

EP22. Your Guide to Purchasing Investment Properties in the Sacramento Area

Welcome to the Landlord Logic Show, hosted by John Tiner. John is the owner and CEO of Tiner Property Management, a three-generation family business since 1976. Tiner Property Management expertly manages over 1,000 properties in the greater Sacramento area to place quality tenants quickly while minimizing your risk. John stays up to date on all the new laws and regulations and shares his knowledge with do-it-yourself landlords each week. The Landlord Logic Show with the Tiner Property Management Pros.

Joining us now, John Tiner, along with his wife and business partner, Jenny Tiner. Welcome back to the Landlord Logic Show. We're so glad you're with us today and I have in the studio with me my wife, Jenny. Thanks for listening. And we are professional property managers. Tiner Property Management has been in business since 1976. My parents started it and I joined them in 1986. And when I joined my parents, they had about 40 rentals. Now we have nearly 1,200 rentals. So it's grown brick by brick over all those years. Mostly owners that have one or two properties at a time, not big owners that have lots of rental properties. We don't really specialize in that, kind of the mom-pop property management needs. But we take care of everything for you with regard to property management.

But we're here doing the show, really gearing it toward do-it-yourself landlords who want to learn more. And so that's what a lot of our topic is. And if you find yourself listening to us and going, well, I have a rental property, but I guess I'm really not keeping up, we'd love you to call us for that. 916-974-6003. We're on your cell phone. Dial pound 250 and say the word Tiner. Or you can reach us through our website on the contact us page. Our website is Tiner, T-I-N-E-R dot com. But that's what we do. Professional property management made easy. We call you only at key points. If we have a larger repair, we call owners. If we have a new tenant, we talk to you about it and tell you what we have. And then we call anytime a tenant's going to vacate. But other than that, the whole concept is professional property management makes it easy and turnkey for you to own a rental property.

But today we want to talk about things that investors should consider before buying in the Sacramento area. We have a lot of people who will come to us and say, hey, I want to buy a property in Sacramento. What should I be considering? And so we want to do a show on that today, things that investors should be considering when they're buying properties.

I got into real estate as an agent 20 years ago, but I actually bought my first rental property at the age of 19. I bought a duplex. I lived in one side and rented the other out. So at the age of 19, I was also a landlord. So I got into the business. My mom was in the business. My

father-in-law at the time was in the business. I graduated Hewlett Packard and then thought maybe I should get into the business. So I got into the business and my kids are going to be 21 on New Year's Eve. I love real estate. I love my own investment properties still. I sell homes. I help John with new accounts and we're a bigger company in the Sacramento area, but we don't treat our clients like we're a big company. We're still a family business. The majority of our clients, like John said, they're just one, have one property, two properties. So we're here to share information with you, whether you are interested in property management or just need some information.

So there were some special things that I was thinking about. And so let's just dive into this of things for investors to consider when buying a Sacramento area rental. We'll talk about Sacramento, but even if you were listening from afar, you might be able to take some of this where you're at as well. Right.

So **number one** thing that we see is rent value versus sales value. That's a really important ratio to look at. So how much does it cost and how much rent can I get for it? And with that, there's a real diminishing return when you get into high end properties. Properties that are valued above seven or eight hundred thousand, they could go to a million or two million and the rents don't change that much more. So there's a real diminishing return once you go over a certain dollar amount. And I think, you know, six, seven, eight hundred thousand was where that starts to change and change pretty rapidly. On the other side, the lower the price of the property, usually the better the return. But it does get to a place where you get down below four hundred fifty, four hundred seventy five thousand dollars. You get into neighborhoods that are more problematic. You can't attract a tenants into those neighborhoods and then you're going to have a lot more effort in the management side. So I find that sweet spot in the middle.

Another one here, too, to consider is if you're looking for single family homes, obviously your rents there, but duplexes. You want to make sure that those duplex rent values are up to par because it could take a long time for you to be able to raise the rents for that sales price. Right, because of rent control. It can really lower the price there. It can take years to catch up. So you probably want an adjustment if somebody is way below the market. And then consider taxes. A lot of times if the cash flow doesn't make great sense, you're a little bit upside down when you look at it after taxes because there's some tax benefits to owning the rental. It may break even after all. So consider the tax benefits. Yeah, and another good rule of thumb is good investments cash flow with 20 to 30 percent down payment. Yeah, that's over the years. I've liked to use that, which means, of course, right now you can't buy an investment property and have a cash flow, not in Sacramento area unless it's really a

depleted neighborhood or something you might be able to, but you're going to have management issues here.

