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Investor *Darren Weeks* has built up an enviable real estate portfolio. But he knows when to get out…and how. Here's his take on having a viable exit strategy

Before I delve too deeply into this subject, it's important to note that poor property investments rarely happen organically. In many cases, the factor that transforms an otherwise good investment into a bad one is entirely preventable. Sadly, for many of us, preventing our real estate investments from taking a sudden turn for the worse is something that we have had to learn from painful experience. Like most unpleasant predicaments, the best way to get out of a bad property investment is to avoid getting into one in the first place.

In 1994, while in my mid-20s, I purchased two units in a north Edmonton townhouse complex. Edmonton was still a relatively small market at the time, but I'd heard rumblings from sources I trusted that a boom in the northern Alberta oil industry was on its way that would produce healthy rewards for real estate investors in the region. Owning two units in the heart of oil country was a 'can't miss'… or so I thought.

I purchased each unit for $29,900, if you can imagine. Units 708 and 712 had recently been renovated and were ready to rent. I found tenants for each unit and began awaiting a return that never came. In 1996, I renovated and sold unit 708 for a loss and sold unit 712 below purchase price. It's worth noting that I don't typically remember the unit numbers of past rental properties, but these units caused so much misery that try as I may, I will never forget them. So, what turned this 'done deal' into a 'dumb deal'? What could I have done differently to have received the return I had anticipated?

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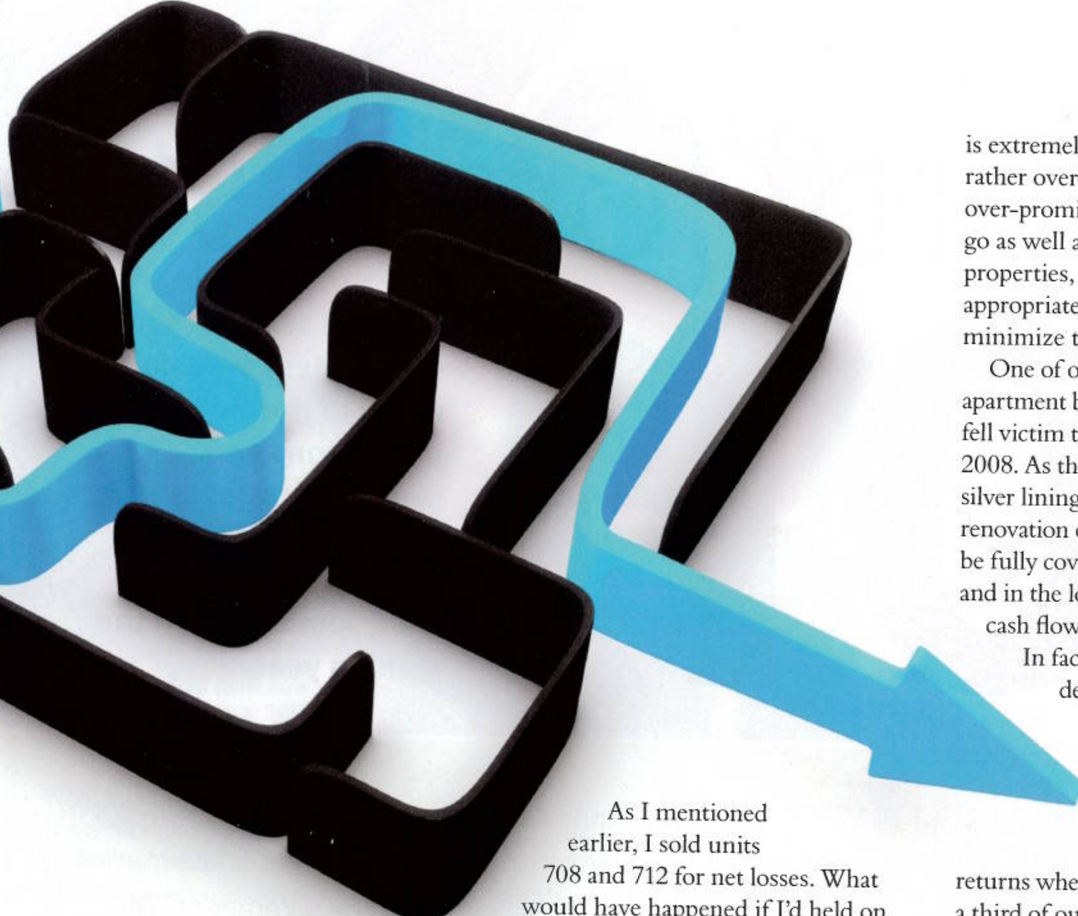
The first thing anyone should do before purchasing a rental property is to do your due diligence on your market. This involves looking into fundamentals such as vacancy rates, in-migration, economic outlook, population projections, demographics, neighbourhood trends, etc. In most markets, you'll find some encouraging indicators, but it's imperative that you aren't blinded by any one of them. It takes a collision of fundamentals to make a great investment, not just one or two stand-alone bright spots.

