

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

by David Lindahl

Continued from last month...

Mistake #9: Over-Improving a Property to Flip or Rent

We can all renovate a house and have it come out looking like the Taj Mahal, but that will not put the most profit in our pockets. You should put out a quality product and do your repairs properly. You shouldn't cut corners or hide defects in a house. At the same time, if you're renovating a \$75,000 house, you do not want to install marble floors, Corian counters and replace the exterior siding with clapboards. You want to do the repairs that will give you the biggest return for the money.

If you're repairing a rental unit, you should use materials that will last. Plastic commercial tile floors for the kitchen and baths are better than the 12 x 12 stick-ons; commercial-grade carpet and countertops are designed to hide cuts and dirt. If you're renovating a house for resale, you want to focus on the kitchen and baths. Spend all of your extra rehab money in these rooms, because these are the rooms that will sell your house. They should be bright, clean and shiny.

Bring the house back to a like-new condition without making everything new. It's amazing how a little paint and cleaning can change the appearance of a house or an apartment. When planning your repairs, repair anything that is broken or outdated, but don't go around the house installing all new cabinets and counters if you don't need them.

Remember, make it nice and put out a quality product, but at the same time, keep in mind that you are not going to live there. The people who buy the house are most likely going to make changes anyway.

Mistake #10: Running Out of Cash

Picture this: You've bought and sold your first house and made a nice profit. You're in the middle of your second rehab and you're purchasing your third deal. Your marketing is paying off as the fourth deal comes around; it promises even more profits than the first three. But now you've got a problem – you've run out of cash! You can't buy that fourth deal or any other good deal that comes down the line until you rehab and sell the second and third houses.

This is the old Cash Crunch and don't let it happen to you. You should be putting down as small a down payment as possible when you purchase your investment properties. You want to use leverage (other people's money) to your advantage and accumulate as much property as you can, while using as much of other people's money as possible. How do you do it? Establish a relationship with a hard-money lender as soon as possible. Sure, the money costs you more. But, you'll factor the costs into the deal when you make your offer, so your profit is still where you want it to be.

Hard-money lenders have an endless flow of cash that they will be happy to lend you as long as you bring them deals that make sense. They don't care about your credit history; they care about the numbers and the quality of the deal.

A hard-money lender will lend you up to 65% of the after-repaired value of the property. If you're negotiating the right types of deals, this should be all the money you need to purchase the house and do the repairs. If your numbers are not working out, perhaps you're focusing on the wrong type of sellers.

Remember, you should only be focusing on motivated sellers – people who for one reason or another must sell their property in a short period of time. Develop effective methods to have these sellers consistently contact you, and you're on your way to becoming wealthy.

Mistake #11: Forgetting About Asset Protection

You spent all those hours studying books and tapes, sifting through countless numbers of potential sellers and inspecting every type of house imaginable. Through your own persistence you've put deal upon deal together and built a substantial portfolio of properties, not to mention a sizable bank account – only to have some idiot sue you for something stupid and take it all away from you.

You should learn about asset protection just as diligently as you learn about real estate investing. You must not hold any assets in your name. Whether it is real estate, bank accounts, automobiles, boats or businesses – this should be your goal: If an attorney does an asset search with your name in it, he should come away thinking you're a deadbeat. Each of your properties should be purchased in a trust or corporation. Your bank accounts should also be in trusts. Your home, automobile, boats, etc. should all be hidden in asset protection devices. Speak with an asset protection attorney to find out which asset protection vehicles you should be in.

Mistake #12: Over-Analyzing a Property

Have you looked at 10 or 20 buildings but just can't decide which one would be the best deal? Or have you sat looking at the numbers, changing this and changing that to cover every possible scenario that this investment might take? Maybe you keep running the numbers to make sure that you're not missing anything. This is called Analysis Paralysis. The real reason you're not buying is fear. Find a way to get over the fear! Re-read Mistake #1 and move forward.

The only way to know if your analysis is correct is to purchase the property, do the rehab and either keep it in your portfolio or resell it. Then and only then can you compare your initial estimate with actual costs. Of course, I'm assuming that you have had some training and that your analysis is based on proven formulas.

