Chapter 1

REAL VALID REASONS WHY YOU CAN'T MAKE MONEY IN REAL ESTATE

REASONS WHY YOU CAN'T INVEST IN REAL ESTATE

I don't have time for real estate.

There are no good deals left.

I don't know if a property is a good deal.

I don't know how to get started.

I live in an area where the mortgage payment is greater than the rental income.

The prices are too high where I live.

I can't sleep at night if I have too much debt.

I need to have a job in order to get a loan.

I must have 20 percent or more down to buy property.

I have bad credit. I could never get a loan.

There is a real estate bubble. The values are going to go down.

I know someone who really got burned in real estate.

I don't want to deal with tenants.

Real estate is slow.

I don't have any money to get started.

I have credit card debt.

I'm too young.

I'm too old.

CAN YOU RELATE?

People all over the world give us the same excuses for not having invested in real estate. However, these aren't real reasons at all. They are, in fact, myths—*wealth myths.*

The beliefs feel so real because they have an element of truth. But, for a moment, consider an alternative way of looking at these negative beliefs. If we take the nugget of truth and strip it of the false assumptions surrounding it, then there will be no limit to what you can achieve. Nothing great has ever been achieved without overcoming something. Or, to paraphrase a favorite saying—if it were easy, everybody would be doing it.

Let's examine some of these common excuses and strip them of their myths.

I don't have time for real estate.

Time is the only thing that we are all given in equal quantity and proportion. We may be blessed with varying levels of talent, intellect, drive, and physical prowess. But, all of us are given exactly 24 hours a day. The fundamental thing that sets successful people apart is how they use their 24 hours.

Seen in this light, the common lament "I wish I had more time" (as opposed to "I wish I had more intelligence and drive") seems all the more pathetic. You can wish, but you're not going to get it! It's what you do with your time that matters.

If you knew, beyond doubt, that you could make $20 million over the next 10 years putting in just three hours per week, would you find the time? Life is all about priorities. We know that even modest amounts of time can lead to significant wealth creation. The three hours you spend watching television this week may be costing you millions!

There are no good deals left.

Have you ever noticed that when you have a theory, you will always find evidence to support it? People who truly believe that there are no good deals left will always find evidence to support that theory. If you believe strongly enough that there are no good deals, you will have to settle for lousy deals.

These days, more than ever before, people are mobile. We move because of new jobs, new families, divorce, marriage, death, and just general changes in our life. In fact, the average American moves every five to six years. This means that more than 8 million homes are bought and sold every year. Many of these will be great deals.

Now, here is the best news of all: You don't need to find the good deals yourself. Who will do so for you? We call them real estate agents.

I don't know if a property is a good deal.

If you look at one deal all by itself, it will be hard to know if it's a good deal. In fact, if you look at only one deal, you could easily make a bad decision. Look at many properties. Read the classified ads. Search for properties on the Internet. Talk with other investors. And, of course, consult with real estate agents—they are looking at deals all day long. That's how you learn to smell a good deal before even seeing the property.

A good deal may have a large positive cash flow, high potential for appreciation, unique tax benefits, large amount of land, possibility for use change, or any combination of these and countless other factors that can make an otherwise mediocre deal extraordinary. Part of the trick is to leave emotions out of the decision-making process. Don't buy a house just because it's cute, or the neighbor's dog is cute or, for that matter, the neighbor is cute.

The more you know about the area trends and demographics, the easier it will be to spot a great deal. When you've spotted a deal that seems great, it's time to do some analysis. Analysis is something that is best done in the cold light of day. And at this point, you still don't need to have seen the property! In fact, we have both bought properties without ever viewing them. Investing in real estate is all about the numbers.

I don't know how to get started.

To borrow a phrase, "Just do it!" Put this book down right now! Pick up a newspaper or go to the Internet and look for a good deal. What comes up for you? Do you not know if it's a good location? Or do you not know what the cash flow returns are? Or do you not know how to calculate before- and after-tax returns? Whatever comes up for you is what you need to learn next.

