

# Real Estate **Rewind**



12 successful  
real estate  
investors look  
back and  
share their  
victories,  
setbacks, and  
advice for  
**YOU.**

# COPYRIGHT

---

Published by BiggerPockets Publishing LLC, Denver, CO

This publication is protected under the U.S. Copyright Act of 1976 and all other applicable international, federal, state and local laws, and all rights are reserved, including resale rights: you are not allowed to reproduce, transmit or sell this book in part or in full without the written permission of the publisher.

**Limit of Liability:** Please note that much of this publication is based on personal experience and anecdotal evidence. Although the authors and publisher have made every reasonable attempt to achieve complete accuracy of the content in this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. Your particular circumstances may not be suited to the examples illustrated in this book; in fact, it's likely that they won't be. You should use the information in this book at your own risk.

Any trademarks, service marks, product names or named features are assumed to be the property of their respective owners, and are used only for reference. There is no implied endorsement if we use one of these terms.

Finally, use your head. Nothing in this book is intended to replace common sense, legal, accounting, or professional advice, and only is meant to inform.

First Edition

Copyright © 2014 BiggerPockets, Publishing. All Rights Reserved.

# DEDICATION

---

*This book is dedicated the BiggerPockets Community.*

*Without you, none of this is possible.*



---

1

# INTRODUCTION

**BY BRANDON TURNER, EDITOR**

I've always believed the best teachers are not the paid salesmen with big hair and big promises, nor the guy driving the flashy convertible with three beautiful girls in the backseat.

The best teachers are those who can share the failures, the victories, the dangers, and the possibilities.

This is the spirit of BiggerPockets, and what inspired the writing of this community book by 12 world class authors.

It is my hope that by reflecting on what they would do if they could start over, you may gain some insight into what you should do to get moving in the right direction. After all, learning how to get started in any adventure is tough. You simply don't know what you don't know. Trying to discover the path through the woods is much easier when you can talk with someone who has already made it to the other side, as each of these writers have.

This book is not about regrets. This book is about re-thinking and answering the question "If I were to do it all again, knowing what I know now, what would I do differently?" While mistakes are a natural part of the learning process (and you will have many) a successful investor learns from mistakes and finds ways to improve the next time around.

---

*A successful investor learns from mistakes and finds ways to improve the next time around.*

---

One final note before we get to the book. Each of these writers are volunteers, who have given up their time to share their journey in hopes that you will learn from their mistakes and victories and emerge an even greater investor. Be sure to thank these authors for their contributions, but also thank them by applying the lessons learned in your own life and pay it forward to others, just as they are doing for you. Knowledge learned but not applied is merely taking up space in your mind. We urge you to put this advice to work and make something happen!

With that, let's get onto the book.

Each chapter was written by a different author and provides a unique perspective about their particular form of investing. I encourage you to read all the way through this book - even if the author's form of investing is different than yours, the fundamen-

tals are always the same and you will learn (and grow) from the information presented.

Finally, a disclaimer: please use this book as a guide, not a rule book. Many of the strategies used by the authors are specific to a certain location or time period. Some may not even be legal in today's market.

It's important that you do your homework and use this book for inspiration - but don't confuse this for legal advice. Be smart and succeed.

When you are ready, turn to chapter one to begin.



---

## 2

---

# PARTNERS, ORGANIZATION, AND MISTAKES

**BY MICHAEL SHERWOOD & CHARLES CROMWELL**

If we were to start our company over and begin investing today, knowing what we know now, there would be a lot that we would do differently.

At the same time, I truly feel that we got some of it right on our own while fumbling through the beginning stages of our business. We will expound on both of these topics in this excerpt for the BiggerPockets “Community Book.”

Charles and I started our partnership in 2009 with each of us bringing different strengths and weaknesses to the table. What we had in common was the desire to work for ourselves in the long term and the drive to make it happen. We knew that in order to achieve our goals, we had to develop a strong portfolio of properties.

---

*What we had in common was the desire to work for ourselves in the long term and the drive to make it happen.*

---

We made our initial mistakes in the purchase of our first property. While the property proved to be profitable in the end, we found that we could have done some things better.

The property was a three unit in a decent area and had been on the market for quite a while. There was a lot of deferred maintenance and the current owner just wanted to get rid of the place. Looking back on these circumstances, it is apparent we were in a stronger bargaining position than we had initially thought. We could have reduced the purchase price further or received other concessions in terms of immediate repairs from the owner.

