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10 FATAL MISTAKES MANY REAL ESTATE INVESTORS MAKE

Table of Contents

Intro

Real estate investing truly is one of the most powerful wealth building tools in the world. More millionaires have been created through real estate than any other industry, and now, with the use of social media and online influence, it has become easier to take advantage of the exciting real estate sector. As exciting as this industry can be, there are many different issues that can go wrong, and I wish I had this book to prepare myself before I got started in the industry. Mistakes in real estate can be deadly – they can cost you years of work, an entire property, or even worse, an entire portfolio. I have literally lost hundreds of thousands of dollars in real estate investing that I will never get back- money that I could have reinvested into my business, or money that I could have used to go on vacation. In another book, I will teach you the techniques that you will need to learn in order to become a successful real estate investor, but in this one, I will focus mainly on the mistakes that stop real estate investors from being profitable, or worse, the mistakes that can run them out of business.

I bought my first property at the age of 21 with no experience, no money, no credit, and no network. With hard work and grit, I was able to attain the 8 figure real estate portfolio that I own today, and while I am very proud of this accomplishment, I likely could have doubled the size of my current portfolio if I wouldn't have made the costly mistakes that I talk about in this book. Many of the mistakes that I made are mistakes that I would have never learned without previous experience or a mentor, and I know with absolute certainty that this book will save you a lot of money, time, and heartache throughout your investing career. Please, don't do what I did; rather, take my experience, learn from it, and start your real estate investing (or continue it) the right way.

During my time in the real estate investing business, I spent countless hours (I'm talking countless) reading books, listening to podcasts, networking, walking properties, and everything in between. After educating myself, I knew that I needed to dive in deep and take massive action, but unfortunately, I didn't have a mentor to teach me what NOT to do. In my investing career I've taken the ready, shoot, aim approach and made every mistake in the book while investing in real estate- mistakes from construction management, asset management, money management, and everything in between. My friends, my hope is that after reading this book, fear will no longer be the reason why you can't get involved in this exciting business. After reading this book, and by reading my articles at Multifamilymethods.com, you will know what to avoid, and you will learn everything that you need to learn in order to one day become financially free. At the end of the book, I will give you an opportunity to invest with me, and give you an opportunity to turn your dreams into a reality. Happy investing to all of you.

Mistake #1 – Hiring your Contractors without a Contract

I firmly believe that one of the biggest headaches for real estate investors lies in construction management. Let's face it, everyone wants to make a penny for themselves, and if there is no accountability, many people are going to end up taking advantage of you. Whenever making a deal with a contractor, ALWAYS get the agreement in writing. I can almost guarantee you that if you don't have experience, once your contractor starts getting to work there is almost always going to be some form of communication gap during the project.

Maybe your contractor thought that by painting the whole house you meant just the walls, or maybe, installing new doors to him just meant only installing doors where it seemed necessary, and etc. etc. etc. Unfortunately, for a lot of contractors, if there is something even remotely worth bringing up for a change order, in many cases, the contractor will try to tell you that it was not in the original scope, thus he needs to charge you more for that specific item. I cannot express to you how many times this has happened to me, and in the most unexpected moments. When making a deal with a contractor, there are very specific steps that you will want to take in order to avoid this very costly expense:

Firstly, make sure to ask the contractor for referrals and pictures of his previous work. I would certainly take the time to call as many of his referrals as you can. If enough people have good things to say about your contractor, then you are off to a good start. Secondly, when making an agreement with your contractor, make an effort to walk the property with your contractor, and make sure to create a VERY SPECIFIC list outlining absolutely everything that will be a part of his scope of work. In doing this, you accomplish two things. First, you limit the chances of there being a change order during the project. If you walk through the property carefully with your contractor, the hope is that you get as much, if not all of the work that needs to be done to the property in your notes. Second, by doing this, you show the contractor that you are serious about your properties, and that you will be keeping a close eye on him during the project. Your contractor will recognize how seriously you are taking your project, and he will keep this in the back of his mind while working on the job for you.

Once you get a very clear scope of work put together, you will want to get the agreement in writing. There are some key points that you are going to want to put in your contract that are worth mentioning: In your contract, you will want a specific scope of work, a payment schedule, and a timeline. Including a timeline in your contract is going to take away A LOT of stress from you in the future, so please make sure to include this. When including the timeline/deadline in your contract, make sure that you include *a bonus for completing the project early, and a penalty for completing the project late.* If the contractor ends up going longer than he was supposed to for the project, (and trust me… he will) your only option, if you don't have this in writing, is to send him nasty messages, continuously call him, and bang on his door. While this may or may not work out for you, I can assure you that your contractor will be much more motivated if there is money coming directly out of his pocket. Give it a try… You will see for yourself!

Another item that you'll want to include in your contract is a clause that explains the change order process. If a change order comes up during the construction process (and hopefully it doesn't, because you've walked the property with your contractor and created a very specific scope of work), the contractor is to get your approval of the change order **in writing** before proceeding with the work. If you don't do this, the contractor may do some "extra work" before pay day comes, and then tell you that you need to pay him extra money for the work that he has done. This will not happen to you, because you read this book (learn from my mistakes!!).

Full disclaimer here… None of this is to say that all contractors are bad and that you can't trust any of the contractors out there. There are many hardworking contractors in the space, full of integrity and ready to do a good job for you. Regardless, you need to have these systems set in place to protect yourself in case something does go wrong (assume the best but prepare for the worst!). Whether the contractor is trustworthy or not, everyone is more motivated when there are strict guidelines set in place that will put *their* money on the line. You need to do what you learned from this chapter regardless of how much you trust your contractor. Anything can and will go wrong in this business, and it is better to be prepared.

Lastly, I would recommend visiting your contractor at the job site regularly (and if you are investing out of state, have someone else walk the job for you). Ask him to walk you through the job and to point out the items in your scope of work during the process. Not only will this show your contractor that you are taking the job seriously, but you will also see any mistakes that he is making with your own two eyes. Seeing things with your own two eyes versus trusting the contractor's word over the phone is a night and day difference, trust me. You may even come up with a few ideas for your project along the way that could save you/make you some time and money. If you are operating your real estate business at scale, you might hire a project manager to do this part for you; but in most cases, and especially when starting out, I recommend that you are the one to visit your contractor on sight.

