



## Investing in Austin Real Estate - A brief guide to get you through the first steps

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### **Introduction**

This brief report was written so that I could respond to everyone fast enough! From the end of 2003 to now, August of 2008 we have been hosts of a steady stream of investors from both coasts seeking to roll over recently appreciated equity into new cashflow properties here in Austin.

### **Where does Austin stand in 2008?**

Even with the rise of energy costs and the mortgage slump, the investment market in Austin has seen little to no backlash. Why? I get this question quite frequently lately.

There is not one simple answer, there are many simple answers:

1. Austin was never over-valued to begin with, unlike properties on the East and West coasts. The balloon deflated for those areas, money put down as equity has now evaporated with the sharp decline in value.
2. Texas in general has a booming rising state economy with people moving into the area and not leaving. Austin is the leader in this economy; we are the seat of government, the seat of education and the seat of technology for the state.
3. The nature of income property is so that it does not rely on the owner's financial situation, the tenants pay for the property. As long as there are tenants, and they

have jobs of course, then the property should perform fine and not foreclose. Rental property foreclosures are very rare in Austin, even more rare in the multifamily property types (duplexes and fourplexes).

The point I want to make clear to everyone reading this is that Austin is unlike most markets in the USA. Sure there are a few cities similar to Austin. Forbes consistently places Austin alongside Denver and Nashville! But you have to take a deeper look than just numbers when you invest. You need to look at what the city offers it's population. Austin may or may not be the right market for you since our prices here are not the cheapest in Texas. But Austin as a city offers more to our population than nearly every city out there! The mild weather, the green attitude, the geography, the healthy lifestyle, the free events, the safety, the family environment, the jobs, all of this adds up and brings people here to stay. Other markets that might work for some, may not work for everyone. We encourage you to shop around but consider Austin as one of your top 3 cities to invest in, we feel it should be #1 on everyone's list, but don't buy something until you know all the facts – we are happy to provide any information that will help you in your decision.

### **About Austin**

Austin is truly the cultural oasis of the South. Families, young professionals, artists and a never-ending march of students have chosen to call this wonderful city “home”. This is not a city that will go bust in the coming years. I originally wrote this in 2005, and 3 years later I have not deleted that sentence. We simply will not go bust. Your money is safe here. We are family oriented, liberal, conservative, omni-racial, herbivore, carnivore, rock and roll to rockabilly and yes, a little bit red neck – you name it, we've got it – and everyone gets along! We have 5 major colleges, Fortune 50 major employers, high quality of life but low cost of- living, great public and Montessori schools, clean rivers and lakes, plenty of rolling hills and trees, abundant parks and natural areas – all within a short drive from anywhere. The single thing that we're improving upon is our road system. With all the new folks coming to town, we haven't had a chance to build enough roads!

Real estate in Austin is booming. I cannot express this enough. For investors this means a few things:

- a) Discounts for new inventory homes from major homebuilders
- b) Consistent influx of new tenants and starter families
- c) Stable taxes
- d) Stable job growth
- e) Stable and Rising rents

Rents have steadily been rising since the end of 2007 because of a sharp increase in the number of renters who cannot get a new home loan. More renters means more competition for the same properties, this boosts rents and gets you better tenants!

If you're looking for a 5 to 10 year horizon cashflow solution, Austin is a very safe investment. If you're considering buying to flip properties within 1 year, this is possible in some cases, however Austin's appreciation rate is not as fast as larger cities – we are still a medium sized city with many options for investors. **Our brokerage doesn't particularly recommend flipping here in Austin**, this is best left to small rural cities (for the cheap prices) or for cash buyers in high density urban centers (for the highest profit margin). We do highly recommend stable multifamily properties for a buy and hold investment. The majority of properties here on the market were built in the 1980's. If you're looking for something new / recent, the best choice is a new single family home. Multifamily construction is quite rare nowadays due to zoning and amount of land available inside the city, many projects considered "recent" were built about 5 years ago.

