Answers to the

5 most important questions

asked by real estate investors

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Greetings!

My name is Colin G. Murphy, and I'd like to thank you for downloading this free report.

For those of you who don't know me, I am a full-time investor based in Tampa, Florida who has bought and sold more than $100 million worth of real estate in the US and UK markets, including 350+ fix and flips in the Tampa Bay area between 2015 and 2020.

I have experience in a wide variety of real estate activities, including buying and holding, fixing and flipping, wholesaling, note investing and private lending. I also have experience with tax liens, tax deeds and foreclosure auctions.

In addition to investing full-time, I enjoy podcasting, networking with fellow professionals and creating useful content for those who want to achieve financial freedom before they get too old to enjoy it.

About this report

I've written this report for people who love real estate. Whether you are a seasoned pro or a rookie, I hope you can pick up something useful in this document to accelerate your real estate journey.

Over the years, I have spoken to thousands of buyers, sellers, landlords, property managers, lenders, realtors and contractors. During all those conversations, I have probably asked, and been asked, just about every question you can imagine related to real estate.

For this report, I've done my best to distill all that experience into the five most important questions and answers relevant to real estate investors.

Colin G. Murphy

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QUESTION 1

What are the **best areas and property types** to invest in?

The US is a huge and diverse market, and there are a wide range of locations and property types that would make solid long-term investments.

I invest in multiple US states, but I apply strict rules to them all. Whether I'm wholesaling, flipping, or holding, the properties I purchase almost always meet the following criteria:

- Price: at least 20% below median home prices in that county
- Location: low-density suburban neighborhoods that are at least 50% owner occupied
- Construction: concrete block
- Year: 1970 or newer
- Type: single-family homes or multi-family homes with 2–4 units

Homes that tick these boxes are what I call Goldilocks properties—they are neither too expensive nor too cheap. By adhering to these criteria, you can (a) avoid the excessive repair and tenant management issues associated with lower-income areas, and (b) avoid the lower returns and more sensitive house prices in the higher-income areas.

If you wish to own properties that will naturally have the highest rental and resale demand, then the place to position yourself is slightly below the median. Whether the economy goes up, down or sideways, there will always be demand for properties in this category.

Between 2015 and 2020, I invested in nothing but affordable single-family homes in lower-middle-class areas. My business partners and I renovated more than 350 of them throughout Tampa, Florida.

It wasn't the sexiest part of the market, but it was steady and profitable. It also represents a formula that can be replicated in many towns and cities throughout the country.

QUESTION 2

What **due diligence** should I do before purchasing a home?

One could write an entire book on this subject, but let's just say that you can avoid most mistakes by following some simple steps.

Step 1: Visit the area

I'm always surprised by the number of people who purchase a property from me sight unseen. If you're going to spend a six-figure sum on an investment, why not take 24 hours of your time and spend $1,000 on a flight and hotel?

While it is true that you can do a lot of research online, your best bet is to visit a new location in person before buying anything there. I find that four or five hours is generally enough time to get a feel for the neighborhood, and I don't always need to see the actual house if I'm meeting a seller who buys and renovates many similar homes in a well-defined area.

Step 2: Get it inspected

Getting a full inspection from a licensed third party is vital. Don't ever skip this step to save a few hundred bucks. They will catch stuff that even a professional rehabber is going to miss. They test every appliance, outlet, window, door and faucet. More importantly, they know how to spot potential problems with foundations, roofs, HVAC units, boilers, electrical panels, water heaters and septic tanks. Don't accept the seller's "free" inspection either—always get your own independent one just in case.

Finally, take time to read the inspection report. The main issues are often summarized towards the bottom, and you can (politely) send the relevant ones to the seller and request that they get rectified prior to close.

Step 3: Request an appraisal

Most people purchase rental properties with a conventional loan and will have to pay for an appraisal whether they want one or not. However, I would encourage cash buyers to pay for a professional appraisal as well, to ensure they aren't overpaying.

QUESTION 2

What **due diligence** should I do before purchasing a home?

Step 4: Review photos and videos
With the technology that is available and with the complexities of social distancing, sending a few photos just isn't enough anymore. Any seller can (and should) include a video tour of a home and a sweep of the street outside. Professional services like Matterport virtual tours can also be purchased (for less than $150). Take the time to study those photos and videos carefully.

Step 5: Request referrals from other investors
If you are purchasing a house from a turnkey specialist who is selling a large number of houses to investors, then you should request a list of 3–4 referrals and actually follow up and have conversations with them. **Again, we are talking about a six-figure investment, so spending an hour or two on the phone with people who have already done this in the same area is an excellent use of your time.** Ask about the service before, during and after a purchase, the property management, any unexpected repairs or vacancies they've experienced and whether they would invest again.

