

Vital Information for Real Estate Investors

A Truehome Special Report [v010602]

This is not intended to be a checklist of all things real estate investors should know. Rather, it's a list of some of the most important things you can do to put you on your way to being a *smart real estate investor*.

What does it take?

- Time, money, patience, rapport with people, constructive attitude, ability to live with risk, organization skills, talent to seek and analyze information, ... These are some of the attributes needed to be successful in real estate investing. If you are lacking some, you need to find a way around them (hire someone, get partners, ...)
- You may think that 'money' is critical. While it's true that you usually can't invest without money, the ability to identify good deals is at least as important. There are plenty of people with money to invest who can't find good deals.
- The central question is, how does one find good deals? In a word, systematically. You're not likely to trip over one.
- You need to be able to recognize a good deal when you see one. It probably won't be obvious. Ideally, you'll see things that others won't.
- Finding that rare, easy to find, obviously good deal, will put you in the company of the hoard of others who have found it, instantaneously driving up the price so that it is no longer a good deal for anyone, except the current owner.

Before you buy:

- Make sure you want to invest in real estate. There are other investments.
- Assess your willingness to handle problems in a businesslike manner, rather than in an emotional manner.
- Determine whether you can handle the risk. It can be minimized, but it's always there. Moreover, you need to be able to withstand mistakes.
- Be patient, but don't insist on perfection. Avoid making "urgency of buying" a top priority.
- Don't be unrealistic. For example, many beginners are attracted to foreclosures. However, foreclosures take a lot of resources. It's a cash business - cash down payment, and the remainder in cash within 30 days. There isn't time to get a mortgage on the property.

- Decide what aspects of the work (buying, rehab, managing, selling) you want to do yourself and what aspects you want to have someone else do.
- Consider buying property with someone else. In the event you move, become ill, or die, there will be someone to take care of it.
- You may want to develop a lifelong real estate plan for the orderly acquisition and disposal of real estate.
- Think about taking short-term profits. While the time-value of money suggests holding for the long term, depreciation and capital gains tax breaks are not what they used to be.
- Don't be the bad guy. One can make money and help people at the same time.

Strategy for buying:

- The American dream is a single family detached home. Duplexes in good areas are fine. Multi-family buildings have special problems (like getting insurance without lead paint abatement) and condos can be tough to sell in a down market.
- Good deals aren't easy to find. Those that can be identified without much effort (for example, foreclosures) meet with stiff competition, which drives up the price. Look for special situations.
- Make your profit up-front by buying at the right price. You can't count on inflation anymore. Bargains don't appear everyday – but occasionally surface.
- Price is only one dimension of the purchase. Look at other factors, like owner financing.
- Look at the situation from a seller's point of view. What strategy would you use if you were the seller? That may help you in negotiations.
- Don't fall in love with the property. It's the only one at its location. Besides, there will be a better deal soon!
- Have an 'exit' plan in mind before you buy. Buying is relatively easy – selling sometimes can be difficult.
- Don't forget tax advantages, but it doesn't make sense to purchase a property for the tax benefits alone.

Agents for buying:

- It's sometimes worthwhile to try to buy property without an agent. This usually makes sense only when you have extremely good access to information. Remember, the seller pays the agent's commission.
- If you decide to have agent representation, identifying a good company/broker is important, but it's much more important to select an agent who can help you reach your goals. Mutual respect is imperative. Hire someone who is knowledgeable and who will work well with you. Make sure that your agent is not overextended in servicing an excessive number of clients (both real estate investors and regular buyers and sellers).
- Consider working with a smart agent who knows investing and can create opportunities for you.

Strategy for managing:

- Get the right tenants. Wait and be sure. Don't worry about losing a month or two's rent.
- Get written, effective leases, and document problems in writing.
- Treat your tenants right, from the beginning. It's "us," not you and me. You and the tenant want the same thing – good housing at a reasonable price.
- Give the tenants the benefit of the doubt, especially in the beginning to foster a continuing good relationship.
- Be understanding. Life's road is often bumpy. They will appreciate it.
- Put a price tag on your sweat equity, if you decide to do your own rehab, repair, management,...
- Pay strict attention to federal and state anti-discrimination laws.
- Abide by toxic material laws (asbestos, lead paint, radon, carbon monoxide, ...)

Agents for Managing:

- Many people manage their own property. Using an agency for management may cost 8-10% of rents. That may seem high, until you try to find someone who will accept the responsibility.
- Consider the concept of using an agent as a consultant.