Mistake #2 – Not going over your books – even when you have a property manager

The business of real estate is a numbers game. Everything that you do will come down to the decisions that you make, and how much you understand the numbers of your business. John D. Rockefeller, one of the wealthiest men to ever live, stated that his advantage in business was the fact that he knew his numbers better than anyone else. Unfortunately, I learned this chapter of the book from experience… *not from John D. Rockefeller*. I got into this business thinking that I could trust anyone, and I furthermore believed that if I hired a property manager, that I could just sit back, relax, collect the checks, and trust everything that they tell me. Sounds reasonable right?... Wrong.

Keeping track of your numbers, even when you have a property manager, gives you several advantages, and I will talk about each of them. Firstly, it gives you leverage when negotiating with someone. Secondly, it will help you keep track of where you stand financially, giving you motivation and awareness. Lastly, and certainly not least, keeping track of your numbers will ultimately save you more money – isn't that the reason why we're doing this in the first place?

Let's review the first advantage. In the business of real estate, you will be negotiating with people on a daily basis. Many of these negotiations will be numerically intensive, and not knowing how much you've spent, on labor, materials, management fees, etc. in the past is only going to hurt you in the future. Let me give you an example: You have a property that is cash flowing, and you hire a property manager to manage the property - your job is now to manage the manager. Inevitably, maintenance items will come about, whether there is a leak in the kitchen faucet, or the heat in your property stops working, but in this case, your flooring has buckled up and all of the flooring in one of your rooms needs to be replaced. Your property manager has permission to complete maintenance items at their discretion, so your property manager completes the maintenance item and bills you for it at three dollars per square foot. Six months later, the flooring begins to buckle in another one of your properties, and that flooring also needs to be replaced. This time, whether it is intentional or by accident, the property manager proceeds to replace the flooring, but this time they charge you three dollars and fifty cents to replace the flooring. You didn't read this book, and you don't realize the mistake, so you ultimately end up paying 50 cents more per square foot on a 1000 square foot property.

Because you didn't review your books, you ended up paying $500 more than you had to! Imagine how much money this same mistake can cost you over time. What if instead, you looked over your books on a daily basis, and you knew how much your property manager charged you to replace flooring. This time, when your property manager charges you three dollars and fifty cents per square foot, you are able to negotiate with them, and remind them how much they have charged you in the past. Maybe instead of maintenance, you and your property manager are discussing how much is owed to them for a specific job. You don't know your numbers? You are at their mercy. Maybe you disagree about something else entirely; the bottom line is that if you don't know your numbers, you can't dispute anything.

frThis is just one of the many, many examples that can come about when you don't keep track of your books. Keeping track of your books will give you more negotiation room, and ultimately, it will gain you more respect from the people with whom you work with.

Another advantage of keeping track of your books is that it helps you keep track of where you stand financially. How are you supposed to know where you want to go if you have no idea where you currently stand? Grant Cardone, a very successful real estate investor in the multifamily space, claims that one of the first things that he does every single morning *(after writing out his goals, of course)* is review his financial statements. Knowing where you stand on a daily basis is absolutely critical to your success. This is how you know if you have too much debt in your portfolio, which property manager is charging you the most for maintenance requests, or which piece of real estate you should hold onto for the long term and which you should sell. These are just a few of the many examples, but the reasons why you should keep track of your numbers daily are endless. Let alone, how do you expect yourself to stay motivated and inspired if you don't know how much money you are making? The mega successful all keep track of their numbers; they know better than to trust someone else with this responsibility. I think you and I should do the same.

The third reason why it is important to keep track of your numbers is because, ultimately, doing so is going to save you more money. For obvious reasons, knowing how much money you are spending on various items such as your mortgage payments, rehab items, property management fees, etc. is going to help you better understand what you need to do in order to save money. Do not make the rookie mistake of ignoring your numbers and hoping that everything will work out. By looking at your numbers daily, you will see exactly what you are spending on interest, property management fees, insurance, taxes, and many other expenses. You will be able to clearly see if it makes sense to refinance, change your insurance company, change your property manager, or make any other financial decision that is critical to your success. This business is all about maximizing your income and minimizing your expenses. How are you supposed to know what you need to do with your expenses if you are never looking at them? Know your numbers better than anyone else, and you will be much more successful. Period.

Mistake #3 – Not keeping records of everything

Unfortunately, in the business of real estate, it's not *if* you will have a litigation issue, it's when. Some people are always trying to get the most money that they can out of people, and as your success increases, so will the amount of people that will try to go after you. This includes but is not limited to, any tenant that you work with, any contractor that you work with, and anyone in between. When going to court, the case that you will be able to make will be based on the evidence that you have, and the record keeping that you have done up to that point. Furthermore, before disputes even get to court, your ability to stand your ground, and dispute with the people you work with will depend on the records that you keep. Do I have your attention?

Let's start with the contractors, because many of your disputes will end up coming from them. When creating a contract for your contractors, make sure to include a scheduled payment in your contract. In the schedule payment, it is going to include when you will be paying the contractor, and in what amount. I would recommend making this schedule in terms of work completed rather than an arbitrary timeline (payment due in one week, two weeks, etc.). Before submitting the payment to your contractor, you are going to have him sign a 1099, a lien waiver, and a scope of work spreadsheet, which will indicate the amount of work completed with his signature on it. The 1099 will be for tax purposes, and you can also use it as evidence that the contractor has been paid if anything becomes a dispute. The lien waiver will be for… Well, liens. If a contractor tries to put a lien on your property due to non-payment, you will have a lien waiver indicating the amount of money that you have paid your contractor with his signature on it. Unfortunately, liens can be a contractor's secret weapon in making a dispute against you. They can be filed without any dispute on your end, and you will be unable to sell or refinance a property for as long as the lien is on your property. Keeping proper documentation at all times is going to save you a lot of time, money, and headache down the road, so make sure to have these every single time you pay your contractor!

One important note to mention is to NEVER pay your contractors in cash, no matter what kind of reason they give you. I repeat… Never ever pay a contractor in cash. In my experience, many contractors will try to say "I will only accept the payment in cash, take it or leave it," if there is ever a moment of distrust between you and your contractor. In his eyes, a check may be fraudulent, or you may pull out the money from the check after you hand it to him, so he requests the money in cash. You will be smarter than this, you've done your homework, you've read this book, and you know that this is never a good idea. Instead, if he demands a guaranteed payment, give to him a money order or a cashier's check – there will be no reason why he needs anything else. The bottom line is to make sure to submit payments that can later be documented in case any dispute comes up. None of us have a crystal ball in front of us, and even the most trustworthy, down to earth contractors can end up being the same person that you go to court with. Never pay cash and keep track of your records!