Prices of the average 1980's built "Austin" duplex that we recommend to investors is usually around 150k to 200k, with rents of at least \$1400 to \$1600 per month. Prices of new multifamily homes as of 2008 start at 300k for a duplex in the city. However we regularly find duplexes that are around 10 years old in great shape for much less. Austin has good weather, and properties that are 20 or 30 years old are still in pretty good shape. Don't let age turn you away, we have properties for everyone.

### **Finding an Agent**

Even though you're from out of state doesn't mean you have to be treated like a foreigner. When you do make the decision to choose a buyer's rep, be sure you feel comfortable with them. They need to return phone calls and answer emails, communication is the largest reason investors get cold feet about their agents. I will be honest now, agents out here are extremely busy because of the boom that I'm describing, I know I am, but I try my hardest to give every investor my time to answer all your concerns. Our growing team of investor-agents are all here to help you, all we do is help investors acquire and sell rental property. Very few teams in Austin specialize in this. We've even had agents from other brokerages ask US questions on how to do certain deals.

### **Getting a Loan for Investment Property**

Investor loans are not hard to get, our website is full of reputable companies who offer them. You need to make sure you've got good credit, good tax returns and some way to prove the sources of your down payment if you make one. Even if you don't have these things, there's always a way to do it, the rate might be a little higher though, but to possess rental property it's worth a try! There are thousands of lenders who are licensed to do loans in Texas – even in your state! It is preferred that you get pre-qualified for a loan prior to looking for a property, but this is not a requirement until we actually make an offer. At that time the Seller's Agent will most often ask for a prequal letter just to make sure you've at least made the effort to contact a lender.

You can shop around for loans, I encourage this – however... Please understand that if we put a house under contract and you still don't have a lender by the 1st week of the deal, you probably won't close on time and might scare off the Seller. **Many lenders will tell you that they can close in 10 days or less, believe me, this is not possible.** There are many more people involved in a loan than just the loan officer telling you about

their own speed. There are underwriters, processors, attorneys and the title company – they all have to work together, and as much as they'd like you to believe you are their only client, on the contrary you are not. So please once you have made the decision, do not change lenders as this usually results in the Seller backing out AND the loan rate changing (usually higher).

