

1<sup>st</sup> Edition

**10 Deadly Mistakes**  
**New Real Estate**  
**Investors Make**

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## **Preface**

Lang and Thomas is a property management and real estate investment company specializing in multi-family apartments within the Atlanta, Georgia market. Lang & Thomas, LLC was started in October 2005 by Jennifer Minge and Brad McLeod with a goal of providing affordable, nice rental housing in a growing market. Both Jennifer and Brad had a few years of single family rental experience under their belt but were both itching to step up to the next level. In their first two years of business, they have purchased 7 multi-family apartment buildings with a market value of over two million. Along the way we have met incredible people who have mentored us and shown us the way. We now practice an abundance mentality and intend to do the same and help those around us achieve their goals in real estate and life.

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## **Introduction**

The following are 10 Deadly Mistakes that we don't want you to make as a new investor in real estate. During the past two years we have purchased over \$2 million in investment property and this is a collection of lessons we have learned during this timeframe. These 10 tips will put you on the correct path as you start your real estate investment journey.

## **Screen Your Tenants**

Would you give the keys to your car to a complete stranger? Then why would you give the keys to your investment property to someone that you know absolutely nothing about? If you don't do any screening of your tenants prior to move-in then you are asking for trouble.

You can screen your tenants by any or all of the following methods:

- Verification of employment for every adult living in the property
- Credit check
- Dispossessionary (eviction) check
- Criminal background check

If you have an application from two tenants and one has never been evicted and the other one has been evicted twice in the previous 3 years, which one would you select? What if one tenant has changed jobs 6 times in the past 3 years and the other one has been employed at one company for the same timeframe, which one would you select? What if one tenant had 4 charged off collections on their credit report and tax lien and the other tenant had a low credit score with just 4 trade lines that all show on-time payments, which tenant would you select? Tenant screening can help you choose the right tenant for your investment property.

Our first investment property we purchased was a quad that was fully rented. It wasn't until several months later that we had our first vacancy. We promptly posted a sign on the lawn of the property and immediately attracted 5 applications from other tenants on the same street that wanted to move into our building because they could see that it was well maintained. After showing the property to all 5 applicants, my partner and I were really keen on a young couple that made a great impression on us. At this time we had never really had to conduct a formal tenant screening and we were ready to accept the application based on outward appearances. We decided to do a dispossession check just for the 'learning experience' and much to our surprise we discovered this couple had been evicted from 5 properties in the past 4 years and they were in the process of being evicted from the building across the street from ours. From this point on we decided that we would definitely screen all tenants and we strongly recommend that you do the same.

There are multiple sources for performing tenant screening. We use a service provided on the Mr. Landlord website which can be found at [www.mrlandlord.com](http://www.mrlandlord.com). National Tenant Network offers the same service and their website is [www.ntnnet.com](http://www.ntnnet.com). We recommend that you charge an application fee that will be used to offset the cost for your tenant screening. This fee should be non-refundable and should be collected in cash or certified funds – NO CHECKS!

Tenant screening is not fail-proof but without it then you are giving the keys to your investment property to a complete stranger. Why let dumb luck be the basis of determining if potential tenants are worthy to rent your property?

## **Always Have a Signed Lease**

A lease protects both the property owner and the tenant. It will outline the responsibility of the tenant on points like when the rent is due, amount of monthly rent, the amount of late fees and when they are assessed, the length of the lease and other pertinent details. If you ever end up in court with your tenant, the first item that the judge will ask for is a copy of your lease. If you don't have a signed lease then your state's law will determine the resolution of conflicts between tenants and landlords and in most states the law is

skewed in favor of the tenant. Why put your fate in the hands of state law that will not favor you in a conflict? The only way to avoid this is to have a written lease.

## **Know the Eviction Procedure**

It is not unusual for investors to cash flow only \$100 to \$200 per month on their investment property. How many months will it take to recover from the loss of just one monthly rent check? Surprisingly the answer is that it can take 9 to 15 months. If your tenant is not making payments then you need to get rid of them quickly so you can start the recovery process on this lost revenue stream.

You would be amazed at all the reasons tenants can provide for not paying rent on time. Many landlords want to be reasonable when tenants provide excuses but you need to look at your real estate business as a for-profit business and not as a charity! If you allow tenants to pay late then you are subsidizing their lifestyle by being forced to pay your mortgage, taxes and insurance before receiving the income for the service you provide.

All landlords need to be well educated on the eviction process in the county where their investment property is located. Knowing this process will allow you to get rid of a bad tenant as quickly as possible.

