PUGET SOUND BUSINESS JOURNAL

WEALTH MANAGEMENT

Perspective: Get the most from property investing

Apr 21, 2017, 2:00am PDT | Scott Gibson

Rents are rising everywhere in Seattle, and as the stream of transplants shows no signs of abating, the demand for apartments doesn't seem to be slowing down.

With this constant uptick, many are considering jumping into the market to invest in income property. Don't do so with your eyes closed. The location of any property investment will amplify its strengths and its weaknesses.

Follow demand beyond just the surface: A quick glance at the market reveals plenty of high-demand areas such as Capitol Hill, Queen Anne and Ballard. However, that demand can come with financial risks that aren't readily apparent. In high-demand markets, expect to pay a premium to fend off rival bidders. High rents and steep competition can also drive pricey upkeeps and high tenant turnover.

Consider investing outside these high-demand areas in surrounding neighborhoods and suburbs. Your margin for error can be greater when you're working in these markets, but whether by lower rents or improving amenities, you'll have more tools to drive demand.

Diversify your options: Big banks and real-estate heavyweights might be focusing their attention on the top of the market, but if you're just getting started in the income property business, you might not have the capital or flexibility to assume that kind of risk.

You need to assemble a team that understands the upside of the marketplace: a real estate agent who knows the neighborhoods and a banker who can build a financing strategy that takes advantage of that knowledge. Many community banks are eager to fill the niche of mid-sized multifamily properties located in less flashy neighborhoods. Don't feel boxed into thinking you need to own a property of a certain size in a certain location. Broadening your options will allow you to take on a more reasonable financial commitment and still take advantage of a thriving rental market.

Ask the small questions, too: An income property is a long-term investment and a successful venture requires anticipating trends before they happen. It can still make sense to invest in the downside of the business cycle, but keeping your finger on the market's pulse is more than just tracking interest rates and the S&P 500. Pay attention to smaller, location-specific cycles within the larger business cycle. How do home ownership levels compare to rentals? Currently, the squeeze is on apartments. Will this continue as millennials begin raising families? Knowing the answers to these questions will help you anticipate market ebbs and flows.

Proactive patience: Good things come to those who wait — so long as they also do their due diligence. Infrastructure improvements, particularly mass transit, will provide concrete, long-term returns on investment for those who plan ahead.

With the expansion of the Link light rail system and the passage of Sound Transit 3, developers are looking to capitalize. If you want to join in, you'll need to be both patient and creative. Some stations may not be completed for nearly 20 years. Others are on an accelerated timetable. Many of the routes are still subject to change. Keeping an eye on developments will empower you to make proactive decisions. The need to research and analyze the impact of infrastructure improvements didn't end on Election Day. In fact, it's just getting started.

Scott Gibson is an SVP and lending manager at Pacific Crest Savings Bank.