

CHAPTER

1 STRANGER IN A STRANGE LAND

WADE'S STORY

The possibility of real estate investing interested me from the first time I heard about it. Even when I wasn't sure what to buy or how to pay for it, I was convinced that this field might be something I could master.

In the first place, my goal was to be self-employed. I was drawn to the freedom and the challenge even before I took on my first full-time job. More than that, I am a competitive person, and I like to be in the center of the action. You would expect that of an athlete, and excelling at basketball had been my drive since I was quite young. A bit small for a guard, nevertheless I made it to a small Division I school, and we played well enough to be invited to the NCAA tournament three out of my four years there. Confidence is a big part of my game.

Yet, once I had graduated from college and realized that my playing days were over, I had no real plan. Before I went to work for someone else, I wanted to try and go out on my own. My

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dad, who shared my dream, went with me to a business expo. We were amazed at all of the opportunities. Choosing one was hard.

I saw some great ideas but soon realized that the start-up costs were well beyond my means, so I went with a balloon venture, costing little and borrowing my dad's credit card to swing it. I eagerly read all the instructions and by the end of the next day, I had rented a kiosk at the mall and I was officially open for business.

I spent the entire day, every day, from the first of December until Christmas at the mall. I made a profit after all my expenses, but I decided that sitting at a mall all day wasn't what I wanted. Also, January sales would likely be far less than those over the holiday. I wasn't going to get rich here. No loss here except some of my time.

A real job appeared to be my only choice for the moment. My mother helped me land a job with the local gas company as a meter reader. As a teenager, I had worked part of a summer laying sod at a golf course in the middle of a hot humid July, and now I was reading meters in the middle of a February blizzard. I knew there was a better way to earn a living. It was time for another attempt at business.

Being a bit of a night owl, I often fell asleep with the TV still on and woke up hearing the late-night infomercials. The one about the riches of real estate always grabbed my attention, even if I was a bit skeptical. I listened to guys I worked with talking about buying rental property. They sounded as if they were doing well, but of course they were still working their day jobs. I was definitely curious and ordered a tape set "guaranteed" to make me rich. The minute it arrived, I listened to all of the tapes, but I still didn't get it. I'm not a slow learner, but I just didn't know how to start. So now I signed up for a seminar. Before I attended, my first deal came to me.

One day while I was at a house turning off the service after the elderly owner had moved to an assisted-living center, I was given my first chance to buy a house. The woman's daughter was worried about who would take care of it now that her mother was not there, so a quick sale was desirable. Hesitantly, I asked what she wanted and held my breath while she answered, "Thirty thousand." I knew the house was worth more than that, so I told her I would let her know as soon as I could. We made the deal at \$28,500 even though I had no money and no idea what to do next.

I went back to my tape and books. According to the real estate guru, I was supposed to ask for owner financing, but at this point I didn't have the knowledge or confidence to ask. But I was in the game! I wasn't a sideline shooter like the guys I used to see on the court making all the shots but leaving when the pick-up game began. I played best under game conditions.

So I headed off to the bank and told them I had an agreement on a house worth \$50,000. They said I needed \$1,500 down, which was easy, and my payment was \$220 per month. Sixty days later, I was the proud owner of the first house in what I hoped would be a growing investment holding. I was even able to go back to the bank and borrow another \$10,000 to fix it up. My payment was now \$350 per month.

Not long afterward I found someone needing a house to rent and willing to pay \$550 per month, \$200 more than my mortgage payment. If the gurus were right, this would be easy! After over five hundred deals, I still have that first house as a reminder.

The next deal was tougher to find. It didn't come to me, and I wasn't sure where to look. Back to listening to a tape and now off to a seminar on buying foreclosures. I paid attention, but I still wasn't quite sure what to do. That time and expense did not pay off. I was still reading meters and making plans.

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Then I found my first mentor, a real estate agent willing to make the effort to teach me as well as sell to me. Mike Wheeler, a local Coldwell Banker agent, was patient enough to show me potential properties and help me determine their investment value. I'm sure I wasn't a profitable client in the beginning, but I know I've been one over the years. I've sent him many more clients as well.