We don't want this book to be a theoretical guide about what you might do *if* you ever decided to be a real estate investor. Instead we want this to be a practical handbook to guide you through the selection, acquisition, financing, and management stages of owning real estate.

I live in an area where the mortgage payment is greater than the rental income.

We love this myth because we have not just one, but three solutions.

First, if it's true that the average house in an area won't cash flow (appreciation has outpaced rental increases), remember that it is an average. This book is not about being average—it's about how to find the extraordinary among the ordinary. If you look long and hard enough you will find a property where the sales price is low in relation to the rent or where the rent is currently below market. In other words, the mere act of bringing rents up to market levels may allow the property to cash flow.

Second, even if it does not cash flow as is, what can be done to the property to increase rents? For example, if you have a two-bedroom, one-bathroom home in an area of three-bedroom, two-bathroom homes, does it make sense to upgrade the property? The increased rents may well more than cover the increased mortgage payments.

Similarly, you might be able to turn a property with negative cash flow into one with positive cash flow by:

Adding a swimming pool.

Adding a garage or carport.

Changing the zoning.

Adding high-speed Internet.

Putting in an alarm.

Painting.

Or . . . any of countless other things that can be done that have high perceived value in relation to actual cost.

Third, look somewhere else. If you are buying your first investment property, we strongly recommend that you buy it near where you live. That's because you will be familiar with the area, you might already know some real estate agents, and it will be easy to look at the property. In fact, you might want to buy the first several properties near where you live. But at some point, especially if you live where it's hard to find positive cash flow properties, you might want to diversify into other areas.

The prices are too high where I live.

What a great problem to have! High prices indicate high appreciation in the past. And that's one of the indicators for what might happen in the future.

Furthermore, everything is likely to be in proportion. Banks will lend more, seller carrybacks will be higher, and the rents you collect will also be more. The value of improvements will be higher as well. For example, building a $30,000 pool on a $100,000 home might increase the value by only $15,000. But, building that $30,000 pool on a million-dollar property might increase the value by $50,000.

Get used to big numbers. Remember, $25,000 sounded like a lot in 1968, but back then that was just the average home price.

I can't sleep at night if I have too much debt.

Debt can be your friend, or your enemy. Debt secured against assets that decline in value such as stereo equipment, shoes, and cars is risky. But, debt secured against assets that go up in value (and where the asset generates income that more than covers the payment) can build wealth. In both cases, debt means leverage. If the underlying asset goes down in value, you get poor faster. If the underlying asset goes up in value, you get rich faster.

Apart from the extra leverage and financial gain advantages, debt protects the owner while equity protects the lender. For example, if you have a property worth $400,000 and you owe $300,000, you have only $100,000 in equity at risk from frivolous lawsuits, bad tenants, and even foreclosure. However, if you have that same property worth $400,000 and you owe $100,000, you now have $300,000 at risk. High levels of debt give you more leverage and asset protection.

In fact, perhaps the worst thing you can do is to make extra principal payments on your loan. The extra payments don't help you if you miss a payment—the bank just gets more equity if they foreclose. Additionally, you've relinquished the financial boon of leverage.

I need to have a job in order to get a loan.

If you are told (and you will be) that you must have a job in order to get a loan, then you need to ask someone else. For example, there are three different types of conventional lenders: (1) banks and other lending institutions, (2) mortgage brokers, and (3) mortgage bankers. A loan processor is someone who works for one particular lending institution (often a bank) and understands one or two different types of loan programs. Loan processors work primarily with employees. Mortgage brokers, however, work with different lenders and so can offer numerous choices. Mortgage bankers put their own lending programs together by providing private investors. They have the most flexibility of all.

I must have 20 percent or more down to buy property.

There are many people who think that in order to do a 100 percent financed deal you must get a single loan for 100 percent of the purchase price. If that's your belief, and you can't get such a mortgage, then you will indeed feel stuck. However, 100 percent financing does not have to be a single mortgage. For example, you could get a first mortgage of 70 percent and a second mortgage of 30 percent. Or you could be bold and ask the seller to leave some money in. If you get an 80 percent mortgage and the seller agrees to lend you 20 percent (sometimes called seller carryback), then that property is still 100 percent financed.