Next we will talk about tenants, and the type of disputes that you'll get into with them. The largest expense that you are going to pay as a real estate investor is going to be vacancy and tenant turnover. This is because the costs that are associated with tenant turnovers include but are not limited to: holding costs, make-ready expenses after the tenant moves out, vandalism expenses, and yes… Eviction/attorney costs. When taking a tenant to court for an eviction, there are going to be a few things that you need to keep in mind. First, you can only evict a tenant if said tenant has been living in livable conditions during their time in your property. This means that there needs to be heat in the building, working water, electricity, working air conditioning (Maybe… AC is not a requirement in St. Louis), etc. Basically anything that a tenant would need to be able to "live" in your building. If your tenant has not been living in livable conditions when you try to evict them, they will have a case against you when you bring them to court. When making the repairs necessary to accommodate your tenant, make sure to keep record of all invoices and receipts for the repairs that you have made.

In addition, make sure to keep an accurate record of all of the tenant payments that you receive; you will be showing the court that you have not received payment for X amount of time when bringing the tenant to court, so be sure to have your lease, ledgers, invoices (if necessary), and all other appropriate documentation. Evictions can be costly, and you don't want the process taking longer than it needs to. In addition, you certainly don't want the tenant counter suing for living in unlivable conditions… They may try to blame a sickness on you, a mental trouble, or anything in between. Lucky for you, you read this book, so you knew to keep documentation of absolutely everything during the process.

If you never go to court during your time as a real estate investor, that is great. But keeping documentation is still going to be a crucial part of your success. It will prevent people from taking advantage of you, and you will always be one step ahead of your competition. Not to mention, keeping proper documentation is vital for filing your taxes. The number one expense that anyone has in business (or in life) is going to be taxes. As real estate investors, we have HUGE tax incentives, frankly better than any other industry. And keeping proper records of everything will allow you to take advantage of the tax incentives that have been put into place. Bill Gates said that if he could study one thing that would lead to wealth, it would be taxes. Think he's someone we want to listen to? Keep records of everything, take advantage of the tax code. You will thank yourself later.

Mistake #4 – Not screening tenants before accepting them

As I just said, your single largest expense as a real estate investor is going to be tenant turnover issues and vacancy. When a tenant doesn't pay their rent, you have to pay for an eviction, holding costs, and the make-ready costs to get your property in living condition again after your tenant moves out. In my experience, this can add up to thousands of dollars every single time a tenant is worthy of an eviction. If only there was some way to decrease the chances of evictions in your portfolio… *Oh, wait.*

When screening tenants, you need to treat every single interaction that you have with potential tenants like a business, because that is what you are operating here…. A business. This means that I would strongly recommend not renting to your friends and family. When Thanksgiving time comes around, you are going to be the bad guy because you enforced the rules on late fees, strict payment deadlines, and many other obstacles that you will have to deal with regarding tenants. What a terrible person you would be for doing what you are supposed to do! Don't rent to family. When dealing with tenants, it is absolutely imperative that you treat every tenant the same, that you set strict systems that they must follow, and that you don't let months of non-payment slide. "Professional tenants" will be very good at telling you that they cannot afford rent this month, but they PROMISE that they will catch up little by little. They will ask, "Is it okay if I pay you rent next week? I promise you

I'll catch up." Don't fall into this trap and don't let any tenants convince you that they will catch up on their rent… They rarely, if ever, do.

Before I explain the strict rules that you must follow with each and every tenant, there is one note that is worth mentioning here. You need to make your own judgement a little bit here when making these decisions with your tenants. I know it sounds like I am speaking against myself, but in very rare circumstances, you will have a tenant that is worth working with. Remember, don't hurt the hand of the people who are feeding you. For example, if a long term tenant has been paying their rent on time for years, and they get into a family emergency and are short by rent by a few hundred dollars, that is probably a tenant that you will want to work with. It would make much more financial sense to work with a tenant who has been consistently paying, and who you are confident will make up for their loss in rents, than it would be to evict the tenant, make repairs, and market for a new tenant. It is worth repeating that this would be a RARE circumstance. Nine times out of ten, you will be following the strict systems that I give to you in the following paragraph. Use your own judgement with your tenants, and make the decision that is best for you and your business.

First things first. Before we even talk about the strict policies that you are going to set into place for your tenants, you first need to understand what measures you need to take as an investor before allowing a tenant in your property in the first place. Not all tenants are created equal, and allowing the wrong tenant into your property can literally make or break your business. Caution: Do not allow your emotions to get the best of you when selecting a tenant for your property. If a property is taking a while to fill up, it can be tempting for a few investors to allow a bad tenant into their property, with the hopes that the tenant will change their ways and pay their rent, even though they haven't done so in the past. I mean, filling up your property with a bad tenant is better than leaving the property vacant for an even longer time, right? WRONG. No matter how long it takes you to fill up your property, do not let a bad tenant in your property. The repercussions of doing this will be a lot of time, money, and stress on your part. So what do you need to look at when accepting a tenant for your property?

First and foremost, you want to look at your tenant's credit score. If a tenant is not paying their other bills well, such as utilities, credit card bills, and other payments, what makes you think that they are going to pay your bills on time? The overall credit score that you look for will be up to your judgement (For me it's 550-600); however, I think the more important thing to look for are the late payments that have been filed on their credit report. Is their bad credit because they have utilized a large portion of their credit balance, because they don't have enough credit card history, or maybe they haven't paid a medical bill in a long time? In my opinion, these are some situations that can be overlooked if everything else pencils out.

Does the tenant show a lot of late payments for things that you would consider essential? Is the overall credit score noticeably low (500 or lower)? These, on the other hand, are not things that I would necessarily overlook. Remember, whatever criteria you set, make sure to set it strictly like you would a business, and to treat every tenant the same. One thing you definitely don't want to get accused of is discrimination – if you are going to set rules for one tenant, you need to set the same exact rules for every tenant.

