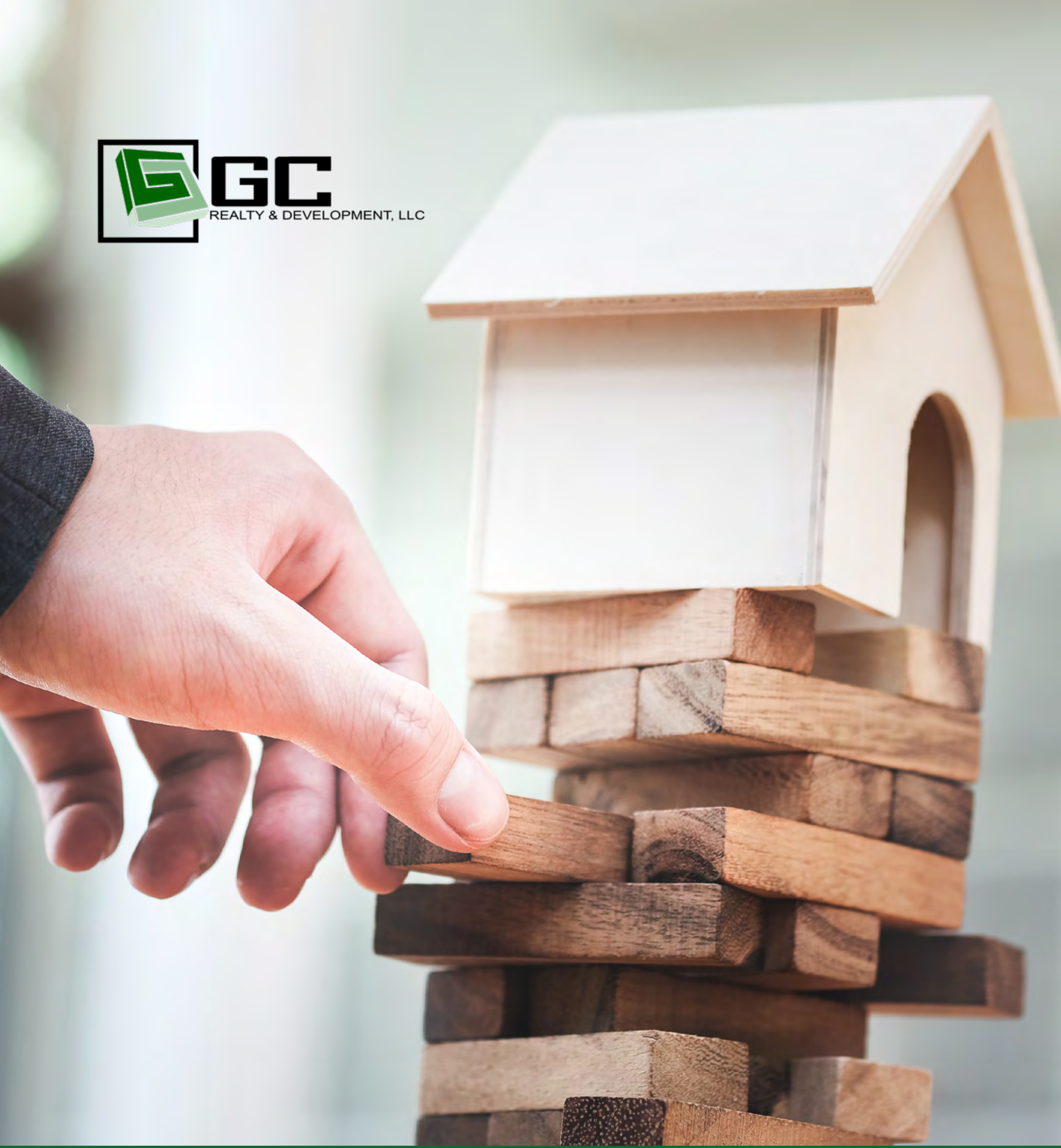


TOP 10
LENDING MISTAKES

You’ve heard it numerous times,
investing in real estate is one of the best ways to accumulate wealth.