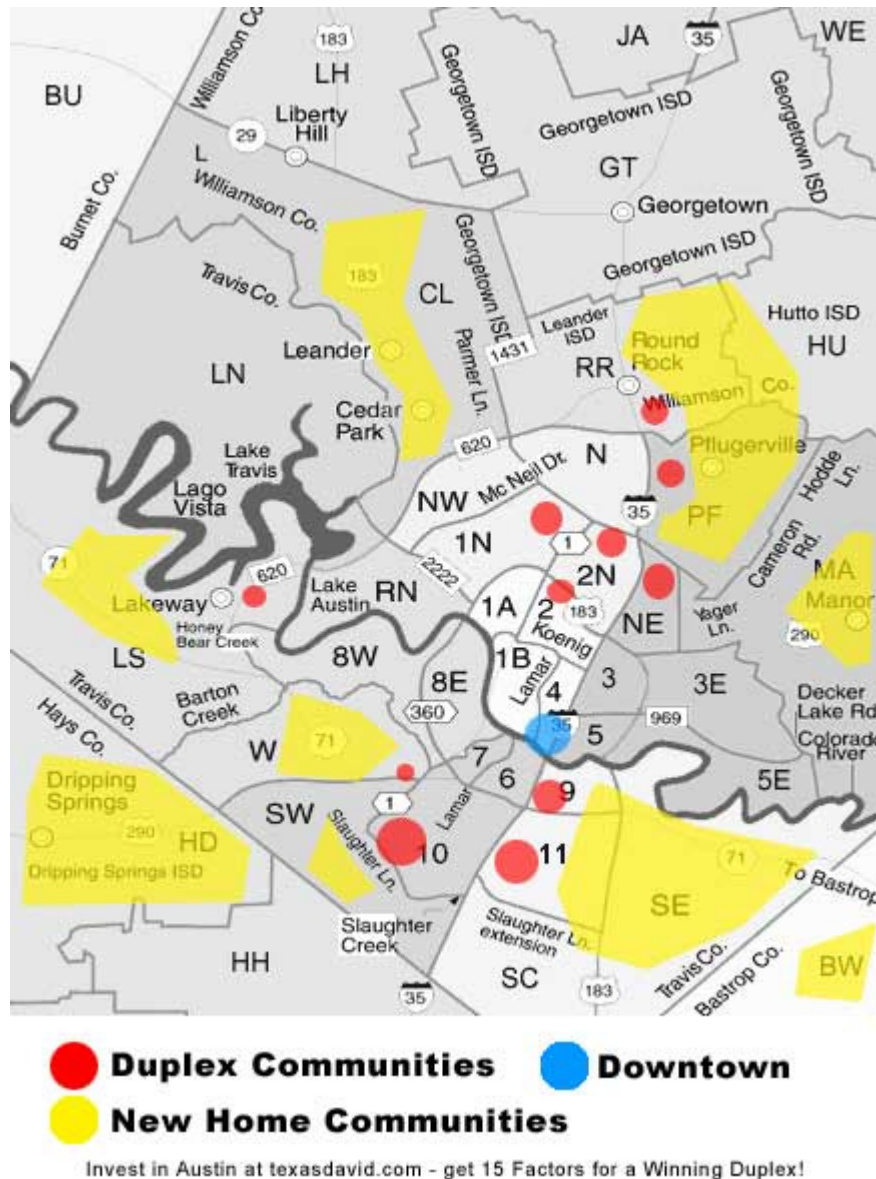
### **Property Management**

If you're an out of state investor, one of your biggest concerns will be property management. Austin has some of the finest companies in the state who settle for nothing less than your complete satisfaction – as a former property manager myself I take ownership of your goals in buying or selling the property because I assume the income you generate from this is going to something close to your heart like the kid's college fund, your retirement or a trust fund for grandchildren.

Property management in Austin is not hard because we have such a large amount of renters in need of housing. 5 colleges and lots of transient employees give us a huge rental base. With the mortgage slump at the beginning of 2007, we're experiencing even more renters since getting a starter home has become a bit more difficult. This is a great environment for investors, a captive audience! If a property stays vacant for too long, than you have to make simple adjustments to either the tenant application criteria or the monthly rent. These are really the only two factors. I know, I own and have managed properties in challenged areas and I had no problem keeping them occupied. Austin may be a great place to buy, but you still have to compete with all the other rentals in the area. Some may price their rents to see if there are any takers, while others will price their property to be rented at first glance. I will show you how to rent like a pro and keep the banks from knocking on your door.

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## Austin's rental map



This map is NOT the most recent, however, it is the best map for our purposes. New one is below.

You'll see in this map that most duplexes lay on the outskirts of downtown. Back in the 1980's Texas had a real estate boom and that is when the majority of our purpose-built multifamily was created. The map is a bit deceiving in the sense that it looks like these properties are far out from the city, they are not I assure you. Austin is not a big city. In fact getting to downtown from area HH or RR takes at most 20 minutes with flowing traffic. The vast majority of duplexes we help to purchase are usually only 15 minutes from downtown, or closer. We very rarely buy property that is outside of the central core



schools or high growth areas. They offer a comfortable balance between cashflow and appreciation that no other property type offers here in Austin.

For duplexes if you demand higher cashflow, then you'll need to put about 20% or more down, but you probably don't need to spend more money to get higher rent. The myth is that if you buy something expensive, you will get higher rent. Not necessarily the case in Austin where we have that steady stream of tenants. You can buy low and rent high still in blue collar and some middle income areas, while still having room for appreciation. Properties that cost an arm and a leg usually are maxed out as far as appreciation goes, they are in a top market area to begin with and will certainly stay that way.

