about what it would be like to be a landlord?

Matt Sesateta:

Yeah, I have. Because we have a eight-month-old son, hopefully you guys can't hear him crying in the background here, but we have an eight-month-old, my job is great, but definitely takes a lot out of me, I've realized that it's better just to lose the two to $300 and hire property manager and let them manage challenges and issues and communication between renters versus just pocket that money and have maybe two or $3,000 more in the year.

Right now I'm looking at, okay, if we hold this place and rent it out, I'm just going to hire a property manager and let them deal with it. Partly because I've heard nightmare stories about people just wanting to complain about non-problems, things that are outside of the control as the landlord. It's like, do I really want to deal with that headache? Not really.

Nadeska Alexis:

Sounds pretty smart. You have a lot on your plate. My daughter is also about eight months and my husband and I are dealing with the same issues right now where he's our handyman/property manager and it just never seems to end. The next thing I guess, if you are going to hire a property manager, which sounds great, is then finding the right person and vetting the right person. Is that also something that you're keeping in mind right now?

Matt Sesateta:

Yeah, I can't say I've really crossed that bridge yet because I'm just not sure which way we're going to swing. I'm still like, okay, maybe we'll rent it to our family members for a generous amount or a healthy amount.

Nadeska Alexis:

As you're navigating all of these issues and your choices, I'm sure obviously you and your wife are leaning on each other for support here, but do you feel like you have other resources that you can take a lot of these questions or concerns too?

Matt Sesateta:

Yeah, I feel like I picked a really good loan officer. He's somebody that I worked with on our first property, and I probably should have utilized him earlier on before I started going to all these other people and getting other bids, but hindsight 2020. I feel like he's somebody I can go to and just pick his brain on. Hey, how do we approach this? What do we do here? He's very transparent and will say, "Ah, I don't really know." It sounds like more of a conversation to have with your real estate agent.

Nadeska Alexis:

He's been able to give you good input in terms of keeping your current home as an investment property, right? Because I'm sure as you're looking into your entire financials to budget for the new home, that's something that he could also consider. Has that been very helpful for you?

Matt Sesateta:

Yeah, yeah. I think the guy I work with, he's been good at like, hey, here are your options, but not pointing me in any direction. Very neutral. Go ahead and pick what you think is best for your family, but here are the consequences of each one. I think that approach is helpful for me because I'm new to this. I don't know what I'm doing. Part of it is I want to be told what to do because it's easier than making my own decision and making it with my wife and I and agreeing and taking that risk.

Nadeska Alexis:

Absolutely. You definitely have to make that big decision on your own sometimes, but with a lot of knowledge and input. That's really the point of this podcast. We have a lot of experts in this field and they're here to offer their advice to homeowners and buyers like you. I'm wondering, are there any questions that you still have lingering that I can maybe take to some of our experts to help you out?

Matt Sesateta:

Yeah, I'd love to know... I know nobody's a prophet. Nobody can look into the future and look at a crystal ball and just figure out what's going to happen. But I know with federal rates rising and that having direct impact, but definitely a correlated impact on prices and interest rates of homes, I'm hesitant now as much as I want to buy and move into our next property to help out the family, as well as find a good school for my son, I'm hesitant because I don't know if this is a good time.

I feel like anytime is not a good time because it's always going to cool, it's always going to get better, or at least there's always that hope that it'll get better. But now with interest rates rising, I can feel like, ooh, if I buy now, am I buying at the height? But I think everybody feels like, oh, if I buy now, I'm buying at the height. I felt that way in 2019 when we closed on our home, but now it's gone up considerably. It's like, oh, was that the height or is this the height? It's just a challenging situation to be in.

I'd love to hear expert thoughts on that age-old question, when is the right time to buy and how do I know it's right for me and my situation?

Nadeska Alexis:

Okay, great. And then in terms of keeping your first home as an investment property, do you have any questions specific to that?

Matt Sesateta:

I'm in California, so I know that the laws are in favor of renters. As a former renter myself and always growing up in rented apartments and condos and whatnot, I can feel good about that and feel like, oh yeah, absolutely, save the renters, support them. But then now that I'm on the flip side and it's me renting my property, we put a lot of money, time, sweat, energy. We fixed a lot of mistakes in this home that the previous flipper had done poorly just to shortcut and get it sold. I'm hesitant to rent to somebody who's just not going to take any pride in the property and just let it come to ruin.