Furthermore, 100 percent financing does not mean that you must offer the property being bought for 100 percent of the collateral. There is nothing to stop you from borrowing 80 percent against the property you're buying and borrowing the remaining 20 percent against another property—maybe even your existing home. Even though you are using your home for part of the funding, the property you are buying is still 100 percent financed. You could also use a loan from Aunt Murgatroid, a credit card, an outside investor, or a combination of any of the above to enable you to buy a property without having to contribute even $1 of cash.

I have bad credit. I could never get a loan.

The better your credit rating, the easier it will be to get a loan. Having said that, very few people have perfect credit. If you have less than perfect credit, you will have to work a little bit harder to get the loan. And any steps taken to improve your credit will make it easier next time.

If you have bad credit now and it is absolutely impossible for you to get a loan in your own name, use the credit of someone else! Perhaps the easiest way to do that is to use the seller's credit by getting them to stay on the mortgage.

If you have bad credit now, do you want to retire with bad credit? You can get a copy of your credit report and check what is causing your credit score to be bad. If you have too much *bad debt* such as revolving credit cards, what can you do to fix that? If you have too much *open credit* (revolving credit cards with zero balances), contact the issuing company to cancel some. That action alone can dramatically improve your credit rating. If you have past-due bills, work out a payment plan that includes removing the bad score from your credit report.

The outcome is to make you fabulously rich through real estate. If you are struggling with $5,000, $10,000 or $15,000 in credit card debt, you'll never get there. You need to learn to be in control of your finances, and that often starts with your credit cards.

What if there is a real estate bubble? Will values go down?

Chances are values will go down at some stage, but when might that happen? Do you want to forgo catching an 80 percent increase in value to avoid a potential 10 percent downturn? Values do not go up in a straight line. Rather, they go up in fits and starts. Sometimes they even go down. In general, though, at the end of each cycle, each peak is higher than the previous peak and each trough is higher than the previous trough.

I know someone who really got burned in real estate.

We all know someone who bought a car that turned out to be a lemon. Many of us have bought tickets to a movie that we walked out of. And chances are most of us have eaten at a restaurant and regretted it a few hours later. But that doesn't stop us from buying cars, going to the movies, or eating out. If you take a thousand people at random who buy cars, go to movies, or eat at restaurants, you will find a lot of dissatisfaction. But if you survey a thousand people at random who have bought real estate, most will be heard to bemoan, "If only I'd bought more."

Real estate is very forgiving of mistakes. What's more, you can improve your odds for success by buying smart, financing well, and managing with integrity.

I don't want to deal with tenants.

Real estate works because you have tenants who make the payments for you. In the long run, it is the capital appreciation that will generate the big dollars. But, in the mean time, it's because you have tenants who pay rent that you can even play the game. Seen in this light, tenants are your clients. Be grateful for them.

If you still don't want to deal with tenants, we recommend that you engage a property manager. Hiring a good property manager will enable you to concentrate on building your real estate portfolio.

Real estate is slow.

Isn't it wonderful that you don't need to watch your portfolio day by day like you do with stocks, hour by hour like you do with futures contracts, or minute by minute like you do with currency markets? Real estate keeps chugging along, making you richer each year. If you have four people on a cruise boat—a real estate investor, a stock broker, a futures trader, and a currency trader, how often do they have to check in and how frustrated are they when they lose communication with shore? As the cruise goes on, the real estate investor gets more and more relaxed while the other three get more and more frustrated. We once heard of a stock trader who went on a cruise and at the end, found out that his satellite phone bill was larger than the cost of the cruise! Real estate is slow—delightfully slow. It is the slow-but-sure way to wealth.

I don't have any money to get started.

If you don't have money to get started, then you'll have to start without money. Any fool with a million dollars in the bank can buy a property worth a half million. Someone who has no money is going to have to work a little harder and a little smarter to buy that same property. But, it is possible. That's one of the reasons that we like real estate so much.