Next, what is the most important thing to look at for a tenant that is going to pay you money every month? You guessed it, your tenant needs to have a job, and not just any job. If you ask a tenant to provide you proof of income, and they tell you something along the lines of, “I work as a handyman, I get jobs on the side!” Or, “I clean homes, I get paid as I go, but I can’t provide proof for it.” I would personally take this as a red flag. Tenants should be able to provide you proof of consistent income showing in their bank account on a bi weekly or weekly basis. If their job is based on commission, you will need to use your own discretion when deciding if this is a job that you could see bringing in consistent income. A good rule of thumb to go by, is to make sure that the job that the tenant has is at least bringing in three times the gross rental amount. Do not assume that if the rent is $1,000, and your tenant is bringing in $1,500 a month, that they will be able to afford living in your property. As we all know, stuff happens, and your tenant needs to make enough income to be able to live in your property, pay for other living expenses, AND still be able to afford your rent if something traumatic takes place in their lives. Expect the best but prepare for the worst!

One type of tenant that I like to work with are tenants who have been accepted through Section 8. Many of these tenants’ rent will be paid by the government, which means a guaranteed, consistent flow of income for you. However, it is important to keep in mind that Section 8 tenants may not always be the best tenants to work with, and many successful investors choose not to work with Section 8 at all. There may be some of them who do not take the best care of your property, and as a result, increase your make-ready expense when they move out of your property. Choosing to move forward with a section 8 tenant depends on a lot of things. You own a class A asset and your property doesn’t have any vacancy issues? You probably don't need to utilize section 8. Do your research, and make sure that a Section 8 tenant makes sense for you.

When purchasing an investment property as a buy and hold investment, the number one goal for you is to collect rents every single month from your tenant. Because of this, you are going to set a strict payment policy that rent is due on the 1st of every month, and late on the 5th. Remember, that if a tenant tells you that they guarantee that they will pay the rent on a later date, a late fee will be charged, regardless of what they say. This strict policy will motivate your tenant to make payments on time and in full, in an effort to avoid paying more money in late fees. If your tenant does not pay rent by the 10th of the month, you are going to send them a pay or quit notice in the mail. If they do not pay by the 15th, you will start the eviction process. Unfortunately, if you do not have these strict policies for your tenants, many of your tenants are going to take advantage of the system, and you are going to have a much more difficult time collecting your rents when they are due.

In very rare circumstances, if you know that the specific tenant you are dealing with is a good tenant, and in the past they have paid their rent on time, then IN RARE CIRCUMSTANCES it may be necessary to work with your tenant. Maybe they had a death in the family, or lost their job and are looking for a new one. If you know that if you wait it out just a little bit longer that they will eventually pay you what they owe you, then it may be worthwhile to work with them. But nine times out of ten, you need to have strict policies that your tenants are to follow.

Another quick note that I want to mention about tenants: If a repair is the tenant's fault, and not due to wear and tear on the property, you need to bill the tenants for the damage that they have done. In doing this, your tenant will be more careful in the way that they treat your property, and you will ultimately save more money over time. Saving $75 with one property in doing this may not sound like a lot, but doing this over the course of hundreds of properties for the next 30 or more years will certainly add up! In addition, if your tenant treats your properties better, then your make ready costs during turnovers will be much less severe. It's a win -win. Understand why maintenance requests are taking place in your properties and bill the tenants accordingly.

Mistake #5 – Over improving a property

When making renovations on a property, it can become very easy to want to make everything look perfect. Naturally, you may want to install quartz countertops, the most expensive hardwood flooring, golden toilets (just kidding), and custom cabinets that are worth tens of thousands of dollars. If you decide to make all of these renovations, you will soon come to find out that half of the upscale renovations that you made were unnecessary. There are two types of properties that we will talk about in this section; however, they basically share the same idea. A residential property is defined as a property that has 4 units or less- a single family home, a duplex, a triplex, and a quadplex. A commercial property is defined as a property that has five units or more.

For residential properties, we will first discuss the strategy that you should take when making improvements on a single-family home. When selling a single-family home, many times you will be selling to a homeowner who will be buying the home based on emotion. The man of the house may be looking for a workshop in the garage, or a room that he can make into an office. The lady of the house may be looking for a kitchen that she loves, a bathroom that she loves, or a master bedroom that she loves (The guy can do this too… I love me a nice kitchen!). At the end of the day, these people are going to buy the home because they can see themselves living there. This being true, the ONLY reason that you would over improve a single-family home is to sell the home faster or to sell the home for top dollar. If you are selling a home in your market, and all the houses in the area have granite countertops, you have two choices.

You can spend lessmoney, install granite countertops, and still more than likely get top dollar for your investment, or you can spend more money, install quartz countertops, and stand out a little bit from your competition. Maybe this helps your home sell a little faster, or maybe it

doesn't. This is just one example, but the decision that you make here will vary from property to property, and on your budget. At the end of the day, real estate is all about numbers – the amount of money that you spend versus the amount of money that you make – so most of the time you will want to spend the least amount of money possible while still making your property look nice, and make your improvements based on the comps in the area.

Residential real estate is valued based on comps in the area. You will want to build a relationship with a real estate agent in your market who can get you comps from the MLS. If you make a deal with them, or if you have a previous relationship with them, they may give you MLS access for yourself. Personally, I would recommend trying to get your own MLS access- you will be looking at a lot of properties, and you will need to be able to look up comps for yourself at any time. If you cannot get MLS access, you can use software platforms such as Zillow, Redfin, Trulia, and Realtor just to name a few. These will not be as accurate as the MLS will be, but you will still be able to find homes that have sold in your area. Do NOT trust values such as the "Zestimate" from Zillow and other examples such as this. You will need to look at properties with the same amount of beds, same amount of baths, similar square feet within 10% (If your house has 900 sq ft, try to find a house that has 810 sq ft to 990 sq ft), similar amenities, within 0.25 – 0.50 miles in the same zip code (you can stretch this if there aren't many comps), and preferably a property that has sold within the last six months (you can go up to a year if you can't find any within the last six months). Once you look at what these properties have sold for, you will then know your “After Repair Value” or ARV, which is what your property will be worth once you make the necessary repairs. Once you find your comps, take a look at the pictures and see what kind of improvements have been made to these properties; you will need to make your scope of work based on the pictures that you are seeing. This is what is selling in your area, and if you make the same improvements, on the same house, in the same area, your house will likely sell for the same amount.

