

The 23 Most Costly Mistakes Real Estate Investors Make, And How To Avoid Them

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The 23 Most Costly Mistakes Investors Make, And How To Avoid Them

It has been said that experience is the best teacher. But I've come to realize that it's stupid to reinvent the wheel. Instead, if I learn from those who have been successful before me—doing the same things that I want to do—I become more successful much faster. Aside from reading as many books and listening to as many tapes that I can on real estate investing, I also attend lots of conferences and boot camps. My goal when I get to these events is to seek out people that are also successful, and see what information I can learn from them to increase my own success.

When talking to these individuals, there is one question that I always ask and am most interested in. That question is “What was the biggest mistake you made when you first started and, looking back, what could you have done to avoid it?”

This question usually evokes an odd smile, as these now-successful investors look back into their once-shaky past, and conjure up their biggest folly. Often they would not mention just one situation, but two or three.

The biggest-single quality that each of these investors possess is that when they were struck by adversity, they did not fold up their tents and decide that real estate investing was not for them. They stuck it out and turned each one of their mistakes into a valuable lesson, not to be repeated.

The Japanese have a saying: “Fall down 6 times, get up 7”. With almost every situation in life—weather it be business, family, relationships, or money—if you adopt this attitude, you will become unstoppable.

The following 23 mistakes come from a blend of my own experiences, and the most common responses I received when I asked other successful investors to talk about their past. Read them, study them and don't forget them.

It's not enough to ask for information, or even to read it and take it to heart; it is the wise man that puts it to use and thus prospers by it.

Here is a summary of the 23 mistakes, followed by a detailed discussion of each one:

1. Waiting Too Long to Start Real Estate Investing
2. Not Having a Plan

3. Not Requiring Written Repair Bids Every Time
4. Not Charging Tenants for Damage
5. Not Screening Tenants for Eviction Risks
6. Paying for Repair or Construction Before 100% Completion
7. Paying Full Price for Late Repair or Construction
8. Allowing Your Real Estate Business to Run Your Life
9. Over-Improving a Property Bought to Flip or Rent
10. Running Out of Cash
11. Forgetting About Asset Protection
12. Over-Analyzing Property
13. Becoming Friends with Tenants
14. Underinsuring Property and Risk
15. Ignoring Cash Flow
16. Punishing Bad Tenants Without Rewarding Good Ones
17. Permitting Tenants' Problems to Spoil the Positives of Real Estate Investment
18. Letting Rent Collections Get Personal
19. Only Looking at Properties When There Is a Problem
20. Missing Out on Special Loan Programs
21. Inability to Sell a Rehab Property or to Rent a Rental Property
22. Not Thinking of Tenants as Potential Buyers
23. Renting to Relatives

Mistake #1: Waiting Too Long to Start Investing

The real 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 thought of investing, my father told me I was crazy. As a matter of fact, most of the people that I shared my dream with warned me about real estate investing. Of course none of them had done it themselves! But all were willing to share their horror stories of a "friend" who tried to invest in real estate.

They filled my head with "what ifs":

- ? What if you cannot resell it after you buy it?
- ? 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...What if...What if

I'll have to admit. I was getting pretty nervous.

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 grabbing that "brass ring", 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, came to an understanding, and accepted them for what they were 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.

Every one of us has had struggles in our past. What we have to realize is that the past is the past. To re-live it and let it affect your life future is counter-productive. It's your life, and life is for living. To allow your own—or someone else's—action in that past to continue to haunt your future is like suffering a slow death. 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? For instance, you can learn my secrets for investing in apartments by going to:

<http://www.real-estate-fortune.com/aptkit.html>

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 be 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.

I applaud you for seeking out the lessons of successful people, studying them, and applying them to your real estate career right away!

Mistake #2: 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, 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.

Nothing substantial in life is completed without some sort of plan. When ships cross the ocean they "chart a course." What they are doing is planning. Across all of our oceans are buoys, those red, floating devices. If you've ever been in a harbor or seen a harbor scene in a movie, you've seen a buoy. Some of them have bells attached so you don't hit them at night.

Buoys are the ocean's traffic signals. They are all numbered and there is a universal ocean law, followed by all captains whenever they return to a harbor. It's the three R's: "Red, Right, Returning". Any captain will tell you that when you are Returning to a harbor, the Red buoys should be on your Right. This the way you plan your entry.

