

# **Avoiding Costly Real Estate Investment Mistakes**

**By**

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## Introduction

After more than twenty years of successfully investing in real estate, I have learned plenty from my own experience but also from other people. I always felt that I could learn from those who have been successful before me - doing the same things that I wanted to do – and become more successful much faster as a result.

My learning has come from books, videos, workshops and conferences. But one of the most significant things I do is to seek out successful people to find out how they do what they do.

When talking to these individuals, I particularly want to know what their biggest mistake was when they first started and, looking back, what could they have done to avoid it? I have heard about many cringe-making moments in real estate investment. Ultimately, successful people showed incredible courage at sticking to their goals.

It always fascinated me how successful people proved they could overcome tremendous adversity. In fact, the biggest-single quality that each of these investors possess is that when they encountered difficult times, quitting was not a solution for them. They stuck it out and turned each one of their mistakes into a valuable lesson, not to be repeated.

Picking yourself up after a disastrous experience usually makes you stronger. Learning from others' experiences also makes you better able to handle adversity. That's why I'm providing a list of some of the most costly mistakes real estate investors can make. I present these mistakes so that other investors can put them to use. May you prosper with these tidbits of wisdom.

## **The List**

1. Working Without a Plan
2. Waiting too Long to Start Real Estate Investing
3. Over-analyzing Property
4. Over-Improving a Property Bought to Flip or Rent
5. Paying for Construction or Repairs before Work is Complete
6. Paying Full Price for Work Completed Late
7. Not Getting Written Repair Bids
8. Not Screening Tenants for Eviction Risks
9. Not Charging Tenants for Damage
10. Becoming Friends with Tenants
11. Punishing Bad Tenants without Rewarding Good Ones
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13. Permitting Tenants' Problems to Spoil the Fun of Real Estate Investment
14. Letting Your Real Estate Business Run Your Life
15. Running Out of Cash
16. Ignoring Cash Flow
17. Forgetting About Asset Protection
18. Underinsuring Property and Risk
19. Only Looking at Properties when there is a Problem
20. Missing Out on Special Loan Programs
21. Not thinking of Tenants as Potential Buyers
22. Renting to Relatives
23. Inability to Sell a Rehab Property or to Rent a Rental Property

## **#1: Working Without a Plan**

The most efficient way to earn one million dollars or more in real estate investing is to have a plan. You've got plan the purchasing, the renovation, the marketing, the re-sale – every main activity has to be strategized in advance.

Conversely, the fastest way to lose a lot of money is to not do any planning at all. Many successful investors found themselves working very hard in their investing business for a year or more, but generally not getting very far. It was only after they began to plan their activities that they began to make any real progress.

To get from where you are to earning one million dollars, you have to determine what activities to undertake and identify the milestones you have to reach in order to reach 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 realize that you've gotten away from 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. 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. However, each time you get away from planning and then go back again, you are taking a giant subconscious leap forward to successfully embedding planning into your business and your life. There's a general rule of thumb that it takes 21 days to create a new habit. Start your planning habit today.

## **#2: Waiting Too Long to Start Investing**

Getting started is one of the biggest hurdles for real estate investors. The reason people don't start investing earlier is fear. Fear takes many forms, but the three most common forms are the fear of failure, fear of success, and fear of the unknown.

When I first talked about getting into real estate, my family laughed at me, thought I was a fool to consider such a thing. As a matter of fact, most of the people that I shared my dream with warned me against real estate investing. Of course none of them had done it themselves! But all were willing to share their bad investment stories of someone they knew who tried to make money in real estate.

They usually had all sorts of "what ifs": What if you cannot do the repairs? What if someone gets hurt on your property and you get sued? What if you can't make the mortgage payment? What if you cannot resell it after you buy it? What if you cannot resell the property after you buy it?

If I listened to them, I wouldn't have made my first real estate investment. I wouldn't have made my first million dollars either.

When I bought my first property, the fear of failure was pretty high, so I decided to reduce that risk by learning as much as I could before I bought that first house. And it worked! Knowledge is a powerful antidote to ignorant fear.

