

**One of our first \$50,000 fixer-uppers, circa 1986.**



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## C H A P T E R

# 1

## From \$50,000 to \$100 Million: Why the Maverick Approach Works

I still remember writing the check for my very first real estate deal in 1986. It was for \$36,000, representing \$30,000 that I had saved as a tennis pro and the balance that I had borrowed from my tennis students and a few friends. I had spent six months studying the niche I had decided to focus on: distressed single-family homes in Palm Beach County, Florida. I had gotten my real estate license and put a lot of time into choosing exactly the kind of properties I would focus on in my new career. I had a burning desire to get into what I believed could be my ticket to success. Strange that my ticket would be a decrepit, foreclosed, graffiti-covered wreck in a bad part of town! But in that \$36,000 foreclosure were the seeds of the multimillion-dollar deals that form the basis of my professional life today.

If you've ever seen me or read my first book, you know my approach to life is considered somewhat unorthodox. I guess I've always been a bit of a rebel. I left my family's home in Indianapolis, Indiana, at age 18 to make my own way in Florida. I never attended college. At age 19 I developed a successful business as a tennis pro, grossing more than \$100,000 a year, and then set my sights on a more lucrative career in real estate. I wanted to do things my own

way, to make my own mistakes, and create my own successes. And I did all three, building a reputation as a Maverick while I built my net worth. (Remember those words, “net worth,” as they are key to the Maverick approach.) I rarely took no for an answer; I would find creative ways to make deals, complete renovations, or build new multi-million-dollar oceanfront estate homes. I developed ongoing relationships with banks, brokers, and investors. Because I saw value where no one else did, I was able to acquire properties at great prices and then to sell them at profits of 20, 30, 50, even 100 percent. I focused intensely on marketing and selling the homes I had renovated, targeting first-time buyers who didn’t know how to move from renting to owning. For six years I cut my teeth on \$50,000 to \$100,000 deals and learned enough to build a personal net worth of more than \$1 million. More important, I learned enough to make the leap to the far greater values and risks represented by Palm Beach County oceanfront property.

While I thought things would be different with million-dollar (and later multimillion-dollar) properties, I discovered that every lesson from my early foreclosure deals could still be applied. The payoffs (and the risks) of my projects have gotten bigger over the past 20 years, but everything I learned from those first few properties continues to be a part of my Maverick approach to real estate. I still focus on my particular market, know it inside out, and then raise the expectations of buyers by providing them with more value per dollar than they ever could imagine. I still have to buy at the right price. I still make my money the day I buy, not the day I sell. I still have to renovate or build intelligently, targeting improvements to fit the tastes and pocketbooks of potential buyers. I still focus a good part of my efforts on the marketing and sale of the property, making sure that every part of the experience entices the client to make the emotional decision to buy. (And if you think selling homes to first-time buyers is difficult, try marketing multimillion-dollar properties, when only 50,000 people in the world can afford your masterpieces and only a handful of them are actual buyers!) I still approach every deal, showing, interaction with banks, brokers, clients, and employees as a Maverick, going past the boundaries of what others consider possible or profitable.

Let me give you another way of looking at my approach to real estate. Imagine that on successive days, four envelopes arrive in your mailbox. On day one you open the first envelope and discover the deed to a piece of property worth \$50,000—pretty good, you think. The next day you open the second envelope and find the deed to a property worth \$500,000. Much better! Eagerly you anticipate day three. You receive the deed to a property worth \$5 million! You sit by your mailbox on day four waiting for the mailman. When the envelope arrives your eyes widen and your breath stops—it contains the deed for a palatial estate worth \$100 million!

In astonishment you look at the outside of the envelopes—no return addresses, no indication of the senders. Then you notice a fundamental fact: *Each envelope was delivered because it had just one first-class stamp in the corner.* The exact same kind of stamp brought you properties worth \$50,000, \$500,000, \$5 million, and \$100 million. The Maverick approach to real estate success is like that first-class stamp. No matter what the value of the property, this approach will allow you to locate, negotiate/buy, renovate, and market/sell everything from a \$50,000 house to a \$100 million mansion.

