BiggerPockets®

THE QUICK START GUIDE TO ROOKIE READINESS

SCOTT TRENCH

The ultimate checklist to complete before you invest in real estate

Calling all Rookies...

By Scott Trench

Complete This Checklist Before You Invest in Real Estate

Are you unsure whether to get into real estate? Or even how you can get into real estate considering your current financial position? We've created this Rental Property Investing Readiness List to help clarify your position and ability to invest!

Real estate investing is an effective path to wealth and passive income that has been harnessed by millions of people to tremendous positive effect. But, it's also a double-edged sword that has bankrupted many people and created tremendous losses. Rookie investors have every reason to be excited about real estate investing and get motivated to play the game *as soon as they are ready*. And they also have every reason to be uncertain, skeptical, and even a little afraid of real estate and what can happen in tough markets.

The good news is that hard work, a long-term outlook, self-education, a strong network, and a can-do attitude can drastically increase your odds of success. If you are willing to do the work to set yourself up for success, there's no reason that you can't be successful with real estate investing and reap a lifetime of the benefits that real estate investing has to offer.

My goal with this ebook is to articulate a high bar of preparedness for new investors to clear.

While many investors get started without meeting all, or even most, of the criteria discussed below, I believe that those who take the time to prepare fully will find themselves making more money with less risk than their peers who jump in headfirst with no plan.

The Checklist

- [ ] I understand my end-game and long-term goals. I know what kind of portfolio I want to build over the next 5-10 years, and what kind of life I will lead when I build that portfolio. Real estate will be the pathway to help me get there.

- [ ] I believe that real estate is a good long-term investment for me compared to an alternative like stocks, bonds, cryptocurrencies, or private businesses.

- [ ] I don't have to go "all-in" to purchase my first property; I have a strong income and savings rate and/or a financial partner or two.
    - [ ] I earn a strong, stable income relative to my investment.
    - [ ] II could feasibly cover my investment expenses even if I received no rent, ever.

- [ ] I have a strong cash position and access to liquidity or a financial partner.
    - [ ] I have the down payment in cash (even if that down payment is 3 percent or less).
    - [ ] I have cash for any anticipated closing costs.
    - [ ] I have cash for any anticipated rehab costs.
    - [ ] I have access to plenty of credit and short-term financing, after the mortgage, should I need it on top of my cash cushion.

- [ ] I have a strong credit score of at least 700.

- [ ] I have or will commit a meaningful amount of time to educate myself on real estate, especially up front.

- [ ] I am willing and able to DIY everyday household projects if necessary, and/or am willing and able to hire and manage contractors and property managers skillfully.

- [ ] I have strong deal analysis skills. I know what a "good" deal means to me in my target market and can analyze a potential deal in 15 minutes.

- [ ] I have a strong foundation in basic economics.
    - [ ] I understand terms like IRR, NPV, CoC, ROI, and CAGR, and have a preferred way to compare investment opportunities apples to apples.
    - [ ] I understand macro factors (supply, demand, interest rates, and more).

- [ ] I have a strong understanding of the local market or market I plan to invest in (including rules and regulations, zoning, city planning, and the "path of progress," etc.).

If you can check all these boxes, then there is no reason not to proceed with investing. If you can't, you may have more educational, personal finance, or other preparatory work to do—which we can help you with.

Now let's explore each of these areas in more detail.

I understand my end-game. I know what kind of portfolio I want to build over the next 5-10 years, and what kind of life I will lead when I build that portfolio. Real estate will help me get there.

Harvard Business School Professor Theodore Levitt once said, “People don’t want to buy a quarter-inch drill. They want a quarter-inch hole.”

YOU PROBABLY DON’T WANT A REAL ESTATE PORTFOLIO.

Instead, you probably want the wealth and passive income that the real estate portfolio can provide, either today or in the future.

Real estate is the “drill.” You most likely want the “hole” that is financial freedom.

But, before you invest in real estate, or anything else really, you should define your “hole.”