John and I used to sell 30 to 50 homes a year and the majority of those were investors. And our business has, with the investment sales, may a lot of them from the Bay Area has declined because a lot of our clients now are cash only or they're coming in with a lot of money, about 50 percent or more. Because just to make those numbers work, it's not going to work. Interest rates are slowly lowering down, but not to where the numbers pencil out yet.

Yeah, so buyers now are usually those categories of:

- They're either cash buyers.
- A high dollar down buyer.
- Or they're 1031 exchanging. They have to buy something.

A lot of times Sacramento makes more sense than the Bay Area. So if they sell a \$1.2 million house there, they come up here, buy a couple of duplexes and they'll generate more income and do better. Yeah, oftentimes those duplexes will generate more income than a single family property. And then if a tenant vacates on one side, you're still getting income from the other, which is what I love with my duplex. I'm big on buying for cash, making a cash flow, making sense of it that way and not buying on appreciation because appreciation may or may not happen. But over time, it does happen. So if you can make it make sense on the cash flow side, sometimes the big bonus is appreciation.

And that's kind of our second point is appreciation. Buy on cash flow, but get rich on appreciation. Yeah, I had four properties when I was young and then I ended up having to sell one of my duplexes when I got divorced. And that duplex, it really was dollar for dollar. I don't really feel like I made any money in some months. I felt like I was under. But when I finished it, I made \$200,000 having to split that with an ex and pay my capital gains taxes. But the appreciation was there. Even though every month it didn't work, my appreciation worked. Appreciation is a big piece of what makes real estate make sense.

And then I think also when we're talking about appreciation potential is right now the market is kind of poised to have another run up in value. Hard to believe in a lot of ways because values are already high. But what I mean by that is there's a lot of property buyers that would like to buy in. But right now at 7% interest, it's dropped a little bit now, but it just doesn't make sense. They can't qualify for the house they would want to live in. But if those rates drop down some, there's a lot of pent up demand where buyers are going to jump into the purchase market. And if that happens, supply and demand says that the values are

going to jump back up again. So if you're holding a real estate property now, a rental property, there's the pretty good likelihood that we're going to see a boom in appreciation at some point in the next few years as all those buyers come into the market.

So another one to consider is your insurance. It's been a big topic around here lately, mainly because of the fires and just a lot of insurance companies aren't issuing policies based sometimes where the property is at. Or not renewing. Difficultly renewing. Insurance is a big topic. Prices have gone way up and then sometimes insurance companies are leaving the state or they're just not renewing in the state. So you're having to pay more to get another insurance company to cover it. So you can still get insurance for most properties, but it may cost you more.

Yeah, here if you're in Natomas, you're having to pay flood insurance. And if you're up in the Auburn, in the foothills, you're having to pay fire insurance. Fire insurance is very expensive. It's really expensive. Cal Fire may cost you as much or more, sometimes far more than your regular homeowner's policy would have cost.

And another thing to consider is some of the special tax districts. So for example, Melrose tax. Yeah, West Roseville comes to mind. West Roseville, they have Melrose. They have a city tax. Whenever you sell, they just come up with all kinds of taxes. So people oftentimes they're comparing some of the areas I recommend are Anatolia and South Rancho Cordova and Natomas and West Roseville. Those are all good areas. They're newer properties and they pencil well. They're nicer properties. They attract good tenants. But in Natomas, you have the flood insurance. That's expensive. And then in West Roseville, you have Melrose. So make sure that you're looking at those items when you're analyzing your rental properties.

And HOA. Yeah, HOA is if you're talking about HOA, that can be a big difference. I'll pencil that in. Some are really high, but some are really low. Some are really high. Yeah, we see HOA dues where they're \$60 per month and we have some where they're hundreds of dollars a month. So the economic life of the neighborhood and the area. So some neighborhoods decline quicker than others. Yeah, and some are going into decline and some are regenerating. Some of downtown has seen new economic life coming in because the arena went in downtown and a lot of revitalization. So we see those downtown properties have gone way up in value and they're worth doing major repairs to now. So that's one aspect.

And then you see other neighborhoods and we've all seen them where the front yards are getting fenced off and there's bars on the windows and there's cars on jacks in the neighborhood. And maybe they were once a nice neighborhood, but they've been in an area

of decline. So kind of look at what the neighborhood's doing, how it's trending, how the schools are. But the property areas have economic lives that are either going up or down a lot of times.