## **WHY REAL ESTATE?**

Over the past several years, and as far as I can predict into the future, real estate has been hot and getting hotter. Ninety percent of the eligible U.S. population owns a home and/or an investment property, or wants to. That's more than 150 million people! Throughout good times and bad, enormous fortunes have been created with this tangible commodity, and its lure will never go away. Since 1968 The National Association of Realtors® (NAR) has tracked statistics on home sales in the United States. You can go to their web site, [www.realtor.org](http://www.realtor.org), to read quarterly reports on home prices in 136 metro areas across the country. They track existing home sales (which include figures for single-family, townhouses, condominiums, and co-ops), new home sales, percentage increases or decreases in sales numbers, median home price, average home price, and much more.

## **12 From \$50,000 to \$100 Million: Why the Maverick Approach Works**

As of the writing of this book in late 2005, here's one snapshot of the current marketplace.

- Median home prices rose 15.1 percent in the previous year.
- Annual home sales were projected to be around seven million units for the current year.
- Sixty-six metro areas experienced double-digit increases in home values in one year. Only six areas had a decrease in home values.
- Low mortgage rates and a wider variety of mortgage products are allowing more people to buy their first homes and/or buy real estate for its investment potential. A San Francisco research firm that tracks loan statistics states that the number of mortgages for investment properties increased 43 percent from 2001 to 2004.
- The U.S. Census Bureau states that the number of houses in the United States valued above \$1 million almost doubled between 2000 and 2004. A report in *USA Today* stated that sales of luxury homes priced over \$10 million increased 56 percent in 2004.
- According to the U.S. Department of Housing and Urban Development, in the 30 years between 1972 and 2002, the median home price in the United States appreciated at an average annual rate of 6.1 percent. During the same period, the cost of living increased an average of 4.2 percent per year. For more than 30 years, the price of housing has appreciated faster than inflation.
- Real estate is the most stable investment choice in most years and financial conditions. In 2000 and 2001, while millions of people saw their stock portfolios shrink in value and then stagnate, they also watched the value of their homes appreciate significantly.

Real estate today can feel like the stock market of the late 1990s, with the same frenzy, the same “gotta get in” mentality, the same

lack of evaluation of the deal because no matter what you pay for a property, things will keep going up and you'll make a profit, right?

Wrong. The Maverick approach doesn't advocate jumping on board simply for the ride; neither does it suggest jumping ship when hot markets start to cool off. One of the advantages of investing in real estate for more than 20 years is that I have participated in booms and busts, buyers' and sellers' markets, and periods of bidding wars for foreclosures to times when no one came to the courthouse steps to bother to bid. From this perspective, I still believe that real estate is one of the best investment vehicles available, but you have to be smart, systematic, organized, and take considered, selective risks.

I believe that, when done correctly, real estate investing is a powerful and valuable approach to building wealth. Why?

- *You have greater control over the value of the asset.* Unlike a stock, where the value can be decreased by the actions or inactions of the company, real estate value is determined by the property, what you do with it, and the surrounding market.
- *There is tangible value in real estate.* Like most other people, I bought Internet stocks in the late 1990s and then watched their value go from hundreds of dollars per share to maybe \$2 or \$3. However, unless there are a series of major disasters in succession, your real estate is likely to hold its value—as long as you purchased it at the right price. Yes, the market and economy will affect the value of your property, but you're not likely to see your investment lose half its worth overnight.
- *Because there is tangible value in real estate, banks are willing to loan you money to purchase it.* You can buy investment property for as little as 10 percent to 20 percent down, and mortgage interest rates are relatively low. Compare that to stocks, where you can sometimes use the brokerage's money (margin) to purchase shares, but if the value of the stock drops, you must immediately put in more cash to cover the difference.
- *The time frame in real estate investment is longer, allowing you to make better decisions.* Yes, you need to be ready to take advantage of a great deal when it's offered to you, but unlike a stock

## 14 From \$50,000 to \$100 Million: Why the Maverick Approach Works

or commodity, the price of the property is unlikely to go up or down within the next 15 minutes or an hour.

