7 KEY PRINCIPLES OF INVESTING IN REAL ESTATE

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1. Develop a Personal Financial Vision
   - Develop specific, achievable financial goals for income and wealth (assets, liabilities, and net worth)
   - Develop a specific strategy (plan) for achieving the financial goals (include elements such as property type, location, price range, age-condition, etc.)
   - Develop and maintain a high credit score, such as over 800
   - Develop and use a personal financial **vision** statement as a key planning tool; prepare a **current** financial statement each year; evaluate the current statement with the vision statement; take corrective action as needed to achieve the financial goals

2. Develop Technical Expertise
   - Appraisal: market analysis, highest and best use analysis, income analysis, sales comparison analysis, cost analysis, and value analysis
   - Finance: sources of financing, financing alternatives, analysis of financing terms
   - Investment analysis: property type, location, physical and functional characteristics, operating characteristics, discounted cash flow analysis
   - Financial calculator skills
   - Negotiation

3. Be Proactive
   - Develop a search strategy
   - Actively search for viable investment alternatives
   - Develop and use **units-of-comparison benchmarks**, such as price per unit, income per unit, gross income multiplier, overall cap rate, etc. to identify potential investment opportunities

4. Buy the Income - **NOT** the Real Estate
   - Always buy the expected future income, **not** the physical real estate
   - The income from an investment "drives" the cash flow, cash reversion, and price/value
   - Identify the potential sources of income benefits from the cash flow, tax savings, mortgage amortization, capital appreciation, and financing/refinancing proceeds
   - Forecast the income benefits under four alternative scenarios: worst case, most likely, conservative estimate, and better-than-expected scenarios to obtain a range of possible outcomes

5. Analyze and Manage the Risk
   - All real estate investment involve risk
   - Identify the sources and types of risk: internal and external
   - Develop measures of risk, such as loan-to-value ratio, debt coverage ratio, operating expense ratio, cash breakeven ratio, and payback period
   - Develop your limit of acceptability of risk; do **not** ever exceed the limit
   - Within your limit of acceptability, the income and return should always justify the risk
   - Always seek to insure the risk, minimize the risk, shift the risk, etc.

6. Negotiate Favorable Terms
   - Assume you can negotiate anything
   - Negotiate the strategic variables, such as price, up-front investment requirement, interest rate, closing costs, etc.
   - Establish specific, favorable outcomes for the strategic variables (begin with the end in mind); negotiate towards these goals (targets)
   - Learn the major negotiating strategies
   - Get the other party to make his or her offer first, then counter with your offer first
   - Use a third party to facilitate the negotiation when possible; this allows you to be detached, reflective, and totally rational
   - Know when you have great terms - then close the "deal"

7. Make Rational Decisions (**not** Emotional)
   - Develop a list of relevant investment criteria, such as equity investment requirement, cash flow, return on investment, risk, liquidity, investment management requirement, etc.
   - Specify your limit of acceptability for each investment criteria; **reject** any investment that exceeds your limit of acceptability
   - Identify your **five** most important investment criteria, then **prioritize** these from 1 to 5
   - Use an "executive summary and decision matrix" to facilitate the making of a maximally rational decision

P.S. Your ultimate success will primarily be determined by 1 word **"discipline"**: **1)** the **discipline** to learn and incorporate the above principles into your knowledge structure **AND 2)** the **discipline** to apply these principles in your real estate investment decision making.