Now you have a yardstick to measure by. Now you have one property under your belt and now you have some experience playing the best of all games – real estate investing. The fear is gone and you're ready to conquer the world.

It took me nine months to purchase my first property after I read my first real estate investing book. I was ready to buy after reading that book, but I was afraid. So, I began reading everything I could on real estate investing. I bought all the books and tapes and went to all the seminars. By the time I bought that first house, I had an encyclopedia of real estate knowledge in my brain.

During those nine months, I passed up a lot of great deals that I was too afraid to buy because I was over-analyzing. I could have bought my first property after I had read that first book. All I had to do was use it as a guide and follow it step-by-step.

Unfortunately, I passed up a lot of money in lost profits. After I bought that first property, within three months I had three more. Within six months, I had nine properties. After the first year, I had eleven! Go get your first deal. The rest will come more easily. The world is yours to take, but they're not giving it away. Go get your share.

Mistake #13: Becoming Friends with Tenants

When you rent a property to a tenant, the two things you should be looking for are respect and rent. If the tenant will not respect you or your property, then get rid of him. You should keep your relationship with your tenant on a businesslike level. You provide a safe, clean, well-maintained living environment. They pay you rent for the privilege of living in your building. Sure, some people are nice and it's nice to be nice to people. But, the last thing you want to do is start up a friendship and start hanging around with your tenants.

Here's why: When you make friends with your tenants, you become a little more reluctant to raise the rent when you know you should. When you do raise the rent, you don't raise it as high as you should. After all, how can you raise the rent on "Joe and Marcy"? They are your pals and you don't want to hurt their feelings or worse...lose their friendship. You cheerfully provide them with maintenance calls on nights and weekends and don't charge them for your time. They start paying the rent a little later and later. Before you know it, they are a month behind and you haven't started the eviction process! You make concessions to your "friends" that you normally would not make to any other tenant. You let them paint a room an odd color. You replace a carpet that you normally would have waited another year to do. You do a lot of little things that end up costing you a lot of money in the long run – all in the name of friendship. Friendship and business don't mix. Don't become emotionally involved with your tenants. You will be the one who loses. I'm not saying don't be *nice* and I'm not saying not to *care*. I'm saying don't become friends. Keep your tenants your tenants. If you want new friends, join a social club (like a real estate investment group!).

Mistake #14: Underinsuring a Property

Always properly insure your properties and don't play games with your insurance. Your insurance is there to protect you against bad things happening to you and your property. Some investors try to get away with getting an occupied homeowner's policy while they are rehabbing a property. A homeowner's policy will only pay a claim if you can prove that someone was living in the property at the time of the claim. If you have a fire or some other claim on the property, the first thing the insurance adjuster looks for is a bed, blankets, cleaning supplies in the shower and food in the fridge. If he doesn't find these things ... game over...the claim does not get paid.

I know some investors who have tried to "stage" their houses by putting these items in. I also know an investor who lost \$62,000 because an insurance company did not pay his claim. They determined that no one was living at the property even though he had his property "staged". They also threatened to bring him up on charges of insurance fraud. A policy on a vacant dwelling costs a few hundred dollars more than a homeowner's policy but it is well worth it.

Do you want to know how to legally get the most money from your insurance company for your claims? Call your local Public Adjuster (find them in the phone book). It is his job to fight on your behalf to get what is rightfully yours from your insurance company. The insurance company's adjuster will try to pay out the least amount possible for the claim. That's *his* job – to save his company money. The Public Adjuster reviews your policy and gets you everything that you are entitled to - based on your policy. Isn't this what you pay your premiums for?

You will pay the Public Adjuster about 10% of whatever amount he gets for you, but he is well worth the rate. I can tell you that my Public Adjuster got me \$36,000 for a fire while my insurance company was only going to give me \$12,000. I had a house with a freeze-up once (pipes froze in the winter; in the spring the pipes burst causing damage in the walls and ceilings). The insurance company would only give me \$8,000 but my Public Adjuster fought and got me \$16,000. I have many similar stories.

Get the proper insurance coverage for your properties and if you have a claim, get a Public Adjuster. (*Continued next month.*)

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