Yeah. And one thing that when we have a lot of investors call and ask what properties would you rent? One of the items is the age. So I think we usually say within 20 years is really the best. I like to advise to buy a property that's either 20 years or newer because they're less likely to need big ticket items. Capital improvements really ruin the numbers if you have to make major capital improvements. But sometimes in like the Carmichael or an arcade where the neighborhoods are really old, I sold a property a few years ago that was my own home and it had new everything. New HVAC, new roof, new siding, new everything. Plumbing, electric, it was all new. So it had a new economic life. The property itself had a new economic life. But really look at that because investment properties, if you're just crunching numbers, the capital improvements really can damage the return on the investment if you have a lot of them and you haven't planned for it.

Yeah, you don't want a money pit.

Yeah, exactly. So we've gone through some of these items, but if you have further questions for us, if you want some information, again, we manage in Sacramento area. You can check our website out at tiner.com and that's T-I-N-E-R.com or you can give us a call at 916-974-6003. Again, 916-974-6003.

Right from the beginning, we help owners get their properties ready for the rental market, clean them up, get all the work done, get them showing nice, take nice professional photography, market them very well. We have professional showing agents that come out and make all the showings. Then once we get a great tenant, call the owner for approval, we put them in, do the move-in condition report, do all the paperwork, do the lease. We've got a great lease agreement that we've worked on for 38 years now. It's gotten better and better over the years.

And then on a monthly basis, we continue to coordinate all the repairs. We enforce the lease. That's a really important aspect of management. Make sure that the tenant abides by the rules that we've agreed to in the lease agreement. And then every month, we're sending the owners their funds due and doing their accounting for them. At the end of the year, they have all the accounting they need for their tax person. So we do all those services for about the price of a gardener. It's really affordable. And then make that property management experience really a good one for owners.

The whole concept of professional property management is that we make it turnkey. We take the burdens and the concerns out of this, and we take those concerns ourselves, take

good care of our owners, and make sure that they just get a check each month. We also keep up with the laws. And so a lot of our shows, we talk about laws because they're a lot, and they constantly change. And we also keep up with the rent increases, which is important, which also goes in line with some of those laws.

So if you'd like to reach us, please call 916-974-6003. Or on your cell phone, dial pound 250 and say the word Tiner. Or you can reach us through our website on the Contact Us page. Our website is tiner, T-I-N-E-R.com.

Seven more items, things that investors should consider before buying in the Sacramento area after the break. We make it easy for you to own a rental property. That's the whole goal. We collect your rent. We keep up with the laws. We manage your tenants and coordinate any repairs. We even do all the paperwork to help you get ready for your taxes. And we do it all for a pretty small service fee. For about the price of a gardener, you can have a Tiner professional property manager. So reach out to us. We'll be glad to help you. On your mobile phone, dial pound 250 and say Tiner. Leave your name and number, and we will provide you with a free e-book with 16 questions you should ask your next property manager. Again, dial pound 250 and say Tiner. Learn why a good property management company doesn't cost. It pays.

Welcome back to the Landlord Logic Show. Today we've been covering things that investors should be considering when buying a rental property, particularly in the Sacramento area. But one of those items that we see a lot is people are buying a property that doesn't appeal to the general public very well. They kind of have a specialized market.

And what are we talking about, Jenny? Colors that don't affect the masses. We see some ugly paint colors. My goodness. But the funny thing is that people think they're beautiful. Well, yeah. Sometimes it's cultural. Sometimes it's personal. But yeah, we want to have rental properties that do appeal to a broad spectrum of the public. So the average renter comes in, and if it's kind of neutral, and it could be tan tones or it could be gray tones. Gray tones, I think, have been kind of overused. I think sometime we're going to look back on this and say, oh, that gray is so 2020, so 2010, so out of date. But, you know, different things come and go over the years. But neutral colors where anybody can kind of bring in their colors or whatever their personal property is, and it works inside that house. That's important. So if you have bright pink rooms or lime green or purple child room, you might want to get those painted or look at properties that are already neutral and easy to rent. Yeah, and if they're not, take that into account and just do something neutral there.

