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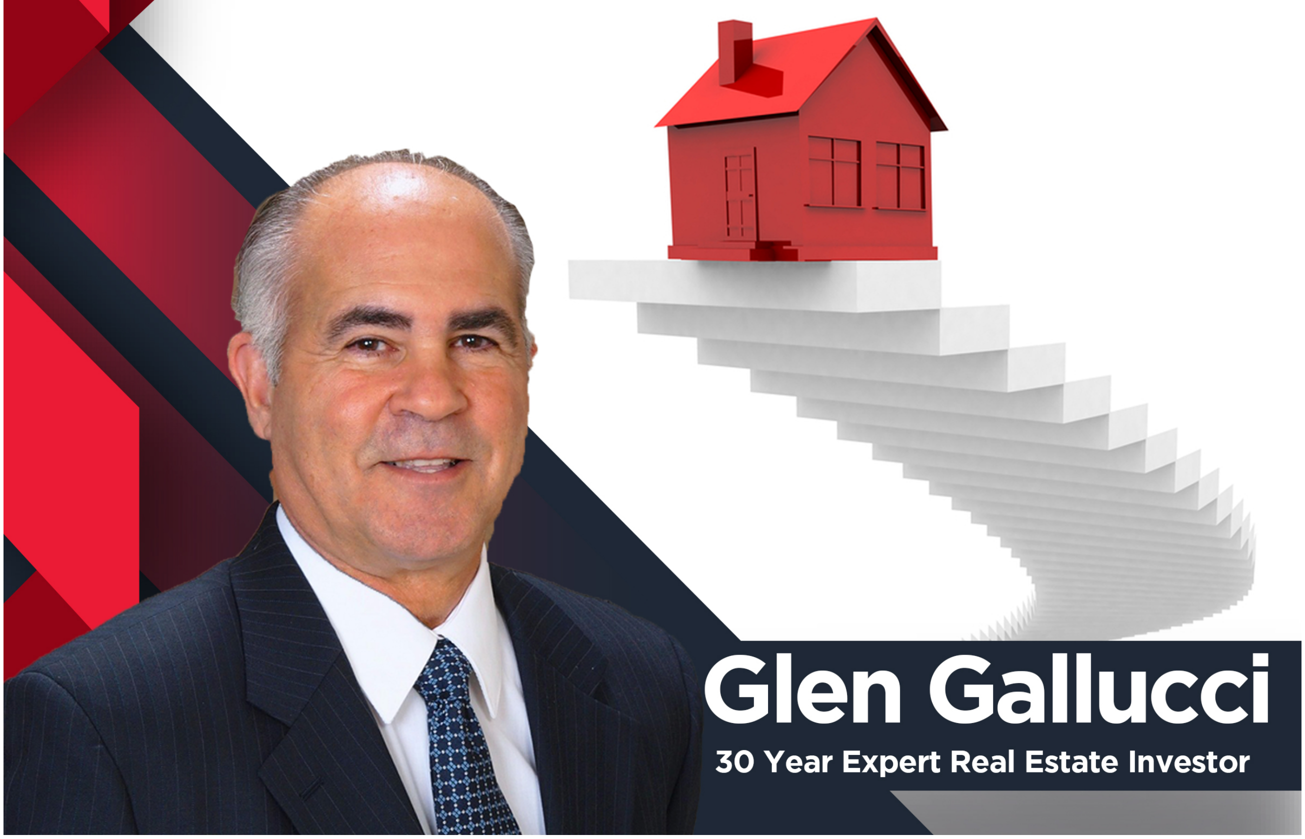
10 STEPS TO BEING PREPARED BEFORE INVESTING IN REAL ESTATE



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10 Steps Before Investing in Real Estate
by Glen Gallucci

I am often asked; **“what is one of the most important things to do before investing in real estate.”** My answer has always been the same. And that is to be properly prepared before making any offers on properties. While real estate investing can be very rewarding, for the unprepared, it can be very risky as well.