I think that's a big concern of mine is, how do vet the right renter? What can you put in place to make sure that your property's taken care of? I know I've heard of quarterly or annual check-ins where the landlord or maybe the person who manages the property comes as a walkthrough. I don't know if that's even legal or even a good idea, but I'd love to know how do you just maintain your home even if you're no longer living in it.

Nadeska Alexis:

I'm going to take these questions to our experts and come back with some great feedback for you. Thanks so much.

Matt Sesateta:

Great. Thanks for your time.

Nadeska Alexis:

Lots and lots to learn about buying and managing an investment property. It seems like Matt is really thinking through all of the pros and cons before making such a big decision. Now, let's dig deeper into some of those pros and cons with Alexis Hart McDowell, who you might remember from season one of Beginner to Buyer.

Alexis Hart McDowell:

Thank you for having me back again.

Nadeska Alexis:

To start from the very beginning, what are some of the big things that you should really consider if you're thinking about owning an investment property?

Alexis Hart McDowell:

One of the big things that you want to consider is, what is your risk tolerance level? It's not the most popular thing or even the first thing that comes to people's mind, but it is absolutely something that has to be considered. Your risk tolerance level tells you what you can afford to lose at any given point and still be financially all right and have enough money remaining to invest in another property. What that means is that I have $20,000. What is my risk tolerance level? Can I go and get something worth $500,000?

Or maybe I'm intergenerational and I'm taking care of older parents as well. Can I afford something that's $700,000? There's several factors that go into that. You definitely want to take stock of your risk tolerance level. The other thing that you want to take note of is, what is the purpose of this investment property? Is this just a vacation home for you and your family, or are you looking for a rental property? Do you want a short-term rental property like a flip, or do you want something long-term so that you can get that rental income?

The next thing you would want to consider is your price. First and foremost, can you afford it? I'm not just talking about the purchase price and the down payment, but all the expenses that go along with owning a property, like utilities, taxes, a property manager, vacancies, capital expenditures, all of those things matter. There's several things to consider when you're thinking about having an investment property.

Nadeska Alexis:

Thank you. That's already quite an extensive list of things to consider to start with. You mentioned some of them already, but I would love to get a little bit more into this. What are the different types of investment properties? You could have multifamily units. Like you mentioned, some people, they have a second home or a vacation home that they rent out part-time. Tell me some of the most common ones.

Alexis Hart McDowell:

The most common ones, as you mentioned, are multifamily rentals, vacation rentals, and people even renting out their single family homes. But I think some of the ones that people don't think about are, for example, vacant land, commercial properties. You've got things like renting out your existing space. People rent out rooms. Hello? Have you been to New York?

You rent parking spots, storage spaces. You've got hard money loans, tax liens, real estate notes, mutual funds, REITs. I mean, the list goes on and on and on. You really have to know what you believe is going to work for you and your investment style, but there is a variety of ways to invest in real estate out here.

Nadeska Alexis:

It's figuring out the right kind of investment property for you. And then of course, there are a few things like you mentioned that go into figuring out if you can afford it, including your budget, and there are things like rental laws. Starting with the budget, do you have to budget much differently for a rental property versus for your primary home?

Alexis Hart McDowell:

I would say absolutely yes. Well, most of the things will be similar to your primary home as far as property insurance, property taxes, capital expenditures, for example, if you need a new roof, if you need new electrical, plumbing, those are all expenses, right? But things that may not happen with your personal home that you will need with a rental property in some cases is property manager. How much much are they going to charge? You may have to have additional insurance on that home, landlord insurance.

You may have assessments if you've got a condo and you're renting that out. There may be some additional charges such as PMI, depending upon the type of mortgage that you have on the rental property. There are a few additional expenditures with a rental property that are not associated with your primary residence.

Nadeska Alexis:

Absolutely. And then something to consider, not the most exciting thing, but a very important thing is also rental laws. Of course, those vary by state and by city, but how much do rental laws impact your property investment?

Alexis Hart McDowell:

How much time do you have? Because as a real estate lawyer and just coming out of this pandemic, well, we saw a nationwide moratorium on evictions. Honey, I can tell you about some rental laws impacting investment property. First and foremost, as you mentioned, every area, state, county, city, municipality, they may have more landlord friendly or more tenant friendly areas.

The laws govern practically everything dealing with your rental property, from how you can advertise your property, property maintenance. Nobody wants to be a slum lord. Here in Chicago, and I'm sure in New York, we have laws on when you have to turn the heat on and what temperature it has to be. Additionally, the eviction timeline varies from state to state.