At the time, we didn't realize the importance of investigating how long a property had been on the market. Quite frankly, we didn't know enough to effectively push for the best deal from an owner that desperately wanted to get rid of the property.

We hired an inspector to review the property. The inspector informed us of a good portion of the deferred maintenance and advised us to not purchase the property. We cannot over-emphasize the importance of having a good home inspection performed. In this case, however, we did not worry about the deferred maintenance and went ahead with the purchase anyway.

We have since worked to bring the property almost completely up-to-date, but this did include fixing some rather expensive basement issues.



When looking at the property, we focused on our rate of return exclusively, ignoring the actual cash flow. The financing we used on the property allowed us to put a minimal amount down, which increased our rate of return, but had a negative impact on the cash flow due to higher mortgage payments.

We would encourage any investor to look at various forms of property analysis, including rates of return, cash flow, and cap rates, to fully evaluate a property. These tools will allow you to determine if a property makes business sense and will help guide you in how to best finance it.

## Problematic Tenants

With any house you purchase, there's always a chance you might inherit problematic tenants. This was certainly the case for us in this instance. We inherited a few tenants that were either perpetually late in making payments or simply didn't make payments at all. Both of us are professionals and are used to taking people at their word, so when the tenants said that the check was in the mail, or that payment would be made next week, we believed them. As you might imagine, next week never did seem to come. Eventually, we realized one tenant was simply not going to pay. Unfortunately, we had no clue how to evict them.

There are two takeaways here:

- Keep in mind that you will not always be dealing with honest people. You need to use your best judgement, coupled with your past experiences with that tenant, to determine if you can believe what a tenant is saying when they are late in paying.
- Educate yourself on your local eviction laws. In this case, we should have evicted the tenant early on.

You might ask how we would handle this type of issue today and our answer would undoubtedly vary. If the tenant has a good payment history we might allow them to be a little late. If the tenant is late in paying within the first few months, we would tell them they have to pay or leave. There can be no tolerance for late payments early on. If, after the initial warning, they are still unable to pay, you need to start the

eviction process, which usually starts with serving an official "pay or quit" notice. We also need to protect the integrity of the property, as the same tenants that do not pay, often damage the apartment before they leave. Encourage the tenant to leave immediately, and in good shape, by offering to give them their full deposit back if they move out on your requested date and the if the apartment is in good shape. The amount of damage that can be done far outweighs the amount of the deposit, plus the time and expense associated with a full eviction procedure.

## The Importance of Organization

We can not over-emphasize the importance of keeping everything properly organized. A lack of organization caused difficulties when we first started and only made things worse as the business grew. When we first started our business we did all of our tracking for bills, income, and receipts in Excel. Receipts were kept in a paper folder. The folder quickly became disorganized and made it difficult to find documentation. We then tried using a filing cabinet, which was better because it could house a higher volume of receipts, but the documents were still difficult to find.

Another thing that became a disaster as we grew was keeping track of keys. Both partners needed keys to enter the property but occasionally we would only have one set. This became especially problematic when people performing work at the property needed a key to enter. We had to physically go and meet them to let them in and, in some cases, we did not even know which of us had the keys! I cannot tell you how many times we went to a property only to find that we didn't have the particular key we needed.

Over time we developed better solutions and processes. For instance, we now have a system of accounting for income, bills, and receipts. All of this is done through a landlord management tool called **RenTechDirect**, but there are many different systems out there just waiting to be utilized. This tool allows us to track all income and expenses, breaks this information down on a per property or per unit basis, saves all of our vendor information, and keeps track of tenant and lease information as well. We scan and attach our bills right into the system. No need to keep the hard copy receipts.

This leads me to our next tip. We now have an app for our phone (Cam Scanner) to scan all receipts as soon as we get them! When we leave our local hardware store, we can scan the receipt immediately with our phone, email them or save them on our shared Google Drive and then throw the receipt out. Our use of Excel is now limited to custom spreadsheets for deal analysis as well as other minor analysis tools. In the future, we hope to build a database tool to completely eliminate excel and make access to all of our various property analysis information readily available.

Speaking of Google Drive... I know there are other tools out there, but we have personally found that Google Drive helps us keep our business files organized the best. We have a folder for each of our properties, units, receipts, types of businesses, strategic ideas and other important information. The great thing about this is if we ever need a file, we can access it on our phones or from any computer. It is definitely a helpful tool to check out if you haven't already.

