

Most Common Mistakes to Avoid in Real Estate Investing.

5 tips for a simpler way to make your investments work

By: Bryan Grosh



PowerPoint

About Me:

1. Long time investor since 2006
2. Currently live in Long Beach with wife Vivian
3. We're both licensed agents
4. We both work full time:
 - a. Bryan: Production supervisor for a Bio company since 2011
 - b. Wife: Accountant for a Real Estate Developer, been in the industry for over 20 years
5. We love to travel
6. Current Portfolio: 3 active properties, 1 as partial investor
7. Future projects and goals:
 - a. 1 ADU (currently in permit process)
 - b. Goal to purchase another investment property this year
 - c. Likely to venture into wholesaling
 - d. Expand on Real Estate Sales experience
 - e. Would eventually like to open own brokerage (5 Year plan)
 - f. Expand our network and knowledge
 - g. Have more time to volunteer and enjoy family and friends

Case studies: Properties

City	Long Beach	Big Bear	Palm Desert	South LA	Surprise AZ	Peoria AZ
Purchase Price	\$450,000.00	\$200,000.00	\$313,000.00	\$218,000.00	\$237,352.00	\$201,555.00
Date of Purchase	1/2016	2/2017	3/2018	1/2010	12/2005	6/2005
Bldg Sq. Ft.	1,300	1,100	2,100	1,300	1,500	1,300
Lot Sq. Ft.	6,000	7,000	9,000	3,000	6,000	7,500
BR	3	2	3	3	3	3
BA	1	1	2	2	2	3
Features	4 miles from Beach	1mile from slopes	Has pool & spa	Near train, Inglewood expansion	Parks and Rec.	Near Glendale Stadium
Built	1928	1948	1986	1958	2005	1989
Strategy	Expand & Lease	Short Term Lease	Long Term Lease	First time home	Long Term Lease	Long Term Lease
Mortgage	\$3,000.00	\$1,200.00	\$1,800.00	\$1,500.00		
income	\$2,850 (ended in 6/2019)	\$1,250.00	\$2,200.00	\$1,800.00		
Status	Current primary, to do 640sq.ft ADU	Rented	Rented	Sold in 2017 \$360k, was the 1st primary	Rented	Foreclosed
Current Value	\$625,000	\$270,000	\$350,000	N/a - sold	N/a - part owner	N/a - foreclosed

Mistake 1: Not considering the importance of Location, Location, Location

Renters desire:

- a. Low crime neighborhood
- b. Strong school rating
- c. Area shows pride of ownership
- d. Walkability and convenience to amenities

Case Study: South LA Property

- 1) On a busy road near industrial area with motor homes/homeless parked across the street
- 2) Applicant selections had low credit rating or low income or both (ex: “Barbara” and her kid)
- 3) We were able to rent at market, however there were high number of occupants (collective income is \$10,000 = 5+ times the rent, but occupants are 5 adults and 2 kids = high wear and tear on property)



South LA

Mistake 1: Impact on Future Deals aka what we learned to do better the next time

1. Learned to pick better neighborhoods
 - a. High school rating (6+) (Palm Desert - 8+ schools)
 - b. Up and coming neighborhood (Long Beach - lots of younger families moving in)
 - c. Attracts higher paying demographics (Palm Desert - next to Indian Wells - Beverly Hills of Palm Springs, retirees with better discretionary income)
 - d. Close to attractions (ex: Big Bear - close to slopes)
2. Results from selections:
 - a. Were able to charge premium rents (Long Beach - \$2,850/month when rented)
 - b. Lots of high-earning applicants (Long Beach - hundreds responded)
 - c. Good potential to expand/ADU because the cost will be outweighed by the valuation after completion (Long Beach - +640 sf of add-in will garner \$450/sf = +\$288K)



Long Beach

Mistake 2: Not screening the tenants thoroughly

1. Rushing through the process for personal reasons (we needed to work on a new investment property)
2. Not following up on the employment history
3. Not verifying the previous landlord history well
4. Overlooked bankruptcy/low credit rating