With a duplex, triplex, or quadplex, there are two types of people that you will be selling to. The first type is a fellow real estate investor. Real estate investors are going to buy your investment property based on the amount of income that the property produces. The type of improvements that you are going to want to make are going to be based on what gets the property filled up with a tenant the fastest, and with the least amount of money invested. These properties are still considered residential, so the value is still going to be based on comps in the area. Quartz countertops and golden toilets are not going to make your property worth more, and with these multifamily properties, there is less emotion involved in the sale than there would be with a single family.

The second kind of person that you might sell your property to is a homeowner. He may live in one of the units, and rent out the remaining units to someone else in hopes that his mortgage will be paid down by his tenants. This type of homebuyer is likely more sophisticated than a homebuyer that you would run into if you were selling a single family home. The difference between selling to this kind of a home owner and an investor, is that this kind of a home owner will still be living in one of the units. So, in this case, there may be circumstances in your scope of work where it makes sense to add a few nice amenities, or nicer countertops. Again, this will change from circumstance to circumstance, but I will say that most of the time you will want to rehab these properties based on the finishes that the other comps in the area have. Don't over rehab areas of the home that are unnecessary; it ultimately will not make a difference in your return on investment (ROI), and in fact, your return on investment will likely decrease if you take this too far.

The next type of real estate that you will be rehabbing is commercial property. Commercial real estate is real estate that has five or more units. Commercial real estate is valued much differently than residential real estate, so it is important to understand this first before diving into your rehab budget. Properties with five or more units are valued based on the income that the property is producing. For some quick math, your property will be valued by taking the gross income of your property, minus your expenses (NOI), divided by the market's cap rate. NOI, or the net operating income, is the total income that your property makes after expenses, before any debt is paid down on the property. Value will be based on this net operating income, divided by the cap rate. You will discover the cap rate essentially by building relationships with brokers, and asking them what the cap rate in the market is. When doing this, do not ask the seller's broker what the cap rate is. Their job is to sell the property, and they will be very optimistic (as they should) when telling you what the cap rate for their subject property is. Do your own research, build relationships with other brokers in your market, and find out what the cap rate is. Please note - there are other tools that you can use online to discover the cap rate that I won't discuss in this book.

As you can see, income is going to have a direct correlation with the value of your commercial property. Because of this, you will need to pay close attention to what people are paying for rent by running rental comps in your area. What kind of countertops are installed, what kind of cabinets are installed, how big are the units, is there a washer, dryer, and free parking included? These are all questions that you will need to pay attention to when looking at your comps. If tenants are paying a premium price in your market for laminate counter tops and low-grade cabinets, then that is exactly how you are going to want to rehab your units. If you pay more for a nicer rehab, the amount of income that your property receives likely isn't going to change, so why bother? Again, in rare circumstances it may make sense to add a few items to your scope of work that could be considered "over-rehabbing." It may help you stand out from your competition, and ultimately, fill up your units more quickly. But at the end of the day, these will be rare circumstances and you need to objectively look at the numbers to determine what other properties in your market are doing to get premium rental prices. At the end of the day, have a plan, and don't over rehab your properties.

Mistake #6 – Not Getting Eyes on your Property

When I got started in real estate investing, I was attending the Missouri University of Science and Technology in Rolla, MO. I was an hour and a half away from St. Louis, MO, which is where most of my investing was taking place. I thought that the most efficient way to buy properties while I was in college would be to just send my property manager or my contractor to take a look at the property, and that they would be able to tell me what was wrong with the property, as well as whether or not I should buy it. Boy was I in for a surprise… One thing that I will repeat over and over in this book is to trust but VERIFY what other people in your real estate team tell you! When my property manager would go to view a property for me, they would take a quick look at the property, and tell me what they would see wrong with the property during their visit. The problem was, I had just taken their word as law, and assumed that the only things that were wrong with the property were the items that they had mentioned to me. If they said that a house needed to be painted, and that the floors needed to be replaced before I could move anyone in, I would blindly assume that those were the only items that needed to be completed before I could move anybody in my properties. This is a big mistake.

One of the true advantages that you can have over larger real estate firms and REITS is the fact that you can invest in your backyard and be creative with your investing. Large corporations are going to be investing in big, stabilized, class A, cash flowing real estate; it will protect their money and it will get them the returns that they need over time. But you as the smaller investor will be able to look into detail every property that you invest in. Being able to walk a property with your own two eyes is a HUGE advantage. You will be able to see value-add opportunities, problems that other investors wouldn't be able to see, and many other parts of the property that large institutional investors wouldn't be able to notice otherwise.

Now, there are people who invest in real estate from out of state all the time, and they do it very well (I've done it). This is certainly a great strategy if you take the right procedures, however I will still advise most new investors to start from their backyard (unless you live in a very expensive market like California or New York). The reason for this is: there will be expenses that you will be able to see and repair on your own, you will be able to stay up to date on construction progress, and you will be able to better observe opportunities for market improvements. These reasons alone are enough of an incentive for me to try to invest in my local market, and I believe that with experience you will agree with me.

However, if you do decide that investing out of state is the best option for you, there is a specific way to go about it that will (almost always) guarantee your success. You need five people on your team in order to have success investing out of state. You will need a good real estate agent/deal finder, a good property manager, a good contractor, a good inspector, and a good lender.

Each of these team members will be essential in order to be a successful out of state investor, and having one without the other may risk your odds of getting inaccurate insights regarding your property. You will want to build a good relationship with each of these team members. You will ask the real estate agent for his/her opinion of the property, then confirm the information that you get from that agent with your property manager. You will then confirm the information that you get from your property manager with your contractor, then get your inspection ordered; and if all of the information from each team member seems to be in parallel, your lender will also have some insight of the market that you are investing in. The point is to make sure that each team member has something similar to say; if everyone is saying basically the same thing, then you know that you are on to something good. Out of state investing can be very powerful, I do it; just make sure to do your homework and make the right decisions.

Mistake #7 – Not documenting your conversations

Documenting conversations may not be a common practice amongst most real estate investors, but it is certainly something that I hope you don't learn the hard way. When conducting your real estate business, you will be communicating with people on a daily basis. Whether it is contractors, property managers, other real estate investors, or real estate agents, there will always be someone that you will need to come to agreements with. People are so busy in their daily life, that it can be easy to forget EXACTLY what was discussed with someone if it takes another week before you get to speak with them again. This is why, after every important conversation that you have in your business, especially those conversations that discuss timelines and expectations, you will follow up with that person either via email or text EVERY TIME.