Nadeska Alexis:

Absolutely. All of the things that you just mentioned, these things can intimidate a lot of first time buyers who are considering an investment property. But again, it's just part of doing your due diligence. This is why a lawyer, someone like yourself, can be really, really helpful there. Actually, at which point in the process do I want to involve a lawyer to really help me with the legal details of renting a property?

Alexis Hart McDowell:

I am biased as a real estate attorney who looks out for clients who are real estate investors and being a real estate investor myself. An attorney is always a good idea. Why is it? Because it's the one and only person that you are paying whose job is to look out for your best legal interest. The other buyer's counsel is not, the seller's counsel is not your attorney. The title company is not your attorney. The municipality is not your attorney. You have the one person looking out for you, and their job is to help you with that due diligence.

They can look for violations on the property, liens, make sure the title is clear, make sure the deed is correct. They can help you with that renter due diligence. Make sure that you have copies of leases, estoppel letters, rental receipts, making sure security deposits are transferred correctly in accordance to the law. There are so many things that a good, experienced real estate attorney can help you with and keep you out of trouble. Not just legal trouble, but financial trouble as well.

Nadeska Alexis:

All the trouble that you want to avoid essentially. Now, Alexis, as you mentioned, I think with any good investment, you need to weigh the risk versus reward, and there's always going to be pros and cons. You really have to find the right balance. I'd love to go through some of those pros and cons with you. Let's start with the positive. What are some of the pros of owning investment property?

Alexis Hart McDowell:

One of the biggest pros is everybody's favorite word, cash. People want to have cash flow. There's a couple of different ways that you can look at your investment property. One of them is cash flow, having that rental income.

Nadeska Alexis:

Of course, there's some risk and there are always going to be some cons. Tell us a little bit about some of those.

Alexis Hart McDowell:

Well, contrary to the pros is loss of income. You could very much buy an investment property where it doesn't cash flow, meaning your rents are less than the mortgage that you're paying on it, or you could buy a piece of property and it has no appreciation, or you can end up in a market where it just doesn't appreciate, right? Another thing is bad tenants. Whew! We can all recount stories of having bad or hearing stories of bad tenants. That's definitely a con. Number three is a money pit.

Remember that show Money Pit? Well, there are actually buildings like that where something is always going out and you're always spending money to repair or rehab this building. That is definitely a con. And then lastly, if you're trying to flip a property, you can have cost overruns, which could tear up your budget significantly, or you could have designed this property and the market change and it just not sell. Now, you're just stuck with this property that you can't offload. Those are all the different types of cons and a very short list of cons for having an investment property.

Nadeska Alexis:

Can you give us some advice on how to just mitigate some of those?

Alexis Hart McDowell:

Absolutely. Bad tenants, number one, have someone who can do an extensive background check on tenants. I hear from real estate brokers who lease out buildings and they say, hey, number one, go by their current residents. Don't schedule an appointment. Just show up. You need to see how they're living right now because that's how they're going to live in your place. You want to have an extensive background check on them so that you can see how their history has been with other places that they've lived. As far as loss of income goes, you're really going to have to run the numbers.

Those are some of the things that are in your control. You want to make sure that the rental income is proven in that particular area. Don't just guess that you can get 2,500 or $3,000 for rent. Are other people in the area getting that much for rent for the type of building that you want to rent out? And then also, take control of your expenses. If you know that you've got a bad heater or you've got a water issue that is happening, you need to make sure that you're setting aside money for that so that you can handle those repairs and it doesn't significantly impact your bottom line.

Nadeska Alexis:

Thank you. That's really, really helpful. Like you mentioned, you don't want to have a loss of income. There are some things that you can plan for, you can budget. Tell us a little bit as well, some people have heard about this, but they don't necessarily know what it means, tell us about the 2% rule in investing.

Alexis Hart McDowell:

Oh, absolutely. The 2% rule is really not a rule. It's a rule of thumb, I should say, that the rental income from the investment property should be 2% of the purchase price. It's supposed to work in areas where the price of the property has historically been stable and investors aren't looking for long-term appreciation.

There may be some places in Downstate Illinois or other Midwestern cities that the appreciation doesn't happen so quickly, but the rental incomes are good based upon that purchase price. For investors, the key to note for the 2% rule is that the focus is on cash flow, not so much appreciation. I'm going to be honest, most properties do not fall within the 2% rule.