Another common fear is fear of success. For many reasons - and almost all of them deal with the past - the fear of success haunts many people, because they feel undeserving of the success. I can remember many times in my own life when each time I got close to a big success, I always managed to find a way to sabotage myself. I did this subconsciously because in my mind, I was not worthy or deserving of the prize. After closer analysis, I realized that these feelings originated from things that I had done in my teenage years that made me feel undeserving as I went through my twenties. It was only after I confronted these demons, learned to understand and accept them was I able to fulfill my true potential and begin capturing and enjoying success.

If you suffer from the fear of success, it's time to face whatever problem you had in your past, understand what it is, and why it happened. Come to terms with it so it doesn't continue to affect your future. The most powerful thing you can do for yourself is forgive. Whether it is yourself or someone else, all of your power is in your ability to forgive. Forgive and move on. Forgive today, and enjoy your success tomorrow.

The fear of the unknown is the last of the big three. Who wants to go into a dark room? Who wants to go to a party where you don't know anyone? Who is not nervous about buying their first investment property? Whenever the outcome is uncertain, fear raises its ugly head.

In real estate investing, the way to conquer fear is through knowledge. The way to get knowledge is to read books, listen to tapes and network with people who are already doing what you want to do. Prepare yourself for battle and you will be victorious. The easiest way to prepare is to follow someone who's been in battle already. Why get the scars yourself?

Universal among the other real estate millionaires I talked with is the wish that they had conquered their fears earlier. If they had just started earlier - whether it is six months, one year, or more, they all realize that they would have been that much wealthier today. They realized that after they took action, their fears went away. They learned what they needed to learn, to successfully invest and became wealthy as a result.

### **#3: Over-analyzing Property**

Have you ever found yourself looking at a dozen buildings or more without being able to decide which one was 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 'Paralysis by Analysis'.

The real reason you're not buying is fear. Find a way to get over the fear! 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 with which to measure performance. 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 six 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 six 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 nine months I had five properties. After the first year, I had eight! 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.

#### **#4: Over-Improving a Property Bought to Flip or Rent**

It doesn't take a genius to renovate a house so that it's a candidate for an architectural magazine - it just takes deep pockets. The problem with this approach is that it's not terribly profitable.

Of course 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, granite 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-on tiles. 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.

### **#5: Paying for Construction or Repairs before Work is Complete**

Paying for a construction job before it is 100% complete gives the contractor no incentive to return to finish the job or finish it well. 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 yet been paid. Even if he has the best intentions, in his mind when he is paid, the job is done. There is no pain for the contractor in not showing up again, and he is now focused on his next payday. Never make that last payment until the job is 100% complete, no matter how many promises are made or how small the task that is left or how much the contractor needs the money now! If you do pay before all work is complete, assume that you will have to finish the job yourself, or pay someone else to do it.

### **#6: Paying Full Price for Work Completed Late**

Always use contracts when working with contractors. Contracts spell out the exact work to be performed, when it will be completed by and how much you pay for these services. You should always have a late penalty clause that punishes the contractor a certain amount of money each day that he does not finish on time.

This is how most construction companies are run: The owner hustles and gets as many jobs as he can. He then begins all of 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 now 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 it is sufficient pain to get him to complete on time? You bet it is! Call him and leave him nasty messages...send him disgruntled letters...hunt him down at his other job sites....Do all this in an attempt to get him to finish your job, and you may or 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 many rehab projects. That's how I know. Always negotiate a penalty clause.

### **#7: Not Getting Written Repair Bids**

Most problems with a contractor can be traced back to not having a written repair bid signed by the contractor. This is what happens: you award 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 though, you realize that it is exactly what he expected.

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, there can also be 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 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.

### **#8: Not Screening Tenants for Eviction Risks**

Always screen your tenants. This should be a rule written in stone. 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!

Of course 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 the local regulations. Whether it's one 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 it is unlikely you will ever collect it.

Be smart: do an eviction background check on all of your prospective tenants.

### **#9: Not Charging Tenants for Damage**

Consider this scenario: a tenant damages your property and you send a contractor to fix the damage. If you do not charge the tenant for the repair, you have just told that tenant that it is okay to be negligent in your apartment. You have also communicated to your tenant that you are running a maintenance company that is free for the tenant to use whenever he/she "accidentally" damages your property.

This is not a profitable relationship to have with a tenant. There is an immediate need to start training your tenants to respect you and your property. It must begin at the very first interview. If a tenant calls for a repair, estimate how much that repair would cost and ask him/her to have payment ready when the maintenance man gets

there. Train your tenants from the get-go and you will only be called for substantial damage that you do want to know about.

