The 12 Deadly Mistakes Made By Real Estate Investors

And How to Avoid Them!

Ownership of property is the hallmark of free society. Investment in Real Estate can provide an investor with many great benefits such as positive cash flow, tax benefits and sometimes quick capital when a property is fixed up and resold for a profit. However, real estate, like any good investment, has risks. If you purchase real estate as an investment without first considering the numbers, location, market trends, repairs and maintenance, you could place yourself in dire jeopardy!

Many investors buy real estate without first double checking the income figures, comparable property values or even studying the property they are purchasing. Too many investors rely on their feelings rather than hard facts.

Deadly Mistake #1 - Failing to verify Seller's Income Figures - Many sellers or their real estate agents will show you figures that depict a best case scenario. You need to know exactly what kind of return the building is doing right now.

Check out the rental history, payment history, taxes, expenses, repair bills and repairs necessary for continued income. You need to know the vacancy rate and why the rate is what it is. If you believe you can dramatically increase the income of the property, find out why the rental income hasn't been up to par. And make sure you have the right real estate agent who knows income property and rates of return. Your real estate agent should be able to spot obvious problems with condition or possible repairs.

Rule #1 in making money in real estate is always to "buy right". Buy based on the current income or return with an eye toward the potential. Always resell on the maximum potential of the property.

Deadly Mistake #2 - Failing to perform a thorough inspection - Check every inch of the building! Then go back and check it again. You are always wise to hire a professional building inspector. These are people who are trained to look over a building for possible flaws or future problems. Far too many investors buy properties without an inspection. Make this a condition of any offer. Ask the tenants about pest problems or re-occurring problems. Tenants may make a problem sound worse than it truly is, but are a good source of finding potential problems.

Also, when choosing an inspector, ask for references from other investors or from a good real estate team. A top notch inspector can make the difference in finding any potential structural or system problems in the future!

Deadly Mistake #3 - Double check and inspect all documents - New investors may find the list of documents overwhelming. You need to check every single lease on the property. Many investors are blind sided by strange or special clauses a prior landlord placed in a lease.

Go over the purchase contract, all inspection reports, insurance reports, health licenses if any, laundry leases, loan documentation for the purchase, by-laws, title policies, building permits if necessary, zoning laws, and more. Don't attempt to do this alone. The right professional Realtor or attorney can help explain the documentation and verify information.

Deadly Mistake #4 - Double check the zoning approvals - Too often, new investors buy a 3 or 4 unit building, only to be notified by the City later that the property was never a conforming use and the previous owner did not obtain the necessary permits and zoning variances to convert the property to a 3 or 4 unit. In some cases, new investors have had to convert multi-unit buildings back into single family properties at considerable expense to themselves. Make sure to check with the tax assessor's office and zoning authority that the building is a legal and conforming use.

Deadly Mistake #5 - Failing to determine what type of real estate investment is best for you - Do you need a quick return on your investment? Must you make your capital liquid again within a year? Or are you in this for the long haul, creating for yourself an income for the next several years or decades? Whatever your needs, sit down and discuss them first with your real estate professional or financial advisor to determine which direction to take: Property Fix Up and Flip, Property Investment for Return, Property Conversion or Development.

"By aligning yourself with a successful and knowledgeable real estate team, you can significantly cut your risks in investment" according to Theresa Keim of Century 21 Keim Realtors Allentown office.

Deadly Mistake #6 - Failing to understand the difference between cash flow and capital appreciation Are you looking for cash flow or capital appreciation? Do you understand the tax benefits?   Are you looking to get a great cash flow in a building that may not appreciate, although you'll most likely be paying down the principal on the mortgage loan. Or are you looking for something that may not make as much each month, but will appreciate and become a retirement nest egg?

Often urban areas generate the highest cash flow, giving you a great return on investment. Although many urban areas have risen significantly in value over the past few years, many urban areas historically have not had much appreciation. Conversely, some "hot" suburban markets may provide you with the highest growth in property value, but are often bought just above break even, with very little return.

Have your real estate consultant review the different options with you and evaluate your needs so you can make a firm determination.

Deadly Mistake #7 - Don't forget you are buying a business - Whether you're buying a 3 unit apartment building, a 50 unit complex or a parcel of land to develop, you are purchasing a business, not just an investment. Many of the greatest investors in history have made wealth in the real estate market, but along with that potential for wealth is the possibility for hard choices. You may need to decide at some point in the future of re-investing in the property, the amount of time and energy you devote to the property and more.

Deadly Mistake #8 - Failing to have enough insurance – When you purchase investment property, you also purchase the liability of investment property. Adequate insurance coverage is a must! Be sure to consult a professional insurance agent to determine the coverage that you need.

Deadly Mistake #9 - Make sure all Personal Property is included in the Agreement of Sale - Investors often provide appliances and sometimes furniture for their tenants. Make sure a complete list of appliances and personal property is included as part of the Agreement of Sale. The last thing you want is to find items missing when you settle on the property!

Deadly Mistake #10 - Don't attempt to overcharge for rents - An investor's biggest expenses are vacancies and turn overs. Your goal is to keep tenants in your units as long as possible. With the same tenant in a unit for several years, you have less expense in vacancy, advertising expense and utilities. If you charge fair rents, you're more likely to rent more quickly and you're more likely to keep those tenants for longer periods of time.

Deadly Mistake #11 - Not thoroughly checking a prospective tenant - It's far easier to take a little extra time and select the best possible tenant up front than to spend much more time attempting to get a bad tenant back out! Check a prospective tenant's credit, their previous landlord history, financial references and even their employment. Keep in mind that people who jump from job to job often jump from apartment to apartment.

Deadly Mistake #12 - Spending Cash Flow - The most successful investors have properties that are debt free. Keep an account for emergency repairs. Then take the remainder and re-invest that cash flow into the property payment. Speed up the amortization schedule. This decreases your debt load and increases your equity which builds your net worth.

Editor's Note: Loren Keim has been a successful Real Estate Broker with Century 21 Keim Realtors for 22 years, and has assisted hundreds of people to invest in Real Estate. Loren can be reached at his office at 610-395-0393 x206.