7 Rookie Investing Mistakes & How to Avoid Them

HIPSTER INVESTMENTS

Introduction

Real estate investing is an exciting and interesting world. It's not like other industries in that there are so many ways to create wealth, but with that also comes some challenges. Most other industries offer jobs that either you learned skills in school for or that came with a training program to get you up to speed, or both. Most other industries offer clear-cut procedures. And most other industries don't see failure as an option.

Few of us learned anything thing about real estate investing in school. And while there are training programs in real estate investing, they're often extremely expensive and rarely provide you all of the answers you need. In real estate investing, there are so many ways to do it that it's almost mind-blowing, and few people who succeed in it ever did it exactly the same way as the next guy who did it. And in real estate investing, failure is not only an option, but failure is almost inevitable.

Arguably the best way for someone to succeed as a real estate investor is to take bits and pieces of information from multiple sources, piece them all together in a way best suited for them, and make that their winning solution. It's rare that you will learn everything you need to know from one person or one source.

The goal of the information provided here is to simply add to your arsenal of information using real examples of common situations in real estate investing. The more you learn, and the more you can piece things together, the better a shot you have at conquering the investing world.

In the following pages are 7 Rookie Mistakes that are common amongst new real estate investors, along with descriptions of the mistake, real-life stories of these mistakes, key takeaways on how you can avoid these mistakes yourself, and even practice problems. (who doesn't love homework?!)

And on that note…

Example Rental Property

In order to help illustrate some of the information the Rookie Mistakes we are going to cover, here is a sample property (one that Hipster actually sold recently). I will refer back to this property throughout the different points so you get a better visual of what I'm talking about.

Welcome to Indianapolis, Indiana.

Purchase price: $158,000

Property info:

Turnkey, 3 bedrooms, 2.5 baths 2,250 square feet

Monthly rent collected: $1,425

Monthly expenses:

Property taxes: $248

Insurance: $63

Home Owners Assoc. Fee: $21

Property management fees: $112

Estimated expenses:

Vacancy (7%): $100

Repairs (5%): $71

Total Monthly Expenses- $614
(not including mortgage)

Net Income = $811

Cap Rate = 6.16%

Cash-on-Cash Return = Depends on your leveraging

Rookie Mistake #1:

NOT KNOWING THE NUMBERS

No matter what real estate investing strategy you're interested in, the numbers matter. Why, you ask? Because the whole point of investing is to earn money, and money is calculated in numbers.

If the numbers don't support a profit, you won't profit.

When I started getting interested in real estate investing, I had no idea what I was looking at more than just generally understanding concepts such as flipping, rental properties, and making money. Or at least I thought I understood the concept of making money…

What is the first thing you should look at with ANY investment property?

THE NUMBERS

Still in my newbie investor phase, I met up with a real estate agent who told me he would show me around some rental properties in Orange County, California. I said, "Yes! Please!" I was all excited—even though, between you and me, I didn't have a clue what I was doing. I sure pretended like I did though.

As we're looking at properties, most of them were priced around $270,000 and definitely needed work. I was eventually smart enough to ask the agent, "How much do you think one of these could get in rent?" His answer was ~$1,200 per month.

Mind you, I was working as an engineer at the time so math was far from a foreign concept to me. However, I had no idea what I was supposed to be looking at in terms of the numbers. All I heard was "$270,000" and "$1,200". I specifically remember thinking, "I don't actually know what I'm looking at here or how to figure it out, but I can't quite put a finger on how that's going to be profitable…"

My suspicion turned out to be right.

ORANGE COUNTY PROPERTY

I didn't buy any of the properties I saw that day, and it wasn't until a couple years later when I actually got into real estate investing that I could finally see what I wasn't putting my finger on.

Let's look at this:

Purchase price: $270,000

Rental income: $1,200

Using a mortgage calculator—assuming a 20% down payment and 5% interest—the payment on a $270,000 house comes out to be $1,160 per month. That isn't including a single expense. Since property taxes and insurance are unavoidable, let's just throw those in there. Estimating about $3,000 per year in taxes and $1,800 per year in insurance, that brings the monthly expense to $1,560.

The monthly expenses on the property, *not* including any operating costs, are $1,560.

Compare that to the monthly income.

INCOME – EXPENSES = $1,200 – 1,560 = -$360

Not including any operating costs, and not including rehab expenses, I'd be coming out of pocket $360 per month.

Because that amount out of my pocket doesn't include operating expenses or rehab expenses, it's a total fantasy. And in this case, I'm losing in my fantasy. What does that mean then for my reality? (answer: nothing good)

How does this compare to the sample property in Indianapolis?

INDIANAPOLIS PROPERTY

Purchase price: $158,000

Monthly rent collected: $1,425

Monthly expenses:

Mortgage (assuming 20% down and 5% interest): $680

(use any free mortgage calculator online to calculate mortgage amount—be sure to set accurate terms)

Property taxes: $248

Insurance: $63

Home owner's association fee (HOA): $21

Property management fees: $112

Total Monthly Expenses- $1,124

INCOME – EXPENSES = $1,425 – 1,124 = $301

In the case of this property, you are profiting $301 per month. Remember the Orange County property? You were losing $360 per month on that property.

Sadly, it's not even an apple-to-apples comparison either. That cash flow profit on the Indianapolis property *includes* operating costs. And because the house is turnkey—meaning it comes fully rehabbed already—there's no additional rehab expenses. The loss on the Orange County property doesn't include operating costs or rehab costs, which it would require.