Doing this has two benefits. The first: the person that you send your follow up to will know how seriously you took their conversation, and as a result, they will try harder to accomplish whatever it is that you spoke about (or they will be more inclined to do business with you). Secondly: You will have evidence of the specifics of the conversation that took place. If a week or a month later, there is a disagreement between you and the person that you spoke with, you will have evidence documenting exactly what you and that person spoke about.

Do you think that most of the clients that contractors or property managers deal with will be sending them a follow up email immediately after their conversation? Probably not!

When they get a detailed email from you listing absolutely everything that was discussed, they will know that you mean business. In the back of their heads, they know that exactly what was spoken about is now documented. As a result, the effort that they put into executing what you spoke about will be tenfold. You wouldn't believe the amount of effort that I have seen in my property managers, contractors, etc. ever since I started doing this. It calls for clear communication between both parties, and it sets very clear expectations of what was discussed and what is expected from them.

The second reason documenting conversations is important is because it provides evidence of the conversations that you have. For example, let's say you and your contractor discuss that he will be completing the plumbing in your property. This plumbing will include the rough in plumbing AND the final plumbing. He completes all of the rough in plumbing in your house, and then goes to you to request his payment; meanwhile the toilets aren't installed, the fixtures aren't installed, and ultimately, you can't rent or sell your house yet! If you documented your conversation with this plumber, you will be able to show him the exact conversation that took place between the two of you. There will be no conversation of "he said she said", because immediately after the conversation, you sent him an email or text documenting exactly what you spoke about. This, of course, is an extreme example because you will already have a contract laying out everything in his scope of work, but if you take this rule of thumb and apply it to everyone, no matter who you speak with, you will find that you will have less disagreements down the road, and that more investors/clients will want to do business with you, because you have proven that you are a clear, diligent communicator.

Mistake #8 – Selling Your Real Estate at The Wrong Time

I want you guys to start thinking about rental property as a money pumping MACHINE (because seriously, that's what it is). My philosophy with 99% of the real estate that I buy is to buy the real estate and hold onto it forever. That's right, I plan to NEVER sell the real estate until the day that I die! There are many reasons for this, and I'll go through each of them right now.

First of all, when you sell a property, you immediately have to pay capital gains taxes. If you owned the property for less than a year, you have to pay short term capital gains tax (which is a similar tax bracket of a W2 employee). If you owned the property for more than a year, you have to pay long term capital gains tax (which is much less, usually 15-20%). This tax liability, compounded over many properties over a lifetime career in real estate, can equate to many millions of dollars. However, if you decide to hold onto your property long term, you will get one of the greatest tax benefits in

Depreciation. Depreciation allows you to write off the portion of your property that is the brick and mortar (the building itself, not the land that the building sits on) over 27.5 years. In most existence

...

cases, this depreciation allows you to avoid paying ANY taxes on your rental property cash flow. Simply put, it is a question of paying a large capital gains tax, versus not having to pay any taxes if you hold on to the property long term. As a side note: if you've held the property for 10 years, and then sell, you have to pay back all of the depreciation write offs that you've received over the last 10 years, AND you have to pay capital gains tax.

Secondly, one big benefit of holding real estate long term is that your property will appreciate in value over time (usually just keeping up with inflation), but your debt amount will remain fixed. I'll give you an extreme example to help you understand how powerful this is. Let's say that America had a similar inflationary environment as Zimbabwe did back in 2008 (79.6MM% inflation!! Can you imagine??). Let's say that before this hyperinflation takes place, you purchase a property for $200,000, and the debt on your property at the time is $150,000. Inflation gets really bad, and it now costs $10,000 to purchase a gallon of milk. Well now it would cost you the equivalent of buying 15 gallons of milk to completely pay off your mortgage and own your property free and clear!! In other words, inflation paid off the VAST majority of this mortgage, much more than the tenant ended up paying (either way, you don't have to pay it). Now sure, this is a very extreme example, and very unlikely to happen in the United States, but the principle is exactly the same. As inflation continues to get worse in this country (and it will likely continue to get worse now that we have been off of the gold standard since 1971, and our paper dollars are worthless), the amount of debt that you owe on your property will remain the same. So inflation is going to, overtime, wipe out how much you have to pay to own the property free and clear in nominal dollars. If you sell your real estate, you will not get this benefit! Sure, you will be able to pocket a bunch of money at once, but the power of inflation paying off your real estate debt over time is exponentially more powerful.

As a third reason, holding your real estate long term gives you passive income and freedom. When you flip a property, you officially make yourself unemployed again. Now you have to go and find another deal, and you don't get paid until you do. Passive income is what allows you to quit your job, it's what gives you freedom in life, and it is ultimately what buys your time back so that you can go and spend your time on high dollar activities. The amount of money that you lose in opportunity cost by having a W2 job is devastating, and you will never have the opportunity to REALLY make a lot of money until you are totally financially free. John D Rockefeller said it best when he said, "He who works all day has no time to make money." Selling your real estate too often will not give you this opportunity of freedom.

So when IS it a good time to sell your real estate? Well for this, I have 3 rules. First of all, if you are considering selling your real estate, I first want you to consider a cash out refinance. In using a cash out refinance, you will receive most of the money that you would have received in a sale, and you will receive it tax free (because the money that you receive during your cash out refinance is debt, not income). You can then use this large lump sum of money, and invest the money into another deal. The other option if you don't want to keep the property through a cash out refinance (let's say the property is in a rough area, for example), is to utilize a 1031 exchange. A 1031 exchange allows you to sell your property, take the profits and invest it into another property, and defer your tax liability into a later date so that you end up paying ZERO dollars in capital gains tax. You can then take that second property and 1031 it into a 3rd property and also pay zero tax. You can essentially do this until the day you die, and then when your children inherit your properties, the tax liability goes away. So, this is an AMAZING strategy that you can utilize to keep moving up in property and ultimately pay zero dollars in capital gains tax. Please note: if you end up selling one of these properties without utilizing a 1031, then you have to pay all of the taxes that you differed from the very first 1031 exchange (the goal is to continue using the 1031 until the day you die).

