

The 23 Most Costly Mistakes Investors Make And How to Avoid Them – Part II

by David Lindahl

Mistake #5: Not Screening Tenants for Eviction Risk

Always screen your tenants. It's crucial to your survival as a landlord. The landlord who doesn't screen his tenants is the one who gets the worst tenants, because the worst tenants can't get an apartment from anyone else because everyone else does a background check! Sure, there aren't too many people out there with perfect credit, but perfect credit isn't the concern. Your primary concern is whether or not they have been evicted. If they have been evicted once, they know how to play the eviction game and will do it again. Your biggest cost as a landlord is turnover. Every time you turn a unit over, you usually lose a month's rent plus the maintenance or repair cost to get the unit back into shape. If you have to evict a tenant, the process could take up to six months, depending on which state you live in. It takes longer to evict in most northern states than it does southern states.

Whether it's one month or six months – that's your cash flow! Once gone, it's gone. Sure, you'll probably be awarded the amount when you go through eviction court, but trust me, you will almost certainly never collect it.

Be smart. Do an eviction background check on all of your prospective tenants. When you order a credit and eviction report together at AOA, the cost is only \$10.00! But, you don't even pay that. Have the prospective tenant give you an application fee at the time they apply for the apartment. This will cover your cost. If you set the application fee at the maximum allowed, (currently approximately \$33), you can do a criminal report as well.

Mistake #6: Paying for Construction Cost Before 100% Completion

You'll make this mistake and you'll soon wish you hadn't. Paying for a construction job before it is 100% complete gives the contractor no incentive to return to finish the job. You'll get frustrated and angry as you waste your time chasing a contractor who is spending his time trying to finish jobs that he hasn't gotten paid for yet. Even if he has the best intentions, in his mind when he is paid, the job is done. There is no pain in not showing up again and he is now focused on his next pay day. Never make that last payment until the job is 100% complete, no matter how many promises he makes about coming back; no matter how small the task is that is left; no matter how much he needs the money now! If you do, assume that you will have to finish the job yourself or pay someone else to.

Mistake #7: Paying Full Price for Late Repair or Construction

You must always use the contracts when working with contractors and you should always have a late penalty clause that punishes the contractor a certain amount of money each day, usually \$100 when he does not finish on time. This is how construction companies are run: the owner hustles and gets as many jobs as he can. He then begins all the new jobs while he is in the process of completing his old jobs. At first, he pays you and your job enough attention to keep you happy. But soon, because he has been paying you

attention and has not been taking care of his old customers, they become angry and start calling him. So, he runs back and does a little more work on their job.

Now, you are getting angry because he has not been at your job and you are behind. So he comes to your job for a couple days and you are once again happy. While there, he has picked up a few more jobs and he goes there to start those jobs and make those people happy.

Once again, you become angry so he comes to your job for a day. But, a day is the most he can spend because he has to go to his older customers who are even angrier than you. Can you see the cycle? The contractor goes from job to job, trying to avoid the pain of unhappy customers. You must institute pain in the form of a penalty clause. If the contractor is going to be losing \$100 a day for every day he is over his scheduled finish date on your job, do you think that is sufficient pain to get him to complete on time? You bet it is! Call him and leave nasty messages, send him disgruntled letters, hunt him down at his other job sites – do all of this in an attempt to get him finish your job and you may not be successful. Take money out of his pocket and you will have his full attention. How do I know this? I've done 488 rehab projects. That's how I know. **Always negotiate a penalty clause.**

Mistake #8 – Allowing Your Real Estate Business to Run Your Life

We all get so wrapped up in the thrill of real estate investing (once you start buying, selling and cashing those big checks you will know what I'm talking about), that it begins to become all-encompassing. We have cell phones and pagers so we don't miss a call. When the phone rings at our home office, we go running like a bat out of hell from the dinner table because this could be the Next Big Deal.

We take calls from contractors and suppliers at all hours and somehow especially on Sunday nights. We allow tenants to have us at their beck and call because we fear that if we don't say "how high" when they "jump", they will move out.

Before we know it, our lives are consumed with nothing else. We left our jobs so that we could stop working for The Man and be our own boss. Now we've come to realize that we are working for a much worse boss, a tyrant. That tyrant is ourselves.

How does this happen? It happens because we don't efficiently plan our businesses. I talked about planning earlier in this report. One of the benefits you will achieve from planning is that you will be able to create systems and checklists to control your real estate investing business.

Once these systems and checklists are in place, you will know what needs to be done any situation. You will look at the checklist daily to review what has been accomplished and what still needs to be done. You should have checklists for every aspect of your business. Here are some key checklists:

- Property Evaluation: Buying right, market analysis, property analysis
- Property Inspection: Estimating repairs, formula worksheets, room-by-room analysis
- Contractor Management: Bid process, contracts and agreements
- Renovation Management: Cash flow, required activities, scheduling and contractor management
- Tenant Management: Application process, move-in process, lease and contracts

These are just a few of the many checklists and systems that you'll need to create and use on a day-to-day basis. Then you'll be running your business and your business will not be running you.

One of the benefits of systems and checklists is that – as you grow your business and hire people to work for you – you'll train them by teaching them how to use the checklists and systems. You will train them to complete the tasks associated with each system and checklist. You will supervise them by revising the systems and checklists that they are working on. This is the fastest way to grow your business.

To get help on systemizing your business, read Michael Gerber's book, The E-Myth. It's a great book that will teach you how to look at your business in its proper perspective. If you don't want to create all of those systems and checklists yourself, find someone who already has a successful real estate investing business and find out what they are using. The sooner you systemize, the sooner you will be free to make choices based on what you want to do instead of what your business needs you to do. (*Continued next month.*)

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