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Investor Report: The Year to Invest

by Kenneth R. Harney

As an investor, have you ever thought to yourself: Gee, I wish I had bought that stock a couple of years ago, when it was so cheap?

Well, Ole Oleson, whose Costa Mesa, California company manages 5,200 rental and apartment units, says 2008 is one of those, "I wish I had bought back then" opportunity years for single-family rental home investors.

With fire-sale prices at auctions in southern California -- and banks begging buyers to take defaulted houses off their books -- Oleson, who is president of American Management Company, says this is one of the best times in 30 years to begin assembling a rental real estate portfolio.

Even if prices drop a little more during the next 12 months - and Oleson thinks they will in California - today's low interest rates may not be around when prices finally flatten out.

But attractive as market opportunities may be, Oleson warns that there are lots of pitfalls for investors in too much of a rush. Here's his advice:

Number One: Avoid the temptation of snapping up condo units that are being dumped by speculators and developers. "Condos are troublesome," he says. Your fate and rental income are too tied to the entire building or project itself, condominium or homeowner association policies that can change overnight -- and you're never fully in control as you are in conventional detached, single family houses.

Number Two: Stick with modest-sized, well-located units that appeal to households who'd really prefer to own a home themselves, but can't afford it for one reason or another. Not only are moderate-sized properties easier to rent, but they can be repositioned and upgraded for eventual sale to tenants under lease-to-buy arrangements once the for-sale market bounces back a few years down the road.

Finally: You've got to do your "due diligence" -- intensive research not only on a property before buying it from a bank or at auction -- but on your prospective tenants.

You've got to pull credit files and run credit scores. You've got to check and verify income and assets and prior rental histories before signing a lease with anyone. You can't allow surprises in the rental business, says Oleson, because once tenants are in your house ... they can be very hard to get out.

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