## **Never Let a Tenant be More Than 10 Days Late on Rent**

Rents are always due on the 1<sup>st</sup> day of each month. If a tenant has not paid by the 10<sup>th</sup> of the month then you need to get rid of them. I have already explained the economical cost of not collecting rents in a reasonable timeframe. You simply cannot afford to have someone living in your property enjoying the benefit of a roof over his or her head without paying for that benefit. As I said before, treat your real estate as a for-profit business and not as a charity.

Charge a late fee if the tenant fails to make payments on time. Never, Never, Never forgive the late fee for any tenant for any reason! If tenants don't want to pay a late fee then they need to pay their rent on time as they agreed to do in their lease.

Why 10 days you might ask? Why not 5 days or 20 days? From my experience as a landlord, if a tenant has not paid by the 10<sup>th</sup> of the month, then they do not plan to pay at all. In some counties it can take as short as 2 weeks to evict a tenant and in other areas it can take up to 4 weeks to evict a tenant. If your state takes three weeks to evict then if you start the eviction by the 10<sup>th</sup> then the tenant can be gone by the end of the month. If you wait any longer to start eviction then you can potentially be facing two months of lost revenue and nobody wants that.

## **Landlord-Tenant Laws**

What exactly does it take to evict someone? How much does it cost? How long does it take? Can I serve notices myself, or do I need a process server? Are there special housing rules that apply in my city? Is there a limit to the amount of rent increases I can ask for? Is there a limit to security deposits? Do I have to give interest on a security deposit to my tenant? How long can I hold a security deposit after the tenant leaves? Is there a minimum grace period before I can charge a late fee? Your states Landlord-Tenant laws answer all of these questions. In addition the law outlines stiff penalties you can face if you fail to probably follow the legal code.

Ignorance is a not a valid defense in a court of law. All landlords need to be well versed in the legal requirements for their state and county. If you are unsure of the laws in your state, go this website which has links to the Landlord-tenant laws for all 50 states. [www.mrlandlord.com/html/frametop.html](http://www.mrlandlord.com/html/frametop.html).

Avoid a disaster like having to pay a bad tenant who trashed your property an amount equal to three times their security deposit because you failed to follow state law. It takes only one honest mistake to be dragged into a court of law and a single judgment can easily bankrupt any investor. No investor can afford not knowing

## **Successful Investors Have a Plan - and Work It**

Is there a cause-and-effect relationship between goals and personal success? Researchers interviewed graduates of the Yale class of 1953 and discovered only 3% of the class had written goals. Twenty years later the surviving members of the class were interviewed and researchers discovered that those 3% with written goals had accumulated more wealth than the other 97% combined! Some people doubt whether or not this study is factual. My comment is that if it is not true then it should be.

Robert Kiyosaki, author of the *Rich Dad, Poor Dad* books, has termed the phrase “rat race” to describe the monotonous daily routine in which we live our lives working for others making them rich instead of being the owners of systems that make ourselves rich. Anybody can put pen to paper and set goals to get themselves out of the rat race. Only a small minority of people commit themselves every day to do the things needed to reach their goals. Somehow, your real life always seems to get in the way of your long-term goals. If you want to be successful as an investor then you need a daily blueprint that you can follow. Engineering marvels are built using a blueprint and if you don't have one for your goals then you will more than likely never accomplish your goals. If you don't know where you're going, then how do you ever plan to get there?

When my partner and I started investing in real estate, the first thing we did was to write a ten year business plan. We started with our end goal of what we wanted to accomplish. From there we created yearly targets that would allow us to achieve this goal. Then we micro-managed this down into monthly, quarterly and semi-annual action plans. We would meet every Monday evening to review the previous weeks' goals, set tasks on what to accomplish for the upcoming week and measure our success against our business plan. Just from experience you can achieve more in life if you have a realistic plan and you stick to it.

One of the ways my business partner and I work on our goals is by following this process:

- Write down 5 goals for the next 90 days on 3" x 5" note cards
- Tape these cards to your dashboard in your car that you look at every day on your daily commute
- Every evening before you go to bed write down daily action items that you will take the next day to get you to your 90 day goal
- Review that days action items to verify that you accomplished what you were to do that day
- Repeat this process every 90 days

## **Educate, Educate, Educate**

*"If you think education is expensive, try ignorance."*

Every guru has their own marketing niche that they promote as the end-all of real estate investing. The reality is there are hundreds of ways to invest in real estate. Some people focus on flipping houses for profit while others concentrate on building wealth with long-term rentals. You can invest in real estate by purchasing single family houses, multi-family apartment buildings or commercial properties. You can wholesale houses or offer lease purchase options. You can purchase properties using traditional financing, subject-to deals, hard money or private money.

