



SO YOU'VE DECIDED TO TRY YOUR HAND AT REAL ESTATE INVESTING. NOW WHAT?

BY ROBERT SPRINGER

Investing in real estate can be a lucrative part-time or full-time career, providing a steady income and potentially letting investors retire early. But how should a beginning investor get started?

Should he or she spend thousands of dollars on an education from a real estate guru, read books or just dive in a buy a property? While the educational options are many, seasoned real estate experts agree on one thing: becoming a successful investor will require a good deal of hard work and discipline, and there are no shortcuts.

IT'S NOT AS EASY AS IT LOOKS

Like many things in life, including most things that matter, successful real estate investing is much harder than it looks. Any honest real estate investor has his or her share of expensive mistakes, and it can take many years to get out from under such missteps. Professional investors stress that many beginning investors seem to have no idea how difficult real estate investing really is.

"The best investors I know are good at recognizing what they know and what they don't know," says Eric Tyson, co-author of "Real Estate Investing for Dummies." "Even though you may be smart, even though you may be good at a particular occupation, most people have a lot to learn when they start out investing in real estate, because there's a lot of things that you've never dealt with before."

Being a real estate investing newbie can feel intimidating to someone who's never bought rental property. And maybe it should, according to Leonard Baron, MBA, CPA, a San Diego State University lecturer and author known as "America's Real Estate Professor."

"You've got to educate yourself about what will unquestionably be the riskiest thing probably you ever do in life, other than maybe having a child or getting married," he says. "And most people are not interested in taking the time to educate themselves, unfortunately."

Beginning investors need to ask themselves a series of questions before they buy anything, according to Kathy Fettke, CEO and founder of Real Wealth Network. "So, basically why are you investing, and you've got to ask the why," she says. "Are you looking for cash flow? Are you looking for appreciation? Are you looking to fix up the property and sell it for a profit?"

And investors must decide where to invest. This is a non-trivial decision, as experts say it's easier to handle property management matters if they're within an hour or two of the investor's home. Yet if an investor wants to buy property in Texas and lives in Seattle, that rule won't work. Whatever area a beginning investor chooses, he or she needs to spend a fair amount of time there before investing.

"So you're going to have to decide which area, and then you're going to have to learn that area," says Dr. James Gaines, a research economist at Texas A&M's Real Estate Center. "You need to go spend some time there. You need to find somebody who knows that area and talk to them. Find out what's going on locally. In other words, you've got to do your homework. If you just fly into town on Friday and figure by Monday you're going to have bought a property, good luck."

Not everyone is cut out to be a property manager, according to Tyson. "You need to advertise the property, screen renters and maintain/improve the property," he says. "I think a lot of people underestimate the stress involved in being a landlord — especially if you have a regular job. Once you have a bunch of them, then you can be your own property manager — maybe."

Charles Roberts, president of Denver's Your Castle Real Estate, says the vast majority of people are simply not cut out to be landlords. "I have to, honestly, tell people that I think something like 80 percent of people shouldn't even be landlords," he says. "Most

RESOURCES

Equity Conservation Group, LLC

www.meetup.com/HoustonHousesandApartmentsInvestingGroup
832-766-6997

Leonard "Professor" Baron

www.professorbaron.org

Real Estate Investing for Dummies

www.eric Tyson.com

Real Wealth Network

www.realwealthnetwork.com :: 888-RW-NETWORK

Your Castle Real Estate

www.yourcastle.org :: 303-962-4272



people want to sit at home on a Friday night and want to watch television, and don't want to ever get that dreaded phone call.

"For the people who are OK having an exciting night every now and then and having things occasionally hiccup, who want to build great wealth long-term, real estate's a really good idea."

A good property manager can make an investor's life easier, but can be hard to find and retain, according to Roberts.

He adds that investing in real estate is not for the faint of heart. "In my 17 years of doing this, the thought that real estate is a hands-off proposition is hellacious. It's wrong because sooner or later something's going to happen, and whether you're the property manager or not, or you paid cash for it or you have a loan, you have to be prepared for an unpleasant day or two," he says.

THE SCHOOL OF HARD KNOCKS?

Real estate investment pros stress that beginning investors must educate themselves to avoid losing money, getting frustrated and quitting something that could end up being quite lucrative and enjoyable. They recommend many methods — including books and real estate investment clubs — but one technique comes up most often: start small to get experience.

"My opinion is that you should start very small and dip your toes in," Roberts says. "The worst thing you can do is get in over your head, realize nine months later you hate real estate, sell the real estate and die poor.

"I think it makes much more sense to buy a small property so that if you hate it, OK, but don't overwhelm yourself. You've read 10 books but you know absolutely nothing about real estate; you read 20 books but you know nothing about real estate until you start actually doing it."

Manageable and affordable are the two important factors for beginning investors, according to Tyson. His book covers qualitative topics that beginning investors need to understand, while also providing worksheets and "number-crunching exercises" that he says are mandatory to understand how to make an informed decision about an investment.

"Cast a wide net, look at the range of options that are out there," he says. "We're human beings and have a lot going on so we don't want to put a whole lot of extra effort. Your laziness can get you into trouble. With real estate decisions, you make a mistake by zeroing in a specific type of property or location too quickly without having exhausted the range of opportunities that are out there."

Gaines says that investors need to separate where they'd like to live from where the best investment might be. Just because the investor wouldn't live in a C or D property doesn't mean it's a bad investment. "You aren't being asked to live in there," he says. "What you're trying to figure out is, the people who need places to live and have to rent, what are they looking for?"