Preferably, an investor would also include maintenance and vacancy estimates, as were included in the original numbers. Assuming $171 per month for those estimates, the investor is still in the green at **$130** per month cash flow, with the added expenses.

LESSONS LEARNED

Had I bought one of the Orange County properties I looked at, I would've been forking out a significant amount of money every month, as well as forking out additional overhead expenses.

The numbers show me this.

Because the numbers are what make a rental property profitable, there's no option but to know how to run them in order to know the feasibility of your investment being profitable.

Note: It's not just the numbers themselves that determine whether a property will be an investment success or not. But it's the first step in assessing it!

HOW TO AVOID THE MISTAKE

- ✓ **Learn how to run the numbers!**
- ✓ **Specifically, be able to run:**
  - Projected Cash Flow
  - Cap Rate
  - Cash-on-Cash Return

Let Hipster help:

Rental Property Numbers So Easy You Can Calculate Them on a Napkin

If you prefer video over written text:

How to Calculate Numbers on a Rental Property

Note: If you are flipping a house or doing a strategy other than rental properties, be sure you understand all the numbers that need to be run for that particular strategy.

PRACTICE

Let's practice running some numbers.

- Run the numbers on each property. (If you don't already know how to run the numbers, refer to links on previous page.)
- Both properties are financed, so assume a mortgage with 20% down payment, 5% interest rate, 30 year loan term, closing costs not included.
- Assume rehab costs are paid in cash (no loan).
- Assume 7% vacancy and 5% repairs (of monthly income).
- All expenses included are monthly amounts.

PROPERTY #1

The sample property. **What's the *CASH-ON-CASH RETURN*?**

PROPERTY #2

Purchase Price, no rehab required: $260,000

Rental Income: $2,100

***Expenses*:**

Mortgage (assuming 20% down and 5% interest): (*use mortgage calculator)*

Property taxes: $210

Insurance: $139

Vacancy: (*7% monthly rent)*

Repairs: (*5% monthly rent)*

No property management or HOA

What's the *MONTHLY CASH FLOW, CAP RATE, and CASH-ON-CASH RETURN?*

PROPERTY #3

Purchase Price: $320,000

Rehab required: $73,000

Rental Income: $2,300

***Expenses*:**

Mortgage (assuming 20% down and 5% interest): (*use mortgage calculator)*

Property taxes: $240

Insurance: $152

Property management fee: *(10% monthly rent)*

Utilities: $73

Vacancy: (*7% monthly rent)*

Repairs: (*5% monthly rent)*

No HOA

What's the *MONTHLY CASH FLOW, CAP RATE, and CASH-ON-CASH RETURN?*

CORRECT ANSWERS PROVIDED AT END OF DOCUMENT

Rookie Mistake #2:

NOT KNOWING THE "WHY"

Specifically, not knowing the "why" as far as *why* a particular property would be a good investment.

I constantly hear newbies ask people if they think something would be a good investment. I also hear investors say they are investing in a particular property—one that seems like there's some obvious red flags—and when I ask them what it is about that property that appeals to them for investment potential, they only come back with some vague indirect kind of answer… that really isn't an answer.

If you can tell someone *why* you are choosing to invest in a particular property, it means you understand it yourself. Surprisingly, most newbie investors can't actually articulate why they are leaning towards a particular property.

When I was looking at those Orange County properties, I wouldn't have been able to articulate to anyone why I thought they were good or bad investments. That's because I had no idea what made for a good or bad investment.

So what things determine how whether a property might be a good or bad investment? In other words, what kinds of things should you know in order to determine whether you should be focusing on a particular property or not?

Two primary things matter for an investment property to be profitable:

1. **The numbers**
2. **Sustainability of the numbers**

We already talked about the numbers and how to run them. The numbers I gave you are primarily for rental properties, but for any investment strategy—rental properties, flipping, notes, syndications, commercial acquisitions, etc.—the numbers should be known, however they may be known for the particular strategy.

But keep in mind, when you run numbers, those numbers are only *projected.* How can you know if they'll actually happen? Well you can never completely know because none of us have a crystal ball, but there are factors that affect the numbers.

Things that can impact the sustainability of the projected numbers are:

- **Location.** This includes both the larger market the property is in (i.e. big city) and the specific neighborhood. Any declining areas can be detrimental for a property's value (both in price and rents) and will attract a certain type of tenant. Dangerous areas also pose certain risks to the investment.
- **Property condition/quality.** Low-quality properties not only require more on-going maintenance but also have increased capital expenditures down the road (the larger-ticket items like roofs, plumbing, etc.). A low-quality property will also likely attract low-quality tenants.
- **Tenant quality.** Speaking of the devils… bad tenants can cost you excessive amounts of money in the form of evictions, non-payments, increased vacancies, and constant repairs.

- **Local laws, such as rent control and taxes.** Rent control can be deadly for a landlord because the landlord then can't always raise rents to meet the current values. If a tenant under rent control stays for a notably long term, the landlord is losing money the entire time because he/she can't raise the rents to keep up with market.
- **Management.** If you manage the property yourself this isn't as drastic, but if you have a bad property manager handling the property, that manager may easily forego maintenance, cost you extra in repairs, rip you off, and continually place bad tenants.

Each of these things can literally destroy your profits.

