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5 Things You Should **NEVER** Do When Buying Investment Property

- 1 Never rely solely on the listing information.**
In my experience, I've found that the listing information for the smaller, 2-4 unit properties quite often is inaccurate. Sometimes with smaller properties, the agents may specialize more in residential sales, only dealing with investment properties on a part-time basis. So they may not have the financial expertise that a more experienced investment specialist would have. Here's a good rule of thumb—the more expensive the commercial property, the more likely the listing information is accurate. But it's a good lesson to always double-check any information you're given regarding a property and run your own analysis as well.
- 2 Never rely just on the rental information your agent gives you.**
Whether you want to admit it or not, when you invest in real estate, you're running a business. And part of running your business is to become an educated buyer and learn as much as you can about all aspects of owning investment property. So I suggest that you talk to property managers yourself to get the low down on rental information. Do your own homework by getting as much background information as possible. Scour the rental listings and drive through the neighborhoods where you're looking to buy, checking out signs for comparison pricing.
- 3 Never overlook the cost of replacement.**
This is where a lot of investors quickly get in over their heads, because they forget to anticipate having to replace old appliances, a busted water heater or worn or damaged carpet. Whether you anticipate replacement costs or they catch you by surprise, let's face it—they are a fact of life of real estate investing. Make sure you're covered by setting aside a portion of your rental income every month to develop a cash reserve just for such expenses.
- 4 Never assume that a 1031 is the best answer.**
If you're not already aware, a 1031 tax-deferred exchange allows you to dispose of one property, acquire another and defer the capital gains on the sale by rolling it all over to your new property. This means that you don't touch the net proceeds of your sale. Sounds great! Well, in many circumstances it is a wonderful option to take. But with today's capital gains rates at such a low, it's not automatically the best option. So before you make any tax-related decisions, have a heart-to-heart with your tax strategist to find out what direction best fits your goals.
- 5 Never forget to factor in property management costs.**
This is a common mistake made by many newbie investors. They'll buy a duplex and decide to manage it themselves, because hey, how much work could it possibly take to manage two units? Six months down the road, they realize it takes *a lot* of work. And if they're just breaking even, they're going to be stuck managing the property themselves for a very long time, because they never factored management costs into the total cost of ownership. As an investor, it's important to understand that property management can cost as much as 10% of your monthly rent schedules. By factoring in these costs before you buy, you'll be prepared to pay someone to do the dirty work for you.



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