Remember the issue we had with the keys? I wish I had pictures of the number of keys that we deal with on a daily basis! To make keeping track of keys easier, we put lock boxes at all of our properties. This way, we never forget our keys again! We also use this for contractors when we cannot be on site to let them in. We highly recommend this tip as it has saved us countless times!

## Shared Contact Identity

Another thing we learned as we grew is that having one shared identity for both partners for email and phone contacts is vital. When we started off, we used our personal cell phone numbers to do business. We highly discourage this for a number of reasons. First off, it can be a pain in the butt to have to mix your business and personal life. Secondly, it was difficult to block a number unless you paid for it. Services like Google Voice include this for free. We now utilize Google Voice so that either partner may answer a call from a tenant or contractor.

In the past, when one of us would go on vacation overseas, the other partner would have to keep his partner's phone in order to ensure that all calls were received. Managing one phone is hard enough, managing two is a nightmare. As we continue to expand, we will eventually have a third party handling certain types of phone calls for

us. At that point, we can easily pass the Google Voice number to their phone for proper management.

We have seen the same type of scenario with our emails. Before we decided to create one email account that both Charles and I share, we would find ourselves searching for a specific email and wouldn't have a clue as to which one of us had it! In addition, by having just one account, we found that we could keep all of our tenant contacts in one place. This allows us to download the contacts directly to our phones so we always have the most up-to-date information. In the future, as we further expand our business, we plan to break our company emails into additional email boxes like CandMRentalAccountsPayable or CandMRentalInvestorRelations.

## The Importance of Picking a Good Contractor

As we continued to grow, it became apparent that we could not do all the repair work/unit turnovers ourselves while working full time. We hired our first contractor and, in short, it was the worst business decision we made.

It wasn't simply that we hired a contractor, it was that we did not do a good job of selecting someone to take on that role. This particular contractor saw us as his golden goose and continually took advantage of us since we were not able to do most of the work ourselves. We had issues with timeliness, quality of work, and dishonesty as he often told us work was complete when it was not.

Often times when we were told that the work was complete, we would send out a check for payment, only to later find out from the tenant directly that the work had not been completed. We would then get a song and dance on how he was "scheduling it shortly" or that it was "almost complete". We tried to work with him to remedy this on future projects but we were met with limited success. We were in a tough spot because we didn't have anyone else to turn to and the fact was that, initially, he was pretty cheap.

After many cycles of incomplete work, poor timeliness, over charging us, not getting work done right the first time and in general just being dishonest, we stopped doing business with him. To this day, this contractor still calls Charles in the winter months because his business depends on roofing in the summer and is mostly dor-

mant in the winter. After we started going to BiggerPockets meetups, we found out this contractor was infamous for these types of issues. Here, then, are some steps we take to remedy this:

- Inspect past work that was done by the contractor.
- Pay more for a quality general contractor that will do the work correctly the first time. In many cases, we found a good contractor will make suggestions to reduce future repairs by ‘hardening’ a property. We found a great general contractor via BiggerPockets!

- Ask for references for contractors or ask for referrals from other investors.
- Understand our general contractors’ business and how they make their living. You want to make sure they can afford to live without your work if you don’t have any for a while, but at the same time be quick to respond when you do have work for them.

## Vendor/Subcontractor Management

Vendor/subcontractor management is very important. When we first started, we did not keep track of who we used for different services, nor did we try to consolidate them.

For example, each time we went to look for insurance we always looked for the cheapest (which makes sense when you are trying to grow your business) If you work with one insurance company in many cases they can pass on multi-policy discounts. This also allows you to build a good working relationship which can lead to additional business or referrals down the road.

Going along with the vendor/subcontractor management concept, building a solid relationship with a bank early on is the BEST piece of advice I can offer for someone starting out. The relationship you establish with the loan officer can help you as your business grows, especially when you are trying to get a loan on a place and your cash situation is a little shaky. With a proven track record, the loan officer will be more likely to help you push a mortgage through, even though you might not meet the established criteria. In many cases, people put too much focus on the price of the loan

(interest rate and fees). While these elements are important, I believe the level of service is more important.

