

5 Questions To Help You Find a Knowledgeable Agent when Investing in Real Estate

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One of the biggest challenges for consumers in the real estate industry is to find a real estate professional that they can trust and rely on to best represent them in the purchase or sale of property. This challenge is fueled by licensing law and requirements in every state what allows every real estate licensee to help you buy or sell ANY type of real estate- residential, investment, commercial, industrial, vacant land, land for development, etc- AND THEY DO!

Now there are ethical guidelines (see Article 11 of the Code of Ethics and Standards of Practice of the National Association of Realtors®, January 2007 on our website at www.MaxBusinessGroup.com , click on About MBG (top of page on right) and select Commitment to Ethical Practice and click on the link at the bottom of the first paragraph that says “National Association of Realtors®) that restrict licensee’s to engage in only those real estate disciplines of which they are competent and knowledgeable. This certainly would align with the Realtor® directive to “serve and protect the public.” As with all people, when they work out of their comfort zone, they may not be in the best position to “best serve” their clients needs or put another way to do the best job. However, we see the fallout of agents taking on clients, projects and properties every day that they should be referred to some one more knowledgeable and experienced because the scope of every project goes well beyond just filling in the blanks on a contract form.

With that in mind, we have developed the following 5 “tougher than average” questions that you can use to help separate out real estate professionals that you are considering to help you with the purchase or sale of income producing properties. We have made them tougher than average because most buyers and sellers of investment properties usually engage in the process more than once. For many looking to build wealth buying and selling is a constant process- making the decision an important one. For buyers, a knowledgeable agent should be able to lead you to the higher performing properties in the best areas with limited vacancy potential. For sellers, it will be to use the financial performance of the property along with market statistics, to create the selling and marketing strategies. A great agent will save or make you more than you could ever pay them so it is important to find one that meets your requirements. By no means are these the only questions you would want to ask but these can certainly help separate agents based on knowledge and experience.

The 5 questions (for Buyers and Sellers of income producing property)

1. What percentage of your real estate business is derived from helping people buy and sell investment or income producing property?
2. How many income producing properties do you personally own?
3. What is a capitalization rate and what number should I be targeting?
4. In what areas can I find properties with that capitalization rate?
5. What are the criteria most investors use when investing in real estate?

The answers you are looking for:

1. I would hope that at least 25% of their business would be derived from helping people invest in real estate however a good agent will typically be a good agent no matter what they do. But it isn't about who will go a good job, it's about how can do the best job for you in your current situation. Also, after they tell you their answer, ask them to talk about two of their most recent transactions (when) that worked out well (what was their clients goal and how did these properties get them there sooner) for their clients.
2. If you're looking for someone to help you with investment type property in real, doesn't it make sense that they have had the experience of investing in real estate themselves? There are major differences in real estate disciplines. Buying and selling residential property has a very different purpose than investing in income producing properties which has a very different purpose than buying large commercial complexes- with each one having their own goals and success points. Each discipline has their own language, structure, contracts, criteria, lending requirements, zoning issues, etc. and because your potential agent may be doing well in one discipline it doesn't mean they have what it takes maximize your return on your investment (and the reasons for these questions).
3. Capitalization Rate (or cap rate) is an estimation of a property's value by consideration of net annual income as a percentage of a required rate of return on an investment. It is calculated using the following formula: $R = \text{Income} / \text{Value}$. Now another question might be which "income" do you use (GAI [Gross Annual Income], NOI [Net Operating Income], or CFAT [Cash Flow After Taxes]?) and what is value (here it is the asking price for the property). I would use the acronyms in my question to see if they can understand the common language.

To answer the question, what number should I be targeting? If you get any answer you're working with the wrong agent. A knowledgeable agent will give you a range of cap rates that are typical for a given area. They should also bring up that a cap rate, on its own, is worthless (although the major decision making criteria followed by many many many investors). And that the only way to discriminate between properties in a given area is to use that area's "market cap rate." This will take some real knowledge, our pride by an appraiser. It is calculated based on other like sold properties in the area.

If they get past the "what number should I be targeting" part of this question, the rest is really a big bonus. Rarely will you ever talk to an agent that understands how to properly use or calculate a cap rate let alone being able to provide you the explanation of why and how to properly calculate a cap rate and the critical importance of using a "market cap rate" in the formula.

4. If the interviewed agent answers this question great- just make sure it isn't a general answer. The real answer should be- everywhere. To provide an answer that can show you EXACTLY WHICH PROPERTY IN THAT AREA can get you to that rate is a whole new level of expertise. You would look for the "everywhere" answer.
5. This answer should take many paths. From our interviews and interactions with investors, they report using capitalization rate (most used, most misused and just might be the major cause for poor investing) as the calculation that helps them make buying decisions. Our clients use our 12 Criteria to Building Wealth through Real Estate to help them make the best decisions.

To achieve lending some banks use GRM or Gross Rent Multiplier but the best ones will use DSCR or Debt Service Coverage Ratios (for regular residential properties his figure is usually 1.2 or greater) to make decisions on how much money to lend on a project. **The bottom line-** to have your agent structure the sale or purchase of a property showing all the benefits of buying the property to the investor.

In conclusion:

So, just as important as getting the questions answered will be to watch the behaviors of the interviewee as you ask the questions. If they try and skirt the questions time to close the interview process and proceed. Please don't hesitate to **contact us at 724-368-3650** or by email to MaxWilson@MaxBusinessGroup.com with any questions or need for clarity you might have about selecting a high quality expert to represent you in your next real estate transaction.