The key to being successful in real estate investing is to understand that knowledge is profit. You can expand your knowledge by reading books, listening to CDs and podcasts, attending workshops and boot camps, and joining your local Real Estate Investors Association. You can get our copy of our Top 10 list of Books, CDs and Podcasts on our blog at [www.landrealestate.blogger.com](http://www.landrealestate.blogger.com) . Keep learning all the time, and don't forget to pass a little of that knowledge on to the folks who are coming up behind you.

## **There's No One Best Way to Invest in Real Estate**

There isn't one secret you can learn that will immediately make you successful – to the exclusion of everything else you need to learn. Don't just read one book and think you

know everything there is to know about real estate. Don't listen to just one audiotape or attend just one boot camp. Learn the entire spectrum of possibilities for earning big profits in real estate. Then practice ... practice ... practice.

When I first started as a real estate investor I purchased pre-foreclosure properties using a technique called Subject-To where the original mortgage stays in the name of the seller but I own the property and make the monthly payments. As a new investor with very little money this technique appeared to be the best strategy in the world as I was accumulating properties with very little money. The problem was it seemed every new investor was following the same strategy and I found it harder and harder to find deals. One day while driving around looking at potential pre-foreclosure properties, I met another investor who was purchasing the house next door as a flip. He explained that he would purchase this property and then sell it to another investor in 30-45 days and make a quick \$10k profit on the sale. When I added this technique to my arsenal I was able to go after more deals.

Some other strategies that successful investors utilize or areas they focus in are:

- Lease purchase programs
- Buying land
- Commercial real estate
- Mobile home parks

- Single family houses
- Multi-family apartment buildings
- Notes
- Short Sale and/or pre-foreclosure

Anyone who tells you that you are going to get rich quick and easy in real estate is not being honest with you. Don't get me wrong, there are many legitimate strategies for making money and creating wealth in real estate. All require time, effort and usually money. It is up to you to learn the strategy appropriate for you based on your knowledge, financial position, and your local real estate market and then focus on implementing the appropriate strategy

## **Successful Investors Network**

If you attend college, don't be surprised if you find no colleges offer degrees in real estate investing. You would be lucky to even find a university that even offers courses on the subject! Since there is no college curriculum or formal training on real estate investing, the only way to learn is to garner information from other investors that have already been where you want to go.

The best way to succeed in investing is to join your local REIA (Real Estate Investors Association.). Every state has a REIA that you should join. If you don't know how to contact the one in your state, you can go to [www.nationalreia.com](http://www.nationalreia.com) which has a list of all REIAs in every state. Once you join your local REIA start attending meetings and seminars. Talk to the other investors and get information from them. Once you recognize those investors who are successful in the area you want to concentrate ask them to be your mentor to teach you the ropes.

Mentoring is not a one-way street for you to suck up all the knowledge from your mentor. Show respect for their time by taking them to dinner and/or offering to pay the admission price for a real estate seminar they want to attend. You can reward your mentor by offering to split your first deal 50/50 in exchange for them evaluating the deal and if it is a successful deal then they can walk you through the process to close on the deal. The knowledge you gain can easily exceed ½ of the profits that you forfeit on your first deal but is by far the best investment you can make as a new real estate investor!

## **Successful Investors Protect Their Assets**

What's the use of building a huge real estate portfolio if a single lawsuit could wipe it all out? Why bother to achieve financial independence if the bulk of your estate will end up in the hands of the government? And why is it that the average real estate investor does

absolutely nothing to reduce their #1 yearly expense - taxes? Arranging your affairs to protect your assets from creditors, plaintiffs, and the taxman is tedious, complicated, and time consuming. Yet every successful real estate investor takes the time to do protect their assets, thus assuring that their hard-earned money stay theirs. Just remember that real estate investing is a for-profit business and you need to make smart financial and legal moves that will allow you to realize a greater profit.

First thing you want to do as an investor is to work with an attorney to incorporate your business using the most appropriate business entity. Once your business has been incorporated then you wan to establish a business checking account. You never want to co-mingle your personal funds with your business funds!

One of the most important members of your team should be a qualified CPA that understands real estate investing if they don't already invest in real estate themselves. Any CPA worth their weight in salt should be able to show you how to legally maximize your deductions so you can achieve a greater after-tax profit.

## **Conclusion**

The goal of this eBook is to share what we have learned in our real estate career with others hoping to follow along the same path. We hope that you have learned something

that will benefit you in your real estate career. If you would like to know more about Lang & Thomas, LLC, you can visit our website at [www.LangAndThomas.com](http://www.LangAndThomas.com). We frequently post articles about real estate investing, interviews with successful investors and real-life stories on our blog which can be found at [www.LangTRealEstate.blogspot.com](http://www.LangTRealEstate.blogspot.com). You can sign up for our free newsletter at our blog. We are interested in your feedback and your experiences as a real estate investor and you can email either of us at:

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