

5 Mistakes of Real Estate Investors



Investing in Puget Sound Real Estate

When investing in real estate it pays to learn what mistakes to avoid as they can reduce risk and prepare you for success. With the correct knowledge and information these can be easily avoided.

People that are jumping into the real estate investing world after losing much in the stock market are hitting the market hard. Here are some tips to keep in mind when investing in Puget Sound real estate.



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Mistake #1—Blindly Investing

People would think that blindly buying real estate based on bogus advice or complete lack of education is silly yet buyers are doing it all the time, still! Real estate is one of the few investments in which risk can be directly related to knowledge and information. It may offer a higher learning curve than investing in the stock market, but there's no proof that having knowledge of the stock market reduces risk.

In reading comments about real estate investing classes I came across this statement: "Why waste your money on that classes about real estate and investing when you should just use your money as a down payment and learn as you go."

This is probably the worst advice you could ever give a beginner. **Money for deals is easy to find if you can find good deals.** But you may not find that good deal until you learn how to find it and what to do with it when you do. The more you know about investing techniques, financing, acquisition, negotiating and the local real estate market, the less risky your investments will be. A bargain real estate purchase will generally always be a safe investment unlike a bargain stock purchase. You never know if the business will be there next year.

Mistake #2—Thinking like the Stock Market

Unfortunately many people just never learn. Even after losing trillions in the stock market people still tend to think that what happened yesterday will happen today. This is just not the case. Many new investors say they want to start investing in real estate because they know someone who did it and was successful. This may not be the case for you and it's foolish to think like this especially if you have made the first mistake already.



Make sure you have at least some funds in the bank before considering buying real estate.

Buying real estate solely for short-term appreciation can often times be a huge risk. If you buy investment property to hold for ten years or more, chances are that the property will greatly increase in value and your investment will be rewarded. It truly depends on the property because others can buy a property and in a year flip it and possibly make a profit. But, if you buy a rental property for full-market price with break even or negative cash flow, you'd better have a backup plan if the market doesn't keep going up. Investing is a lot like surfing; if you don't know how to ride the wave, you can drown!

So, should you refrain from investing if you think the market has already peaked? No! You can find bargain basement properties in every market. There will typically be low-interest rate financing that can increase your cash flow, so if values drop, you are still covered. You can plan short-term (6-12 months) because markets rise and fall slowly. And, if you keep a cash reserve for your business, you won't sweat it if the market drops. Know that in the long run, markets always come back.

Speaking of cash reserves available, this brings me to the next big mistake:

Mistake #3—Not Having Cash Reserves

Cash Flow; Anyone in business of any kind will tell you the most important thing is Cash Flow. Occasionally even the big boys forget this main goal and lose thousands if not millions. In order to stay in real estate long term, you need cash reserves. Buying real estate with zero down is easy; handling negative cash flow, repairs, and other expenses in the meantime is the hard part. In fact, if you can handle the bad times, you will always come out on top. Lack of cash reserves puts unnecessary pressure on you to do substandard repairs, accept less than qualified tenants, and give into tenants' demands for fear of vacancy.

When you have a sufficient cash reserve:

- You act rationally.
- You hold out for a higher sales price.
- You hold out for a qualified tenant.
- You call a tenant's bluff when they threaten to leave.
- You leave properties vacant rather than accepting unqualified tenants.
- You take care of necessary repairs and improvements on your properties.

This puts you in a different league with you operate with a cash reserve. You can buy real estate without money, you just can't survive in business without it.

I strongly consider accumulating cash reserves before investing in rental properties.



Mistake #4—Being Too Greedy

Don't think this is a get rich quick kind of deal.

Some investors can get started flipping properties to other investors, which is a good idea to generate cash flow. However, you must be realistic about how much actual profit may be in the transaction. There needs to be the potential for enough of a profit after flipping the property. If you spend all your cash repairing the property or not repairing and selling again to another investor, the cost to resell may outweigh the actual profit.

For example: A property needs \$10,000 in repairs, and the rehabber investor wants to make at least a \$20,000 profit, and you find a deal with \$20,000 in profit potential, how could you expect to get \$10,000 for flipping the property if the rehab investor is only going to make \$10,000? You should be happy making \$2,500 and moving on to the next deal. If you want to make more than \$2,500 on such a deal, then you must find and negotiate a better bargain that has more profit potential.

Mistake #5—Not Treating Real Estate as Business

Some new investors tend to think of real estate as a quick buck but this is just not the case. A good investment return can take upwards of 5 years to come to fruition. More than 90% of the people who take a real estate seminar quit after three months. The reason for this is lack of action and unrealistic expectations. Investing should be treated with the seriousness of a professional business. It takes months, even years for a business to cultivate customers and have a life of its own. You need to treat real estate like any other business.

I would suggest giving yourself at least six months to see if real estate works for you. It may even take a year before you buy your first property. Maybe in the second year you will buy three or four properties. If you work hard at it and keep your eyes and ears open, you may even find your first deal in a month or so. **You will not make money by talking or thinking about it; you must go out and take action.**

For more information visit <http://www.positivepathhome.com>



Bio of Author

Cathy Staup is an experienced real estate agent in Washington State, a member of the Northwest Multiple Listing Service and a prestigious member of the President's Club. She has represented clients as far away as Florida and Texas. Experienced in all phases of sales and marketing single family, multi-family, condominium properties, manufactured homes, improved and unimproved land, new construction and presales, Cathy is passionate about going the extra mile for her clients.

She is an approved instructor for the Washington State Housing Finance Commission which provides home buyer education services and down payment assistance for first time home buyers. Through teaching WSHFC classes she has gained a unique understanding of the challenges either first or third time home buyers face and is dedicated to making the experience as stress-free as possible. Cathy believes in the importance of informed and educated buyers or sellers.

Sellers have benefited from Cathy's marketing experience since 2002. Having lived in the greater Seattle area her entire life Cathy has lived in many neighborhoods and understands the local real estate market very well. This differentiates her from a lot of agents in the Northwest Multiple Listing Service. Cathy offers her experience, skills, motivation, attention to detail, follow through track record, and ability to provide the most service with the least amount of hassle for her clients.

For more information visit <http://www.positivepathhome.com>

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