Now that I've scared you into submission, let's get back to what we were talking about here—how to sustain the numbers. You sustain the numbers, as best you can, by mitigating each of these risk factors as best you can.

- **Location.** Buy in growing areas. The more demand for an area, the more demand for your property, and the more value it will hold or add. Dangerous areas attract dangerous tenants, so focus on slightly nicer areas.
- **Property condition/quality.** The nicer the property, the less expensive repairs you're going to be on the hook for, and the higher the quality of tenants the property will attract.
- **Tenant quality.** You've got to find decent-quality tenants. You need tenants who will pay you, not destroy the property, and won't cause you constant headaches. What can you do to attract higher-quality tenants? (hint: the location of the property and the property itself are good first starts)
- **Local laws, such as rent control and taxes.** Be careful of rent laws local to where you're investing. Make sure as best you can that they favor the landlord rather than the tenant. Some states are known to be more "landlord-friendly" or "tenant-friendly", so that's one thing to look at as well.
- **Management.** Be diligent about who you hire to be your property manager! And if one manager starts to suck, find a new one!

LESSONS LEARNED

Easily the biggest lesson I've learned over the years since I started investing is that there are a lot of things that can cause me to lose money on my property investment. I've lost money because of bad tenants, I've lost money because of bad property managers, I've lost money because I missed some things on the initial property inspection and had to pay for the repairs out of pocket later, and I've quickly learned that when a property isn't in as a desirable of a location that finding tenants and avoiding vandalism expenses can get tough.

At the end of the day, not a single number you calculate is guaranteed to come in. So do whatever you can to mitigate risk factors ahead of time so you increase your chances of sustaining those projected [awesome] numbers.

HOW TO AVOID THE MISTAKE

- ✓ **Take time to educate yourself on what factors are necessary for an investment to succeed and what factors can cause doom.**
- ✓ **Then take time to put as many risk mitigations into place as possible.**
- ✓ **Due Diligence.** The most important thing on any property. Due diligence means verifying everything that you can to ensure you know what you are getting.
- ✓ **Practice telling people why you are choosing a particular property to invest in, and let them ask questions.** This will tell you whether you know what you need to know or not to make a solid decision and pursue the right property.

PRACTICE

You're getting lucky with this practice problem because I'm doing the work for you.

Looking at the sample rental property, I'm going to tell you *why* I believe it to be a good investment.

- **Numbers.** Already calculated—we're good. Now can we sustain them?
- **Location.** First looking at the bigger city it's located in— Indianapolis.
    - 14% population growth since 2000
    - One of the smallest price dips during the last recession
    - Below average unemployment
    - Home to several large employers (Eli Lilly, State Farm, and Kroger investing $465M into the city)

  The population is increasing, lots of jobs via several diverse industries (jobs mean more people moving there and staying there), and economic stability. FYI—those are all major wins when looking at market fundamentals.

  The neighborhood this property is in is a B+ neighborhood, many properties are owner-occupied, schools aren't the slightly above average for ranking, generally safe neighborhood—very desirable.

- **Property condition/quality.** You can see just by the picture that this is a nice-quality home. Great curb appeal, could easily attract high-class tenants. The property is turnkey, meaning it's freshly rehabbed and no work needed. This means minimal capital expenditures (CapEx) expected in the near future, and hopefully high-quality tenants keep it maintained well.

- **Tenant quality.** Nice, safe neighborhood, solid market, and a high-quality looking house should easily attract good tenants. Monthly rent is $1,425 which will typically attract higher-earning tenants.
- **Local laws, such as rent control and taxes.** No rent control on this property and Indiana is a landlord(you)-friendly state.
- **Management.** The property managers who come with this property have a proven track record. Worst case, fire them and hire new ones. Plenty available in Indianapolis to choose from.

If I were to tell you all of these things about this property as being reasons why I feel comfortable investing in it, would you feel confident that I was making a good decision? Yes! Because it's obvious I know what I'm looking at.

✓ Now you can go practice yourself. Go find a random property and fill in the entire checklist (numbers, location, property quality, etc.) and decide whether the property you are looking at is a solid investment choice or not.

If you want to start easy, go to Hipster's Inventory and look at the properties there and see if you can figure out why we think they are good investments.

Rookie Mistake #3:

