10 MISTAKES **TO AVOID** WHEN BUYING APARTMENTS

10 Lessons Learned The Hard Way.
Our Pain Is Your Gain.

THINK MULTIFAMILY

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1. Don't Lose A Deal Because Of Pride

Well, pride is a killer! It is actually why Satan was cast out of Heaven. In some cases, it is ok if the other guy thinks he won. If the deal still works for you, then suck up your pride and make the deal.

This does not mean you cave in. It does however mean...don't make decisions based on "always having to beat the other guy." I have seen people on multi-million dollar deals argue back and forth about a few thousand dollars, risking the whole deal falling through.

Articles on Pride:

http://www1.cbn.com/inspirationalteaching/before-the-fall-lessons-in-pride

http://thesportjournal.org/article/when-pride-goes-wrong/

2. Don’t Re-Trade Items You Could Have Seen During Your Tour

No seller likes a buyer that re-trades items.

[Definition of Re-trade – renegotiating the purchase price after a property has gone under contract].

However, in some cases it is justified. If there are issues you could not see during your site visit and the seller did not make you aware of them, it could be warranted to re-trade. Most sellers aren’t going to give a full credit and this will become a negotiation topic. Some examples when you might re-trade could include...foundation issues, plumbing, electrical.

However, do not re-trade items you should have observed during your visits prior to going under contract. For example, do not come back to the seller after your due diligence and ask them for a credit to paint the building; or try to re-trade for aluminum wiring when you already knew it had aluminum wiring versus the desired copper wiring.

In the painting example, this is something you clearly could have seen during your site visit and if you wanted a credit, you should have asked for it in the contract. I have seen a deal where the buyer came back after due diligence and asked for a $70k credit to paint the building. The seller told them to “go pound sand” and the buyer lost the deal, along with the due diligence money, attorney fees, and all that time wasted. Be wise when you re-trade and pick your battles carefully.

3. Don’t Pick The Least Expensive Company To Manage Or Do Work

Have you heard the saying “You get what you pay for?” Well, oftentimes it is very true!

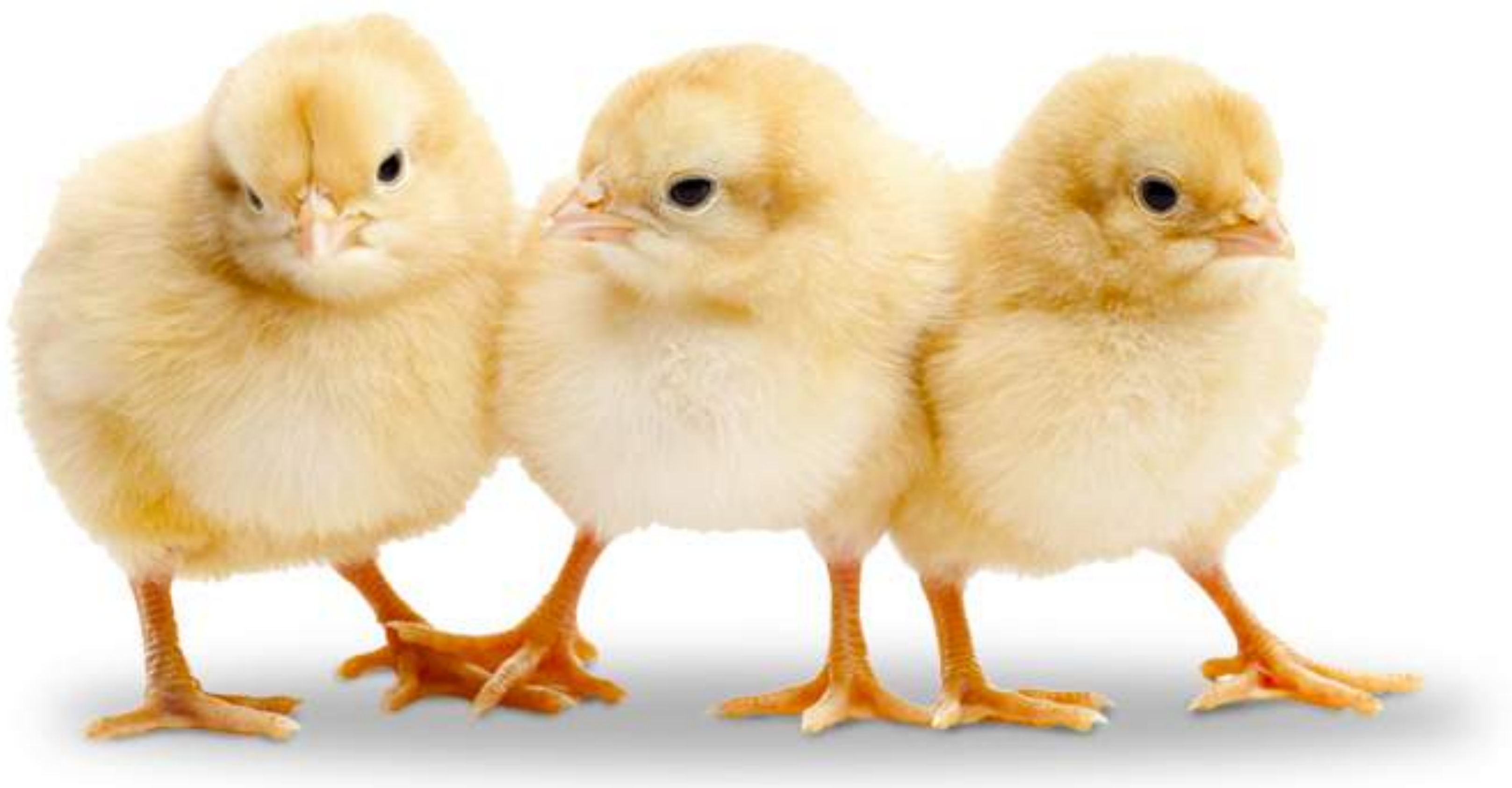
For example...when comparing management companies to operate a property, one management company might have payroll expenses at $900/door/year and another $1,150/door/year.