Try getting started in stocks, bonds, mutual funds, or 401(k) plans without any money. Your sanity will be questioned.

I have credit card debt.

There are three ways you can deal with credit card debt: (1) Let it continue to build and do nothing, (2) put your life on hold until it's paid off, or (3) learn the lessons from the debt you've accumulated and make changes today.

If your solution is to deal with the credit card debt, then read on. Some people advocate cutting up your credit cards. We strongly disagree! Debt is your friend; the key is to learn how to manage it. In fact, credit cards can actually give you benefits in the form of airline mileage awards. Diane and her husband Richard personally charge everything to their credit cards and then pay them off each month. The average return, based on the value of airline tickets, is 4.9 percent. So, the problem isn't the credit cards, it's what you do with them.

First, make the promise to yourself to continue to carry the credit cards and to not use them. Appreciate the fact that this requires self-discipline about money, a critical element of being a successful real estate investor.

Now, go back and investigate why you have the debt in the first place. Is it due to nonessential purchases? Learning to delay gratification is one of the most significant steps to being a long-term investor. Or, learn to reward yourself with a piece of property instead of a new car. The car will depreciate and won't pay you back. The property can create a cash flow that can buy the car.

Or, perhaps, the debt came about because of real emergencies. If that's the case, then you desperately need to have a liquid emergency account. Establish that immediately so that you never have to go to credit cards again when life's emergencies occur.

After you are certain that you control the credit cards, and not the other way around, you might consider investing. It isn't always necessary to first pay the credit card debt off—in fact the income from the real estate can help you do that!

The secret, though, is to first discover why you have the credit card debt. Until you have real solutions to the real problem, stay out of real estate. Credit card debt isn't stopping you. Not understanding how and when to use debt is stopping you.

I'm too young.

We've heard "I'm too young" from people approaching 30. Yet, we've also talked to investors who had been investing for years before they hit their thirtieth birthday. In fact, we both had been investing for years before we were 30. So, if 30 is not too young, then what about 25? What about 22? Maybe there is no point at which you are actually too young to begin investing in real estate, provided you are capable of rational thought. It really is just a mindset.

Of all the objections in this chapter, this is the one that is the most subjective. It comes from within, rather than from without. We'll boldly say that you're never too young.

I'm too old.

We were at a closing once where our client had to excuse himself to find a battery for his hearing aid. Then, he left his reading glasses where he had found his battery and couldn't read the closing documents. (Of course, the battery had been replaced in his hearing aid, so he could hear us read it to him.) And, what's more, he had just gotten new dentures and his teeth didn't fit very well. It was hard for us to understand what he might have been objecting to. But, in the end, he bought the property.

We'll boldly say that you're never too old.

WHAT'S STOPPING YOU?

Real estate seems so intimidating that most people are afraid to get started. Yet these same people know they can buy a stereo or a car on credit and do so without even thinking twice. Banks want to lend you money. Think about it—that's their business. In fact, looking at it from an accountant's perspective, a bank deposit is a liability and a loan is an asset. If a bank is sitting on money and not lending it out, it is doing its shareholders a disservice. If you don't have great credit, you might have to shop around a little bit or go to "hard money" sources, but you can still find money.

Perhaps the biggest reason people don't get into real estate is because they don't know how to spot a deal. The sensational deals come into play when you can identify problems and know how to turn them into opportunities.

If you are still convinced that you can't buy real estate, then you can't. Equally, if you believe that you can find great real estate deals, you will, through the sheer force of knowledge and determination, create an empire that will fulfill your wildest dreams. The choice is up to you.

FINAL WORD

You don't need to invest in real estate to be wealthy. But, by and large, it's the easiest, most leveraged method to build real, sustainable wealth. And, the field is open to everyone. You don't need any more education. You don't need any more money. You don't need any more credit. It's all waiting for you. The choice is yours. What will you do with the opportunity before you? We wish you the best of luck.