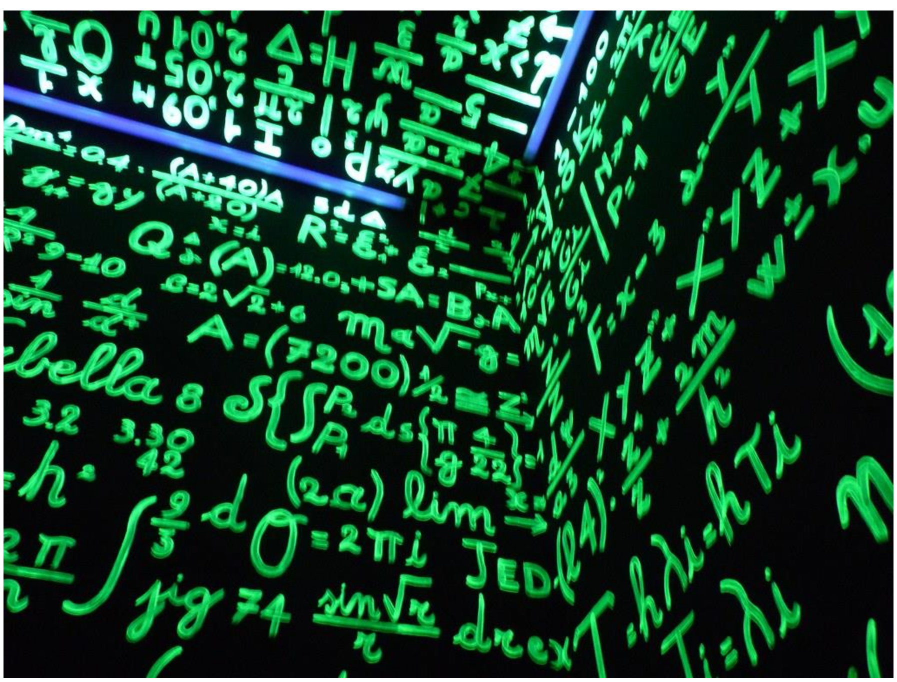
FORCING AN INVESTMENT

By forcing an investment, I mean—the investor somehow makes it look on paper that it will be a great investment, when the reality is, it doesn't even come close.

There are a lot of reasons why someone might want a particular property to work as an investment. Maybe it's a house in their favorite neighborhood, maybe it's close enough to them that they can manage it easily, or maybe they just get warm fuzzies from it.

There's no such thing as "willing" a property into being a good investment. No amount of emotional appeal is going to change its ability to be profitable, and the numbers are what they are.

If your analysis on a property has to look like this before it shows something promising on paper for profitability, you're kidding yourself—and your wallet.



The most common time I see this done is when someone is trying to convince me that a property can cash flow in California. [For the record, I don't care if someone wants to buy a rental property in California, but it's when they can't give me a legit reason for why they are choosing to do so and instead are trying to convince me of some kind of unrealistic fluff.]

The numbers just don't work for positive monthly cash flow in California. But since I'm open-minded, I always invite people to convince me that I'm wrong. The most entertaining answer I got from someone recently went something like this:

Well I'm going to finance it initially with 45% down and then once I raise the tenants' rents I'm going to pull out a HELOC (home equity line of credit) and use that to pay down the interest and reverse mortgage that back into the property. All the while, I'm going to convert the garage to an ADU (additional dwelling unit) and rent that out separately, at the same time I tear down a wall in the main house and build a skylight so that increases value. Then inflation is going to kick in and that will give me mega equity in the house, and then I'll finish by reamortizing the loan once more and then we'll be sitting solid at a 6.2% return. All the while, don't forget that California appreciates like crazy so obviously I'm going to be a millionaire because of this property. How can you tell me that California doesn't cash flow???

Ummm…

Hi, can we come back to earth now? You've got to be kidding me. This is your strategy for how this property is going to put money in your pocket? I don't think I even need to break those strategies down and analyze each one individually to show that plan as being a tad sketchy. But in case I do, let's do it:

Well I'm going to finance it initially with 45% down *and* ***then once I raise the tenants' rents I'm going to pull out a HELOC (home equity line of credit)*** *and use that to pay down the interest and* ***reverse mortgage that back into the property****. All the while, I'm going to* ***convert the garage to an ADU (additional dwelling unit) and rent that out separately****, at the same time* ***I tear down a wall in the main house and build a skylight so that increases value****.* ***Then inflation is going to kick in and that will give me mega equity in the house****, and then I'll finish by reamortizing the loan once more and then we'll be sitting solid at a 6.2% return. All the while,* ***don't forget that California appreciates like crazy so obviously I'm going to be a millionaire because of this property****. How can you tell me that California doesn't cash flow???*

Well I'm going to finance it initially with 45% down. Okay, not a bad start. Just remember- any property will "cash flow" if you put enough cash into it. The key is to calculate your actual returns and see where it stands. One rule of thumb some people use is—"if it doesn't cash flow at 100% financed, it doesn't cash flow."

Then once I raise the tenants' rents. The most common disastrous blunder of them all! Do you think you can just magically raise tenant rents at your leisure? That's not at all how it works. The rents have to be in line with market value—which oftentimes isn't in line with cash flow, sorry. Or in some cities, rent control won't let you even bring the rents up to value. Never assume cash flow just by raising rents.

I'm going to pull out a HELOC (home equity line of credit). Where's that magic equity coming from?

Reverse mortgage that back into the property. Uh, that's not at all how that works.

Convert the garage to an ADU (additional dwelling unit) and rent that out separately. Can you do that? In regards to zoning and permitting?

I tear down a wall in the main house and build a skylight so that increases value. Oyyyy…

Then inflation is going to kick in and that will give me mega equity in the house. Well, you're thinking along good lines because inflation is one of the five profit centers of a rental property, but it doesn't happen in a month. Or in a year.

Don't forget that California appreciates like crazy so obviously I'm going to be a millionaire because of this property.

Ever hear that appreciation is speculation? That's because it is. It's never guaranteed.

LESSONS LEARNED

The reasons you invest in a property, and the numbers, need to be seated in reality. No property is guaranteed to be a successful investment, but the fewer unknowns you take on, the better your chance of success.

The above explanation of how this property is going to be profitable is only made up of unrealistic statements and unknowns. The only thing "known" is the person is putting 45% down. After that, it's a total crap shoot. Not to say crap shoots never work, but how much money do you have to spare to find out?