Step 6: Speak to more than one property manager
Most sellers price their homes fairly and give accurate rental estimates. However, you still need to verify their numbers, because not everybody is honest and even the best people can make mistakes. While appraisers will give you a second opinion on the value of the house, a property manager will give a second opinion on how much it will rent for. Both are equally important for real estate investors.

Vetting property managers is discussed in more detail in the next section, but for the purposes of your initial due diligence, you should try to speak with (and meet) at least two different property managers. These people operate on the front lines, and if you are considering specific houses, their feedback on the neighborhoods, tenant profiles and rental values is very important.

QUESTION 3

How do I vet and choose a **good property manager**?

It is difficult to exaggerate the importance of property managers. Depending on their skill and professionalism, they can turn a fantastic house into a chronically bad rental, or they can turn an ugly house into a rock-solid income generator.

In a career with more than 1000 transactions spanning multiple US states, let's just say I have kissed my share of property management frogs. If you want to find a good one, you need to vet them thoroughly.

Sometimes sellers have their own property management firms, and sometimes these firms are the best option, but I strongly advise you to verify this before committing to a long-term relationship.

Vetting property managers boils down to speaking to several candidates, asking the right questions, and taking careful note of the answers. You should base your decision on those answers and on your gut feelings.

I ask potential property managers several questions, starting with their experience:

- How long have you been a property manager?
- How many units do you currently have under management?
- How far is your geographic spread?

I then ask if they also market properties as a broker and if they personally invest in real estate in the area. After that I dive into fees:

- What are your management fees?
- What do you charge for recruiting new tenants?
- What do you charge for monitoring and maintaining vacant units?

Finally, I ask about filling vacancies and managing tenants:

- What is the average length of time it takes to fill a vacancy?
- What is your process for screening prospects?
- What do your lease and landlord agreements look like?
- What do your landlord reports look like and how often do you send them?
- What is the best way for tenants to contact you?
- What is your late rent policy?
- What percentage of tenants do you have to evict?

QUESTION 4

How much money should I set aside for **vacancies, maintenance and capital expenditures**?

Before you even begin investing in rental properties, you should first have a solid handle on your personal finances at home, and you should have the equivalent of six months' reserves in your main bank account at all times. This minimum balance is needed to cover your family expenses (primary mortgage payments, school fees, groceries, car payments, Netflix, etc.) and should not be used for investing or discretionary spending.

Once you have those personal reserves in place, you need to consider the correct amount to invest from the excess funds you've saved. To manage this, **I recommend that you create an investment checking account that is separate from your day-to-day account.**

For example, if your household spends an average of $6,000 per month, your main checking account should always have a minimum balance of $36,000. Once that balance gets a lot higher, start transferring excess funds into a separate investment bank account. Then the real wealth building can start.

Vacancy & Maintenance Reserves

There are many ways to manage this. Some investors set aside 5–10% of their gross rents every month and keep them in a reserve account. Others set aside a lump sum at the beginning and use it whenever necessary.

I am in the latter camp. Whenever I purchase a new rental, I set aside the equivalent of six months' reserves (mortgage, insurance, property taxes, property management fees, etc.) and add it to the balance of reserves from the rest of the portfolio.

Whenever you have a repair or a vacancy period, you have the option of using these funds to cover them. They act like a safety net and they provide vital peace of mind. There is nothing worse than dipping into your own personal checking account to cover unexpected expenses from a rental; among other things, it can cause a lot of stress between spouses. It's much better to have reserves for these inevitable expenses in a separate investment account!

For example, if I have $100,000 in my investment account and a reserve balance of $35,000, then I have $65,000 available to invest.

QUESTION 4

How much money should I set aside for **vacancies, maintenance and capital expenditures**?

Capital Expenditures
This is a little more complicated than keeping reserves for minor vacancies or repairs, and in my experience, most investors don't give it enough thought nor do they adequately plan for it.

Capital expenditures (CapEx for short) are not the same as expenses. A house with a new roof is worth more than a similar house with a 20-year-old roof. Same goes for a house with a 15-year-old kitchen compared to a similar house with a brand-new kitchen.

Let's look at another example to compare the two. Servicing the HVAC unit is a routine expense and a drain on your rental income. Replacing the HVAC unit at the end of its useful life is a capital expenditure. In other words, **you should treat CapEx as a necessary investment to preserve and increase the value and income-generating potential of your assets.**

Imagine for a moment, that you worked for a large company that owned a 300-unit apartment complex. There is no way they could efficiently run an investment like that unless they had accurate lifespans and replacement budgets for roofs, HVAC units, floors, kitchen appliances, bathroom vanities, paint, etc. These are important costs that run to tens (if not hundreds) of thousands of dollars, and they need to be in the budget.

I firmly believe that small investors who want to become large investors should think along the same lines and plan accordingly.

Example 1: If you own a house with a roof that has five years remaining, and you know that a new roof costs roughly $10,000, then you should ideally be setting aside $2,000 per year to build up the funds for that capital expense.

