

The 23 Most Costly Mistakes Investors Make and How to Avoid Them – Part IV

by David Lindahl

Continued from last month...

Mistake #15: Ignoring Cash Flow

Happiness is positive cash flow. Whether it comes from the money left over when you pay all your expenses from your rental properties or at the end of a rehab and you're under budget and get extra profit.

Regardless of how you receive it, you should be watching your cash flow at all times. Ignoring your cash flow is a fatal error. Your profits do not go away in chunks; they go away a little at a time – a little here and a littler there. Before you know it, you are in the red.

When doing a rehab, you should be tracking your expenses and checking each day to see that you are on budget. When you start to deviate, find out what the problem is and then compensate somewhere else and put yourself back on course.

Many an investor has gone to a closing and gotten a check for \$30,000 to \$40,000 only to find that after he tallied up the rehab cost, only \$1,000 to \$5,000 of that money was his. If he had watched his cash flow throughout the job, he would have kept a much larger chunk of that money in his pocket.

When holding properties in your portfolio, once your property stops cash flowing, you must find the problem *immediately* and rectify it. If you don't, you'll end up coming out of pocket to keep that building afloat. Can you imagine paying for tenants to live in your building?

A careful eye on the cash flow will put more money in your pocket, give you more money to purchase other properties and will allow you to become wealthier, faster.

Mistake #16: Punishing Bad Tenants Without Rewarding Good Ones

Bad tenants seem to get most of your attention, but it is the wise landlord who recognizes the good tenants with something of value for being good. If you are already a landlord or will be in the future, sooner or later you will receive a call from another landlord verifying the background on one of your good tenants. The entire time that tenant was with you, the rent was always paid on time, the apartment was kept neat and clean and not a complaint was heard. As a matter of fact, you forgot they even existed. That's why they are moving.

Give your tenants simple rewards to show them you appreciate them. Here are some inexpensive ways to show good tenants that you care. For anyone who has paid rent on time for the entire year, consider giving them a turkey for Thanksgiving, painting a room or give them new carpet in one of their rooms.

The cost of turning over a unit is much greater than any of the three things I just mentioned. Be creative when rewarding your tenants; how about ice cream cone certificates in the summertime? Your tenants will like and respect you and your turnover rate will be lower.

Mistake #17: Permitting Tenant Problems to Spoil the Positives of Real Estate Investing

As mentioned in Mistake #16, you must recognize good tenants but punish the bad. One reason people burn out of the real estate investment business is from tenant headaches. They allow tenants to control the relationship and the tenants turn the owner's life into a living nightmare.

When owning investment property, the first thing you have to learn is to control your tenants. If you do not, you will not be in this business for long. Right from the get-go, explain to the tenant how your relationship will work. They must respect you, the property and the neighbors. In turn, you will provide a safe, clean and well-maintained roof over their heads.

Let them know your rules. Cleanliness is not an option. The neighbors will not be disturbed after or before the quiet hours. Rent will be paid on time. Tenant damage (i.e. clogged toilet, hole in wall, etc) will be paid for by the tenant immediately upon repair. Let them know what the consequences will be for breaking your rules. The main consequence will be that they will be evicted immediately. Then follow up and make sure they are following your rules.

The first sign of them breaking the rules must be dealt with swiftly and measurably. This will set the tone for the rest of your relationship. If you carelessly enforce your rules, you will not have control of your tenants. You don't have to be nasty angry or unpleasant. Simply take a tough but fair attitude in all of your dealings with your tenants and you will enjoy years of positive cash flow.

Mistake #18: Letting Rent Collection Get Personal

Property ownership is a business. Treat it as such. You are going to have turnover; a certain number of your tenants will be slow payers; and every once in awhile you will have someone stiff you.

Don't take it personally. I know a landlord who got so angry with a tenant who could not pay his rent and would not move out of the apartment that he went over to the apartment with a baseball bat and busted the guy up. Not only does he now have a criminal record, but it cost him \$60,000! That was the amount awarded to the tenant from the judge.

Like most everything in life, real estate investing is a numbers game. If you screen and train your tenants properly, you can tilt the numbers in your favor. They are the activities you should focus on. However you do it, don't take it personally.

Mistake #19: Only Looking at Properties When There is a Problem

A lot of landlords only go to their properties when there is a problem. The trouble is, by the time a problem arises, you usually have many more problems to deal with – along with the problem that originally brought you to the property.

You should have a maintenance plan in place so you're in your property at least once every six months. When you get a new tenant, you should inspect their unit within the first two months. You want to make sure the tenants are treating the property with respect. You want to point out any damage that they may have caused and tell them that you will be sending your maintenance man over to fix it and much it will cost them. Do this at the beginning and it will set the tone for your relationship with the tenant. Then every six months or so, you'll want to do another inspection. You can either

schedule it or surprise them. (Most states require a 24 hour notice to enter). I like to surprise them; then I know exactly how they are living.

You'll want to check the plumbing inside the units for water leaks. The most common profit-losing problem is a toilet that will not stop running, or a dripping sink. In no time you could be faced with large water bills.

Make sure tenants are not throwing trash all over the yard or leaving unregistered cars on your lot. Once trash starts piling up, it attracts more trash. Pretty soon your property is the neighborhood junkyard.