HOW TO AVOID THE MISTAKE

- ✓ **Determine what actual numbers and factors you can determine (rather than guessing).**
- ✓ **For any speculative factors, make sure to understand as much as you can about what's involved in that speculation and how to mitigate risks.**
- ✓ **Base your investment decisions on reality, not a hypothetical analysis.**

PRACTICE

This practice problem is actually going to be a Round 2 practice. In the last exercise, I kind of did it for you. I went through each factor related to the sample problem and explained what it was about each one that made the property make sense as potentially being a solid investment.

Now it's your turn.

While I don't *ever* recommend using Zillow for the basis of actual investing, you can use it to scour through properties. Go on Zillow and pick out any property for sale, as if you were thinking about it as a potential investment.

Then run through your checklist:

- **Run the numbers**
- **Location**
- **Property condition/quality**
- **Tenant quality**
- **Local laws, such as rent control and taxes**
- **Management**

What's your conclusion? Good investment potential? Why or why not?

(Note: statistics show that roughly 80% of properties don't make sense as investments. So don't think you are doing anything wrong if you keep coming up with properties that don't work!)

Rookie Mistake #4:

TRYING TO RUN BEFORE YOU KNOW HOW TO WALK

Ever hear the phrase "Don't try to run before you know how to walk"?

The difference between trying to run before you know how to walk and taking on advanced real estate investing tasks before you know the basics is: trying to run before you know how to walk won't cost you any money when you mess up.

Learning real estate investing is tough because most of us never learned anything about it in school. We are forced to teach ourselves, with no real way of knowing where we should even get the most legit information, and a lot of learning real estate investing comes from making mistakes… unfortunately.

Just like with anything, learning to walk before you try to run can be seriously behooving. It's your best chance of keeping epic levels of mistakes at a minimum.

A few years ago, I went backcountry snowboarding for the first time. For someone who lives at sea level and had only taken lifts to the top of snowy mountains, suddenly climbing straight up a powdery mountain at 10,000' elevation was a shock to the system, to say the least. In the misery of it, I couldn't help but relate it back to real estate investing (yes, I'm a nerd).

You can read my full analysis of trying to run before you know how to walk in real estate investing, as it relates to snowboarding, here:

What Snowboarding Can Teach Us about Real Estate Investing

When we think of real estate fundamentals, what kinds of things does that include?

- **Numbers.** How to run and read numbers in order to determine profitability.
- **Property selection.** As we talked about, how to know if a property is potentially a solid investment or not.
- **Risks.** If you can't identify risk factors, you're doomed.
- **Risk mitigations.** And once you identify the risk factors, you have to be to mitigate those risks as best as possible. Just knowing the risks doesn't help if you don't do anything about them.
- **Strategy.** You have to learn the ins and outs of the strategy you choose to pursue. What does it take to be successful in that strategy, what are the risks specific to that strategy, and what can cause failure in that strategy?
- **Due diligence.** There's very little outside of freak events that can't be verified in real estate investing. Due diligence is (or should be) the crux of all investment pursuits. So, how do you conduct due diligence?
- **Management.** Whether it's contractors, tenants, property managers, or the property itself, you have to know how to manage it properly, and be willing to manage it property.

Those are the basic things any investor needs to have ardent knowledge on. So then what are the more advanced things?

- **Rehabbing**
- **High-risk properties**
- **High-risk tenants**
- **Detailed market analysis**
- **Forced investments**

It's not to say someone can't do those advanced things, but with already needing to learn all of those fundamentals, why add more to your plate? (unless you just have an innate skill in them, which some people do.)

I recently saw an online post in a real estate investing forum that said this:

Hi everybody!

I thought I'd turn to the forums because I saw an interesting deal, but there's some red flags.

Since I'm relatively new to real estate, I'm hoping some more experienced people can guide me in the right direction.

I found a deal for a 4-plex out of state listed at $39,900. It's been on the market since January 2019 so I feel like it could easily be bought it for around $25-$30,000 or even less. The property details list that each unit rents for $475/mo. It sounded too good to be true.

Here come the red flags. It's in a class D neighborhood and supposedly one of the most dangerous areas in the state and the property is in "distressed condition." I know that it's highly advised against investing in class D neighborhoods.

If somebody could give me some advice on what to do I'd highly appreciate that! Thanks so much!!

Using what you've learned in the previous lessons, what specifically are the main red flags here?

- **"One of the most dangerous areas in the state."** Well that is an obvious one.
- **Property is in distressed condition.**
- **Price.** $39,000 for a four-plex? That may literally be the cheapest property I've ever heard of. MAJOR red flag.
- **Tenants.** What kind of tenants do you know who will live in a place as cheap as $475/month, in the most dangerous area in the state, in a distressed property. Do you think they're going to pay their rent on time? If at all?

Would this property be impossible? Not necessarily. But look at the key phrase—"Since I'm relatively new to real estate…"

Would this property be trying to run before you know how to walk?

LESSONS LEARNED

Biting off more than you can chew in the early stages of your investing career, or in later stages if it's not a natural talent for you, can cause devastation in a few ways:

- **It can cost you a fortune.**
- **It can traumatize you out of real estate investing to the point you don't return (when real estate investing can be amazing).**
- **It can cost others a fortune.**
- **It can trigger your own issues with failure.**

The slower you start, taking the time to really build a solid foundation (GREAT pun), the more long-term success you can expect. Rushing into any investment, especially real estate investing, is often a disaster waiting to happen. All while there was no reason to force it in the first place.