What does an end-state portfolio look like for you? Is it the biggest possible pile of money at age 65? Is it a minimum level of financial freedom as rapidly as you can bring it about? Is it a hedge against inflation, security, and alternative income streams in case you ever can’t continue working? Are you willing to be hands-on with your investment portfolio?

Personally, my “hole” is a diversified portfolio with a strong cash position that offers me a stable and large amount of monthly passive income that far surpasses my lifestyle needs and which can perpetually grow throughout my lifetime. I want to be able to sleep at night, knowing that I have multiple sources of passive income, and plenty of room for growth, even when times are at their toughest.

I am willing to put in the work to learn, analyze, and oversee the management of my portfolio, including overseeing my property managers, and I’m also willing to self-manage my properties and take an active day-to-day role, should I ever need to in order to cut costs and preserve profit margins.

Real estate can be a powerful way to build tax-advantaged wealth through a combination of appreciation, loan amortization, and cash flow. But it can also be an extremely time-consuming business that can eat away at your free time. It also comes with risks that are multiplied by leverage and ignorance. Self-study and active involvement are essential in the early stages of an investing journey, and really should be continued throughout your hold period. The end state is never truly passive, but real estate may bring about life optionality and “semi-passive” income and wealth far faster than totally passive alternatives like stock market or bond investing.

You don’t have to believe what I believe or want what I want—I was just sharing my goals as an example. But, you should define your end-state portfolio, and understand whether real estate is a useful “drill” that can help you achieve those goals, or whether a hammer, wrench, or screwdriver (stocks, bonds, and crypto, perhaps) are more appropriate in your circumstances. The BiggerPockets On the Market podcast can help jumpstart your data analytics and research these different options to help determine your most important next step in defining your goals.

I believe that real estate is a good long-term investment for me compared to an alternative like stocks, bonds, cryptocurrencies, or private businesses.

Before investing in real estate, you owe yourself quality answers to the following questions:

- What are my alternative investment options?
- What do I believe is going to happen in the markets in the short, medium, and long term?
- Why is real estate a good option in the economic scenarios that I think are likely?
- What's my downside as a real estate investor and on any specific properties I am considering (even if I think that downside scenarios are unlikely)?
- How much upside am I getting to compensate for the risk and work associated with real estate investing? For example, at the time of this writing, it's the middle of 2022 and everything looks like a bad investment right now.
- Stocks are still at high valuations, in spite of a significant drop through the first half of the year.
- Interest rates are rising, so bonds seem like a bad bet.
- It seems like a great way to make $10 is to start with $20 and "invest" it in Bitcoin or other Cryptocurrencies.
- I might not have the time, skillset, accredited investor status, or risk tolerance to invest in private businesses, syndications, and other alternative investments, and I might feel that these investments are subject to as much or more risk than the other alternatives discussed above.

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It's not clear what's going to happen to the economy. Have we bottomed out? Is this the tip of the iceberg? Are we entering a recession? Will the Fed keep raising interest rates, or has inflation finally peaked? How do I feel about things in the short term? How do I feel about things in the long-term? Is real estate a good investment in the market scenarios that I think are likely? Is it good relative to its alternatives?

How you invest and how you build your portfolio is dependent on what you believe. I can't answer these questions for you. Only you can research and answer them yourself.

Personally, I believe that real estate is subject to supply constraints and demand pressures that make it a good long-term investment alternative to stocks and cryptocurrency. I believe that, like bonds, real estate prices are vulnerable in rising interest rate environments, but that rising interest rate environments will generally be accompanied by inflation, meaning that I have a good chance at seeing rent prices—and therefore cash flow—increase in such an environment.

I'm also willing to accept the risks associated with leveraging real estate in exchange for the opportunity to multiply my returns over the years. I believe that I can mitigate those risks by carefully analyzing a deal's cash flow potential (including a discount for a poor market where rents may decrease), maintaining a strong cash reserve to float any months of vacancy and to repair property, and being ready, willing, and able to self-manage and self-maintain, should I ever need to.

I don't have to go "all-in" to purchase my first property. I have a strong income and savings rate and/or a financial partner or two.

