

Making The Right Play

How To Get Started in Investing in Real Estate The Right Way

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Investing can be scary. Really scary. In fact, the thought of taking financial risks and the potential downfall associated with taking such risks sometimes prevent future investors from EVER taking risks, and this isn't good.

At times, too many choices can prevent an investor from ever making a decision, and results in 'paralysis of analysis.' - a plaser you never want to be. So, today we will discuss an important topic that new investors need to focus on – how to successfully build a portfolio of real estate by purchasing a single family home.

The Feol –Hinricher Six Point System

1) Examine your financial position

This is critical – you need to know what your credit score is, how much cash on hand you have, what your monthly debt service will be, These are questions that all of your banking relationships will want to know. If you don't have these answers, a banker will question your ability to handle the purchase of a piece of Real Estate. So, know your financial situation – be prepared to securitize your spending habits and take advantage of credit counseling, if necessary.

2) Identify your short, medium, and long term goals through successful purchase of real estate. For Example:

- Short term: identify and purchase a piece of property in a good rental area, make the purchase, and get it rented(next 30 – 45 days)
- Medium term: Pay off unsecured credit card debt and always pay cash for everything.
- Long term: Develop a residential portfolio of 10 homes, all cash flowing and using a skilled management company so you can spend time looking for more investment opportunities(2 – 3 years). Provide enough passive cash flow to leave your job, if desired.

3) Get your financing in order.

If your goal is to buy a house in the next 30 – 45 days, you must have pre – qualification letters from reputable lenders and additionally, make sure that you have enough cash on hand to cover vacancies and unexpected expenses that will pop up.

Remember, purchase financing is only one part of the equation. Having enough cash on hand is equally, if not more important! Put your reserves in a special account and do NOT touch the money! Ideally, you should have 3 months of reserves on hand – mortgage payments, taxes, insurance, and misc. repairs.

4) Identify a target investment area

This is critical. Do not shop strictly by price range. Shop by area – for example, talk to other landlords at your local REIA and ask where they are building their portfolios, and what areas they like to be in. A good rule of thumb is, never buy in an area where you would not feel comfortable sending your wife to pick up the rent! Of course, you wouldn't send your wife to pick up the rent, but you get the idea – safety and security will strengthen your portfolio over the long term.

5) Identify how you will buy your first home

Are you going to locate the deal yourself? Are you going to use a reputable wholesale company? Looking for properties can be an intensive and time consuming task. Make sure that you know what you are going to do in terms of locating properties. Remember, many who want to be investors have fallen by the wayside by doing things on their own, only to have their investments fail! So, know what you are doing – and, be ready to make offers on properties when you find the right deals! Have your letter of qualification from your bank, your bank statement(if paying cash), and other materials necessary to make A STRONG OFFER AND ACQUIRE THE PROPERTY!

6) After purchasing your first home, put the team in place to help you succeed.

This includes the following:

- Contractors(to help with renovations, if necessary)
- Property Management Companies(to help you rent the property quickly and efficiently)
- Lawn care people(to help you get the property in great condition with respect to curb appeal)
- Pest control people(to check for termites, treat if necessary, and insure the property is free of insect like pests.)

Your time should not be spent mowing lawns, showing houses, laying rat traps, etc. You should be out looking for the next great opportunity!

So in closing, remember our 6 point system:

- 1) Examine your financial position
- 2) Identify your short, medium, and long term goals through successful purchase of real estate.
- 3) Get your financing in order.
- 4) Identify a target investment area
- 5) Identify how you will buy your first home
- 6) After purchasing your first home, put the team in place to help you succeed.