#### **Average duplex rents per side:**

- 2/1 duplex - \$700
- 3/2 duplex - \$800
- 2/1 duplex in luxury area - \$900
- 3/2 duplex in luxury area - \$1000

There are very few duplexes that cashflow over 225k even with 20% down. After that point the rents, prices and taxes just don't make much sense. At that point you will need a significant amount of cash upfront because properties in these areas range from 300k to several million dollars and again the numbers are hard to pencil out due to expenses and a rent ceiling. Most investors are looking for cashflow and that means:

- putting some money down (usually 10% to 20%)
- buying something affordable that will pay for itself and appreciate
- getting as close to good schools as possible

In my rental map contained in this file (and available at our website: [www.texasequityalliance.com](http://www.texasequityalliance.com)) You'll see the areas in red are duplex communities, while the areas in yellow are new home communities. Austin's city planning habits of the past 30 years resulted in strong duplex presence on the edges of single-family subdivisions. This means that most duplex communities are not "rental ghettos", but rather they are skirted around a majority of home owners as a buffer from our major thoroughfares. There is a pleasant symbiotic relationship in these areas that gives duplex investing a nice appeal and an easy "in" into Austin. **If you would like to learn more about duplexes, please consider purchasing or attending out Duplex Investing Class at our website.**

#### **Let's not forget Fourplexes! Pricing and Areas of Interest**

If you're planning on doing fourplex investing, you will be buying properties that range from 225k to 350k with total rents around 2400-2800. Fourplexes are wonderful if you're looking for strictly cashflow as you've got 4 units pumping money out. Your loan and payments are usually taken care of by 3 or fewer units, and the rest is gravy! Remember, fourplexes require more maintenance because of the tenant profile and the sheer number of items in the building (4 ovens, 4 dishwashers, 8 toilets, etc.). Your cashflow should take care of this though. This sounds great! Why doesn't everyone just buy fourplexes?!

Well, it's a little complicated. First and foremost, there simply aren't many good ones available. The ones that do perform and are in nice areas, probably aren't on the market, the Seller's tend to hold onto them. Fourplex zoning rules and lack of a high urban density mean that fourplexes are scattered on quite a few undesirable thoroughfares and locations, many near highways and high traffic roads. Or they are all put into one part of a neighborhood, creating a "Fourplex Forest", identical units competing with you for the same tenants -- as far as the eye can see. Tenants that go to fourplexes generally want out of them in order to get a yard or a house. Therefore you can expect higher turnover as people leave the fourplex lifestyle to upgrade to a duplex or house. Fourplexes are very rarely located near good schools, this doesn't matter so much to cashflow, but this hampers appreciation to a great deal.

All this being said, we still buy and sell them quite regularly when we find the good ones. At any given moment there are about 10 of them on the market that are near good schools, aren't located in the "forests" and are conducive to low turnover. If you're looking for a stronger cashflow engine to supplement your income, a fourplex out here is still a terrific option.

**Average fourplex rents per unit:**

- 2/1 fourplex - \$550 to 600
- 3/2 fourplex - \$700 to 750
- 2/1 fourplex in luxury area - \$800
- 3/2 fourplex in luxury area - \$900

**New Home Pricing and Areas of Interest**

If you're planning on doing new home investing, you will be buying properties that range from 180k to 250k with total rent being around \$1200-1400. The appreciation of a new home largely depends on the location and the homebuilder. Please do not expect appreciation to develop quickly because you have something closer to town. Some areas are doing great, and they're nowhere near downtown. (Avery Ranch, Pioneer Crossing, Grand Oaks to name a few).

Austin's geography controls a lot of the real estate market. Austin is surrounded by amazing hill country to the Northwest and Southwest (near the lake). Any property that is built here will appreciate higher and faster than something that is on the flat farmlands of East Austin (east of I-35). This also goes for rents. Someone will pay a premium to be in a West side hill country area near a park, rather than pay the same for something flat near a shopping center. However, there is more opportunity in the East side and many propose this area as the next boom – I'll be happy to show you the whole city and let you be the judge. I still find it difficult to rent something out on the East side in the central part of town. East side on the North part of town we have no problem.