So another good one that goes with this is solar issues. Yeah. Because oftentimes solar are issues. We're seeing this more and more, aren't we, Jenny? Yeah, because people buy a

property or they have a property, and then they put solar on it, and then their life changes or something happens. Well, then they're having to spend, you know, the solar, that's like \$30,000 to \$40,000 plus. It's a high debt, and some buyers are just going to look at that solar system as consumer debt, almost like a credit card. There's some benefit to it. Certainly have to sell the tenants on the whole concept that they're going to have lower electric bills. But in that, they're not going to want to just pick up your solar cost. So owners that are buying a property with solar need to pay that off or assume that they're going to be paying for the solar, and then we have to try to sell the value and the rent amount.

Well, EV chargers, this is one thing that I'm seeing with new accounts. I'm seeing those more and more. Right, and that's beneficial, especially in the nicer upper-end properties. A lot of people have Teslas and electric cars, and they need a place to charge them. So if your house has that, it has some benefit. It's not all bad, certainly, but got to look at what's that cost versus the benefit. Yeah, don't expect dollar for dollar for the solar cost versus the tenant utility savings. That's right. Tenants aren't going to give you a full price for your solar system on a monthly basis.

Landscaping costs. Yeah, that's an easy one to overlook because landscaping is expensive, and a lot of properties, especially if they've been rentals before, they may have dead lawns, and it costs a lot of money to bring them back or to re-landscape in a more drought-tolerant way, which we're seeing more and more of now. The old days of sprinkler systems are kind of going away, and they're being replaced with either artificial turf or drought-tolerant lawns, but that's expensive. So if you find a rental property that you're looking at to buy and it's already got all the landscaping done, that's a big dollar amount. That's a good benefit. The other thing is maintenance with regard to the landscaping. If you have a big grass lawn, it's going to cost somebody, whether the tenant or you, somebody quite a bit of money to keep that up all the time and to water it. Yeah, we've seen some where we've got new accounts and the tenant doesn't maintain that. It's very costly.

Right. And then I've analyzed this so many ways, and I've never seen a time where a pool makes sense. Unless maybe with a condo or something where it's a community pool. But on a single-family home, the rent values may go up \$100, \$150 a month, but the pool service costs the majority of that, and then pumps go out, filters go out. We have a pool, and it's a money pit. Yeah, I will never own a house with another pool again. I've loved it. I've lived there since I was in second grade, and it's been great. My parents built the pool, and then I bought the house from the parents. But we have an oak tree behind us that is not even ours. It's a constant, and there's four of us in the house, and we all have to pick up the leaves. Even with the pool service. Even with the pool service. And it's costly. It costs me a lot of money. Trying to get a tenant to do that would be problematic. So it hardly ever makes

sense. It doesn't pencil in a dollar-for-dollar way. We have, out of our 1,200 properties, I just ran this, we have almost 50 of them with pools. So when an owner lived in the property, they had a pool, and they move out and make it a rental. It's not like we've got to do that. But it also has extra liability. So we require the owner to have more insurance. We require the tenant to have more insurance. And safety features, too. And safety features, right. Self-closing locks and gates and locks on the gates around the side of the house and extra additional barriers between the house and the pool. All those things come into effect, a lot of liability with a pool. So if you're looking for an investment, you probably want to exclude pools.

Gardeners. Yeah, gardeners are one of those where they don't pencil real well either. So I always tell owners, well, look at the property. If it's got beautiful landscaping, some of our nice upper-end properties, the beautiful landscaping is part of what makes it upper-end. So maybe that you want to include a gardener, kind of like an insurance policy to maintain that beautiful yard. But if the gardener costs you \$150 a month, we probably don't get a dollar for dollar in the rent for that cost. We may get \$75 more rent by including the gardener, but it still makes sense to do that. But be thinking about the landscaping and the maintenance costs when you're looking and analyzing an investment. Another good one is the schools that are available because that is important for tenants that are going to be needing to live in that home. It's important to the tenants and it's important for resale. And they're particularly important to some investors because they understand that how the schools are going is kind of how the neighborhood is going to go.

If they want to attract really good tenants to an area, they want to be in the good school districts. So a lot of them will take an extra hard look at how well the schools perform compared to schools around it. So the same investors that want good school districts are a lot of times attracting the similar kind of renters that put an emphasis on that. And a lot of times those good school districts are also areas that cost a little more. So they may not cash flow quite as well, but they do really well over time. The neighborhoods do well. The tenants are better. And a lot of times you have tenants that move in there unless their life changes. They want to stay in there until their kids are out of those schools. It's a deal breaker thing. It lends itself to that because they're making the decision around schools. I moved one time just so my kids could go to certain schools. It was that important to me.