The first real estate investment can feel like an "all-in" bet. It's likely the biggest investment of your life to that point and involves buying a property and taking out a loan that is multiples of your annual income.

While there are always exceptions to every rule, the folks who are best positioned to invest in real estate are those who earn a strong income—likely a median income or much higher—and who can easily afford to qualify for a mortgage to purchase a median-priced property in their target market.

Stretching yourself to your financial limits on a real estate investment purchase is an all-in bet. Getting "creative" in order to lever up on a first real estate investment is more of the same. Sure, folks have made money doing this, and the past 10 years have shown that this can be handsomely rewarded.

But, a wise first-time investor will instead try to buy a first property that comes with a mortgage that they could float indefinitely if they had to, without a tenant in place. That means that the smart Rookie investor will spend less than they earn, and earn comfortably more than what is required to qualify for the mortgage on properties they consider investing in.

If you don't earn enough income to invest in real estate in your local market comfortably, consider creative ways to reduce that risk, such as:

- Finding a real estate partner or money partner to split the risk with you
- House-hacking
- Buying in an out-of-state market

I have a strong cash position + access to liquidity or a financial partner.

Ensure you have cash or access to cash in the following events:

- ✓ I have the down payment in cash (even if that down payment is 3 percent or less)
- ✓ I have cash for any anticipated closing costs
- ✓ I have cash for any anticipated rehab costs
- ✓ I have access to plenty of excess cash reserves, as well as credit and short-term financing, after the mortgage, should I need it on top of my cash cushion

There's nothing wrong with a low down payment on a rental property, and real estate investors on BiggerPockets have proven time and again that they can purchase and close on a property with absolutely no money out of pocket, especially if they find great deals.

For example, if I had $100,000 to invest in a $400,000 property, my preference would be to put down 5 percent ($20,000) and put another $20,000 into minor renovations, leaving me with $60,000 in cash left over. I believe that this is a stronger financial position than putting $100,000 (20 percent) into the property and having little to no cash left over.

YOU DON'T HAVE TO USE CASH AND LIQUIDITY TO BUY REAL ESTATE. BUT YOU SHOULD *HAVE* CASH IN RESERVE, AND MAINTAIN ACCESS AT ALL TIMES IN CASE YOU DO NEED IT.

Some investors like to joke that the amount of money you set aside for reserves is inversely proportional to the amount of money you need. That means that if you have plenty of cash sitting around, well in excess of what you need to cover any repairs reasonably, you are likely to have a pleasant, comfortable, uneventful purchase and rehab process.

If you don't have any cash sitting around and use every last dollar to close on the property and rehab it, then the unexpected expenses will pile up and catch you off guard, forcing you to scramble for liquidity.

Give yourself the luxury of a smooth first purchase, close, and rehab. Have the cash available, with plenty of cushion, so that you can respond to and expect the unexpected.

If you don't have the cash ready, or it will take you a prohibitively long time to amass it via saving up, this is another area where a financial partner may be helpful.

I have a strong credit score of at least 700.

A CREDIT SCORE IS A REFLECTION OF YOUR FINANCIAL DIGNITY. IT SIGNIFIES YOUR RECORD OF MAKING PAYMENTS ON TIME AND IS A GATEWAY TO GREAT MORTGAGE RATES.

While in general folks with poor credit scores should probably address the issues that have led to them having a bad score before getting into real estate investing, everyone's circumstances are different. [Learn how to fix your credit score]and then keep it high throughout your investing journey.

If you have a poor credit score, consider (again) finding a partner with a good one, who can help you to access better financing options.

I have or will commit a meaningful amount of time to educate myself on real estate, especially up front.

Before you begin to research deals, you'll need to have a reasonable amount of free time during the following phases:

- ✓ Research and analysis
- ✓ Closing
- ✓ Property management and/or rehab

THERE'S A PRICE THAT REAL ESTATE INVESTORS ALL MUST PAY. AND THAT PRICE IS NOT PAID IN DOLLARS, BUT RATHER IN *TIME*.