When you are going from point "A" to point "B" across the ocean, you chart out a series of buoys that you will set your "road map" for your journey. Since they are numbered, you know when you are at the right buoy. A simple journey from Falmouth, MA, to Martha's Vineyard, though only seven miles, may require that you chart the passing of 15 buoys. It's like playing connect-the-dots across the ocean. As you go from buoy to buoy, you successfully navigate your journey to your destination.

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.

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.

It takes 21 days to create a new habit. Start your planning habit today.

Mistake #3: 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. To learn much more about how to deal with contractors, so you save tens of thousands of dollars, not to mention your sanity, check out my home study course at:

<http://www.real-estate-fortune.com/rehabkit.html>

Mistake #4: Not Charging Tenants For Damage

Let's say a tenant damages your property, and you go over to the property or send someone over to the property to fix the damage. If you do not charge the tenant for the repair, you have just told that tenant that it is OK to be negligent in your apartment. Not only that, you have just informed your tenant that you are running a maintenance company that is free for the tenant to use whenever he/she "accidentally" damages your property.

And use it they will! They will begin to call you at night, then during weekends, and then they will graduate to calling you on holidays. Any time they do not feel like getting off their lazy butts, they will call you to perform some menial task. There is an immediate need to start training your tenants to respect you and your property.

It must begin at the very first interview.

When someone used to call my office for a repair, I estimated how much that repair would cost and asked him or her to have payment ready when the maintenance man got there. It's amazing how many clogged toilets became unclogged before the maintenance man got there! It's also amazing how tenants seemed to be able to fix a number of other minor issues that arose after that.

Another common call many landlords receive is the old "apartment-has-been-broken-into" syndrome, and now a door or window needs to be repaired. Curiously, nothing ever seems to be stolen during these "break-ins". Reading between the lines, what the tenant is actually saying is "I lost my key and had to break in".

We require that the tenant show us a copy of the police report before we will do the repair. After all, if they were truly broken into, wouldn't they have called the police? No police report, no repair. It's amazing how many tenants don't want the police to come out to their apartment.

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

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 in 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 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!

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 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 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 \$100.00, when 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 488 rehab projects. That's how I know.

Always negotiate a penalty clause. My home study course at: <http://www.creativesuccessalliance.com/products.php> gives you **all the forms and exact language you need** to protect your project and your profits.

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 our beck-and-call because we fear that if we don't say "how high" when they say, "jump" they might 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 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 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 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. 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.

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 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.

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: "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.

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!).

I have a whole system for managing tenants; it turns what is a nightmare for some landlords into a predictable, low-stress, profitable process for you. Learn more about it by calling 781-982-5700, and asking about my "*Managing For Maximum Profits*" home study course.

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 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?

You will pay the Public Adjuster about 10% of whatever amount he gets for you, but he is well worth that 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.

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 little 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, then compensate somewhere else and put yourself back on course.

Many an investor has 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 of 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.

I had custom software developed to enable me to analyze and run my properties more easily and profitably. It's called my "Multi-Unit Profit Finder®" software. Call my office at 781-982-5700 to learn more about how it can help you save money, too.

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 good 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; 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 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 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.

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 a while you will have someone stiff you.

Don't take it personally. I know a landlord who got so angry with a tenant who would not pay his rent, and who 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.

If you follow the techniques I describe in my “Managing For Maximum Profits” home study course, you'll never get angry...instead, you'll let your system manage your tenants. Call my office at 781-982-5700 for more information on this course.

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 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 can either schedule it or surprise them. I like to surprise them; then I know exactly how they are living.

You'll want to go into the basement and make sure it is not being used as a storage facility; same with the attic. When tenants store items in your basement or attic, those are usually the things they leave behind when they move out. Then you have to pay to dispose of the items.

You'll also 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.

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 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 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 government, whether it be the mayor's office, office of the selectman, 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 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, 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!

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!

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Every investor I talked to had two or three war stories for each of the 23 mistakes that I have just mentioned. I have more than a few of my own. As you continue investing in properties, keep this list handy. Read this report 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.

David Lindahl, also known as the “Apartment King®” has been successfully investing in single-family homes and apartments for the last nine years. He is the author of four popular, money-making home study courses: “*Apartment House Riches*,” “*How To Estimate And Renovate Houses for Huge Profits*,” “*Managing For Maximum Profits*” and “*The Real Estate Investors Marketing Tool Kit*”. He also teaches live events to overflow crowds from across the country. He can be reached at [support@creativesuccessalliance.com](mailto:support@creativesuccessalliance.com) and at 781-982-5700.

**His real estate investing tools are at: [www.creativesuccessalliance.com](http://www.creativesuccessalliance.com).**