- *Owning real estate will increase your net worth over time, far more than stocks or bonds.* As soon as you purchase a property, your net worth begins to increase by the total value of that piece of real estate plus appreciation, less mortgage principal pay down. Even if you put only \$20,000 down on a \$100,000 house, you now own a \$100,000 asset. Sure, you have mortgage debt equal to the balance of the purchase price, but if you bought the property right and improve it, as I describe, your net worth will grow with each passing day.
- *When done correctly, the money you invest in improving your property will provide disproportionately high returns.* In what other investment can you spend \$2,000 to \$4,000 on cosmetic repairs and increase the value of your asset by \$10,000 or more?

The Maverick approach to real estate will help you maximize these benefits while increasing your net worth dramatically. By adopting its precepts and applying its first-class stamp mentality to your real estate transactions, even if you start small—with one foreclosure and/or fixer-upper, for instance—you quickly can move up to bigger and more profitable projects with confidence.

Here's what the Maverick approach offers the real estate investor:

- It focuses on the most common type of real estate investing: single-family homes. In this category you'll always have the most buyers and sellers and the greatest opportunities for profit. It's where most people will be comfortable investing because they've already bought their own residence (or they will).
- Anyone can earn enough buying and selling single-family homes to make real estate their profession, should they choose to. You can do this even if you have another job (as I did when I first got started). And even if you're still a renter, the principles in the Maverick approach are basic enough for you to learn and practice with ease.

- You can use this approach in your own area, city, or community. You don't have to search the entire country to find deals; in fact, I strongly suggest you don't (see Chapter 5). As long as you take the time to get to know your own marketplace and understand what buyers and sellers really want, you can become successful in any area of the country.
- The lessons that enable me to buy and sell multimillion-dollar homes are the same that I learned with \$50,000 foreclosures. Once you understand these principles, you can make a lot of money at every level of investment. You can start with a foreclosure you purchase for \$1,000, or with a \$50,000 fixer-upper, or perhaps with a \$150,000 condo, or jump right in and buy that \$1 million opportunity.
- The Maverick approach doesn't require buying and selling hundreds of properties. My success primarily has been built by owning one property at a time and increasing its value. However, the Maverick approach works with 1 property or 100.
- Because it stresses adaptability, the Maverick approach works in up and down markets. For example, when high-end real estate took a pause after the dot-com bust, I had anticipated the change in the market and adapted my property acquisitions accordingly. (I went from selling a \$30 million mansion to creating and selling homes for \$7 to \$20 million.) When you know your market, you can anticipate trends and succeed despite the odds—something a maverick loves to do!
- The Maverick approach is constantly updated because real estate is what I do every day. My multimillion-dollar projects provide my livelihood, but I'm still in touch with entry-level projects (the kind many readers will start with) because I build transitional shelter for the homeless and construct homes in Haiti, Honduras, Nicaragua, and Indonesia as part of my Caring House Project Foundation. Every week I'm signing off on a \$5,000 solid gold faucet for the master bath in my latest \$100 million creation while I'm choosing the best quality at the most reasonable price point for 20 toilets



to be shipped to Haiti. The advice in this book has been tested in every economic bracket, market, and situation you might encounter.