I estimate that the average BiggerPockets member spends upwards of *250 hours* of cumulative self-education time before making their first purchase. Literally, 250 hours spend listening to hundreds of podcasts, reading multiple books, watching many YouTube videos, and participating in forums, Facebook groups, local meetups, conferences, and more.

In reality, they should be spending 500 hours. Or 1,000. 250 hours is chump change.

This is a business. We play with big numbers. We use a lot of leverage, often many multiples of our annual earned income, to purchase property. Investors assume responsibilities to provide a habitable environment for tenants, assume legal risks, and have dozens, maybe hundreds, of "mental models" to work through before investing in real estate.

Investors have a choice. They can pay this price upfront and have a good chance of making money on their first investment. Or they can jump in, likely lose a lot of money, and pay the time price on the back end while trying frantically to keep their financial positions afloat.

JL Collins shared a great example of this with his first real estate investment. He failed to do *any* research going in and paid the price for his failure to do his homework with huge losses. He also ultimately spent the hundreds of hours that real estate investing demands attempting to salvage his property, re-rehab (if that's a word) his property after work did not go as planned, and find and manage tenants as a long-distance investor.

Real estate investing is *not passive*, and is not even *semi-passive* when investors are just getting started. Expect to put in the time and energy to learn this business upfront, or expect to put in even more time and energy trying to manage the chaos of a deal gone wrong down the line.

Expect to be involved in the closing process on your first deal, and to have to react to a number of issues that will seem like the end of the world.

Expect to be actively involved in your first rehab, in finding a tenant or property manager, and ensuring that things are set up correctly, the way that you want them.

I am willing and able to DIY everyday household projects if necessary, and/or am willing and able to hire and manage contractors and property managers skillfully.

A first-time investor should feel confident that they can do one or both of these two things:

- ✓ Manage a property, at market rent, efficiently and effectively
- ✓ Hire a property manager and various contractors who can manage the property for them

Both of these things are skills. And I'll argue that the first of these come before the second. I believe that many, if not most, Rookie investors should self-manage their first few properties and for several years, prior to hiring out property management.

This for two main reasons: First, property management is expensive. Second, managing your own property at first is great practice when you need to hire someone later on. Let me expand.

Hiring someone to manage your property is expensive: It is about 10 percent of rent. You can earn a high dollar-per-hour wage by self-managing your property, and it might be higher than the wage you earn at work.

When I got started in investing, I determined that my time was less valuable than a property manager's time. I calculated that for me, I'd average about 5 hours per month of property management work to collect ~$5,000 in rent across several units. Now, some months, I'd never hear from the tenant except to see rent materialize in my bank account. And in other months, I spent much more than five hours at my properties fixing things up and getting things rent ready. But on average, I could assume five hours per month over the course of the year on self-management. Hiring a property manager would cost me $500 per month (at 10 percent of $5,000 in rent) or $100 per hour.

My time was not worth $100 per hour when I started investing in real estate; I earned $50,000 per year, which equates to about $25 per hour. Self-management was arbitrage that I believe helped me build wealth when I was getting started in real estate investing.

IN MY OPINION, THE TIME TO HIRE OUT PROPERTY MANAGEMENT IS WHEN YOU CAN ARBITRAGE THE VALUE OF YOUR TIME.

Property management is training to be able to hire a great property manager. Having a clear understanding of how to screen tenants, manage contractors, keep your property in good condition, and more are all great skills to have prior to bringing on a property manager. When you do hire a property manager after a period of self-management, you should be able to spot a well-run process, interview intelligently, and observe a clear improvement in operations at your property. A professional should be able to do a better job than you and should earn their keep when you do decide to hire it out. Your job is as simple (simple, but not "easy") as knowing what good looks like.

The other part of this is being able to DIY property maintenance. Understand the value of your time accurately and invest it accordingly. At first, this might mean doing most work yourself. Later, it might mean outsourcing some work and doing other work yourself. And, if you are lucky and successful, down the road, it might mean hiring almost everything out.

