

CHOOSING AN AREA TO INVEST IN

“How do I choose a city to invest in?” This is one of the most common questions YFRP students ask – especially for those who are investing out-of-state. This worksheet walks you through the process that Paula describes in the *How to Learn About Neighborhoods in a City You Know Nothing About* lesson, and by the end, you’ll have a good idea of how to analyze and choose your next rental area. We will start at the macro level (choosing a city/metropolitan area) and then zoom in to the micro level of choosing a specific neighborhood to invest in.

One quick note before we start: as with anything, you can over-analyze when it comes to choosing an area to invest in. There is no perfect city, so as you go through this worksheet, keep that in mind! As long as the city is solid and meets your requirements, that’s what matters. Don’t get lost in the weeds!

LET’S GET STARTED!

Grab some coffee (and maybe a donut!), your computer, a pen and paper (or a word document)here we go!

Gather information about the city itself

Step 1: Let’s start with the big picture: the city. If you have absolutely no idea where to get started, take a moment to brainstorm some cities that you are familiar with or would like to visit on a semi-regular basis (perhaps once every year or two), or perhaps have heard would make a good place to invest. **Write them down here (list no more than three!):**

Step 2: Choose just one of those cities and then search for the Wikipedia entry for that city. Scroll down to the “Economy” section and look for and record the following information here:

- What are this city’s top industries?
- How many and which Fortune 500 Companies are located here?
- What is the diversity of industry like? Does it have multiple industries or only a few?
- Click on the map. Does this city have an airport?
 - If not, how far away is the closest one?
- Which major interstates run through or nearby this city?

Step 3: Look up the following data at city-data.com (you can also check out usa.com) and record it below:

- What is the population of this region?
 - Has the population grown or declined in recent years?
 - By what percentage?
 - How does that compare to the national average?
- What is the median house price?
- What is the median household income in this area?
- What is the unemployment rate?
 - Has it changed recently? If so, is it going up or down?

Now look over all of this information. Are you satisfied with your discoveries? How does what you’ve learned lined up with *Your Guiding Statement*? Remember, it’s best to look for a city with population growth and varied industries. If your chosen city meets your requirements, then move ahead! If not, go back and go back through the last four steps with a new city.

DIGGING DEEPER

Step 4: Now that you have a city with solid fundamentals, let's find a little more about it and why people want to live here. It's time for some intense Googling! Search for the following phrase: "Should I move to _____ (your potential city goes here)?"

- Check out the results – read the reddit threads and watch some YouTube videos.
- Take notes on the neighborhoods mentioned (both the positive and negative!).
- Pay particular attention to the following:
 - Desirability - what attracts people to move here? What amenities does this city have (e.g., museums, parks, artistic scene, scenery, etc.)?
 - Schools – does it have desirable school districts and if so, where are they?
 - Public transportation – is it necessary for residents of this city to have access to public transportation?
 - Crime rates – does this affect the population growth of the city?

Step 5: What's it like to be a landlord here? Familiarize yourself with both state and local laws and ordinances that would affect your business. To research this information, check out the resources section of [apartments.com](https://www.apartments.com)

- Are there rental restrictions?
- Do you need a license to be a landlord?
- What are the eviction laws like?
- Does this city have rent control?

Narrowing in on a specific neighborhood

Step 6: Ok! Now let's zero in on choosing a specific neighborhood. Go to Zillow (or another similar public-facing website that draws data from the MLS) and look at the city through the lens of a perspective renter. Search for a specific type of property to rent (e.g., a single-family home with 3 beds and 2 baths) and narrow the results to a wide budget range (say \$800-\$2,000 rent/month). Write down the following information:

- In what parts of town are there clusters of rental properties?
- What are the rent ranges within those clusters?
- Write down any observations about the finishes and class of the properties and neighborhoods:

You can also go back and tighten your search parameters (use a narrower rent range), and record how that changes your search results.

Step 7: Let's look at the price to rent ratios of these areas. Go back to your Zillow search and now search for properties that have *sold* recently (note: "recently" is a relative term. Redfin has a great filtering option that limits your search of sales down to as low as the last week!).

Specifically look for properties that sold in those neighborhoods where you noticed the cluster of rental properties. Compare the rent amounts (from Step 6) to the sold prices. This gives you an idea of which neighborhoods might meet the one percent rule.

Step 8: Assess the class of neighborhoods by searching for specific restaurants and amenities. Zoom out to the whole city and search for "Panera". Search again for breweries (where do people hang out? Feel free to ignore the downtown area) and then for gold courses. Do you see

neighborhoods with these amenities? They are likely already developed to the point where it will be difficult to find a good deal. Write those neighborhoods (to avoid) down here:

Alternatively, do you notice areas that are lacking the fancier options, but have stores like Walmart or Costco? Keep track of those neighborhoods below:

Step 9: Let's go back to usa.com to check the map there for pockets of where homes are more (or less) expensive. Do they match up with the class of neighborhoods in Step 8?

Step 10 (optional): Look for information on multi-family properties. Paula recommends using Loop Net (loopnet.com) – it's basically Zillow for commercial properties. Again, you're looking for clusters of properties.

- Where are the multifamily properties located? What major interstates run through or nearby?
- What can you find out about their condition (based on pictures and the upkeep)?
- How does this inform your opinion of those neighborhoods?

Step 11: Further Research. There are so many resources available to help us gather even more information about the neighborhoods within a particular city. Try using a few of these:

- Connecting with fellow YFRP students on the forum threads dedicated to a particular state or city.
- Search Instagram for the city you're interested in, and note particular hashtags that are used in posts. Notice what hashtags are used in posts and use them for further searches. Follow real estate agents and investors in that area on Instagram. Notice what kinds of

properties are listed in different neighborhoods and record them. Avoid the parts of town with listings for very large and expensive homes! Look for neighborhoods where investors are renovating homes.

- Check out Facebook groups – for both investing in this city and people looking for housing.

NEXT STEPS

Once you have an idea what neighborhoods have investment potential, it's time to run some numbers. Search for properties that are currently listed for sale and calculate the cap rate on them.

If at any point in this process, you realize that the data or the numbers don't work for you, because they don't match up with your goals from *Your Guiding Statement*, then pivot! We don't want to fall prey to the sunk cost fallacy! And the next time you evaluate a city's potential, you'll already know what to look for!

Congratulations on choosing an area to invest in! 😊