Strategy for selling:

- Don't make many, unnecessary improvements. People might prefer a lower price and make the improvements differently. Of course, make cosmetic repairs and repairs required by building code.
- Get the asking price right. If your property sells the first day, or there is a "bidding war" for it, the asking price may have been set too low. If your property stagnates on the market, it may be overpriced. If you use an agent, you'll probably be given a Comparative Market Analysis (CMA). There's generally more emphasis on what properties are listed for, than what properties have recently sold for (that's the subject of an appraisal). Usually, a CMA is sufficient, but it is an estimate. It's better to look at it as representing a range of prices. Every situation is unique. You may need to sell quickly or you may have a lot of time. There may be extenuating circumstances, like having a super location, having a good view, the morning sun falls in the right place.
- Selling price is only one aspect of the sale. Look at other factors, like closing date, concessions, inconveniences, and buyer demands.
- Look at the situation from a buyer's point of view. To help in negotiations, think about what strategy you would use if you were the buyer.
- Buyers do comparison-shopping. Think about how you can help them do that and help them recognize that your property is what they want.
- Don't forget tax ramifications of the sale.
- Recognize that the buyer's decision will be partly emotional. Build it into your negotiation strategy.
- Realize from the beginning that properties are bought, not sold. It's the buyer who decides. You want to help the buyer, not hinder him.
- In today's market, buyers should be pre-approved, not only pre-qualified.
- Recall "why" you bought the property. Maybe potential buyers can be attracted for the same reason.

- Don't forget to check the 'obvious' people who may be interested in purchasing your property (tenants, other investors, friends who have admired your property)
- Don't rely too much on getting accurate information pertaining to your locality through the Internet. This is especially true in rural areas. Much of what exists is woefully out of date.
- Selling property on the Internet is not like selling a book or even a car. With real estate, there's the all-important notion of the uniqueness of location. Except in the most unusual of circumstances, buyers are not going to commit to a purchase without physical inspection. That doesn't mean that the Internet can't get you some leads. But there's a lot more to selling property than that.
- If you decide to sell your property yourself, recognize that you'll have more than your share of bargain seekers (who'll want the price reduced by the commission you expect to save) and by people who are curious and 'just looking.' Homebuyers who are in a hurry to buy or who want to buy in a systematic way, surely will work with agent representation.
- The Multiple Listing Service (MLS) is a good idea. With it, you potentially have every Realtor in the area trying to sell your property. Without it, at best you have every agent in one office trying to sell it.
- The current fad of allowing panoramic photos and even videos of the interior of homes to appear on the Internet for everyone in the entire world to see, is certainly a security risk! That may be high tech marketing but do you really want the risk of a world full of people potentially casing your home? There is a fairly obvious, simple solution to this problem, but the fact that the promoters of this don't use it shows that they apparently are not too concerned about the vulnerability of your home, let alone your personal safety.

Agents for selling:

- It's sometimes worthwhile to try to sell your property without an agent. This usually makes sense only in exceptional situations, especially when you recognize that it's usually easier to buy than sell.
- If you decide to have agent representation, identifying a good company/broker is important, but it's much more important to select an agent who can help you reach your goals. You and the agent need to cooperate and remove obstacles to selling your property. Mutual respect is imperative. Hire someone who is knowledgeable and who will work well with you. Make sure that your agent can devote the necessary time to the sale of YOUR property and is not overextended in servicing an excessive number of clients (both sellers and buyers).

- Consider working with a smart agent who can create opportunities for you rather than with someone who may be experienced at doing the same standard transaction over and over. Ten year's experience is not the same thing as one year's experience ten times!
- Realize that selling properties fast is not necessarily in your best interest. There are three interrelated factors that should be considered: price realized, terms, and speed of sales. It makes little sense to sell a property quickly at a low price or with unfavorable terms.
- There are several "business models" for real estate companies – straight commission, flat fee, fee for service, discount commission (perhaps for less service), facilitating, etc. It's easy to think that you get what you pay for, but like everything else, that depends on what you think is important. There are definitely some inconsistencies, like charging four times as much to sell a \$400,000 property than a \$100,000 property. It's not an easy choice. Select an agent that respects your point of view.
- Some people feel that open houses for the public are more beneficial to the agent than to the seller, since agents get to meet potential buyers at the open house.
- While visitors to your open house may not buy your house, visitors to other open houses may make contact with an agent who knows that your house is exactly what they want.
- Agents sometimes have open houses to familiarize other agents with your property. No problem. However, consider the security problems public open houses present.
- Pause before you work with a "full-service, one stop" real estate company. Noted columnist and real estate attorney Benny Kass says: "I do see a dangerous, anti-competitive trend on the Internet, toward "one-stop shopping." A potential home buyer can get a mortgage loan, have the house physically inspected, get hazard insurance and go to settlement – all with the same company. In my opinion, this is not in the best interests of the consumer. Consumers should comparison-shop for everything in real estate – from mortgage loans and hazard insurance to settlement services."-Washington Post, 1/8/00.
- Real estate agents normally show property only to people who are at least pre-qualified to buy your property. Understand that if you decide to sell the property yourself, inquirers will probably not yet be pre-qualified nor pre-approved.