If you do choose to hire out maintenance and management, understand that investing the time to be able to hire and manage these professionals skillfully is yet another price to be paid in the form of education and self-study. If you fail to pay this, you will find yourself with big losses, operational headaches (like bad tenants), and jobs not done or jobs done poorly and will cause problems down the line. You may find yourself stuck with a bad property manager that you can't fire without hefty cancellation fees.

I hate DIY. I am not very good at it, and it takes me forever. But I did it anyway when I bought my first property. I did it on the second. I did it on the third. I self-managed, and I self-maintained. And this reduced my risk, increased my cash flow, and provided me with unparalleled first hand knowledge of my properties.

I have the confidence to know that if push comes to shove, I can take control of my property management directly, cut costs, and repair most common maintenance issues myself.

THAT IS A POWERFUL ADVANTAGE.

A few years ago, I hired out property management, and with that, maintenance. Why? The value of my time had increased to the point where this arbitrage made sense.

Still, at this point, I had to put in the time and energy to be able to understand what a good property manager looks like, and I still, on an ongoing basis, have to put in the work to review operations, approve decisions, and check in regularly with my property manager to make sure things are moving smoothly in the way I want.

I have strong deal analysis skills. I know what a “good” deal means to me in my target market and can analyze a potential deal in 15 minutes.

Being able to spot a “good” deal is a basic requirement for investing. An investor must know what they want, and be able to purchase at a fair price at least, and at a price that is below the resale value at best.

Yet again, the skill of being able to analyze deals, and articulate what “good” looks like is an output of time and patience. The investor needs to self-educate, network, and do the work of actually looking at properties and being able to analyze them.

A method for defining a “good” deal might be to simply pull up all of the income properties that have sold in the past 90 to 180 days in your local area, and identify the 5 to 10 best overall deals for your strategy. This backward-looking view ignores the current listings (which may include bad deals that are likely to sit on the market for some time) and can be done calmly, without emotion as none of these properties are likely to be currently for sale.

Once you can articulate 5 to 10 properties that you confidently *would have* purchased if you could rewind time, you can confidently say that properties that are very similar to these are properties that you *will* purchase. And, you know that 5 to 10 such properties are very likely to come on market in the next 90 to 180 days—or once every two weeks or so.

A SIMPLE PROCESS LIKE THIS MIGHT ENABLE YOU TO WRITE OUT CRYSTAL CLEAR CRITERIA FOR THE PROPERTIES YOU ARE LOOKING TO PURCHASE. THIS MIGHT LOOK SOMETHING LIKE THIS:

I’m looking for a duplex, triplex, or quadplex in Denver, Colorado in one of five urban areas or neighborhoods. My ideal property contains 2/1 or 3/2 units, each with 700-1,000 square feet. I’m looking for a total rent-to-price ratio of about 0.75 percent, with the opportunity to upgrade the units cosmetically (new floors, kitchen cabinets, paint, adding a bedroom, etc.) and am hoping to avoid major electrical, and plumbing, or foundation issues. I just assume that any good deal will need a new roof at this point, so I’m resigned to that.

After being able to articulate what a good deal looks like, comes the softer skill/art of estimating rehab costs. Similar to identifying what you want, coming up with a ballpark estimate for rehab costs is a function of experience and/or time and effort. Get to the point where you feel confident that you can ballpark the costs of a rehab within $10,000 or so during the first walkthrough, and be able to guess at whether high-ticket items that you can’t easily observe are likely to come up. Make sure to know what you are worried about in the inspection (like a sewer scope) before you go under contract so that surprises won’t derail your first purchase.

I have a strong foundation in basic economics.

It's important to understand the following in the most basic sense:

- ✓ Terms like IRR, NPV, CoC, ROI, and CAGR, and have a preferred way to compare investment opportunities apples to apples.
- ✓ Macro factors like supply, demand, interest rates, and more.

A basic grounding in economics is foundational to investing success in any field, and real estate is no exception. As real estate investors, we get into this business because we want a better combination of risk/effort/reward than what we can get in alternative investments like the stock market, private business, bonds, or cryptocurrency, among other alternatives.