When deciding if it's time to refinance or 1031, you want to look at the metric in your portfolio known as the return on equity (not to be confused with return on investment). The return on equity is how much equity you have in a property, versus how much income that equity is producing for you. So, let's say that you buy a property for $100,000, your equity is $20,000, and your cash flow is $2,400 per year. Your return on equity is your cash flow divided by the equity that you have in the property, which in this example would be 12% (return on equity and return on investment will equal the same on year one). Now let's say that 10 years go by, the property appreciates, and you now have $80,000 in equity, but the rents have only increased by a little bit, so your cash flow is now $4,800 per year. Now your return on equity is only 6%... So the question you need to ask yourself in this situation is, can my equity be yielding me more cash flow in a different asset? If you are only getting 6% of your money in the game of real estate, then the obvious answer is YES. So, you go and 1031 this property into another asset, and you take your $80,000 profit and purchase an asset valued at $400,000 (20% down). The cash flow you are receiving on this property is $9,000 per year, and now your return on equity has jumped up to 11%! This is why looking over the numbers of your portfolio is so important. You want to make sure that your equity is yielding you as much of a return as possible!

The other scenario where it might make sense to sell a property is to take your chips of the table and deleverage. I have personally sold some properties to pay for other properties in cash. Now I have gotten a TON of questions asking me why I would ever own a property in cash (besides, didn't we learn about good debt in Rich Dad Poor Dad?). And the reality is, for me, that in the beginning of my real estate career, I was all about leverage, maxing out credit cards, and doing whatever it took to become financially free. Now that I am a multimillionaire, financially free, and own an 8 figure real estate portfolio, I don't want to lose everything that I have worked so hard for. So for me, it makes TOTAL sense to sell some assets, pay some other assets off in cash, and have complete peace of mind (besides, what's the point of all of this if you don't have peace of mind?). So, it is a totally valid strategy to use good debt, leverage to buy real estate, become successful, and then take some chips off of the table to lower your leverage and your overall risk.

All in all, if you are going to sell real estate, make sure that there is a good reason behind it. Make sure that you are either selling the real estate to buy more real estate, or you are selling real estate to take chips off the table. Whatever you do, do NOT sell real estate to simply get a large lump sum of cash that you can then blow on something stupid (unless of course, you know that the decision is stupid, and you are okay with it). Nothing will get you further ahead than delaying that gratification, holding off the stupid purchases, and continuing to reinvest in your business and/or real estate. Seriously, my intent for the vast majority of my portfolio is to hold onto the assets forever, and I am forever grateful that I discovered this at a young age. If I didn't, this would probably have costed me millions of dollars in opportunity cost.

Mistake #9 – Not Following the 4 Core Ways to NEVER Lose Money in Real Estate
&
Mistake #10 - Waiting too Long to get Started/ Starting the Wrong Way

I hope that this e-book has opened your eyes to everything that you need to pay attention to in order to become a successful real estate investor. These mistakes, if taken seriously, can save you literally millions of dollars over the course of your real estate investing career. Many of these mistakes are ones that you don't necessarily learn from books or podcasts, but that you learn through experience of being in the game. I hope that my mistakes will save you a lot of money, and that you can fast track your success as a result of what you have learned. Remember, it is never a good idea to over educate and never execute. When I got started in real estate, I knew close to nothing about investing. A contractor could have charged me $30,000 to paint a bedroom, and I would have paid him for it. You will never have all of the answers, so take all of the information that you can and just go out there and do it.

Warren Buffet once said that the single biggest determining factor of success, in his opinion, is the age that the individual gets started. The sooner you get started investing in real estate, the more wealth you will be able to create. Real estate, while having its ups and downs in the market cycles, has proven to always keep up with inflation over time. This is a proven investment vehicle that has done well over time and that has created more millionaires than any other industry. There is no reason to reinvent the wheel here.

Countless people have created wealth through real estate, and you can too. Just keep in mind, that if you want to make it big in the real estate sector, and if you are reading this book then I assume that you do, that you are committing to a whole new lifestyle. There will be stress, negotiations, projects that do not go the right way, recessions at the wrong time, and you will only survive if you commit yourself to becoming a success in this space. Read the books, listen to the podcasts, but don't sit back and constantly educate yourself while doing nothing. The mega successful learn something, and take MASSIVE action immediately after they learn. Don't listen to what the successful are saying, watch what the successful are doing!

There are a few rules of thumb that I want you to follow in your real estate investing career to (almost) guarantee your success in the industry. If you follow these core principles, you will never go wrong, even when the market cycles are not going in your favor, or your construction timeline doesn't go as planned. These core principles are to invest for cash flow, invest in long term debt, have reserves, and be conservative in your underwriting.

The single most important law in real estate investing is to invest for cash flow. You know the saying cash is king? While cash can be very important, especially during hard economic times, in real estate, cash **flow** is king. When investing in assets that don't provide cash flow, you can only profit off of the asset the amount that someone is willing to pay you for it. Gold and bitcoin are perfect examples of this. While investing in gold and other commodities can be extremely profitable (and a good hedge against inflation), you are only going to be able to profit what somebody else is willing to pay you for that gold. This kind of investing should really be called speculation. Speculating can be a dangerous game, because while you are waiting for your asset to go up in value, you are not receiving any income/ cash flow. If you invest in a piece of real estate, and you buy it at a high dollar price, knowing that it will never provide cash flow, this could be a huge mistake. Many people will do this because high dollar real estate appreciates more quickly, so why wouldn't you pay high dollar for this, right? Well, essentially you will be losing money every single month to hold on to an asset that may or may not increase in value when you need it to (bad debt!). If you need the money from that asset in exactly 8 years, and 8 years from now we are in an economic downturn, you will not be able to get the money out of the asset that you need. Another negative part of doing this, is that you more highly risk yourself of being over leveraged as an investor. Think about it, if you are losing money every single month due to the high mortgage payments of your property, what if one month you cannot afford the mortgage payment? What happens if we go into an economic downturn, and your tenants can't afford their rent, or the property goes into foreclosure? If you would have invested into cash flowing real estate, the likelihood of this happening would dramatically decrease.

So what about investing with long term debt? This should always be your goal when investing in real estate. Let me give you an example of what can happen when you don't have long term debt. Let's say you purchase a property using an adjustable rate mortgage, and you get a single family house for 20% down at a 3 year note.