REAL ESTATE INVESTMENT CLUBS

One very social way to learn about real estate is attracting crowds all around the country. Real estate investment clubs or groups are a no-risk, very-low-cost method to learn about myriad different topics, ranging from buying with a self-directed IRA to how to perform due diligence. The clubs received positive comments from experts interviewed for this article.

"We happen to have a number of really good real estate clubs in Denver," Roberts says. "Some of them might be \$200 to join for the year; they might have one meeting a month and then a couple other meetings, and then maybe they sell some classes. They're \$99 for a full day class; they make some money that way. Clubs are great."

Baron has spoken at many clubs and says that those he attends in Southern California attract 125 to 200 people per meeting. The

presentations are typically an hour and are frequented by investors, hard money and regular lenders, home inspectors and others interested in real estate. Baron presents a yearly talk titled "Real Estate Investing, Due Diligence and Cash Flows 101" at the Orange County Real Estate Investors Club meeting.

While the price may be right for most of the clubs, Baron cautions that some invite purported gurus who try to induce the attendees to sign onto an expensive program. It seems that caveat emptor applies, even at education-inspired investment clubs.

That said, clubs seem to have to have a good reputation. "I think that would be a good bet for people because it's only like 20 bucks, and go and listen and learn," Baron says.

BEWARE: 'GET RICH QUICK IN REAL ESTATE WITH NO MONEY DOWN'

One educational technique that real estate experts eschew is the weekend seminar that promises riches for only \$99. The maxim, "If it seems too good to be true, it probably is," is applicable to real estate investing. Real estate investing is a complicated and challenging endeavor, so to think that a few dollars spent at a weekend class would lead to riches seems dubious at best, experts caution.

"They're in business just to get people to sit in seats, to pay the fee to come to their weekend," says Gaines, the economist who recommends studying a real estate market very thoroughly before investing in it.

Experts say that many of the get-rich-quick seminars are designed to get attendees in the door so that the guru can up sell them to a program costing many thousands of dollars. "I'm not going to suggest that none of that is worth doing, but there are two concerns

about that: one, the amount of money that you're spending for the content and info that you're getting, and secondly, what's the agenda?" says Tyson. "Is there a conflict of interest? Are these people charlatans? Do they have a hidden agenda?"

It would be one thing to spend a couple of hundred dollars on a seminar and not learn anything; it would be worse if the seminar provided bad advice that caused the investor to lose many thousands on an ill-advised transaction, according to Tyson.

Roberts won't deal with a potential client if he or she has been to a weekend seminar as it seems to bias that person's thinking. "There's literally a negative correlation between the amount of money they've spent on gurus and their ability to make money in real estate — I kid you not," he says.

Before becoming a real estate investor, Roberts was a sales trainer, so he was impressed at the guru's sales skills when he attended an event with a client a few years ago. "I've never proven this, but I very much suspect it," he says. "It was a room of maybe 150 people, and there were a couple of people in the front who were whooping and hollering, and I will bet odds that they worked for the presenters because it was perfect. They were perfectly timed and I just sat there going, 'Wait a second, this is what actually is happening.'

"I can't prove it, but I think they're so good that they understand better than any of us, how to sell because that's what they do and they make a lot of money at it. They had an extremely professional way of building the case, but it was inexpensive to go, if anything, because she gave me the ticket."

Fettke had a memorable experience at a seminar she attended with a friend who was an expert on foreclosures. "These guys were up on stage talking about foreclosures and just didn't know what they were talking about, and my friend raised his hand and asked a few questions, and I saw with my own eyes the guru come down and escort us out," she says.

Another concern about the weekend seminars centers on the credentials of the presenters who are giving what amounts to financial advice. "They don't have a fiduciary responsibility like an attorney or a CPA," says Mark Pantak, a Houston-based private equity investor. "They're not licensed. Just because they have a TV show doesn't make them smart."

Real estate investors need to be prepared to get their hands dirty if they want to succeed, according to Roberts. "The point is, it's not a bond, it's an active investment, and no matter what you do, you're going to have some exciting days but those days pay off very, very well over the long term," he says.

To paraphrase Teddy Roosevelt, beginning real estate investors should "Educate wisely, and proceed at their own risk." ■

ABOUT THE AUTHOR

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TIPS FOR BEGINNING INVESTORS

- 1 START SMALL** Smaller investments are easier to manage and will hurt less if they go south. Also, you'll get an idea if real estate investing is right for you.
- 2 CAST A WIDE NET** The more you look, the more options will appear.
- 3 BE HUMBLE** Try to learn what you don't know. Your success in another field may not be directly transferrable to real estate investing.
- 4 GET EDUCATED** Real estate investing is complicated.
- 5 KNOW WHY YOU'RE INVESTING** Is it for income, appreciation or what exactly? This will help narrow down your options.
- 6 BE PREPARED TO GET BATTERED AND BRUISED A BIT** Real estate investing is a contact sport.

WARNING SIGNS, OR WHEN TO WALK AWAY

- 1** Any program or guru promising that real estate investing is easy should be avoided. Real estate investing isn't easy — move on.
- 2** Experts say that many weekend real estate seminars are simply a way to enrich the presenters and give little in the way of real estate knowledge. And there's a good chance they'll try to sell you a more expensive program once you're in the "tent."
- 3** Determine the credentials of the presenter(s) before you commit. Do they seem reputable? Do they have a conflict of interest in what they're presenting?
- 4** Just because someone's on TV doesn't make them trustworthy or credible.
- 5** Consider attending a program that a trusted friend has benefited from — but ask your friend detailed questions about it first.