Nadeska Alexis:

Here's another question that's popular from some of our listeners, hoping you could shed some light on this, and of course, there's not always a black and white answer here, but should I keep my first house and buy an investment property, or should I buy a new home and rent out my first?

Alexis Hart McDowell:

Oh, I love this question. I absolutely love it. The answer is it truly depends on your goals, it depends on the market, and it depends on your financial situation. For example, in the back of your mind, you have to remember that a down payment for an investment property is anywhere from 15 to 20%. Whereas if it's your primary residence, it can vary depending upon the type of your loan you have. The other thing you need to consider is can you carry two mortgages if the investment property isn't making money?

Let me give you an example of each. First of all, if you live in a currently hot area, here in Illinois, South Shore, Jackson Park is huge and hot right now. Why? Because the Obama Library is coming and it's going to be a tourist destination. You have plenty of people who want to Airbnb out their current house and find someplace else to live. It makes sense for them to do that. In this next example, you have a child going off to college in another state, so you want to consider purchasing a property in that city as an investment.

In this case, your child is relocating, not you. You can keep your primary residence and purchase an investment property. Both of those are great decisions, but it depends on what your goals are, what that market looks like, and your financial situation. Not everyone can handle a 15 to 20% down payment on a second home or investment property.

Nadeska Alexis:

Absolutely. You mentioned some things in terms of assessing the trajectory of a neighborhood, how it's going to change. Are rents going to increase? Is it a good place to invest? How much research should you be doing to figure out what a neighborhood might look like a year or two from now? I have some friends considering. They're looking at places where they hear big tech companies might be building campuses in the next couple of years, for example.

Alexis Hart McDowell:

You should absolutely do your due diligence on that. Who's coming to town as far as companies and headquarters is a great way to gauge what communities surrounding that headquarters might be a boom area. Where I live in Chicago, 14 years ago I bought here, people were like, "Don't buy here. Don't buy here." Now, it is the hottest area. One of the things that we did when we researched the area, when we knew it was going to be up and coming is because of the other area surrounding it. Hyde Park was a very stable area here in Chicago and had been for decades.

Our downtown was moving and more and more people were moving this direction because of the affordability. You can tell in your city where things are getting priced out and then look at the neighborhoods right next to them, and I guarantee that's where people are going to end up moving. Because once you get priced out of an area, they're just going to move a block or two over where they can afford it, and then they'll start to reap the benefits of that booming area already.

Nadeska Alexis:

That's a good point, and I'm glad you mentioned that when you wanted to buy initially, people told you not to. In real estate and any sort of investing, you never want to make decisions based on emotions. You want to have your facts. You want to do your research. At some point though, you do need to trust your gut after you've done all of that research. How important is foresight when there are people that you trust telling you this is a bad decision?

Alexis Hart McDowell:

Oh, your foresight is everything, and it also goes back to what is it that you're able to handle as far as risk. I was able to handle moving in this area because I knew it was going to be booming, and now I am absolutely reaping the rewards as far as appreciation in my home, the area, everything. But that's what I was able to tolerate at that age. Other people, they need something a little bit more stable.

If you're a senior citizen and you have difficulty getting around. If you've got really, really, really young children, you may need different aspects of a community to be developed for you already. Where I was, married, no kids, we could afford to move over here and weather whatever was coming our way while the community was up and coming.

Nadeska Alexis:

I mean, one of the tools that I think you always need when you own property in terms of weathering anything that may or may not come your way is insurance. Some people are familiar with renter's insurance. If you own a single family home, you have home insurance for you and your family. What kind of insurance do you need on an investment property?

Alexis Hart McDowell:

Oh, such a good question. Insurance varies depending upon the type of investment property that you have. For example, a fix and flip, where you're just fixing it up and flipping it to the next person, you would need builder's risk insurance. That is vitally important for a fix and flip property. If you have a rental property, then you want landlord insurance. Landlord insurance is going to cover damage to that property, and it also can help you if the tenant sues you for something, you want to have insurance for that as well, because we all know how astronomical legal fees can get.

The last one is if you have a vacation home, and this is a type of investment property, depending upon what it is you're doing with your vacation home, you going to want a homeowner's insurance policy that covers the home that you own, but that you don't live in full-time. It's so important that you are upfront, you are clear, and you are honest with the use of your property when sourcing insurance from your insurance provider so that they can give you the right coverage for the type of property that you have.

Nadeska Alexis:

Okay, okay, great. Thank you. That's really, really helpful. While we're on this, definitely insurance is something you don't want to skimp on to save some money. We want to get a little bit deeper into the money conversation with you right now. This one might seem a little bit general, but I think it's always good to be realistic when you're stepping into a new venture.