Case Study: Big Bear

- 1) We rushed through the selection process
- 2) We felt sympathy ("we've all been there")
- 3) Tenant falsified application
- 4) Tenant knew laws and were professional bad renters
- 5) We found several court records after the fact
- 6) Cost: Loss of over \$10,000 in rental income and eviction/legal fees
- 7) We also did not do eviction process right away



What tenants left in Big Bear



Discovered "plants" in Big Bear

Mistake 2: Impact on future deals

- 1) Were firm on applicant criteria:
 - a) Must make 4x of salary compared to rent
 - b) Must have good credit history
 - c) Must have solid references
 - i) Employment
 - ii) Previous Landlord
- 2) Hire an eviction lawyer and not DIY
 - a) Knows process well
 - b) Knows all the tenant-landlord laws
 - c) Has good local jurisdiction contacts



Case Study:

- 1) Big Bear: "Sarah" - great reference, gets paid okay, but had low credit score
- 2) Hired management company
 - a) Palm Desert & Big Bear: Pays 10% in fees, but worth it
 - i) Low cost on travel time to fix small repairs ex: water heater
 - ii) Knows all local vendors ex: landscaper
 - iii) Has a good list of potential tenants ex: spa owner in Big Bear looking for a place to stay during the week



Mistake 3: Not building a solid team ahead of time

- 1) Not getting a team of specialist you can reach out to
- 2) Not reaching out to groups of professionals (ex: Club 500)
- 3) Thinking you can “Do It All”

Case Study: Big Bear and Palm Desert

- 1) Big Bear:
 - a) Hired a Handyman after purchase; he did things out of scope, and was never there to supervise work. We had to redo several jobs
 - i) Actually posted his crap work on Yelp (see photo)
 - b) GC'd our own light renovation in 2019 and had to resort to Takl for painting, tiling, flooring, etc
- 2) Palm Desert:
 - a) Had to settle with a tile installer who's trusted in area but \$
 - b) Had to pay travel costs on crew that we trusted from LA
 - c) Unreliable/shady gardener who walked away not doing job



Big Bear

Mistake 3: Impact on future deals:

Impact on future deals:

1. Learned to hire a management company
 - a. Knew the area/vendors well who's:
 - i. Reliable
 - ii. Cost efficient
2. Learned now to hire a Contractor
 - a. Who will know the laws well
 - b. Who knows the major players in city/subcontractors
3. Start networking
 - a. Facebook neighborhood groups
 - b. Get neighbor's phone #
 - c. See what contractors/vans/vendors go to Home Depot etc
 - d. Meet up groups of professionals:
 - i. Connected with Insurance agents, contractor, architect, agents, experienced investor in area