Here are some tips on what to be aware of before investing in any properties, especially if they are going to be properties you plan to quickly sell and not hold for a long period of time. Remember the quick turn real estate market doesn’t Buying and selling in a three to six-month period requires precise market data.

Here are some of the things to avoid and the areas that can make an investment a nightmare without the right preparation.

#1

The first thing many unprepared investors do is pay too much for the property. This happens when an investor doesn’t do his or her homework on what similar properties in the immediate area have sold for recently. If someone hands you some comps and says something like “see, all the houses that have sold recently for $325,000? Yours should sell for the same amount or higher”. This is the kiss of death if you just accept it without going through each one very carefully.

It is up to you to evaluate what the person has given you. It is up to you to ask questions like, this one sold for $325,000 but has a driveway and garage and the one I’m looking at is an attached house with no driveway and garage. Or these are 3 and 4 bedroom houses where mine is 2 with a room up stairs with slope ceilings and no closet or heat. Even though someone may use it as a bedroom, do I compare that with a legal 3 bedroom? I think not.

Another thing is you must be able to negotiate the price of the house to where you are comfortable buying it. Don't let anyone talk you into paying more just because the seller will not come down on their price. Let someone else make the mistake of overpaying. And you will see many times if it is a deal for investors, most will not pay the asking price either and the house will sit. Don't worry and go on to another deal that makes you comfortable.

#2

A second mistake many newbie investors make is buying houses in a less desirable neighborhood. One of the reasons they do this is because the price is more in their range of investment. This is not a good reason to buy a house. You don't have to be in the best neighborhood but certainly in a neighborhood that has a family atmosphere and evidence of homeowners keeping their property in nice clean condition. There are plenty of houses in bad neighborhoods that you can buy cheap. But a cheap house in a bad neighborhood spells "agaita". That's Italian for aggravation and heartache. Pass on these houses as well.

#3

A third area to be very careful when investing is making sure you factor in all the costs involved in purchasing and fixing the house as well as the holding costs and closing costs on both sides of the transaction. Let's discuss a few of the costs that come up when investing. Some of us tend to forget about a few of them.

Appraisals, when you need an extra unbiased opinion on your after repaired selling price. Inspections reports when you think there could be problems with the house or just want a trained eye to give you a full report, which I always suggest for newbies. Financing costs if you are borrowing money. And if there are points on the loan, figure that in as well. Closing costs including realty transfer tax. On higher priced houses this could be many thousands of dollars.

Then we have the rehab estimate. You must get two or three estimates to make sure you weren't quoted a low price by one contractor to get the job only to try to increase his price once started because he left some things out and didn’t charge for them. Yes, unfortunately this happens. So by getting two or three estimates, you will see if there is a large spread between the prices or are they fairly close to each other. When all finished with what you think it will cost, you might want to add about 10% for what you missed. And yes again, it does almost always happen!

#4

The fourth area to be concerned with is not negotiating the best terms with the seller if you are not paying cash for the house. You never will make any repairs on the house while the sellers are living in the house or if they still own the house. If you are paying the back owed payments to the bank to bring a foreclosure current and taking the house subject to the existing mortgage, get the house in your name, get them to leave the house and then start any repairs. I’ve seen investors pay the back payments, give the seller some money and low and behold, the sellers decided to keep the house and guess what? Yep, not give the investor back any money. So always get the best terms, which will be your terms, or pass on the deal.

#5

The fifth area is not having your financing in place before making the offer. If you are required to put down a deposit and can’t get the financing, unless you have a contingency clause which states that your contract is subject to you obtaining the funding you will lose your deposit. I’ve seen this happen many times with investors making offers on bank owned properties. And with bank owned properties, they don’t let you make your offer contingent upon getting the funding. Actually, they don’t give contingencies period! It’s buy it cash, as-is condition, and on time! Yes.If you don’t close on their date, they actually keep your deposit and have no hard feelings about it either. And bank owned properties usually require a substantial deposit of three, five or ten thousand dollars. So be very careful here.