HOW TO AVOID THE MISTAKE

- ✓ **Slow down! Don't rush into anything.**
- ✓ **Be willing to take the time to really learn the fundamentals before diving into the pool.**
- ✓ **Understand what you are taking on, before you take it on.**
- ✓ **Be willing to let other people help you, and be willing to learn from others.**

PRACTICE

Take out some paper and jot down, in detail, what each element of real estate investing knowledge (in the bullets above) involves. I mean, really detail them out. Then, take an honest self-assessment and look at where you current skill level falls with each item.

Then, as you're going through all of those Zillow properties or whatever properties you're using to practice evaluating their potential as an investment, make notes of what each property would need.

- Will it need to be rehabbed?
- Will it potential attract lower-quality tenants?
- Is the neighborhood dangerous?
- Will you be landlording it yourself?

Lastly, look at **Turnkey Rental Properties** as a strategy of investing that allows you to solely focus on the fundamentals. You can read about why they are so good at teaching these fundamentals, without bombarding you with advanced efforts that you aren't ready for, here:

Why Turnkey Rentals Might Just Be an Ideal Investment for Real Estate Newbies

If you do insist on going big from the start, just please at least put shoes on before you walk on a wet dock… [analogy]

Rookie Mistake #5:

THINKING YOU HAVE TO SWING A HAMMER

One of the primary reasons, if not *the* primary reason, I didn't get involved in real estate investing before I did was because I always heard that in order to invest in real estate, it had to go something like this:

Find distressed properties, track down motivated sellers, negotiate deals, rehab, and then be a landlord.

The only thing in that to-do list that even remotely jumps out at me is the thought of distressed properties, but I think of them more like how cool they are if I find an abandoned shack while I'm hiking or something. But outside of that, not one item in that list is something I have interest in whatsoever.

It wasn't until I found out about the turnkeys (obviously I'm a fan of them since I reference them all the time) that I finally jumped in as an investor.

(*That's not me in the picture—I'm a girl—but I love the belly flop analogy.)*

The details of why it's a Rookie Mistake to think you have to swing the hammer actually ties more back into the previous Mistake mentioned—trying to run before you know how to walk.

It's one thing to not get involved in real estate invest because you think the only way to do it is to do all of those complicated busy-work things—which sucks all by itself—but it's another thing to assume you have to do all of those things and try to do them without having the skill to succeed at them.

So this Rookie Mistake lesson is a short one. Since we already detailed out the risks of swinging a hammer before you're ready, this bringing this up is really just for your awareness.

Some examples of real estate investing strategies that don't require you to take on the hard stuff:

- **Turnkey Rental Properties (yay!)**
- **Notes**
- **Syndications**
- **REITs**
- **Private lending**
- **NNN commercial properties**

LESSONS LEARNED

There are so many options as to how to invest in real estate, there is a really strong potential that one of the strategies fits your interest levels, skill levels, and goals perfectly. It doesn't always have to be the old traditional hammer-swinging that lets you succeed in real estate.

HOW TO AVOID THE MISTAKE

- ✓ **Education! Taking that time to research and explore what is out there in terms of investment strategy potentials.**
- ✓ **Be honest when looking at your interests and skill levels in determining what strategy might be the best fit for you.**

Rookie Mistake #6:

NOT LEVERAGING

Leveraging doesn't always mean just with financing. You can leverage several things:

- **Other people's money**
- **Other people's skills**
- **Other people's expertise**
- **Other people**
- **Education**

Leveraging means "to use something to maximum advantage". If you look at actual levers, like a hardware lever or a pulley, the reason people use those is because they allow the user to exert less energy in order to move the thing they are trying to move.

Archimedes once said, "Give me a place to stand and with a *lever* I will move the whole world."

While he was likely referring to a regular lever, leveraging other things is no different. In the case of real estate investing, it means using every means possible (well, preferably not illegal means) in order to maximize your return.

- **Other people's money.** A traditional mortgage is an example of 'other people's money' (OPM). Creative financing is OPM. Borrowing money is OPM. The reason OPM is so important is because, assuming you've done it intelligently, it increases your returns drastically.
- **Other people's skills.** If someone is much smarter than I am on how to do a particular thing, why wouldn't I want to take advantage of that and let them do that thing rather than me trying to force doing it myself? I'll end up with a shotty result and a headache, while if I let someone else do it

who is that much better at it than I am, I will probably end up with an amazing product.

- **Other people's expertise.** Similar to the skills—if someone is smarter than I am on something, why not utilize that in my own investing? For example, I have primarily always bought out-of-state rental properties for my investments. To do that requires a good bit of market analysis. While I could do these analyses myself, if I know people who specialize in market analysis, why not take advantage of their expertise instead of recreating the wheel on my own?
- **Other people.** This could be other people's money, skills, or expertise, but it could also just be other people in general. If I think about having a terrible day and I can call a friend and vent it out, haven't I just leveraged their ears and support, in a way? Why keep it all inside?
- **Education.** And if you leverage nothing else in your investing career, or in your life, at least leverage education. Education is leveraged when you use what you learn and put that towards your advantage. Much like taking the time to learn the basics of any investment strategy, doing so is essentially leveraging education to help maximize your success potential.

The obvious trick to all of this, of course, is making sure that the money, skills, expertise, people, or education that you are leveraging is reliable. A lot of loans can get you in trouble, a lot of people can claim to have skills and expertise but they really have no idea what they're talking about, and anyone can post anything on the internet so don't assume all educational sources are accurate.