Mistake 4: Not having a solid exit strategy

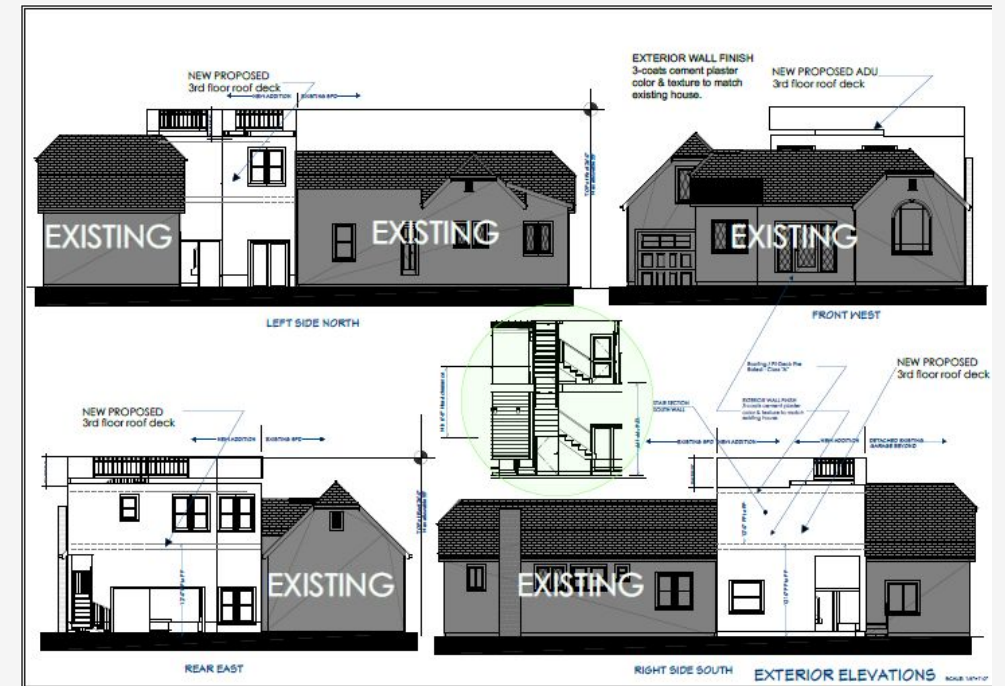
- 1) Not working on the numbers well
 - a) Is it realistic? Ex: we thought Big Bear could garner us \$20k/year in VRBO rentals, but averaged \$500/month
 - b) We thought Arizona will be the “next Real Estate Boom” (2006) that will cash flow well
 - c) We overstated demand in short-term rental and understated competition
 - d) We understated repair, maintenance and carrying costs ex: Big Bear: high brush fire area = high insurance premiums
- 2) Not investing with a solid end goal in mind
 - a) Do you want to cash flow or grow net worth?
 - b) How long do you plan to keep the property? Are you okay with tying up initial investment in property?
- 3) Not being flexible - things may change
 - i) Economic & Industry shift ex: Great Recession in 2007, Covid in 2020, Seasonal jobs
 - ii) Changes in city laws ex: Palm Desert rental is limited to 28 days (cons). Long Beach: allowed ADU (pros)
 - iii) Personal needs change - ex: no time to fix up and sell Big Bear - put in long term rental for now



Big Bear

Mistake 4: Impact on Future Deals

- 1) We buy with back up plans in mind:
 - a. First Option: Buy and Hold as long term rental. Does it cover costs?
 - b. Second Option: Short Term rental- VRBO, Air BnB, Can your city allow it?
 - c. Third Option: Fix and Flip. Does the sales exceed costs and taxes?
- 2) We maintain good equity
 - a. Average is 60% LTV to take valuation hits from recession, etc.
 - b. Always put down at least 20%, also to avoid MIP
- 3) Keeping costs low but not sacrificing value/quality
 - a. We've learned the value of hiring good workers
- 4) We think about highest and best use and adding value
 - a. Is ADU or extension possible? We now try to buy properties over 1,500 sf bldg and 4,000 sf lot, good traffic/neighborhood
 - b. Start permit process right away
 - c. Bigger job = bigger costs so keep in mind when purchasing



ADU plans for Long Beach

Mistake 5: Not hiring a management company

- 1) The Pros outweighs the cons re:
 - a. Screening tenants
 - b. Identifying repairs and responding in timely manner
 - c. Processing evictions “by law”

Case Studies: Long Beach: Too many tenants to filter through. Big Bear: Seasonal tenants. South LA: Had to tell tenants no if they don't meet income/credit criteria

- 2) Maintenance and repairs issues not identified right away
 - a) South LA: tenant did not let us know of missing newly-installed laminate floor plank after leaving door open and got rained on
- 3) DIY - evictions added stress, anxiety, loss of control



