

Avoid the Pitfalls in Real Estate Investing

Following your gut and not your head

- Many investors fall into the trap of buying an investment property the same way they'd buy their home, using emotion instead of relying on numbers. It is important for investors to remember that every home is the right home for somebody, even if it isn't them. The difference between investing and speculating is that investing relies on research and number crunching; speculation relies on gut feelings. A CIAS-designated agent has the necessary training and tools to properly evaluate real estate as an investment that will offer you the best returns.

Overleveraging

- While leverage is a highly valuable tool in real estate investment, not knowing the difference between positive leverage and negative leverage can mean making payments on an investment rather than getting paid by an investment. Calculating the Debt Service Coverage Ratio (DSCR) for an investment is an important method of determining whether or not an investment will earn money or cost money. A CIAS can help explain DSCR and what you need to be looking out for to avoid negative leverage.

Thinking real estate is an easy way to get rich quick

- From 2002-2006, the residential real estate market experienced a period of rapid appreciation, which was subsequently lost in the years following. Real estate appreciation over time has been slow but steady, and offers great rewards to the patient investor who does the research and works to ensure property appreciation. In fact, real estate investment beat the S&P 500 in appreciation over the past 30 years – and that even factors in the recent crisis. Wise real estate investors know there are no short cuts, and are willing to put in the time and work to ensure good returns on properties. "Get rich quick" schemes are just that: schemes. CIAS-designated agents can help you set reasonable expectations through their knowledge and expertise, and assist in your wealth building strategy.

Not understanding tax benefits and liabilities

- Among the key advantages of real estate as an investment are the tax benefits. Understanding how to deduct for depreciation and passive activity loss can greatly increase the cash flow (or money coming in) from a property. There are also ways to defer capital gains taxes that are unique to real estate, such as the 1031 exchange. But benefits are only part of the story. Wise investors understand depreciation recapture and how to minimize taxes upon sale of a property. Be sure to seek a qualified accountant for tax advice regarding real estate investment.

Investing without a clear goal

- Simply buying a property because it's a good deal can be dangerous. Shifts in market conditions, unexpected vacancy, or extended holding costs can quickly turn a profitable property into a money pit. Investors should always have a clear goal for a property, one that includes an understanding of a specific cap rate, cash flow, and expected return on investment, as well as exit strategies should you need to take action. Each CIAS understands strategies for different investment goals and can help guide you to what is best for you.

Today's market conditions require in-depth understanding. Real estate agents who are Certified Investor Agent Specialists® (CIAS) have the education and experience to help you meet your real estate investment goals.

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