

Investing In Real Estate

My 10 Tips for Reducing Risk and Increasing your Profit Potential

Being a landlord and investing in multi-residential real estate should be treated like a business venture. Like any other business the key is to end up with money in your pocket at the end of the month after collecting the rent and paying your bills. Slowly you will be paying down the mortgage and building wealth.

If you do your homework, take the proper precautions and reduce risk, it can be a very rewarding experience.

1. **RESEARCH:** Take the time necessary to learn about property valuation in the areas where you would consider purchasing an investment property. Obtain cashflow analysis, market analysis and the current Cap Rates sold in the area. Your experienced real estate agent should provide this information.
2. **SURROUND YOURSELF WITH EXPERIENCE:** Very important! Use a real estate agent who also is a local investor. Many agents portray to be an expert in investment properties but have never owned one. Make sure you surround yourself with a team of professionals, such as good property manager, insurance advisers, mortgage brokers, home inspectors, accountants and lawyers.
3. **PROPERTY MANAGEMENT:** Find a reliable property manager. You don't want to take a call in the middle of the night. A rule of thumb is that, depending on the size of the property you should allocate 5 to 10 per cent of monthly rent for a property manager. It is important to note that good property management will pay for itself in the long run. If not in control, vacancy, bad debt and high maintenance cost can quickly destroy any cash flow. When shopping for a good property management company, make sure you ask for references and inquire on what type of real estate they specialize in.
4. **BE AWARE OF ILLEGAL UNITS:** Be careful with basement apartments and extra units that are not registered. Although these units can provide additional income, you must make sure that they are legal, comply with the fire code and zoning bylaws and have any required licenses to operate.
5. **BUY AND HOLD** for the long term. This strategy allows you to build your income over time and slowly pay down your mortgage, reducing your debt. Buy with a long-term mentality, however, be prepared to sell to profit at the opportune time. Never, never go into an investment with intentions of making a quick profit...this is a recipe for disaster.

6. **PARTNERSHIPS:** If you are investing with others, have a partnership agreement. Problems may occur later if the friendship breaks down, especially if one partner loses their job and cannot pay their share of expenses. What if one partner wants to sell while the other does not. With a partnership agreement, you can provide solutions to what could happen in these situations in advance, without having to pay costly legal fees to figure it out later.
7. **PROPERTY INSPECTION:** Always insist on a complete property inspection, before you buy. Become aware of costly pre-existing problems with the investment property you are buying. It is imperative to include a clause in your purchase agreement that allows you to back out should serious problems surface during the inspection.
8. **BE CAUTIOUS OF OVER EXTENDING:** Don't fall for real estate investment programs that offer you huge earnings with little or no investment. Buy properties that provide positive cash flow and do walk away from properties that claim future potential cash flow. Invest enough money down on a purchase that will allow a good return on investment and provide a comfortable cash flow.
9. **LOCATION, LOCATION, LOCATION:** Only buy location. This also relates to the **4 Powerful Ps**...Prime Properties, Produce Profit. It is a simple rule that really works. Always make location and prime properties your top priority. When you view a property, ask yourself if you would you allow a family member to live there? If the answer is NO, then don't buy it, since it will attract undesirable tenants.
10. **EDUCATE YOURSELF:** Know the business before you take the plunge. Learn about all the regulatory laws that will govern multi-Residential rental properties, such as fire, health and safety, zoning and the landlord and tenant laws, etc. Learn all the real estate terms and formulas and how to apply them. Know the tax laws that will affect your investment. If you are looking for a partner, choose wisely. The more knowledge and understanding you have, the less risk and greater potential for making a profit.

