

Five Big Mistakes Newbie Apartment Owners Make **by William Bronchick, JD**

"Real estate investing fever" has hit like a plague". Zillions of "newbie" investors are jumping on the bandwagon trying to make a profit after losing big in the stock market. I meet them all the time, and many are making big mistakes!

Mistake #1: Stock Market Mentality

You'd think after losing \$7 trillion in the stock market, people would have learned! Nope, they are making the same mistake, which is assuming that what happened yesterday will happen tomorrow. Nine of ten new investors I meet say they are interested in real estate because they saw someone else make money from the rapid appreciation of the market over the last few years.

Investing is a lot like surfing;
if you don't know how to ride
the wave, you will drown!

But, buying real estate solely for short-term appreciation is often a big gamble! If you buy real estate to hold for fifteen years or more, the chances are that you will come out on top. If you buy a property and flip it in within a year, you'll probably do fine, too. And, despite the risk, many people can intelligently time the "boom" of a local market (or subdivision within a market) and make a profit.

But, if you buy a rental property for full-market price with break even or negative cash flow, you'd better have a backup plan if the market doesn't keep going up. Investing is a lot like surfing; if you don't know how to ride the wave, you will drown!

So, should you refrain from investing if you think the market has peaked? Absolutely not! You can find bargain-priced properties in every market, even the hottest. You can find low-interest rate financing that will increase your cash flow, so if values drop, you still are covered.

You can plan short-term (six to twelve months) because markets rise and fall slowly. And, if you keep a cash reserve for your business, you won't sweat when the market tanks. You know that in the long run, real estate markets virtually always come back.

Mistake #2: Investing Blind

You'd think after losing \$7 trillion in the stock market people would have learned! Nope, they are making the same mistake--blindly buying real estate based on bogus advice or complete lack of education.

Real estate is one of the few investments in which risk is directly proportional to knowledge. True, it has a higher learning curve than investing in the stock market, but there's no proof that having knowledge of the stock market reduces risk (just ask your mutual fund manager).

I read a comment on a real estate discussion group on the Internet. In response to an inquiry as to whether a particular seminar or training program was worth the money, someone answered, "Why waste your money on that stuff? Just use your money as a down payment and learn as you go."

This is probably the worst advice you could ever give a beginner. Money for deals is easy to find if you can find good deals. But, you won't know what a good deal is without having first invested in your education!

The more knowledge of investing techniques, financing, acquisition, negotiating and, of course, your local marketplace, the less risky your investments will be. A bargain real estate purchase will generally always be a safe investment; a bargain stock purchase isn't. After all, who says the company you bought into will be in business next year?

Mistake #3: No Cash Reserves

Ask anyone in real estate long term (or any other business, for that matter), and they will tell you the two most important words for survival are: cash flow. Heck, even K-Mart failed to learn that valuable lesson!

In other words, you can buy real estate without money, you just can't survive in business without cash reserves.

In order to stay in real estate long term, you need cash reserves. Buying real estate nothing down is easy; handling negative cash flow, repairs, and other expenses in the meantime is the trick. In fact, if you can handle the bad times, you will always come out on top.

Lack of cash reserves puts unnecessary pressure on you to do substandard repairs, accept less than qualified tenants, and give into tenants' demands for fear of vacancy. When you have a sufficient cash reserve, you act rationally.

- You hold out for a higher sales price.
- You hold out for a qualified tenant.
- You leave properties vacant rather than accepting unqualified tenants.
- You call a tenant's bluff when they threaten to leave.
- You take care of necessary repairs and improvements on your properties.

It's a whole different ball game than operating from a lack of cash. Like I said, buying properties with no money down isn't hard; it's handling the cash flow. In other words, you can buy real estate without money; you just can't survive in business without cash reserves. Consider accumulating cash reserves before investing in rental properties.

Mistake #4: Being Greedy

Many investors get started flipping properties to other investors, which is a good idea to generate cash reserves. However, you must be realistic about how much profit is in a deal.

If there is a potential for a \$20,000 profit in a rehab project, you can't expect to make \$10,000 flipping that property to a rehabber. A rehabber has a huge risk embarking in such a project and wants a large enough profit to justify the risk.

For example, if a house needs \$10,000 in repairs and the rehabber investor wants to make at least a \$20,000 profit. If you find a deal with \$20,000 in profit potential, how could you expect to get \$10,000 for flipping the property if the rehab investor is only going to make \$10,000?

You should be happy making \$2,500 and moving on to the next deal. If you want to make more than \$2,500 on such a deal, then you must find and negotiate a better bargain that has more profit potential.

Mistake #5: Treating Real Estate as Anything OTHER Than a Business.

People are lured to real estate because of the quick buck it promises. Don't hold your breath-- you won't get rich quick. An "overnight sensation" usually takes about five years. More than 90% of the people who take a real estate seminar quit after three months.

Why the high fallout rate? Lack of action and unrealistic expectations. Investing should be treated with the seriousness of a career. It takes months, even years for a business to cultivate customers and have a life of its own. You need to treat real estate like any other business.

Give yourself at least six months to see if real estate works for you. It may even take a year before you buy your first property. Maybe in the second year you will buy three or four properties. If you work hard at it and keep your eyes and ears open, you may even find your first deal in 30 days. You will not make money by talking or thinking about it; you must go out and take action.

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