Most people would agree with the above statement and know of several individuals who have benefited from investing in real estate. However, despite what the gurus preach, real estate investing can be tough, especially when you are just starting out or looking to scale. Every deal comes with a certain level of risk, a factor of the unknown, and a ton of moving parts. Sadly, not every investment story has a happy ending.

Our good friends of the **Straight Up Chicago Investor Podcast**, Brandon Moulton and Eric Workman of Renovo Financial, have spent their entire life in the business and have witnessed the good, the bad and the ugly. They were gracious enough to join us and break down the top 10 mistakes they see borrowers make when purchasing a real estate investment in Chicago. Learn from these mistakes so you can minimize risk and proactively set yourself up for success.

STRAIGHT UP
CHICAGO INVESTOR

#10 - FAILING TO KEEP THE PROCESS SIMPLE WITH YOUR LENDER

Believe it or not, your lender is your partner and wants to lend to you! You just need to give them valid re-assurance. Your lender is not only judging the deal, but also judging you. Show them you are accountable by having your personal income statements in order and don't make them chase you for documentation. In addition, take the extra time to put together a nice one pager so they can see you've done your homework, are aware of all costs, and are serious about your purchase. Lenders will take you seriously once your actions prove that you are serious.

#9 - PASSING ON THE APPETIZERS (PERFECT IS THE ENEMY OF GOOD)

After you have performed all this necessary due diligence, walked through the multiple outcomes, and the deal makes sense, ACT ON IT. No deal is ever going to be 100% perfect so don't sweat the small details. This is not to say you shouldn't try to get the best terms, but it is imperative to not only look at risk, but also the opportunity cost of not doing the deal.

If you find yourself waffling or shopping around to save a few hundred bucks, you run the risk of not only ruining long-term relationships, but also potentially losing the deal as you get caught flat-footed.

#8 - LACK OF PLANNING

We all know someone who constantly talks about real estate and constantly reads the newest book on the next strategy to success. He/she is at all the events, active on Biggerpockets, but they're still at the starting line or talking about new ideas! This is a failure to create a plan and execute a strategy. There has been no forethought into honing in on a location, a property type, and specific strategy. Sit down, create a strategy, focus on a specific area, and stick to it. Real estate offers a plethora of ways to make money, which can easily cause "shiny object syndrome." Stick to one avenue when you start and become an expert before moving to the next strategy.

#7 - GOING INTO DEBT TO PAY THE GURU'S.

Don't. Just don't. There are enough people and enough free resources that you can utilize to get you to the same point without spending 10-30K on a mastermind where someone is going to tell you how to do it. The Straight Up Chicago Investor podcast has so much Chicago specific information and we give it to you for free! Renovo has their own checkpoints they review to make sure your deal actually checks out. There are also a ton of investors who will help you along your journey. When reaching out to these people, please don't ask "what should I do?" Instead, come up with a plan or a specific question and then ask someone to validate your thought process.

Get a team together: contractors, a good attorney, a good real estate broker, and also your lender. If you want to get started, start small; focus on a lower construction budget. Remember that although a 200k purchase and 50K rehab might have the same all-in number as a 150k purchase and a 150k rehab on a spreadsheet, these are vastly different projects.