South LA

Mistake 5: Impact on Future Deals

- 1) Learned to do cost analysis on hiring a manager
 - a) 10% to pay someone to take calls at odd times and respond right away
 - b) 10% of \$2,000 is \$200 which far outweighs
 - i) Travel costs (gas at \$50 roundtrip, meals, lodging)
 - ii) Value of your time. We both have demanding day jobs but/that pays well
- 2) Hire a manager at least for the first 1-2 years
 - a) To get a tenant in
 - b) To test out the “kinks” of the rental
 - c) Gain info on local service providers
 - d) Gain info on local laws
- 3) An added benefit to hiring a manager:
 - a) Their connections to any of our :future properties/deals
 - b) Mutually trust that they are at your best interest in mind
 - re: repair costs and tenant issues
 - i) Ex: Deck needs to be repaired



Big Bear

Other common and uncommon mistakes

- 1) Not researching or reading up on landlording and trade, neighborhoods
 - a) Books to read: The 4-hour work week by Tim Ferris, Rich Dad Poor Dad
 - b) Websites to follow:
 - i) Biggerpockets, Facebook and other neighborhood groups, citi-data.com, etc.
 - c) Classes to take:
 - i) Home Depot and Lowe's classes
 - d) Tools to use: mint.com
- 2) Not treating ANYONE as your network group
 - a) The neighbor, the mailman, the local hair stylist, barista, etc
 - i) Our local Long Beach mailwoman told us she collected a dozen properties from paying attention as to who's selling and fixing properties
- 3) Not letting your friends/families know that you're in Real Estate, and investing
 - a) We lost a potential of \$100,000 in gross commission for not letting our immediate friends/family know we're in the business
 - b) We lost a chance to purchase a property that someone is selling in our target neighborhood
- 4) Not having enough emergency funds to cover unforeseen costs/loss of income
 - a) Ex: Covid pandemic allowed some cities to let tenants not pay for up to 6 months without getting evicted (Riverside)
 - b) A bad tenant in Big Bear cost us 6 months of loss of income during their stay and another 5 months of renovation/repair and marketing
 - c) We put away \$250 a month in each rental to cover up to 3-6 months of loss of income



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Other mistakes continued:

- 5) Know your strengths and weaknesses
 - a) Are you good with numbers? If not, hire someone else to do your bookkeeping and tax returns
 - b) Are you handy? Changing light bulbs is easy, but leave the rest of the electrical work to professionals to avoid electrocution and further costly repairs afterwards
 - i) Ex: we learned that fixing our own plumbing cost us over \$10,000 in flooring repairs due to overnight leaks
- 6) The cheaper labor is not always the best option
 - a) We hired a cheap handyman to do ceiling paint and refinish wood floors, and it costed us a wood floor with white paint spots
 - b) We hired someone else to paint rooms which we had to redo over because the work was awful
 - c) We hired someone to fix a light switch that cost us a non-working laundry room for a few weeks
 - d) We hired an architect that cost us months of permit delays
- 7) Not deciding to walk away when it's time to do so
 - a) We were determined to make Big Bear work, but it will only really net us \$ if we:
 - i) Sell it at or higher than \$275,000 (currently valued at \$270k)
 - ii) Go through with the permitted addition of 1 bedroom and 1 bathroom to loft, could get us to \$325k price range
 - 1) But sales price is also dependent on season



Loft in Big Bear

Summary:

1. Location, location, location
2. Screen your tenants thoroughly
3. Delegate, delegate, delegate
4. Create multiple backups
5. Hire the professionals
6. Others
 - a. Research
 - b. Network
 - c. Let others know you're a realtor/investor/landlord
 - d. Emergency Funds
 - e. Know your strengths and weaknesses
 - f. Don't be cheap on talent
 - g. Walking away from a bad rental is not a failure, but a learning lesson to do better next time
7. Finally: Just have fun! This should not be an arduous task but just another way to help you reach your F.I.R.E. goals



My wife and I, December 2019 Long Beach

Bryan Grosh
Active agent: Keller Williams Pacific Estates
Email: b1grosh@yahoo.com
Phone: 323-710-1331