5 Types of Real Estate Buyers NOT to be in 2025

Are Buyers in the current real estate market crazy?

I've had multiple investors and owners ask me different versions of this same question. We are still in a market with high prices and high interest rates, making it hard to pencil out a deal with in-place financials. The rising costs of materials, labor, property insurance and real estate taxes have outpaced rents in some instances. We are seeing slower rent growth year over year and vacancies are starting to tick up. With all that in mind, I regularly see properties selling at prices that just don't make any sense. The small multifamily section of the market is the worst offender. Every buyer has different goals, a different story, a different strategy etc. but that might not be reason enough to be one of these **Bad Buyers** in 2025.

1. Lack of Market Knowledge

Flaw: Many new investors fail to thoroughly research the market before making investment decisions. This can lead to buying properties in declining neighborhoods or overpaying for properties.

Solution: Conduct extensive research on the local real estate market, including trends, pricing, and rental demand. Talk to your network of investors, owners and brokers. Try to find out about upcoming developments or possible local changes.

2. Underestimating Costs

Flaw: New investors might focus solely on the purchase price and overlook other costs like repairs, property taxes, insurance, and property management fees.

Solution: Budget for all associated costs and have a financial cushion for unexpected expenses. Make sure expenses on T12's or proformas are correct for your situation. For example, many long time owners may be underinsured or have an insurance policy that was grandfathered in that you will not be able to get.

3. Overleveraging

Flaw: Some new investors take on too much debt, overestimating their ability to manage loan repayments or rental income.

Solution: Use leverage cautiously and maintain a balance between debt and equity. Always have a contingency plan if the property doesn't generate expected income.

4. Emotional Decision-Making

Flaw: New investors may let emotions, such as excitement or fear of missing out, influence their investment decisions. I would place those with irrational exuberance in this category.

Solution: Stick to an investment strategy based on solid research and financial analysis. Avoid trying to make impulsive decisions.

5. Inadequate Risk Assessment & Ignoring Due Diligence

Flaw: Many new investors fail to assess potential risks thoroughly, such as changes in market conditions, interest rates, or tenant vacancies. Some new investors skip or underestimate the importance of due diligence, such as inspecting properties, verifying title history, or assessing zoning laws.

Solution: Perform thorough risk assessments and develop contingency plans for potential downturns or challenges. Always conduct thorough due diligence before closing any deal.