Example 2: If your bedroom carpets will last an average of three years and cost $1,500, then you should be setting aside $500 per year for them.

QUESTION 4

How much money should I set aside for **vacancies, maintenance and capital expenditures**?

The age, build quality, and location of a house will also affect how you budget for capital expenditures. I mostly invest in 30-40-year-old, concrete-block, single-family homes in Tampa. My reserve requirements will be lower than someone who owns an 80-year-old house in Cleveland, and they will be higher than someone who owns a 5-year-old house in Dallas.

The following list is a short version of what I use for rentals in Tampa, Florida:

- Shingle roof: 25 years
- Kitchen cabinets and countertops: 15 years
- Kitchen appliances: 5 years
- HVAC units: 14 years
- Water heaters: 12 years
- Bathrooms: 10 years
- Carpet floors: 3 years
- Vinyl floors: 8 years
- Tile floors: 20 years
- Interior paint: 4 years
- Exterior paint: 8 years

My advice is to draw up a simple spreadsheet with three columns: item, lifespan, and replacement cost. From that, you can extrapolate an annual amount that should be set aside for CapEx, which is separate from your investment funds and from your vacancy and maintenance funds.

As every area is different, I recommend you speak to your property inspector, property manager and local rehabbers regarding the useful remaining life and replacement cost for major CapEx items. Then monitor your spreadsheet and adjust the investable funds accordingly.

For example, if you have $100,000 in your investment account, with $20,000 set aside for expenses/ vacancies and $10,000 set aside annually for capital expenditures, then you have $70,000 available to invest now (assuming you'll be able to top up that account with another $10,000 for CapEx next year).

If these concepts are new to you, they probably sound more complicated than they actually are. I maintain a multi-state investment portfolio, and it generally takes me an hour or less to monitor the income, expenses and reserve requirements each month. While I have given some brief insight into the systems and processes I use, I will be making additional tools available in the future that will go into more detail.

How do I overcome **analysis paralysis**?

Ironically, the people struggling to get started in real estate are often among the most educated, passionate and detail-oriented people I have ever met. Engineers and people working in the IT industry seem to be particularly vulnerable to it.

Some of the main factors that cause analysis paralysis include the following:

- Information overload
- Risk avoidance
- Computer time (too much)
- Field time (not enough)

Remember that your first investment is usually the most difficult in terms of the emotional courage needed.

Social factors also play a much bigger role in analysis paralysis than people realize. Keeping other people's fears from infecting your drive to invest can be a challenge, particularly when they come from close friends and family members who have your best interests at heart.

I read a well-known book recently called Millionaire Real Estate Investor, which has a large section at the back with mini biographies of different people. One of the biographies that stuck with me was the story of a young woman, who was told by her father that "she was too young" when she approached him for a loan for a down payment on her first rental property. To her great credit, this young lady took it in stride and simply said, "I know Dad, I just wanted to give you first refusal," before going ahead and finding the funds elsewhere. Fast-forward 10 years and she now owns five single-family homes, two duplexes, six condos and an eighteen-unit apartment building.

QUESTION 5

How do I overcome **analysis paralysis**?

Now that you've read that little piece of inspiration, you can use a simple step-by-step process to overcome analysis paralysis:

Step 1: Decide on a market to invest in

Step 2: Decide on a team to work with

Step 3: Decide on a property type and a price point

Step 4: Decide on a property manager

Step 5: Make a commitment to purchase within a specific time frame

Step 6: Analyze individual houses

Did you notice that I put looking at individual houses last on the list? Researching random houses in multiple markets from multiple sellers is a great way to overload yourself with unnecessary information.

Once you get started and gain some momentum, you will be amazed at what you can achieve in a short span of time. My advice is to align yourself with people who are doing something similar, keep moving forward towards a specific goal, and don't overreact every time you encounter bumps on the road—that is just how it works.

Many times, I've offered properties to people based on a clearly communicated criteria, but when the time came to take the plunge, those same people balked and regretted it afterwards. Don't be one of those people!

Conclusion

We covered a lot of ground in this short report: we identified the best areas to invest in, the due diligence you should do before purchasing, the best way to vet a property manager, the funds you should set aside for expenses and CapEx, and the simple steps you can follow to overcome analysis paralysis.

To someone who hasn't invested before, this may all sound very daunting. Please believe me when I say it is not. Real estate looks a lot more complicated from the outside than it does from the inside. In fact, it is the only industry I'm aware of where you can become wealthy and financially free without being blessed with a high IQ or a freakish work ethic.

In many ways, getting past the first 1–2 rentals is the hardest part of all. After that, it gets much easier. All you need to do is maintain a healthy attitude to learning, taking action and finding ways to network with like-minded people.

I'll finish by saying that I really enjoy helping people on their real estate journeys, so if there is anything I can do to help you on yours, just ask.

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