In the case of my north Edmonton townhouses, I got so lost in my market's sunny economic outlook that I didn't even bother with the rest of the due diligence process. I failed to notice that my complex had a greater than 20 per cent vacancy rate partially caused by low in-migration. In fact, I bought and sold these rental properties during an extremely rare three-year window where Edmonton's population actually contracted (623,400 in 1994 to 616,306 in 1996). I had a shortage of interested tenants and, as a result, was willing to rent out my units to even the seediest of characters.

Predictably, both units were badly damaged by the uncouth renters. Unit 708 was in such disrepair that I had no choice but to renovate while it sat empty for 10 months. After sinking more than $10,000 into renovations, I sold 708 for $39,000. I had been a little more successful at maintaining tenants in 712 and sold it without renovating for $29,000. I was too exasperated



to continue managing the properties and was willing to accept selling for a net loss simply to extricate myself of the burden. You can add this experience to the list of reasons that Darren Weeks is a terrible property manager and should not be entrusted in such a role.

I always stress the importance of having a reliable property manager when I'm asked for advice about real estate investment. Management can seem like a somewhat innocuous issue on the surface, but anyone who's owned multiple rental properties realizes how crucial it is to your investment. Management is one of the few things that is controllable in the real estate investment process. You get to choose who will manage your properties. Your choice directly affects occupancy, costs and the condition of your property. This, in turn, affects your cash flow and the eventual selling price of your property. With so many factors that are non-controllable such as interest rates and the economy, you should at least take advantage of something within your control by having an experienced professional manage your property.

As I mentioned earlier, I sold units 708 and 712 for net losses. What would have happened if I'd held on to them a little longer? Well... I would have made a phenomenal investment. The boom foreseen in 1994 began in the late 1990s, very shortly after I sold both units, and didn't end until the recession. Today, even after the recession has dropped housing prices significantly in Alberta's capital, I could sell these units in the$200,000 range. I had a great investment on my hands all along, but through a combination of inexperience, naivety and lack of patience, I turned it into a bad one.

Thankfully, I learned from the mistakes of the past and have become a fairly shrewd real estate investor. My company, the Fast Track Group, owns and controls over $200 million worth of real estate that produces outstanding cash flow for our investors. I have surrounded myself with the best possible team of experts in order to stack the odds in my favour. By the time every member of my team has dissected a deal, I feel confident about whether the deal is worth doing or not.

When it comes time to raise the money from investors, I don't hide behind the fact that things beyond our control could have a negative impact on the investment. Managing expectations is extremely important. I would much rather over-deliver to investors than over-promise. Sometimes things don't go as well as you might like with certain properties, however, it's vital to have an appropriate contingency plan in place to minimize the damage.

One of our properties, a 308-unit apartment building in Baytown, TX, fell victim to Hurricane Ike in August 2008. As they say, every cloud has a silver lining. The re-construction and renovation of these units is expected to be fully covered by insurance funding, and in the long run will yield stronger cash flows and a higher property value. In fact, although we've had to deal with little or no cash flow during this re-construction period, we believe this turn of events will actually work in our favour to deliver higher returns when all is said and done, as over a third of our units will be brand new. The fundamentals that drew us to invest in this market are also beginning to materialize and excitement is building.

By not pushing the panic button and "counting our losses" on the Texas property at the first sign of adversity, we're doing the opposite of what I foolishly did as a young man in Edmonton. Through contingency, patience and the advice of a great team, a good deal now has the potential to become a great deal.

Darren Weeks is founder and CEO of The Fast Track Group, based in St. Albert, Alta. The company helps Canadians build financial literacy, increase their financial well-being and move forward on the fast track to financial freedom.