Now I do need to tell you that east of Austin there are some nice communities building up in Manor or Bastrop. Two small towns that have been filling up extremely fast. They are both good investments right now since they are just getting into the boom and will have extensive growth for the next decade.

Homebuilders DO make a difference, but only in appreciation and when you sell it! You as an investor need to consider your ROI. If after 5 years, can you even sell the thing? If you had a KB home in Austin in the last 5 years, chances are you lost money because the majority of KB home neighborhoods have a high rate of foreclosure because they give loans to anyone. If you had spent a little more and gotten into a Lennar neighborhood, you probably made money. Lennar and KB are still considered discount builders, but their quality is completely different.

If you buy from a high quality builder, yes, you can sell, and you can profit.

I would suggest using the following reputable companies:

- D.R. Horton [www.drhorton.com](http://www.drhorton.com)
- Newmark Homes [www.newmarkhomes.com](http://www.newmarkhomes.com)
- David Weekley Homes [www.davidweekley.com](http://www.davidweekley.com)
- Morrison Homes [www.morrisonhomes.com](http://www.morrisonhomes.com)
- Ryland Homes [www.ryland.com](http://www.ryland.com)
- Pulte Homes [www.pulte.com](http://www.pulte.com)
- Wilshire Homes [www.wilshire-homes.com](http://www.wilshire-homes.com)
- Standard Pacific Homes [www.standardpacifichomes.com](http://www.standardpacifichomes.com)

There are of course many more homebuilders, this is just a cross section that I have seen the most of in the areas that investors have purchased already. I would not choose the discount home builders for investing unless you simply want to cashflow the place and not depend on appreciation. When people buy a used home, they do consider greatly who built it – **if you buy garbage, you will sell garbage**. Please choose the homebuilder that best suits your investment style and your budget.

### **New Home Rents:**

Homebuilders don't matter much when it comes to rent. Location, amenities and price make all the difference – not who built it. Rents for new homes vary widely because of our geography. Here is my opinion of averages vs. locations:

- Northwest with hill country environment - \$1300-1500
- Northwest with flat environment - \$1200 - \$1400
- Far North (Round Rock, Pflugerville) - \$1200 - \$1400
- Northeast - \$1000 - \$1200
- Far East (Manor, Bastrop) - \$1000 - \$1200
- Southwest (Oak Hill, Dripping Springs) - \$1200 - \$5000
- Far South (Slaughter Lane, Kyle, Buda) - \$1000 - \$1300
- Southeast (Del Valle, Lockhart) - \$1000 - \$1200

### **Small to Medium Apartment Complexes**

Yes, we have these too! Austin is full of eclectic small complexes ranging from 500k to 2 million dollars. The average “door” cost is about \$60k for a reasonable property in good shape. If you’re looking for fixer-uppers, you can get the costs down to maybe \$50k per door. Owners of these properties generally take moderate care of them, so the prices do not budge very often because of constant demand. Average costs:

- 5-10 units outside of central, \$400k to \$800k
- 15 – 30 units outside of central, \$600k to \$1 mil
- 30 – 60 units outside of central, \$1.5 mil to \$3 mil
- over 60 units \$4 mil and up

This varies widely especially when you get close to campus. Prices for small 30 unit campus properties start at 2 mil and go way up.

Small apartment complexes generally do not have any amenities like the larger complexes. They are simply rooms, parking and usually a laundry facility. Very rarely do we see small complexes with swimming pools. Therefore the rents you will see at a larger complex with full amenities (pool, clubhouse and fitness center) will be significantly higher. I have listed the most common basic small complex rents below.

**Average rents for small apartment complexes:**

- 1/1 - \$500
- 2/1 - \$600
- 3/2 - \$750

I hope this can answer a few of your questions, and more importantly, inspire you to take action and put Austin at the top of your real estate shopping list!

You can contact me Dave at [dave@texasdavid.com](mailto:dave@texasdavid.com) or my team anytime at: [www.texasequityalliance.com](http://www.texasequityalliance.com) or at our office: 512-775-1780. No question too small when it comes to your investment.