But ultimately, if you use leveraging to your advantage, you can literally build an empire rather than just a couple small investments here and there. In fact, leveraging is *required* for an empire. You can't build an empire by yourself and with your own money.

And if nothing else, letting people be smarter than me and not spending time doing things I hate or suck at has always been one of my preferred ways of working.

LESSONS LEARNED

Don't try to do everything on your own and with only your own resources. It will only hold you back. Even if you aren't comfortable leveraging other people's money (a lot of people aren't), you can still leverage education and other people's experiences and skillsets.

In case you need a visual for trying to build an empire all on your own—

Yes, that's what you look like.

Just think, if that baby hooked up a pulley to each end of that and grabbed a couple of the bodybuilders nearby to pull the ropes, he would literally be able to pick up that entire thing as high as he wants to. All while not lifting a finger. Literally.

What a great [accurate] analogy.

HOW TO AVOID THE MISTAKE

- ✓ **Don't try to do everything on your own. Let people help you (whether they are hired help or just offering).**
- ✓ **Don't try to figure everything out on your own. Real estate investing is a gigantic world of information! No need to get lost in the information or reinvent the wheel.**
- ✓ **Address your reasons for not wanting to leverage. {cough…control freak…cough} Kidding. Actually I'm not, but I can say that because I used to be a control freak myself. But seriously, why aren't you interested in leveraging if it means higher chance of returns?**

PRACTICE

1. Take any of the properties from earlier, or the sample property, that you have the numbers for—specifically the Cap Rate and Cash-on-Cash Return—and compare those two numbers. The Cash-on-Cash Return includes leveraging. How much higher is the return on investment when the investment is leveraged with a mortgage? On solid rental properties, quite a bit! Take a look for yourself.
2. Research the actual risks involved with leveraging money. It's not as drastic as it seems (again assuming for a solid investment property). If you aren't sure of the risks, check out:

   Is Leveraging Really That Risky?

3. List out different ways you might be able to leverage someone else's skills or expertise. You can do it for real estate investing specifically, or you can even do it for anything else in your life—your job, your relationships, your hobbies, etc. See if there are things you're doing in your life that might be better if you were to leverage them.

Rookie Mistake #7:

LETTING YOUR EMOTIONS CONTROL YOUR INVESTMENTS

We're all human, there's no doubt about that, which means we have emotions.

Emotions play a notable role in our lives, but they need to not play a critical role in our investing. Or much of any role for that matter.

If you're buying a primary home to live in, it's a totally different ballgame. Your home purchase then is probably going to be primarily based off emotions [It definitely shouldn't be based on the numbers because primary homes are far from the investment people think they are. Here's why]

When you bring emotions into the investing game, on the contrary, here are some things that can happen:

- **You constantly search for properties in areas that will never offer you cash flow**
- **You become willing to force an investment, as we called it earlier**
- **You take things personal, which becomes counteractive to problem solving**
- **You make decisions that may not be in your investment's best interest**
- **You lose sleep at night.**

Another online forum post I saw recently said this (verbatim):

A word to fellow investors from both coasts- too many liars and blood suckers waiting for opportunity to rip you off. If you're a working professional and haven't seen the ugly side of greed , traps, lying, betrayal etc. in the business world, Think twice before you jump in.

There's just too much risk investing out of state. The biggest is people. PM collected rent and ran away. Or placed tenant with recent eviction record into your property. Contractor grabbed money and disappeared or cut corner everywhere. Talk to other investors. I'm not the first one who bumped into these troubles, not the last either.

Even after doing business with a provider, there's no guarantee he/she's trustworthy. Maybe he's just waiting for the big feast! You can never be careful enough. And do not assume everyone is a good guy.

To the poster's credit, he did bring to light some realistic challenges of real estate investing. However, what is very apparent in this post? EMOTIONS. Now granted, I've had most of these things happen to me as an investor before, and I know how bad it feels. In no way would I ever suggest you shouldn't feel emotions about anything that goes on with your properties, but hanging onto them like this poster is won't get anything fixed. I guarantee this poster isn't, or didn't, make any rational decisions. It doesn't sound like he conducted any due diligence. Playing the blame-game means he has no idea how to manage an investment (i.e. problem solving to resolve challenges rather than letting them eat him alive). And allowing one set of challenges completely define the worth or potential of an entire strategy of investing is extremely limiting.

My only question back to this post, in my head, was "What role did this person play in their own problems? Anyone acting with sound mind and logic would not at all post an online rant like this.

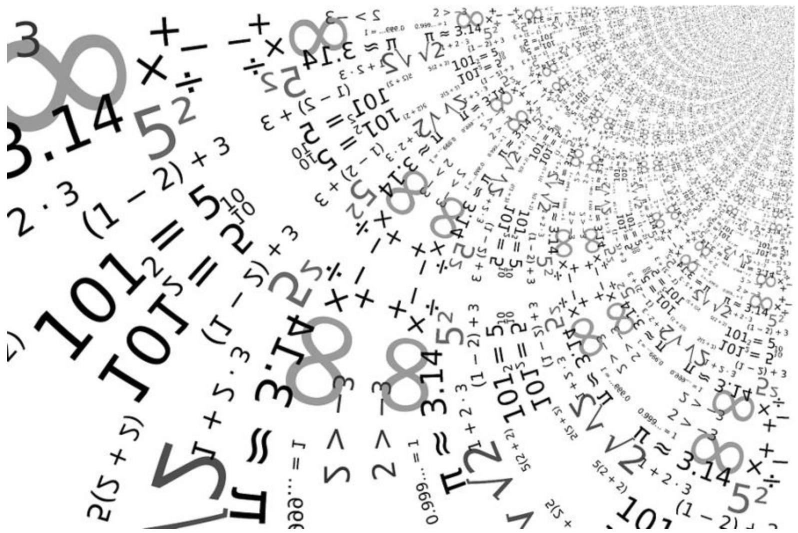
Only blaming other people during a challenge and not taking any responsibility of your own means that you are completely operating off of emotions.

