

Where Are You Going as a Real Estate Investor This Year?

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Now that we can close the door on 2012, as we start preparing information regarding our real estate investing activities for our 2012 tax returns, it's a perfect time to look a little harder at that information and see how we are doing and where we should be going as investors.

What was your best investment return? What was your worst return or biggest loss? Where do your expenses look high? Where does your income look low? Every year at this time, I evaluate the performance of each of my real estate investing activities, and plan to tweak them for the next year. It can be as simple as determining that certain contractors have cost you much more money than you expected, and searching for alternatives. It can be as involved as determining that your real estate holdings in a particular area of town are not generating the returns they should be, either because rents are too low or the vacancy rate is too high.

Of course, everything is not about the income and expenses. Sometimes, you need to look at the time commitment you incur to realize each of those respective returns. If you are spending too much time managing certain properties for the return you are receiving, the cash flow may simply not be worth it. Even if your returns are smaller from other areas of your investing or other particular properties, if those areas of investing or those properties require very little time, you might want to plan to increase that type of investing or investing in that area, to increase returns without substantially increasing your time commitment to your investing. If particular tenants, particular contractors, or particular employees require too much micro-management, you need to develop a plan to reduce your time commitment to those people. Can they do more without your involvement? If not, can you replace them with people who require less of your time? Can you automate or delegate the functions that burn too much of your precious time?

Once you have examined your economic successes and failures, and your time management successes and failures for the last year, you should next examine which activities in your real estate investing you enjoy, and which you detest. For example, it may not be the best economic use of my time, but I really enjoy watching the final stages of a planned rehab project coming together, and like to participate a little bit in putting the finishing touches on the project. I've come to recognize that this is because in my work as a lawyer, I don't often see a tangible physical result from my efforts. I may see a piece of paper like a deed, settlement sheet or court order, and get some satisfaction from that. However, there is nothing like the tangible satisfaction of looking at before photographs and standing in the after completed rehab project when it is ready to rent or sell.

If, like me, you get particular satisfaction out of some aspect of your real estate investing, then plan to do more of that type of investing. Conversely, if you dread some aspect to real estate investing, plan on being less actively involved in those aspects. If you hate bookkeeping, but have the cash flow to justify it, hire someone to help you with the bookkeeping. If you hate the evictions, but they appear to be necessary part of your real estate investing, hire someone to do it for you. If you can make money doing the things you enjoy doing, and avoid spending your time doing things you detest, you'll be happier and have a better quality of life. If you really enjoy your real estate investing because you've managed the cash flow, the time and the enjoyment of your activities, I believe you are far more likely to continue to grow your investing and to be successful.

Best of luck to you with your investing activities for 2013.

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