This can make a **huge difference on expenses** when you are talking about 100+ units. However, as any good business owner knows, it is the Net Operating Income (NOI) that you should be comparing. Generally speaking, don’t you think someone that makes more money is typically a higher quality worker with more skills?

So, it would stand to reason that more qualified leasing agents will lease more units and a higher paid maintenance person might perform more efficiently. I have personally engaged management companies that are low cost providers and some that are higher.

I can tell you that engaging the one that is not the cheapest has paid off like crazy.

Plus, there is a lot less hassle and headaches I personally have to deal with when I have more qualified employees working on the property. That does not mean to overpay, but it means to have defined what you are looking for and do not necessarily always go with the lowest cost provider.



4. Don’t Compromise On Your Underwriting Just Because You Are Not Getting Deals

Patience is a “virtue” for a reason. Well, we all want to get deals. **BUT... at what cost?**

If you are only investing your own money, then so be it...pay whatever you want for a property. However, if you are syndicating deals, whereby you are pooling other people’s money (OPM), you better take that seriously! There are certain industry standards you should use. I have personally seen syndicators looking for uneducated investors to pitch deals to.

This is wrong! We have pursued hundreds of deals and I am glad that we don’t get 99% of them. This is because we do not compromise on our underwriting.

We recently pursued a deal where the highest we could bid was $23 Million and we know the syndicator that purchased the property bid about $2 Million more than us. So, how did they do this? Well, he was very aggressive on his underwriting.

This is not to say he/she cannot be successful, but when times get tough (which they will), you better make sure you did not underwrite your deal too aggressively.

5. Don't Believe Everything You Are Taught...Do Your Own Research Too

I love it when I go to church and a pastor says..."don't take my word for it, read the Bible and do your own research." This is the pastor being so confident that his word lines up with the word of God.

It is the same thing in your real estate investing. I was personally taught many things that simply are not factual. I engaged my own experts and found out some of the things that I was taught were not true. I am not an attorney and not providing legal advice, so you must do your own research and engage your own professionals to come to your own conclusions.

Here are just a few examples of topics where I got very different answers depending on who I talked to. You need to engage your own experts to get answers that you are seeking.

- I was taught that you cannot take in more than 25% of IRA funds into a deal. Well, there are exceptions to this rule for real estate operating companies. Wouldn't you like to be able to take in more IRA funds if it would result in you doing more deals?
- How about when you are being told you cannot advertise your deal. Again, this is not true if you use Reg D 506(c).
- How about having an educator not informing you that your IRA can be taxed because of UBIT/UDFI? Or, not telling you to explore options such as a Solo 401K to eliminate the UDFI tax?

Again, I am not providing any legal advice...simply telling you things I have been taught that are not accurate or are incomplete.

6. Don’t Just Partner With Anyone

There are many reasons why someone would choose to “Partner or JV” with someone when pursuing a real estate deal. You might choose a JV partner because you need additional net worth or post liquidity requirements; or to spilt work up; or maybe to have a partner that has signed on multifamily loans before.