And if we desire that better risk/effort/reward profile, we must be able to understand the returns that we expect, be able to compute the returns we get, and know what we need to do to tweak our capital structure or operations to get the return profile we want, all while understanding and accounting for the known risks of an investment approach.

WE NEED, AMONG OTHER THINGS, TO BE ABLE TO COMPARE THE RETURN WE MIGHT GENERATE ON ONE PROPERTY TO ANOTHER, AND THE RETURN ON THAT PROPERTY TO THE RETURN WE MIGHT GENERATE ON ANOTHER INVESTMENT.

We need to understand liquidity and cash flow—real estate can offer stable cash flows that are delivered every month (like in rental properties) or large paydays that are realized after several years of work (like large flips or repositioning an apartment complex).

We need to understand how factors like supply and demand come into play and bode well or ill for our local markets, and we need to understand how factors like inflation and interest rates come into play and affect real estate at the national level. We need to have an informed opinion about what we think is likely to happen, what might happen, and how we can invest responsibility to make money in good times, bad times, and during periods where growth is flat.

You know that you have a strong foundation in economics on micro/regional factors when you have an informed opinion on the prospects for your local region from a demand perspective (net migration, jobs, income growth, basic demographics, etc.). You know that you have a strong economics foundation on a macro level when you can articulate how inflation and interest rates are likely to affect property values directionally, and when you understand how to guess at how Fed Policy with respect to interest rates is likely to affect values (and you have healthy respect that the Fed may go all-in for far too long in stimulating the economy, and just as all into combat inflation, and are prepared for both scenarios!).

You know that you have a strong foundation with respect to understanding deal and investment returns when you're able to talk fluently in describing how **IRR, CAGR, ROI, and NPV** have their use cases and imperfections when used to analyze property, and have a favorite or go-to methodology for comparing returns across investments that you understand and are comfortable with.

I have a strong understanding of the local market or market I plan to invest in (including rules and regulations, zoning, city planning, and the "path of progress," etc.).

Last but not least, comes knowledge of your local market (or knowledge of the local market you plan to invest in). Did you know that short-term rentals are not allowed in Denver, Colorado with the exception of owner-occupied properties? But, that short-term rentals ***are*** allowed in bordering cities in the metro area, like Arvada, for licensed operators (for up to 240 days per unit)? And that in Arvada, which is just 20 minutes away from downtown Denver, you can own up to three short-term rental properties, but not more?

OBVIOUSLY, INVESTORS WHO UNDERSTAND THESE RULES ARE LIKELY TO MAKE BETTER DECISIONS THAN INVESTORS WHO DON'T.

If you think that's complex, we are just getting started. Different cities have different rules regarding occupancy per unit. Up until just a few years ago, it was illegal to have more than three unrelated adults renting a house in Denver. This rule meant that to generate long-term rental income efficiently with a house hack or single-family rental, one needed to either find a 3-bedroom house or buy a property with multiple units.

Last year, they increased that limit to 5 unrelated individuals. This fundamentally changed the game for many first-time real estate inventors in Denver. All of the sudden, the ideal house hack is a 5-bedroom single-family home, where the other units are rented by the room. If I were starting all over, I'd probably have done this, instead of buying the duplex house hack I purchased in 2014.

THE PREPARED FIRST-TIME INVESTOR SHOULD UNDERSTAND THE RULES AND REGULATIONS IN THEIR TARGET MARKET.

Unfortunately, too many new investors skip this step, or are not careful enough in their self-education process, and miss crucial details, by buying just on the wrong side of a city's border and becoming subject to rules that kill their investment thesis. We see posts on the forums all the time from investors who bought a property with the intention of turning it into a short-term rental, only to learn that their city doesn't permit short-term rentals, but that property purchased just a few blocks away, across the city line's boundary, does qualify for short-term rentals or other strategies. Ouch. Much better to find this out before making that first purchase!

Understand the laws and rules in your local market. Talk to investors and agents in your local market. Rules and regulations are opportunities as much as they are limitations. If your city requires a permit for short-term rentals, and there are a limited number of those permits, *then buying a property that comes with such a permit is a potentially stable source of income that is insulated from competition*. If your city changes a rule or is about to vote on a rule, that creates risks and opportunities that you need to know about in order to protect your investment or exploit opportunities.