So if you're interested and you need a property management company, again, we are in the greater Sacramento area. We'd be happy to answer questions for you. You can check us out on our website. We have a lot of really good information in there. Our website is tiner, T-I-N-E-R dot com. Or you can give us a phone call, 916-974-6003. Again, that's 916-974-6003. Give us a call if you want some information and we'd be happy to help you.

Number 13, we're almost done. We have 14 points here. But number 13 is: should I, if I'm going to buy an investment property, should I take care of it myself? Should I manage it myself or should I hire a professional property manager? Of course, we're going to say we think you should hire a professional property manager. But I'll tell you this. I know some people who do it themselves that do a very good job. They don't need a professional property manager. But they're spending a lot of time to do it well. And they have a lot of knowledge. They worked hard at it for a long time.

So if you're considering buying a rental property and you don't have the time to take care of all the schooling and the updating necessary to know the laws, then you should be considering a property manager. Another reason that you should be considering a property manager is if you're not close enough. My family has a rental property that we had up by Lake Tahoe, and we hired a professional up there local who could do the showings and knew the local people and local rules better.

So do you have the time to keep up with the laws? And if you have the time, that's great. If you don't have the time, you might want to consider somebody else that does. And then lastly, Tiner's area and recommendations. I wanted to take a little time, what I tell investors and share with the public what that is. I really lean toward properties that are newer, like you mentioned 20 years old or newer.

And I see that on the south side of Rancho Cordova, over on the south side of the freeway where there's a lot of newer development and off Zinfandel and back toward the Air Force Base in Anatolia, across Sunrise from there. Anatolia is growing almost all the way into Folsom now, and so it's doing very well. Natomas does very well. It's newer, 95835, particularly North Natomas. The numbers are good. They're still pretty affordable housing by comparison to other areas. You have flood insurance there, but those numbers make great sense. I like Natomas.

And then West Roseville. West Roseville does have a lot of inventory available, so you've got to kind of pay attention to that. And that's, of course, their area. Inventory means it will probably take longer to get your house rented. A little harder, a lot of competition. And your rent may be a little lower. A lot of investors are buying these newer properties. It's a great area. It's a great properties. Good schools make sense.

So those are areas I recommend with a little carefulness on the West Roseville that you may not get as much rent as you thought. Unfortunately, we have people call us sometimes, and their realtor told them, yeah, you can get \$3,000 a month for it. And they're closing escrow, and then they're trying to hire a property manager, and we're telling them,

no, it's more like \$26, \$27. And that really messed up their numbers. It didn't make as much sense for them. So it's important to get real numbers early on in the process.

Another area to watch out for is Folsom. I like Folsom, but they are building so many new houses in Folsom. A lot of people have moved from the old side to the new side on the south side of 50. There's a lot of inventory there, and they're pretty slow to rent sometimes. So even though it's a great area, it's just they're building 15,000 new homes there. That's changing and affecting the market some.

What about price range? Do you want to share what your price range would be? Yeah, I think if you get below \$450,000, you're getting into neighborhoods that are more problematic to try to attract a good tenant. So you need to get up closer to \$500,000 or above. \$550,000. Yeah, \$550,000. And then you can attract A tenants. Some people are investors, and they buy lower properties that have lesser tenants, and they do it pretty well. It's just not our niche. We like nice properties with good tenants, A tenants. That's why our eviction rate is so low. And we have some clients that purchase new properties too. New properties too, so don't take those off. You're going to have to do landscaping in the backyard. They only give you a little tiny plot of concrete. On the upper end, I'd say about \$700,000, and then it really doesn't make as much sense above that. Don't buy a mansion and expect it to cash flow very well.

So if you'd like to reach out to Tiner Properties, want some help either buying an investment or needing management for one, you can reach us at 916-974-6003, or from your cell phone, dial pound 250 and say the word Tiner. You can also find us on our website, Tiner.com. That's T-I-N-E-R dot com.

Thanks so much for listening today. We look forward to being back next week on the Landlord Logic Show. We appreciate the time we spent today together. Remember, professional property management doesn't cost, it pays.

Would you like to learn more about the services provided by the Tiner Property Management Pros? Their professional property management team will take care of your rented home from start to finish. Simply dial pound 250 and say Tiner to learn more about the ease of managing rental properties or check out their website, Tiner.com.

Join us again next week for the Landlord Logic Show with John Tiner.