Every type of investing, whether it's stocks, bonds, mutual funds or a more tangible item like real estate, has a learning curve. For the most part, the downside risk is less, but the range of return is greater as well. Unlike the market, where there is a fixed price at any given time, part of the challenge of real estate is that the buying as well as the selling price is always negotiable. Much of the money is made in the initial deal. Doing the first deal can be very intimidating. In fact, people running training seminars estimate that only 50 percent of the participants who take programs actually do any deals.

Doing your homework is the first step to success. Don't stop when you're through reading this or any one book. Minimally, you should be studying three to five other sources. A set of tapes may be a good idea as well, but you need not go for the highest price tape set. Some people learn more from listening than reading, but information is information. There are no magic tricks. Buying the most expensive program available won't give you any secrets—perhaps better sound quality and music, but no real secrets. Among the very profitable techniques, some are fairly easy to discover; the price of the tapes doesn't guarantee the quality of the information.

You will find the most expensive tape sets are sold in the back of the room at real estate investment seminars. The sets can be as high as \$1,000 for a prepackaged product, and the free seminar is the hook to draw buyers in. Little information on the topic is given beyond the promise of how great the tapes and books will be. The material may

be helpful and having tapes allows you to listen as many times as you need to absorb the advice, but the price is steep.

The seminars themselves range from small, locally organized ones to big, national mega-events. Those seminars that are free or very low priced are not really learning experiences but showcases for products and larger, much higher-cost products and boot camps, which is the current name for a three-day intensive seminar. These seminars can cost as much as \$3,000 to \$5,000. Hearing information live is a useful educational tool, and asking real-time questions can be very helpful. You will also benefit from the stories and concerns of other new investors. People face many challenges starting out, and more than one solution is available to each problem. Your choice of how many seminars to take, how much to pay, and how many days at a time you should attend should be based on your own financial ability and attention span. Perhaps you want to start out with less and increase the level of investment of time and money later on.

Clearly, the most valuable tool, but the hardest to find, is a mentor. Having an experienced investor willing to advise you about all of the aspects of your early deals can really make the difference. You may be able to find an interested real estate agent, or you may have a paid mentor program available to you. In recent years, as more new people have become property investors, some experienced players have established a reputation for themselves as professional mentors. For that service, you will likely pay one flat fee, usually ranging from \$2,500 to \$5,000, which covers a specific period or the completion of a specific number of deals. But beware: While some of these mentors are successes on their own, some are just wannabes, making money from selling services rather than property. Here are some ways to check out the individuals who offer this service.

Make sure that any mentor agreement is in writing and that you know exactly who the individual is with whom you will be working. In some cases, the provider is a company, but remember, the advice will only be as good as the person assigned to you. Your job is to ask for and then check his or her references as well, to determine his or

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her actual experience in buying property, landlording, rehabing, or anything else for which you feel you need close consultation. Question the person about how many units he or she holds or rehabs or deals he or she has completed. If you already have an idea what kinds of property you are looking for and where, try to find someone with expertise where you need it. No doubt you can make your money back on one good deal, so this is a good idea, but even more so if you work with the right person.

You may also be able to make money while learning instead of spending it. Some investors will bring on “bird dogs”—folks who scout property, get information, and then pass it on for the dealer to make the deal. You learn about what makes a good deal and may split the profits as well.

You will require the services of a number of other professionals on your real estate deals, including accountants, lawyers, and various money brokers. You may even need the services of a credit counselor. Eventually you will need to find all of these advisors, and locating the right ones in the beginning is a very valuable step. Interview several until you find some with whom you communicate well and who are interested in helping you build your business.

As you begin to evaluate the costs or benefits of any deals, you will want to know how your personal tax situation will be affected, so perhaps the best place to start is with an accountant who can act as your financial advisor as well. Owning real estate can help you shelter other income, and an accountant’s help is invaluable here.

