



FOUR REASONS WHY REAL ESTATE PROJECTS FAIL



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Investing in real estate has, and will continue to be, an integral part of a successful investment portfolio. Ranked right behind owning your own business, real estate ownership is the second best way to accumulate wealth. Achieving success in investing in real estate gets back to the fundamental factor of any investment which is “risk versus reward.” By identifying the four most common reasons why real estate projects fail, we are better able to manage and even reduce the risk side of the equation.

The four most common reasons real estate projects fail, along with suggestions on how to avoid or overcome each problem are as follows:

1. Lack of a Sustainable Business Plan

Behind any successful project you will find a well thought out, realistic and sustainable business plan. Investing in real estate is not for the fainthearted. Far too many people have been involved with failed real estate projects because their business plan was simply to get rich quick or make a killing by flipping the property based on some 30 minute commercial they saw late one night on the television.

A well thought out business plan includes:

- Research and analyze the current economic conditions, as well as what the projected growth is in the area.
- Market research for the region, including the current and projected rents along with operating expenses.
- A detailed plan for financing the construction or acquisition including the investor’s equity contribution into the deal.
- A contingency plan to cover costs in the event all or a portion of the building becomes vacant.

2. Inadequate Due Diligence

If you do not plan on doing your due diligence completely, then you may as well save yourself some money and not do it at all. The purpose of due diligence is to identify any existing or potential problems while allowing adequate time to renegotiate or cancel the deal. The process should normally take 60 to 90 days. You should be suspect of any seller pushing you to accept anything less than 30 days. A good due diligence approach is to be sure that you have assembled the best players on your team.

The team would include, but not be limited to:

- An experienced real estate and contract law attorney;
- An environmental specialist;
- A qualified property and building inspector;
- An ADA (Americans with Disabilities Act) consultant;
- A Certified Public Accountant with experience in real estate to analyze the financial and economic data.

3. Concentrating on one Big Project versus Several Smaller Ones

There is too much temptation to hit the proverbial “Home Run” with one huge real estate project. Although it may happen from time to time, it is the exception rather than the rule. Over the years, many

investors have come to the conclusion that it is better to be involved with several smaller profitable projects than one large project.

Some of the reasons are:

- It spreads the risk around rather than have all the risk in one project;
- It tends to be less stressful for the investor;
- It may help even out cash flow;
- Most importantly, lending institutions are more receptive to these types of projects.

4. Poor Management

Most real estate investors make the classic mistake of thinking that just because they own the real estate venture that they would be the best person to manage it. Unless you are in the property management business, or you have extensive experience and resources in this industry, you would be better off not getting involved with the day-to-day management duties and responsibilities. On the surface, it may not look like there is a lot to do, but in reality, some of things you have to contend with are:

- Tenant requests and complaints
- Facilities issues
- Maintenance and repairs
- Landscaping
- Snow removal
- Paying the bills
- Invoicing and collecting rents

This list can go on and on. Unless you are retired and just looking to keep busy, these activities might not be the highest and best use of your time.

In spite of the ongoing debate about the supposed real estate bubble and speculation on when the bubble will burst, or start to deflate, there will always be those individuals who are drawn towards investing in real estate. Although not all real estate projects are created equal, the items outlined above should help level the playing field.

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