I see deal sponsors (syndicators) that have to bring in several other people to meet the net worth requirements for the loan. There is nothing wrong with this. However, when everyone thinks...this is a non-recourse loan, so no big deal...this could not be farther from the truth.

It is a big deal and you are responsible for other KPs in the deal if they do something that goes against the “bad boy” provision. Even an honest mistake of having an unorganized deal sponsor that lets the insurance lapse, can be cause for major concern.

Risks of a JV Partnership

- Bad Boy Clause
- Non-performing partner
- Personality differences
- Your partner’s behavior can reflect poorly on you
- One partner thinks they are doing more work than the other

Articles about Pros/Cons in JV Partnerships:

http://theinvestorinsights.com/joint-venture-vocabulary/

http://theinvestorinsights.com/the-pros-and-cons-of-forming-a-real-estate-joint-venture/

http://theinvestorinsights.com/opportunities-and-risks-of-a-real-estate-joint-venture/

7. Don't Try To Do Everything On Your Own

You would think this is an obvious thing, but it is not. We see people that think they know everything and they do not bring in experts to help.

This could possibly be because of pride, laziness, or being too cheap to engage experts. Also, I do not care who you are...you do not know everything and cannot do

everything on your own. Build relationships based on others that share the same vision and philosophy. I personally think it is much better to take a smaller piece of a bigger pie than a bigger piece of a smaller pie.

The Real Estate Guys often talk about the Power of a Team – T.E.A.M simply means Together Everyone Achieve More.

8. Don’t Let Management Companies Ignore Policies You Have

Remember, you are typically not on the property on a daily basis. So, you need to rely on your property management company that you hired and trust to run the day to day. In order for them to effectively do this, you have to establish policies and make it clear they must follow them.

For example, we had a property with a policy stating a tenant must show that utilities are in their name before they can get the keys to the apartments. We found several examples where the management company did not abide by this policy and this cost us money.

You can have unannounced visits to check up on your management team to see how they are doing. You can also have others “shop” the property whereby someone acts like they want to rent an apartment. The person “shopping” the property can provide feedback to you related to their experience.

9. Don’t Let Fear Hold You Back

We all have things we are fearful about and real estate investing is no exception. We all fear the unknown, but don’t let it keep you from moving forward.

However, if you are syndicating deals, you should have some anxiety... and if you don’t, then you probably should not syndicate deals.

Why...because you are taking other people’s money (OPM) and you should have some uneasiness in case anything happened and you lost their money. Also, if you are always striving to grow and do more, you should have a healthy fear or nervousness of doing something you have never done before... but again, don’t let that hold you back.

Push past your fears to achieve your ultimate desired outcome. The path to success is not always smooth...and if you stop as soon as you hit a rock, you will never see the promise land on the other side of that stone!

10.Don’t Let Emotion Come Into Play

I learned from my Dad, as a very young child, you must always be willing to walk away from a deal. When it comes time to make purchasing decisions, I firmly believe you need to know when to walk away from a deal. Listen to your gut and walk away if you need to. You will see this at an auction for example...someone says I am not going to pay more than $5,000 for an item and then they get caught up in the bidding and excitement and end up paying way over $5,000.

However, there are some times where you might want to let emotion come into play, but I feel this is only an option when you are only investing your own money and nobody else’s.

Here is a personal example: My wife and I decided to have a pool built at our home. This was a very bad financial decision, but we made this decision to move forward knowing it was a bad return on investment.

But, it was a great personal investment, which allowed us to have people come over and hang out and our kids could jump in the pool whenever they wanted.

So, it is not always wrong to let emotion come into play, but if you are making business decisions and using other people’s money, you need to make sound business decisions based on facts, not emotion. Also, consulting others you trust when making decisions can save you a lot of heart ache.

Emotional Investing

http://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2013/11/22/dont-let- emotions-rule-your-investing

Article that covers 14 tips to success with real estate investing

http://realestateinyourtwenties.com/blog/tips-for-new-real-estate-investors/

We Have Also Learned Many Lessons On What Questions Should Be Asked During A Property Tour. We Have 50 Questions We Put Together And Created An Online Tool.

Checkout Out Our Property Tour Online Tool.

Click Here To Learn More

This Tool Lets You...

- ☑ Answer The Property Tour Questions Online
- ☑ Take Pictures (And Add Notes For Pics)
- ☑ Add Your Own New Questions
- ☑ And Store Everything Online

You Can Run The Tool On Your Desktop Or Your Smartphone.

GET THE

PROPERTY TOUR TOOL

NOW!

Don’t Wait! Make Sure You Are Asking All The Right Questions Now, That Can Save You Time, Money, And Headaches In The Future.

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