



# LGT

---

## FINANCIAL FOCUS



Lane Gorman Trubitt, L.L.P.  
Accountants & Advisors

*Your Accounting for a New Economy*

# How to Avoid the Most Common Mistakes Made By Real Estate Investors

No matter how many years you've been in the business, nobody's perfect, and even the most experienced commercial real estate investors are susceptible to mistakes that can be damaging over time and have a detrimental effect on their entire portfolio.

In order to avoid these mistakes, you must first identify the dangers.

## **1. Review ALL your financials on a regular basis**

Many real estate investors have gotten into the bad habit of only reviewing their operating statement which shows their cash flow. However, this doesn't provide the entire picture. There are four profit centers for commercial real estate, cash flow, appreciation, equity growth and tax benefits. If you are only looking at your operating statement then you're only seeing a quarter of the whole picture. For the successful real estate investor is vital to pay just as much attention to balance sheet in order to best utilize your available assets.

## **2. Be on the lookout for losing investments**

In a challenging economic climate, like the one we find ourselves in today, it becomes more commonplace for investors to have more property than they have cash to cover it. Often investors find themselves in the trap of using the gains from some of their properties to cover losses in others. This can put you in an untenable position, and your best option may be to cut those properties losing money loose. Examine your portfolio, identify those properties losing money, and then see which of those require only minor improvements that can be done quickly to maximize their value. Work on restoring those properties while dumping the losing investments that require a greater investment of time and resources. This will focus your efforts and allow you to more easily hit your financial goals.

### **3. Don't overextend**

The commercial real estate industry attracts entrepreneurs. They are motivated and ambitious individuals who are driven to succeed. However, the very traits that allow them to succeed in this industry can, at times, be used against them. Real estate investors are often accustomed to high risk. In fact, many are attracted to it because they know that high risk equals high rewards. Don't let your ambition get the best of you. Don't seek out those investments that require more capital or experience than you have. This can often lead to failure. The big deals will come, and you will know when you're ready.

### **4. Don't be afraid to cut ties**

There are many reasons a property may perform below expectations. Maybe the market moved against it, maybe the location wasn't as desirable as it first appeared or maybe it requires more renovations than initially estimated. Whatever, the reason it's important to identify underperforming properties early and eliminate them from your portfolio. However, your bad ties may not be limited to properties. Occasionally you may find yourself with undesirable partners. Even great friends can make lousy partners. If you find that you're driving each other crazy, don't be afraid to dissolve the partnership. Sometimes is the best business and personal decision you can make.

### **5. Never forget: All real estate is local**

Contrary to what you see on the news, where they bombard you with national real estate statistics, the real estate business is 100% local. The rules that apply in New York or Los Angeles are completely different than the rules that apply in Dallas, Texas. There are even market differences in individual neighborhoods. All your properties values will be dictated by local market conditions. Research those conditions. Look into income, population growth, job growth, see how the economy is in the areas you're looking to buy or already own property. Good research will allow you to spot trends early instead of jumping on late.

Everyone makes mistakes, but by keeping these five simple rules in mind you can limit your exposure to disappointing investments and avoid making some of the most common mistakes even experienced investors make in the real estate industry.