The Top 16 Mistakes Most New Investors Make

Stop Losing Money

with this Special Report on Costly Mistakes

by Zack Childress

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Not Having a Plan

The fastest way to get from point "A" to point "B" is to have a plan. The fastest way to earn one million dollars or more in real estate investing is to have a plan. You've got to plan your marketing, plan your purchasing, plan your renovation work, and plan your resale, plan, plan, plan….

The fastest way to go broke…the fastest way to lose a lot of money…the fastest way to be forced out of the investing business is not to plan. Many successful investors found themselves working very hard in their investing business for a year or two or even three, but not really getting anywhere. It was only after they started sitting down once a day to plan their activities did they start making real progress in their investing business.

Plan your real estate investing with the same philosophy. To get from where you are now to one million dollars, you have to plan to perform certain activities and meet certain milestones (buoys) to connect the dots, to get to your goal.

Without your goal constantly in mind, you will drift aimlessly and unprofitably, like a sailboat without a rudder, until you begin to plan properly.

After you start planning consistently, you will realize that any time your business starts getting chaotic; you'll pause and realize that you've gotten away from your planning. The fastest way to get order back into your business is to begin planning again.

If your business or life is chaotic now, start planning. When you begin the planning process, you won't suddenly wake up tomorrow and start planning every day for the rest of your life. (If you could, you would become an awesome money-making machine.) but alas, we are all human and we begin by planning a little, reaping the rewards, getting away from it, becoming chaotic again, then going back and planning a little more. It's just human nature.

Not Requiring Written Repair Bids Every Time

Almost all problems with a contractor or his performance can be traced back to the fact that investor didn't have a written repair bid signed by the contractor.

This is what happens: You reward a job to a contractor and when he gets on site and begins the work, you realize that it is not what you had expected. After you talk with the contractor, you realize that it is exactly what he expected, though. A written repair bid eliminates any confusion because the bid states what the contractor will do, and what materials he will use. You then both know what you hired the contractor to do.

Without a written bid, sometimes there is also confusion on the price. The contractor "forgets" what the agreed-upon price was, and needs help remembering because the figure that he now thinks is correct is higher than his original bid price!

This is why you should always have a contract signed after you award a contractor a bid. Within that contract will be the "Scope of Work" addendum. The "Scope of Work" addendum specifies what work will be performed, and what materials will be used. This information is taken directly from the written bid sheet. The contract will also specify the total dollar amount of the contract. Your contract should also include a Clean Up clause, Damage clause, specify who is responsible for getting the permits, a Late Performance clause, and a Payment Disbursement addendum, among other clauses and addendums.

Another reason to get repair bids in writing is so that you can compare this contractor's bid with the other bids that you have received from other contractors, to make sure that you are comparing "apples to apples". If one contractor is lower but has omitted from the bid a couple of items that need to be completed, then maybe he isn't lower after all.

Always get your repair bid in writing and save yourself a big headache.

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 in southern states.

Whether it's on month or six months…that's your cash flow! Once gone, it's gone. Sure you'll probably be awarded that 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. It's easy if you use national Tenant Network. It's a nationwide service that provides background checks for landlords. An eviction check will cost between $10-20 (a credit and criminal check cost more). But don't you pay it! 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 higher than the cost of the background check, you can even make a little money, too!

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 now focused on his next payday. 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 to.

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.

Once these systems and checklists are in place, you will know what needs to be done in 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, leases 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.

Over-Improving a Property to Flip or Rent

We can all renovate a house and have it come out looking like the a castle, 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.

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.

Forgetting About Asset Protection

You spent all those hours studying books and tapes, sifting through countless numbers of potential sellers, and inspecting 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 sizeable 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 be real estate, bank accounts, automobiles, boats, 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…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.

You've worked too hard for yourself and your family, to have some idiot come along and remove even one dime for your pockets.

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 : "Waiting Too Long to Start Real Estate Investing", 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.

The world is yours to take, but they're not giving it away! Got get your share.

Underinsuring 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.

A policy on a vacant dwelling costs a few hundred dollars more than a homeowner's policy, but it is well worth it.

Get the proper insurance coverage for your properties, and if you have a claim, get a Public Adjuster.

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. When you start to deviate, find out what the problem is, then compensate somewhere else and put yourself back on course.

Many investors have gone to a closing and gotten a check for $30-40,000, only to find out that after he tallied up the rehab cost, only $1,000-5,000 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 the pocket to keep that building afloat. Can you imagine paying for your 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.

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 the 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 that 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 how 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 another inspection. You can either schedule it or surprise them. I like to surprise them; then I know exactly how they are living.

You'll want to check the plumbing inside the units and in the basement 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.

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 if often give out as low-interest loans to investors that 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 law. 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 government, whether it be the mayor's office, office of the selectman, governor….

The money is there; don't miss out!

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 your entire 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 your 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 that 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 the 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, and so you would have lost them anyway. Show that house as soon as possible!

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 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!

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 building to your tenants whenever possible, and pocket all of the extra cash!

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 fur 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.

<u>There are plenty of good tenants out there. Relatives are the worst!</u>

Thanks,

Zack Childress

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WHAT IS A MENTOR?

Someone that has heard what you have not.

Someone that has seen what you have not.

Someone who knows what you do not.

"Your success depends on your willingness to be mentored by a person that cares about your future and success in life"

You will seldom improve your situation if you have nobody to copy but yourself!

If you see someone doing something you currently cannot do, they simply know something you don't know! Pick up a book or Get a MENTOR!!!!!!!!!

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