### **#10: Becoming Friends with Tenants**

There are only two things you should look for in a tenant: respect and rent. Never look for friendship. If the tenant will not respect you or your property, then get rid of him. Keep your relationship on a business-like 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. 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 as tenants.

### **#11: Punishing Bad Tenants without Rewarding Good Ones**

Bad tenants seem to get most of your attention. It is the wise landlord who recognizes good tenants with something of value.

Give your good tenants simple rewards to show them you appreciate them. For example: for anyone who has paid rent on time for the entire year, consider giving them a turkey for Thanksgiving. Or you could offer to paint 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 examples of rewards for being a good tenant. 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.

## **#12: Letting Rent Collections Get Personal**

Never forget that property ownership is a business. There will be turnover, a certain number of tenants will be slow payers, and once in a while someone will stiff you. Don't take it personally. 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.

## **#13: Permitting Tenants' Problems to Spoil the Fun of Real Estate Investment**

One of the biggest causes of real estate investment burn-out is from tenant headaches. It is easy to allow tenants to control the relationship and 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 long for this business. 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.

Clearly communicate the rules: neighbors will not be disturbed after or before the quiet hours; rent will be paid on time; and tenant damage (i.e. clogged toilet, hole in wall, etc.) will be paid for by the tenant immediately upon repair.

The first sign of rules being broken 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.

## **#14: Allowing Your Real Estate Business to Run Your Life**

It is easy to get wrapped up in the thrill of real estate investing. We have cell phones and pagers so we don't miss a call. We take calls from contractors and suppliers at all hours. Before we know it, our lives are consumed with nothing else.

How does this happen? It happens because we don't effectively plan our businesses. I talked about planning earlier in this report. One of the benefits you will achieve from planning is 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 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 examples of the many checklists and systems that you'll need to create and use on a daily basis. They will help you run your business rather than your business 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 systematizing 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.

### **#15: Running Out of Cash**

In the process of buying homes and rehabilitating them while managing the rentals in your other real estate investments, it is easy to run into cash crunches.

There are a number of techniques for avoiding the old cash crunch. 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, i.e. 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.

## **#16: Ignoring Cash Flow**

Real Estate Investors know that happiness comes from a positive cash flow. This can come from the money left over when you pay all your expenses from your rental properties, or at the end of a rehab when 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 and it's easy to let happen. Profits often do not go away in chunks; they go away a little at a time. 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, then compensate somewhere else and put yourself back on course.

Many an investor has gone to a closing and gotten a check for tens of thousands only to find out that after he tallied up the rehab cost, less than a tenth 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. 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.

## **#17: Forgetting About Asset Protection**

Having worked hard to get a substantial portfolio of properties together, don't make the mistake of getting into the position of being sued and losing everything. This is totally preventable. 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. Each of your properties should be

purchased in a trust or corporation. Your bank accounts should also be in trusts. Your home, automobile, and 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.

### **#18: 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. Without these, no claim will be successful. 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 legally to 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?

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

### **#19: Only Looking at Properties when there is a Problem**

Many 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 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 do another inspection. 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.

### **#20: Missing out on Special Grants, Loan Programs and Tax Incentives**

Often governments give investors incentives to rehab properties in certain areas. This is usually done through revitalization programs. Such incentives are often given out as low-interest loans to investors that are willing to rehab these properties.

There are tax incentives available from time to time at various government levels. 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 city 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 or other title. The money is there; don't miss out!

### **#21: 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? Selling to tenants minimizes selling expenses 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.

### **#22: Renting to Relatives**

Here's a sure bet – rent to a relative and ruin a good relationship. 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 holiday dinner table. You'll become the Scrooge of the family. Then try to *evict* a relative, and justify it to the rest of the

family. 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!

### **#23: 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 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 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 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!

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 \$50.00 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.

### **Conclusion**

Most investors I talk to have many war stories for each of the costly mistakes I have listed. As you continue investing in properties, keep this list handy and you will avoid most them. Read this report from time to time, and when you start to see one of these situations unfolding, take action.

Of course you will make your own mistakes, and maybe even some of the mistakes on this list. But supplied with the knowledge you have just gained, you have considerably lowered the risk of losing when you should be winning.