

## **Four Mistakes to Avoid When You Start to *Buy Even Lower***

Excerpted from *Buy Even Lower: The Regular People's Guide to Real Estate Riches* (Kaplan Publishing, 2006, ISBN: 1-4195-3574-9, \$18.95) by Scott Frank and Andy Heller

**Borrowing from friends, family, and other investors.** “When we give seminars, we often meet people who are extremely excited about getting into real estate investing but don’t have the cash or credit to match their excitement, and many end up with big problems,” write the authors. “In our experience, borrowing funds from friends and family members is one of the best ways to begin a family feud or lose a valuable friend. If you’re considering entering into a partnership, do so carefully. Many partnerships end up in a breakup over a disagreement. Thoroughly discuss your short-term and long-term goals and respective roles, then document the agreements you make.”

**Investing in undeveloped property as a newcomer.** You might be thinking it would be fun to develop a property, then flip it, rent it, or lease/purchase it. All of the above scenarios are possible. However, the authors don’t recommend inexperienced or part-time investors invest in undeveloped land off the bat. You generally face a lot more risk with undeveloped rather than developed property. It’s not always easy to visualize how an empty lot or piece of land filled with trees can eventually be a successful investment property with new buildings. Investors who develop properties usually make a significant “time and effort” investment and the cost can be extremely high. Avoid undeveloped properties until you have a better grasp on how to make money in the real estate game.

**Trying to have the best property on the block.** Most real estate experts agree that it’s actually better to have the least-improved property in the community than the most-improved property, because communities tend to pull up the values of properties at the bottom and pull down those at the top. Therefore, if all other houses in the neighborhood have a swimming pool, for instance, you may choose to put in a pool. But if only some have pools, then your decision should be easy—don’t take this unnecessary risk. In fact, by choosing not to add a pool, you can ride the coattails of property values of the neighborhood houses that do have pools. If you take these types of risks regularly, then you’ll have a harder time consistently growing your profits over the long run.

**Losing your patience during negotiations.** For real estate investors, impatience is a cardinal sin. Lose your patience and you run the risk of paying too much for a property. During initial counteroffers, patiently increase your price and adjust your terms at a rate that makes the seller feel as though you’re giving up something yet that preserves as much wiggle room as possible. Once you hit your Maximum Purchase Price, stop, then patiently remind the seller of your last offer every month. In chess, moving your pieces around the board too quickly or letting your emotions get the better of your intellect can lose you the game. Don’t let this happen to you when you buy real estate. Negotiate with the patience of a chess master.

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