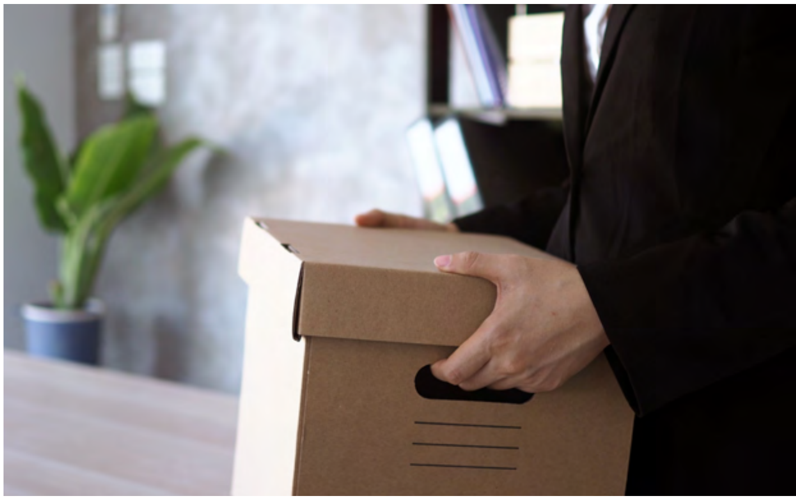
#6 - NOT UNDERSTANDING THE PERMIT PROCESS.

It's important to build relationships with city officials and understand where you need to go to get the correct information. Most of the information you need can be found on the city's website, and if you can't find it, talk to someone who has done it before. Understand the process upfront so you can plan for both the cost and timing implications throughout the process. This is where having a knowledgeable attorney that focuses strictly on real estate can be a huge asset for you. Lastly, be aware that there are permit expediting resource that cost a few hundred dollars but can be fantastic time-savers.

#5 - QUITTING YOUR DAY JOB.

A big part of what makes you financeable comes from whatever career you're in before getting into real estate. It's very alluring to be a full time real estate investor, living on a beach managing properties in the sun and just collecting cash flow. However, too many individuals try to make that jump too soon. You don't want to put yourself in a situation where you HAVE to do a deal to get the cash, which leads to breaking your discipline and taking on deals that do not meet your criteria.

Before quitting your job, account for all your current expenses. Then add your new expenses like your current benefits, money needed to market your service, and funds to pay holding costs. Figure out what a comfortable reserve number you will need and then double it. Also, if you are going down this route, remember you will be much more bankable while you still have your job, so make any major financial moves (refinance) before taking the plunge.



#4 - FAILING TO GIVE PROPER RESPECT TO SEASONALITY IN DEALS.

COVID has thrown the usual Chicago seasonality out of whack for 2020, but be aware there are times of year when houses fly off the shelf, and there are times of year where the market gets stagnant. When factoring your ARV, think about when you will hit the market and adjust downward if you are going to land in a month that is tougher to sell. Also understand that If you're doing a construction deal in the winter, it's going to take longer and there will be additional expenses you will need to consider.

#3 - HAVING ONLY 1 EXIT PLAN.

The most successful real estate investors have multiple exit strategies. One client lists every recently renovated property for sale and for rent at the same time. He can either keep or sell depending on the market and it gives him opportunities. Having multiple exit strategies makes you much more flexible and thus, much more financeable. Always begin with the end in mind, and run a scenario if that ending is not what you planned for. Understand our options to pivot and be able to articulate those options to your lender.

#2 - NOT KNOWING HOW TO DO THE MATH.

There are a lot of expenses associated with real estate investing. A lot of investors get into a deal without doing the full math of layering in all the extraneous costs: broker fees, lender fees, inspection fees, holding fees, transfer taxes, permit fees, etc. These things need to be taken into account before the deal is underwritten.

Holding costs can be one of the silent killers to a deal. Do you know what makes up your monthly holding costs? Do you know how much your holding costs are per month? Do you know how long you'll have ott pay the holding costs? When your property sits on the market and doesn't sell, you not only have tot drop your price, but you also incur additional holding costs, thus yor margin gets squeezed from both ends.

#1 - NOT HAVING A TEAM.

The #1 mistake borrowers make is not having a team. There are no superstars in real estate and you are not a one person show. Dozens of people touch a real estate deal. Lender, contractors, broker, attorney, property manager. The team is taken into account when Renovo underwrites and they will ask you who you have in place. The quality of your team can make or break you, so put in the time to build that circle and be prepared to adjust as necessary.

Now that you have the list of the top 10 mistakes, make sure you don't make them.

YOU'VE GOT NO EXCUSE NOW, GO GET A DEAL DONE.