By the way, while all of this applies at the city level, it can also be just as important at the HOA level, which means that savvy investors need to know how to read and/or effectively scan their HOA documents on any property they are considering buying. Don't buy property in an HOA that doesn't allow you to rent it out or run a short-term rental if that's your investment thesis!

Zoning and permitting are likewise important. Is your property a quadplex that was “grandfathered” into a neighborhood that is zoned for single-family properties only? If so, then you might have a goldmine from an income standpoint, but your exit options may be limited—you might not be able to one day demolish that property and rebuild it, for example.

On the other hand, if you have the only lot large enough to build four units on in your block, and are in a hot market with zoning that makes redevelopment easy and likely, then the single-family rental property you just bought might present an excellent opportunity to sell to a developer or develop yourself in a few years.

Lastly, the “path of progress” matters. Where is your city investing? Where are the opportunity zones in your city? Where’s the new stadium or public transportation being built? Where are the new corporate headquarters going to be located for the big company relocating into your city?

This is information that you can pick up by subscribing to local business journals, talking to local investors, talking to local agents, and checking your city’s community planning and development plans.

It’s hard to be a master of everything, but knowledge is power, and the work put into understanding these things (and more) about your local market will translate into dollars in your pocket throughout your real estate investing career.

THIS CHECKLIST IS NEITHER A HARD REQUIREMENT NOR COMPREHENSIVE.

I can tell you that I certainly can not claim to have checked everything off of this list when I was first getting started, and in compiling it, I even had to assign myself plenty of homework to do as a journeyman investor with 7 years of experience—especially with respect to my local market.

Instead, this checklist is meant to offer a reasonably high bar for the aspiring investor to clear. While you can always lose money in real estate investing, being able to check off every item in this list confidently might substantially increase your odds of success, and reduce your risk in a downside scenario.

I'd invite you to ask yourself whether you clear the hurdles I've outlined, whether you agree with those hurdles, and whether you have anything to add. If you do, I'd like to hear from you!

THANKS FOR READING, AND I LOOK FORWARD TO DISCUSSING YOUR FEEDBACK IN THE FORUMS!

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The Checklist

- [ ] I understand my end-game and long-term goals. I know what kind of portfolio I want to build over the next 5-10 years, and what kind of life I will lead when I build that portfolio. Real estate will be the pathway to help me get there.

- [ ] I believe that real estate is a good long-term investment for me compared to an alternative like stocks, bonds, cryptocurrencies, or private businesses.

- [ ] I don't have to go "all-in" to purchase my first property; I have a strong income and savings rate and/or a financial partner or two.
    - [ ] I earn a strong, stable income relative to my investment.
    - [ ] I could feasibly cover my investment expenses even if I received no rent, ever.

- [ ] I have a strong cash position and access to liquidity or a financial partner.
    - [ ] I have the down payment in cash (even if that down payment is 3 percent or less).
    - [ ] I have cash for any anticipated closing costs.
    - [ ] I have cash for any anticipated rehab costs.
    - [ ] I have access to plenty of credit and short-term financing, after the mortgage, should I need it on top of my cash cushion.

- [ ] I have a strong credit score of at least 700.

- [ ] I have or will commit a meaningful amount of time to educate myself on real estate, especially up front.

- [ ] I am willing and able to DIY everyday household projects if necessary, and/or am willing and able to hire and manage contractors and property managers skillfully.

- [ ] I have strong deal analysis skills. I know what a "good" deal means to me in my target market and can analyze a potential deal in 15 minutes.

- [ ] I have a strong foundation in basic economics.
    - [ ] I understand terms like IRR, NPV, CoC, ROI, and CAGR, and have a preferred way to compare investment opportunities apples to apples.
    - [ ] I understand macro factors (supply, demand, interest rates, and more).

- [ ] have a strong understanding of the local market or market I plan to invest in (including rules and regulations, zoning, city planning, and the "path of progress," etc.).

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