By the 2 year mark, the market tanks, people lose their jobs, and properties decrease in value. Now, your refinance or sale of the property is much harder to complete when your balloon comes up the next year, and it may not even be possible without bringing a substantial amount of money to the table. Your property is not worth as much as it once was, people are less likely to buy, and banks are less likely to lend at the same loan to value that you once thought they would. Keep something in mind when investing in real estate: The United States is one of the only, if not THE only, countries that offers 30 year fixed rate loans in the world. This is a very powerful tool that we have as real estate investors. No matter what happens to the market, no matter what happens to rates, and no matter what happens to property values, your interest rate on the property will never change. This means inflation will take place, rent amounts will increase, but your debt payment will stay the same… Over 30 years. Do you see the power in this?! On top of that, there is less to worry about when the market tanks. You don't have to sell your property any time soon, because your debt is long term, and you can afford your payments every month because you followed the first rule – investing in cash flowing real estate. When investing in real estate, do your best to always invest with long term debt!

On that note, having reserves in the bank can be just as important as the first two core principles that I discussed. At the end of the day, even though real estate has proven itself over hundreds of years to be a "safe" investment, it is still an investment at the end of the day. This means that there is risk, and that rainy days, no matter how prepared you are, will still come. That's right, bad days WILL take place in your business. You may have to lay employees off, you may go into a lawsuit, or you may have a few evictions that all take place at the same time; who knows? This is why you should ALWAYS have reserves in the bank. When the market tanks and people start to lose their jobs, you will still have the money that you need to keep your business alive during these times. Not to mention there is a side benefit in holding reserves in the bank. Let's say that we experience a 2008 economic recession all over again, and a killer deal ends up presenting itself to you (because yes, when the market tanks this is your time to find bargain deals). The money that you have in the bank will allow you to take massive action during these times while everyone else is peeing their pants! The mega successful make an absolute killing during recessions; this is one of the reasons why the rich get richer and the poor get poorer. While I understand that having reserves in the bank takes a lot of self-discipline and a lot of patience, trust me… It is worth it. Your business will stay alive during the tough times and you will be able to hop on opportunities that you wouldn't be able to otherwise.

The last core principle that I want to talk about is one that should be very important to your investment philosophy as a whole. Always, always be conservative when doing your property analysis and underwriting. After all, your money is made in real estate when you buy; if you purchase the property at the right price from the get go, you will save a lot of money and headaches. But how will you ever find a deal if you are so conservative in your underwriting? Because you will have a pipeline of continuous deals coming in at all times. You will be building relationships with brokers, other investors, friends and family, etc. and everyone is going to know that you are a real estate investor who is looking to buy more real estate. You will also be sending out direct mailing letters to sellers letting them know that you are interested in buying their property (more on this in another book). You will be patient and know that there is always another deal out there, and you will know that you have many other deals to underwrite.

Let me put an example into perspective for you in two different scenarios. Scenario one is you find a house for $100,000, and you buy the house for $100,000. You need to put 20% down to buy the deal, so you put $20,000 down as the down payment.

Congratulations! You now have $20,000 in equity in that house! In scenario two however, you find that same house for $80,000. You put 20% down on the home, which is $16,000, and the debt on the property becomes $64,000. The property is worth $100,000, so now your equity in the property is

$36,000 with no extra work done than in scenario one. This, my friends, is the beauty of underwriting deals conservatively, being patient, and finding good deals. Another benefit of this is the fact that your numbers are far more likely to work out than if you would have just bought any deal across the street. In real estate, even when the market cycles are in your favor, things can always go wrong. Contractors won't show up, your scope of work will change, your building will catch on fire (you do have insurance, right?), etc. The income or profit that you once thought you would receive will no longer be possible, and if you squeezed the numbers to make them work during your underwriting, you will be in for some big trouble. Underwriting your properties conservatively will keep the numbers working out even when there is a rainy day. Your budget will account for unexpected cap ex, longer construction times, and everything in between. So, there you have it, be conservative in your underwriting!

Recap

To recap everything that was discussed in this book, here is an outline of the 8 mistakes that many real estate investors make: Hiring your contractors without a contract, not going over your books (even when you have a property manager), not keeping records of everything, not screening tenants before accepting them, over improving a property, not walking a property before you invest in it, not documenting your conversations, and waiting too long to get started (or starting/investing the wrong way). These are some of the biggest mistakes that I've personally made in my real estate investing career, and I hope that by reading this book you will save hundreds of thousands of dollars, if not millions of dollars, in your personal investing business. Remember, if you are investing in real estate, you are running a business, and everything that you do needs to be treated as such. This means creating systems for your business that are repeatable, and learning from the mistakes that you have made for your business in the past. Make sure to check out the articles at Multifamilymethods.com, they will be updated every week with new information that will help you along your real estate investing career.

Lastly, if you want to invest with us, I invite you to reach out to me at gleesonrealtycompany@gmail.com to do so. The returns that we get from our real estate investing deals are exceptional, and we do all of the hard work so that you can invest passively. Freedom Way Capital was originally founded as a small-multifamily real estate investment fund. Our strategy is to invest in recession resistant opportunities, that appreciate over time, and have favorable returns on a risk- adjusted basis. The managing member of Freedom Way Capital has acquired over $13MM in assets under management across 100+ units, in St. Louis, MO. Freedom Way Capital has partnered with top- tier operators in the industry. By partnering with these operators, we are able to gain access to their network , due diligence process, and experience. By leveraging these relationships, Freedom Way Capital is able to offer our investors access to quality investment opportunities. Perhaps the rents are under market, the building needs renovation, the vacancy is low, the asset is not managed properly, or we purchase for a low price from a motivated seller. The buildings we seek tend to be B to C type assets located in areas that are rapidly improving. This gives us the opportunity to purchase an undervalued asset in a good area, thus allowing us to create value for the investors within 2-3 years. At that time, we may refinance to return the investors' principal yet maintain their equity ownership and cash flow. If you have any questions or if you have interest in investing with us, feel free to contact me at gleesonrealtycompany@gmail.com and we will get back with you promptly. I hope that you choose to commit to this exciting business of real estate, and that your success in this business gives you the freedom and prosperity that you desire. Happy investing!