Periodic inspections will save you money and tenant turnover. Then, when problems arise, they will not be big ones.

Mistake #20: Missing Out on Special Grants, Loan Programs and Tax Incentives

Many cities and towns give investors incentives to rehab properties in certain parts of the city. This is usually done through revitalization programs. There are certain parts of a city that are targeted with federal, state and/or local funds. This money is often given out as low-interest loans to investors who are willing to rehab these properties.

There are also municipal, state and federal loan programs offering low-interest loans. Forgivable debt may be available for investors looking to do work on rundown properties in rundown parts of a city.

There are tax incentives available from time to time at the municipal, state and federal level. The incentives are designed to attract investors into a city that is in decline to help it turn the corner in its economic development.

Sometimes, a city is allotted a certain number of funds for rundown areas. In order to get funding for the next year, they *must* spend the funds they have this year, so the city may be more than willing to give the money out.

You will find out about these programs by calling the Office of Economic Development in the state, city or town you are interested in. If they do not have an office of economic development, talk with the office of whoever is in charge of the department, whether it be the mayor's office, office of the selectman or governor. The money is there – don't miss out.

Mistake #21: Inability to Sell a Rehab property or to Rent a Rental Property

There's nothing worse than doing a great job on a rehab or making an apartment spit shine and not being able to sell or rent it. With all of your profit sitting in the building or in a vacant apartment, you must develop the skills to resell a property or unit. You've learned the skill of finding motivated sellers and you've learned the skill of rehabbing a property. Perhaps the most important skill is the ability to resell – because that's when you get paid.

Your marketing should start the day you purchase the property. Go to the neighbors and tell them that you are fixing up the property and you'd like them to choose their next neighbors. Have them give you a call with the names of any friends, relatives or coworkers who might be interested in buying.

Next, put a sign up that the property is for sale. Sure, it might not be ready yet and some people will not be able to see through the rehab to see what it will look like when it is completed. But some people will be able to see the end result through a clutter and will be happy to put the house under contract.

If you're afraid to show an unfinished house to a buyer because you don't think the buyer will buy, don't worry about it. By the time you finish the house, the buyer who might have bought it will have bought something else so, you would have lost them anyway. Show that house as soon as possible!

When renting apartments, you usually have 30 days to find another renter. Use this time to contact the other tenants to help you find a new tenant. Again, ask them if they would like to choose their next neighbor. Don't stop there; give them an incentive, like \$50 off their next month's rent if they bring you the next occupant.

Send postcards to other properties that are like yours. State the benefits of living in your building. Many people will move just for the sake of change. Because they are already living in a similar building, you know they will like yours.

Put an ad in the paper and hold an open house. Be creative and start early. Empty buildings and empty apartments cost money!

Mistake #22: Not Thinking of Tenants as Potential Buyers

Who else is a better candidate to own your property than the people who have been living in it and taking care of it already?

Your selling expenses will be minimized since you won't have to do any advertising, open houses, showings or hiring of real estate agents.

Maybe you'll want to institute a lease with option to purchase. You can take a small amount of rent and put it toward the down payment. They will take better care of the property and you will be guaranteed to get your rent on time. That's because in your option agreement, you will state that if the rent is not paid on time, the option is not valid. If you're savvy, you'll also get a non-refundable option fee. There are many good courses and books that will teach you how to do lease options. Educate yourself.

If you do a lease option, make sure you have a lease agreement and an option agreement. Doing this will protect you from a tenant bringing you to housing court because you would not return their security deposit which, was actually their option fee. Many a tenant has won this complaint because the lease agreement and the option agreement were contained within the same document.

Whether you have a lease option agreement or just a good tenant, sell your buildings to your tenants whenever possible and pocket all of the extra cash!

Mistake #23: Renting to Relatives

Want to ruin a good relationship? Rent to a relative. Not only will they take liberties with your property but – just like when you become friends with your tenants – you tend to let your rules slide a little.

If you thought it was going to be hard to raise the rent on a friend, try raising it on a relative. You'll be the talk around the Thanksgiving table. You'll become the Scrooge of the family.

Then try to *evict* a relative and justify it to the rest of the family. "Wealthy real estate investor uncle evicts poor cousin who can't afford the shirt on his back". You're in a no-win situation. You're better off biting the bullet up front and tell them that your policy is not to rent to relatives. That way, no one gets in and their feelings are hurt just a little bit and just for a few days. If you let them in, you could be hurt for a much, much longer time. **There are plenty of good tenants out there. Relatives are the worst!**

Every investor I talked to had two or three war stories for each of the 23 mistakes that I have mentioned. I have more than a few of my own. As you continue investing in properties, keep this list handy. Read them from time to time and when you start to see one of these situations unfolding, avoid it.

Of course, you will make your own mistakes and you will probably be guilty of making one of the 23 at some point. But supplied with the knowledge you have just gained, you have considerably lowered the risk of losing when you should be winning.

Dave Lindahl, also known as the “Apartment King” has been successfully investing in single-family homes and apartments for the last eight years. He is the author of four popular, money-making home study courses. He also teaches live events to overflow crowds across the country. He can be reached at dave@real-estate-fortune.com or visit his website at www.real-estate-fortune.com. This article may not be reprinted without permission of the author.