What should happen with an investment property, on the other hand, are these things:

- **The numbers, and sustaining the numbers, is all that matters**
- **When a challenge arises, a logical assessment needs be made and steps to resolution should be determined**
- **You have to be willing to invest somewhere that you may personally not want to live (not because it's dangerous necessarily, but you just wouldn't pick that spot for yourself)**
- **You make the decisions that best support your investment**

LESSONS LEARNED

While emotions are real, and they will be felt with investments, they shouldn't be acted on… as much as possible. (for investing, not for general life)



Real estate investing is about the numbers and sustaining the numbers. That's it. If you do end up making an investment purchase based somewhat off of emotions, that's fine as long as you realize you're doing it (falls into that knowing the 'why' lesson from earlier). And when you own an investment, be cognizant of what you're basing your decisions off of—logic or emotions. Emotional decisions really aren't going to get you very far as an investor. Nor will emotional responses.

HOW TO AVOID THE MISTAKE

- ✓ **Focus on the facts of a property, not the emotional appeal.**
- ✓ **Know your 'why' for investing in a particular property and ensure it's based off the facts.**
- ✓ **If anything goes wrong, take time to let the emotions pass, and then make a sound logical decision that will support forward movement, rather than playing the blame game and never getting anything resolved.**
- ✓ **Remember, none of it is personal. Real estate investing is a hard-hitting industry focused just on numbers, and there are not a lot of opportunities for hand-holding.**

Some Things to Leave You With:

- **The best thing you can do in order to succeed as a real estate investor is to take time upfront to get educated and explore what is out there, and what it will take to succeed. It can be tempting to want to dive in quickly, but getting the proper education ahead of time will no doubt change your investing experience for the better.**

- **Numbers are crucial. Not only for evaluating investment potentials, but they are the key to decision-making as well. Always look at the numbers first.**

- **Numbers are worthless if you can't sustain them. Anything can look good on paper, but the property needs to perform in order for you to see a profit. Finds ways to better your chance of that happening.**

- **Real estate investing is not a soft or emotional industry. It can be hard-hitting, with a lot of hard-hitters, and often times some of the best deals may come with terrible "customer service". This is not a customer-service-based industry, so don't expect a lot of head-petting.**

- **It's easy to think real estate investing is easy and straightforward. It's not. As the cliché goes—if it were that easy, everyone would do it. So really take that time to build your education and foundation of knowledge.**

- **At the end of the day, no investment property—no matter how good the numbers—is worth you losing sleep. Never take on something you aren't comfortable with or will cause you strain.**

ADDITONAL RESOURCES

If you're interested in real estate investments—primarily turnkey rental properties—that focus on preserving your time and sanity, check out Hipster Investments. We hold your hand through everything and the properties are set up so that you can be as hands-off with them as possible.

As a bonus, I'm offering 50% off Hipster's eBook—Turnkey Rental Properties 101: The Definitive Guide to Hands-Off Rental Properties—just to you readers! Use promo code: rookiemistakes at checkout.

And don't forget to connect with us on social media!

Instagram

Facebook

LinkedIn

Twitter

And of course, you are always welcome to email me directly. If you have any questions or even if it's just to say hi, don't hesitate!

ali@hipsterinvestments.com

ANSWERS TO PRACTICE PROBLEMS

↓

ANSWERS TO PRACTICE PROBLEMS

(For detailed explanations of the numbers breakdowns, visit Practice Problems)

PROPERTY #1

Mortgage payment, per a mortgage calculator: $678.54

Total expenses with mortgage: $614+$678.54= $1,292.54

(income – expenses (w/ mortgage) = $132.46

Cash-on-Cash Return:
(annual net income / amount invested) = $1,589.52/$31,600 = **5.3%**

PROPERTY #2

Total expenses without mortgage: $601

Total expenses with mortgage: $1,718

Cash Flow/Net Income:
(income – expenses) = $2,100 – 1,718 = **$382.41 per month (w/financing)**

Cap Rate:
(annual net income / purchase price) = $17,988/$260,000 = **6.9%**
[don't forget—the annual income is the monthly income x 12]
[don't forget—the Cap Rate doesn't include the mortgage in the calculation!]

Cash-on-Cash Return:
(annual net income / amount invested) = $4,588.92/$52,000 = **8.8%**

PROPERTY #3

Total expenses without mortgage: $1,329

Total expenses with mortgage: $2,345.26

Cash Flow/Net Income:
(income – expenses) = $2,300 – 2,345.26 = **$-45.26 per month**

Cap Rate:
(annual net income / purchase price) = $15,948/$393,000 = **4.1%**

Cash-on-Cash Return:
(annual net income / amount invested) = $-543.12/$137,000 = **-0.39%**