How much can someone realistically make off a rental property, especially if this is your first one? Are you expecting to make hundreds of thousands your first couple years, or should you have more realistic expectations that you're going to increase those profits gradually?

Alexis Hart McDowell:

It actually depends on the property and how you came about it. There's some people who inherited property with no mortgage, and so they're just cash flowing that thing like a cash cow, because they don't have the purchase price, they didn't have all that insurance issues, they didn't have all of that. They inherited it free and clear. They're just making bank from the beginning. You've got other people who purchased a property, rehabbed it, so they had all of those costs go in there, and now they're renting it out and their goal is a long-term rental.

While they haven't made all of their money back yet, they are cash flowing. And then they know that over time, at five, seven, 10 years, however long they decide to keep the property, they will make their money back that way. Then you have other people who are saying, "Hmm, I'm really going for appreciation. I know that the rental rates are low right now, but I know that this area is going to be booming in the next 10 years.

I'm going to hold it that long and I'm going to make all my money on the sale of the property." It's different ways to look at that rental property and how you want to make your investment return on that property.

Nadeska Alexis:

All right, great. Thank you. You've given so much helpful information, as usual. Before I let you go, I would love if we could sum up for our listeners really the costs that come with owning an investment property. With you, I would like to go through some potential upfront costs, ongoing costs, hidden costs of owning the property, and we'll go through those one by one. Let's start with just the potential upfront cost of owning an investment property.

Alexis Hart McDowell:

All right. The upfront cost, let's talk about the purchase price. That's absolutely a cost, right? You're going to have property taxes and you're going to have, depending upon how you financed it, you may have PMI, which is purchased mortgage insurance or some other insurance depending upon how much money you put down. Definitely those are upfront costs.

Nadeska Alexis:

Cool, the big ones. And now for our ongoing cost, these are things you're going to be expected to deal with for as long as you own that property.

Alexis Hart McDowell:

Property taxes, of course, because only death and taxes is promised. And then we have insurance. We just talked about how important insurance is. That's an ongoing cost. You also are going to have capital expenditures if you need a new roof, plumbing, electrical, new driveway, pavement. Whatever happens in that house and that rental property, that's going to be a capital expenditure.

Another ongoing cost that you may or may not have is a property manager, depending upon where your property is located. Plenty of people manage their own property, others need to outsource that. That could be an ongoing cost as well. And then you have your regular maintenance costs like water, sewer, lawn, garbage, assessments if it's a condo association, all the things that you would typically have if you owned a home.

Nadeska Alexis:

All right. Finally, the most exciting, the hidden costs of owning an investment property.

Alexis Hart McDowell:

I would say one of the hidden costs of owning an investment property is legal expense. Nobody needs a lawyer until you need the lawyer, but you want to make sure that you have something set aside for that. Because when you own a property and someone else is living there, you could be liable for something. If something happens and the roof caves in, while you have insurance for that, they may also decide to sue you.

You want to make sure that you have something set aside for legal fees. That could be a hidden cost as well. And then selling. Once you're ready to sell the property, you're going to have all of the costs associated with transferring that property to the new owner, and that clearly is state and municipality specific on what transfer taxes and fees and things are.

Nadeska Alexis:

All right, Alexis, thank you so much for giving all of this information. These are all things that people really need to seriously consider. Like we mentioned, it's not always the easiest process. But like you said, you're in the business, you own investment property, so I'm guessing that you would advise our listeners that if after doing all of this due diligence, it's definitely worth the effort to own an investment property if they can, right?

Alexis Hart McDowell:

It is absolutely worth owning an investment property to not only build your own wealth, but to build generational wealth as well. Take heed of the information you receive today and don't be afraid. If you find the right investment property for you, jump on it.

Nadeska Alexis:

With that happy thought, I want to thank Alexis Hart McDowell for sharing her expert knowledge with us. We hope we've given you some things to think about over these past 10 episodes, whether you're a first time home buyer or you already own a home. Hopefully you'll use information you learned here to make better and more confident decisions.

And as always, you can learn even more by visiting beginnertobuyer.com and checking out season one of the podcast. Beginner to Buyer was created by Magnet Media and Chase Home Lending. Our executive producers are Ashlei Bobo and Akash Vaswani. Our lead producer is Pamela Lawrence and our media editor is Matthew DiPietro.

Announcer:

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