The first question to consider is what size accounting firm will work best for you. A sole practitioner may be overly busy at tax time and may not be able to meet your needs during that period. Larger regional or national firms have the most experienced tax advisors as well as younger associates to do daily work. They can help with sophisticated deals such as investment syndications, but you will pay expensive hourly rates for this level of advice. If your situation isn’t complicated, this approach may not be required. A medium-sized local firm may be the answer. You need to investigate how much specific experience a firm has with real estate as settlement sheets (the

paperwork you receive at closing) will have to be reconciled. As your holdings grow, you may need to install and operate specific real estate software, often requiring an accountant with real estate expertise.

Before you sign your first agreement, you should have it reviewed by an experienced real estate lawyer. The same question about firm size exists with attorneys. Sole practitioners become inundated from time to time, and large firms can be costly. Your early deals are likely to be fairly simple, but all contracts need to be checked for limitations and disclosures. The last thing you want to see is that the house you bought to rent out has been stripped of all appliances and lighting fixtures when you thought they were included.

Securing a clear title to property and preparing deeds and documentation for closings are the lawyer's job. You will be consulting one on a regular basis, so why not develop a relationship in the beginning? Real estate closings may be complicated, requiring some detailed documentation with regard to the status of buyer and seller, as well as the title of the property. An experienced real estate lawyer who is responsive to a client's needs is a valuable asset.

Are you making your purchases under your own name, or have you formed a business entity to be the investor? Are you familiar with business entities such as corporations or LLCs? Do you need a tax identification number, and do you know how to get one? These issues also require legal advice, and most attorneys can handle a simple business formation. If you are forming a partnership, make sure that both the legal entity and your operating agreement have been reviewed by a lawyer familiar with these transactions.

Your banker may be able to make a recommendation about professionals. The closers or other employees of a title insurance company see the local practitioners and know who are the most efficient. Don't be shy about telling your lawyer from the very beginning that you expect to do many deals over the years and want good service and to be billed at a consistent fee. A smart attorney wants to develop a growing client, so you both can prosper together. You may also get referrals from them and give referrals to them.

The next important player is your banker or loan broker. You will

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be making a number of loans over a short period of time, some of them long term (as in mortgages) and some shorter term (as in a line of credit). If you buy property to rehab and resell, the money you put into the construction may only be needed for a few months. While loans secured by real estate are fairly easy to get, a line of credit is a bit more difficult. Your personal credit history may come into play. A credit line is available funds that may be drawn on without additional approval. A number of the most favorable real estate deals are in buying properties that require quick closings. The buyer with the ready cash gets the bargain. Finding the best “money people” is your secret weapon.

Start by stopping in to meet your banker. Depending on the number and complexity of your deals, you may begin with a savings and loan, or you may want to develop a relationship with the commercial loan department of a larger bank. If the investments you make are logical, providing either good future profits or positive cash flow, they shouldn't be too difficult to finance. The earlier ones will take more time, but relationship building is about going back to the same source regularly and having the approval process expedited. Make sure you keep your records in good shape and maintain an updated personal financial statement.

Another professional service you may require is a credit restoration specialist. Your own credit score will determine how favorable a rate you can get, and in addition, at some point, you may need to work with your potential buyers in order for them to close a purchase. This service is a valuable one to rely on. You should know your own credit score and monitor it on a regular basis.

When it comes to investing in real estate, virtually everyone will tell you, “Come on in, the water's fine,” but here's a caution: There are some sharks in the pool as well. When you are new in any field, your lack of sophistication may put you at risk. Some property wholesalers will tout high-risk investments, sometimes with higher-than-normal interest rates with the come on of “no money down.” You will find many ways to finance investments with other people's money, but

make sure the deal works regardless of the initial cost to you. You could end up holding title to a money pit.

The way to lower that concern and raise the chance and level of success is to learn as much as you can first and then find good resource people who will work hard to get and keep your business. Your own team of advisors may well be the best source of advice you can find. If you have chosen wisely, they will understand the value of shared success—yours and theirs—and they will make the effort to be there when you have questions. After all, down the road when you're up to speed, the success will be shared.