### **WHY DABBLING WON'T WORK**

I am continually surprised by how many people are interested in real estate. I probably shouldn't be—low mortgage rates and home equity lines of credit, paired with double-digit increases in home values, have made real estate an attractive investment vehicle for people who want something better than their lousy mutual funds or almost-no-interest CDs. But what usually happens? The average investor picks up a couple of books on real estate. He reads about flipping or “nothing down” strategies. He sees infomercials about creating massive wealth while only working weekends. He watches testimonials from ordinary people who have become millionaires in their spare time. Maybe he buys a tape program or even attends a seminar or two where he meets like-minded people eager to get in the real estate game before it's too late. But that investor keeps procrastinating, finding all kinds of reasons he can't or won't get into real estate at this time.

Recently I was asked to speak for a friend's real estate boot camp. There were more than 1,000 people at the event, and I was the final speaker of the weekend. I usually start by telling the audience that I don't have any big-ticket product to sell them (that usually brings a round of applause), and any proceeds from my talk or book sales go directly to help build housing for poor people in the countries I mentioned previously. Then I ask, “How many people are here specifically for real estate?” At this boot camp, probably 990 people raised their hands. (The other 10 were husbands or wives there to support their spouses.) “How many of you have done fewer than five deals?” Around 500 people said yes to that. “And how many have done one deal, or are looking to do their first one?” At least 400 people put their hands in the air. Nearly half the people in the room had never done more than one deal!

In my 20 years in real estate, I've had hundreds, perhaps thousands of people ask me for my secrets to success. But few of them actually put in the work of finding, making, and closing deals. The ones who do often let their first failure (i.e., a deal in which they lost money) stop them from trying again. But whatever goals you may have for your real estate investments, nothing will happen until you take action. I see so many people driving the interstate in Florida, spending hours each day commuting to work that they don't like or find fulfilling or feel pays them enough. Don't let yourself be caught in that trap. If you choose to take the risk, the Maverick approach can be your gateway to more freedom, financial abundance, and satisfaction. It may not be the easy path, but I guarantee you will feel your efforts are more worthwhile, simply because you are finally taking control of your own financial future.

I have a lot of admiration for people like Robyn Thompson, the self-described Rehab Queen. She financed her first real estate transaction—a condo purchase—with money she earned waiting tables at Denny's. For the past 7 years Robyn has bought, rehabbed, and sold more than 235 properties. She also teaches other people to find bargain houses and condos in Connecticut and Orlando. Robyn loved my first book and has asked me to speak at several of her boot camps. Robyn once confessed to me that she wanted to make the jump to higher value homes, but she was afraid. We talked about how important it was to exercise your risk threshold when it came to investing as well as every other area of life. Shortly afterward, Robyn called to tell me she had just bought her first \$2 million property in Florida. She had done her research, found a great deal, and was excited about the prospects of applying everything she already knew to renovate and sell her new acquisition.

Robyn has a massive amount of expertise and drive; she just needed the confidence to apply it to a new market. That's why the Maverick approach is so valuable. Success is never about what we know how to do; it's about what we do with what we know. It's also about stepping out of your comfort zone and taking intelligent risks that you believe will present a greater possibility for profit than loss. But you have to take action. You can't do a million-dollar

## **18 From \$50,000 to \$100 Million: Why the Maverick Approach Works**

deal until you know your market, accumulate your resources, build your alliances, do your research, and then buy your first investment property.

However, don't feel you have to succeed based on my criteria or compare yourself to Robyn Thompson, your next-door neighbor who brags about the killing he made last year, or anyone else. I believe that when it comes to real estate, I'm successful when I can answer yes to the following three questions: (1) Did I make the profit I had projected? (2) Did I make a market where none had existed before? (3) Did I learn something of value that will help me do better on my next deal?

To succeed with the Maverick approach you must be ready to put in the time and work needed. In my years of investing and, more recently, teaching others how to invest, I've found that the person, not the system, makes all the difference. The Maverick approach can lead you to a successful career investing in real estate, if you're willing to expand your idea of what's possible. But you've got to apply the Maverick first-class stamp to your own investment properties. Once you do, your success and net worth will grow much faster than you ever thought possible.