#6

The sixth area I see very often is right up there with the number one area of over paying for properties**.** And that is **not having an exit strategy**. Having an exit strategy almost ensures how much profit you will make. You should know if the property will be fixed up for rental or fixed up for resale to a homeowner. You can do a lot less work on houses that will be for rental than if you are selling to a new homeowner. Don't get the two confused or you will have potential buyers walking out and never buying.

#7

The seventh area is don't fall in love with the house. Realize that you are investing in a property. The house is not yours to keep. They are yours to buy, rehab, and then sell or rent for a profit. That's it. Don't let your emotions effect your decision when it comes to buying for investment. This is a business, and your investment should be judged solely on the numbers not on your feelings about the house. But unfortunately, some investors fall hard and fast for properties, and it doesn't usually end well when they do. Keep it a business.

#8

The eighth area is to be cautious when choosing a partner. Be careful when choosing friends as they might not know about investing anymore than you. Real estate investments can go either way and you don't want to ruin a friendship over a sour deal. Partner with people who understand the real estate investing business. Whether it's a friend or business associate, always have a written plan from purchase to exit. Also specify the roles of each partner. You don't want any surprises about a lazy or incompetent partner after you enter the partnership.

#9

The ninth area is to know your capabilities. Are you good at negotiating purchasing prices and rehabbing properties for a quick turnaround of the investment? Or are you a patient investor who is willing to tie up money for many years to see if the property value appreciates? Your capabilities will determine the type of real estate investor you can be, as there are different ways to do it.

#10

The tenth area is to have your team in place. You don't need to be alone in this business. First, get connected with a knowledgeable real estate agent in the area you are looking to invest. They can be very valuable giving you a lot of information on the area, school systems, transportation and more. Then you can line up a contractor, attorney and or title agency, insurance agency and home inspector. Let the professionals guide and work along side with you.

A Bonus Tip:

This should be a no brainer. Get educated on the type of investing you will be doing. If you are buying and holding while renting, know your rental market and what the market rental prices are in your area. Don't think by adding a high-priced toilet and whirlpool tub that you will get more rent than the market prices. Or should you always put in a washer/dryer or even a dishwasher in the rental unit. Here again it depends on the area. I've put these in rehab houses I've done only to have the new landlord take it out! Why? Either the landlord pays for water and since both use water it's an expense to the landlord, or the landlord doesn't want another liability on the second or third floor from a washing machine hose busting loose to flood all three floors. Now on higher end units, it just may be not only a nice feature, but a necessity to justify the rent. But here again, you need to be educated in this area.

If you are flipping properties, learn how to evaluate the deal so as to always make a profit. That is knowing how to buy it at the right price, having the rehab costs nailed down (no pun intended) and know what your lowest selling price can be while still making a nice profit.

So, read, study, read some more, study some more, ask questions, double check with the professionals on your team, see what other successful investors have done and don't try to carve your own path. Follow the successful path others have taken.

Bonus!

<u>One last thing</u>. Don't get over leveraged. If you have good credit and a few bucks, don't go on a buying spree buying properties just because you can. Believe it or not, it does happen as I get many calls from investors where this has happened to them. If you are buying a rental property, try to be certain the area will attract the type tenants you want. This happens when investors go out of state to invest because, again, it's cheaper than here on the northern east cost. Don't get me wrong, there are plenty of investors who do this but they are a little more experienced and are able to travel and watch their properties. But I would still recommend investing in your area so you can keep an eye on things.

If you are buying rehab properties, you will also need to be careful of not buying more than you can handle. Remember the holding costs continue to add up each day on each house that is not sold. If you can handle a few, fine. If not, don't give yourself unneeded "agaita". (Italian for stomach ache)

To your investing success!