Kai's "No-No" List

of real-estate investments

What NOT to Invest in 2022!

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of real-estate investments

The items on this "No-No" list are higher risk either because they meet one of the following criteria:
1) Reckless or irresponsible
2) Potentially lower cashflow (higher expenses and/or lower or less predictable rent)
3) Higher risk because profit solely depends on selling at a higher price than the purchase price.
4) Higher risk for newbies (Experienced investor territory only!)

Type of Real-estate "Investment"	Why this is a "No-No"	"No-No" Score
Commercial Properties	Until the dust settles post-COVID-19 pandemic, it won't be clear whether life will return to normal with respect to office-buildings, stores, restaurants, etc. As such, these types of investments may be higher risk purchases at the present time.	2, 4
Condo	You have no control over condo fees and so-called "special" assessments, therefore expenses can be less predictable over time.	2
Property purchased without a professional inspection	You need a professional inspection for every property you purchase from a professional inspector whom you pay for their services. If a property owner lists the house as being for sale "as is", this does not mean that you shouldn't have a professional inspection. It simply means the owner is not willing to make any repairs or upgrades prior to selling. (However, they may be willing to make concessions on price or other terms!)	1

Note: This is a companion tool to the Create Cashflow-For-Life With Rentals - Masterclass Training.
You are invited to join the training so you, too, can create cashflow for life with rental property!

(Note: This resource is not to be construed as investment, financial, tax, accounting, legal, "market-timing" or portfolio advice. It is best used when coordinated with individualized professional advice from a licensed professional in at least one of these fields.)

Type of Real-estate “Investment”	Why this is a "No-No"	"No-No" Score
Property that does not meet *Anderson CFA Tool* criteria	Properties that don’t satisfy the criteria of the ***Anderson Cash Flow Analysis (CFA) Tool*** in terms of adequate positive cash flow, ROI & cap rate. This is safest in terms of current and long-term financials.	1, 2
Property that is cheap (and brings in very low rent)	“Capital expenses” (for very large repair needs) will consume a higher proportion of the total income (thereby lowering the cashflow) than they would be on a home with higher rental income. For example, a $1000 plumbing issue could put your cash flow in the negative on a low-rent home, but allow you to still stay in the positive on a higher rent home.	2
Property that is high-end & very expensive	Rents are generally not commensurate with the property sales prices (and the mortgage that go with them). This means that on a higher priced home, cashflow will be lower (often in the negative) than on lower priced homes.	2
Property that is purchased “sight unseen”	Buying a property without seeing it, in-person, yourself is a very risky act. There could be a major or multiple minor stress-inducing issues that you simply wouldn’t know about without physically touring the property yourself.	1, 4

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Type of Real-estate "Investment"	Why this is a "No-No"	"No-No" Score
Property that requires major repairs or renovations (including fixer-uppers & fix-n-flips)	Properties that don't satisfy the criteria of the ***Anderson Cash Flow Analysis (CFA) Tool*** in terms of adequate positive cash flow, ROI & cap rate. This is safest in terms of current and long-term financials.	1, 2
Property that is cheap (and brings in very low rent)	These projects can be very challenging, expensive, risky and full of unknowns and extra costs. It is easy to lose everything in a project like this. They are also incredibly vulnerable if there is a sudden downturn in the real estate market.	3, 4
Property with potentially negative cash flow	Negative cashflow can be draining on your existing resources, and risky in the event of a change in your circumstances and/or salaried income. Use the most conservative potential rent and expense numbers when using the ***Anderson Cash Flow Analysis Tool*** to confirm cash flow projections.	2, 3
Raw land	If you are buying to hold and resell at a later date at a higher price, then this is risky in the event the price does not increase. There is no income potential unless you have a business purpose for the land.	2, 3, 4

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Type of Real-estate “Investment”	Why this is a "No-No"	"No-No" Score
Real Estate Investment Trust (REIT)	This is a type of real-estate stock purchase. Like other stocks, it is based on the premise of buy low and sell higher. REITs often perform in line with the stock market, meaning they don’t add much diversity to your retirement accounts and/or other stocks or mutual funds. With REITs you don’t have control over specific investment decisions, nor do you have the personal tax advantages provided by rental property.	3
Timeshare	This is about the worst possible investment known to humankind. You have absolutely no control over the annual expenses (taxes and maintenance) and special assessment fees and there is absolutely no resale value. People are either stuck with their timeshares for life, or must pay a company to remove their names from the title. But be careful, there are also many “Sell Your Timeshare” scams out there. Do not give them money prior to the sale, unless you know from personal references that they are an honest company.	1
Ugly house or neighborhood	A house or neighborhood that is just plain ugly can be difficult to rent to people who will help maintain the property and pay their rent on time.	2
Vacation property that is very large or “mega-large”	Buying a vacation property and renting it out on a short-term basis using AirBnB or Vacation Rental By Owner (VRBO), can be very profitable, but there may be a risk of vacancy and difficulty reselling when there is a sustained downturn in the economy.	2

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