---

*We recommend working with a local regional bank, a bank that is big enough to handle all of your business, but not so big that you are treated as just a number.*

---

We recommend working with a local regional bank, a bank that is big enough to handle all of your business, but not so big that you are treated as just a number. The services of these types of banks are exceptional and, in many cases, they will offer other products that will help your business grow. If you're lucky, they may even give preferential pricing for these services. Furthermore, by using one bank, you save yourself the hassle of dealing with multiple accounts that require different logins and passwords. We have moved most of our loans to one bank which is a great blessing for our business as we now know where to check all of our payments and property information.

## Money Management

Understanding money management is very important when you are financing many properties and you have a constant flux of capital going in and out of your account every month. This can be the thing that makes or breaks your business. We made a few mistakes with this early on when we managed our cash too tightly and did not keep enough of a reserve for repairs in some cases. Here are some tips to help you figure out what you should set your reserve level at:

- 1.) Separate all of your deposits into a separate account (you should be doing this anyway). When we started we had both funds mixed together which was a very bad idea when we had shortfalls in capital and 'borrowing' from capital that was not really ours. I do not recommend this... EVER!

2.) Understand how much your gross rents are per month and then factor in your loss and vacancy rates. If you have a vacancy rate of 12% you can assume you have no money for 44 days per unit. The loss factor is a little harder to calculate. I usually use my experience to determine this and create a total factor. In this case let's assume that combined it equals 16%. So, if you get \$3,000 Gross Income, multiply this by .84 (1-.16) to get your assumed gross rent of \$2,520.

Once you have calculated this, find out what your total debt service is - in this case let's say it's \$900. Your net is now \$ 2,520 - \$ 900 = \$1,620. Finally, we calculate what our overall monthly utilities would be and estimate a typical repair bill for the property. In this case, let's say \$400 per month. Subtracting this off the \$1,620 nets us \$1,220. We would assume that 2.5 times this amount would be enough to keep in our bank account to weather any issues we might have.

3.) Understand your end-of-year tax liability. We recommend you consult your tax professional on this. Having a shortfall of capital because of taxes you need to pay on your rental income or because of the cost to have your taxes prepared is a bad idea.

## What We Did Right

Now that I have addressed some of the mistakes we made, let me highlight a few things we did right. Picking the right business partner is key. Some of the things you need to evaluate include:

- Making sure that all partners have the same goals in mind for the business. (e.g. long term growth, short term income, should the business be expanded into new fields, etc.)
- Open communication. Partners may not always agree, but you have to have partners that you can give honest opinions to and resolve problems with.
- Partners' skills must be complementary. Skills such as repair skills, people skills, organizational skills, and being able to see the "big picture" on how to grow the business should be present between the partners.

- Partners must recognize each other's strengths and weaknesses and use their skills where they best fit.
- 

*Partners must recognize each other's strengths and weaknesses and use their skills where they best fit.*

---

When Charles and I started out, we found we were both on the same page when it came to the goal for the business. We both wanted long term growth, not short term income. This meant that all profits from the business would be turned back into the business to grow it further. It also meant that we both realized we would have to put a lot of our own free time into the business to make it successful.

Before we even started out, we discussed the types of roles that we would each play. We didn't really know enough about the business to know every role that would be required, but we did have a general feel for each of our strengths. Early on, I had to handle a lot of the repair work as I had quite a bit more knowledge of that than Charles. At the same time, Charles handled most of the tenant issues, as he was able to handle some rather frustrating tenants better than I might have been able to. As the business has grown, my skills have morphed into managing subcontractors in lieu of doing the actual work, but I am still taking advantage of my core competencies.

Another thing we did right was growing our business slowly, especially at first. You don't want your first investment to be too large for you to handle - from either a time standpoint or a financial standpoint. Undoubtedly, mistakes will be made. As I noted above, our first investment involved just a single 3 unit, with relatively little down. It was not highly profitable but, at the same time, it would not have bankrupted us if it ended up failing. We were able to learn from the mistakes on that property because it wasn't that large.

---

*You don't want your first investment to be too large for you to handle - from either a time standpoint or a financial standpoint.*

---



I hope this short talk on the tips and tricks that we wish we knew when we started, and our focus on the things we did to correct our mistakes has proven helpful. Overall our partnership has been very successful. Focusing on the roles and responsibilities for each partner has been key, and is something we will continue to define.

## ABOUT THE AUTHOR



*Michael Sherwood is one of the two founders of C&M Rental and has been a resident of Western New York since 2006. His major responsibilities at C&M include marketing activities, business development, management of large capital projects, and banking relationship management.*

*Charles Cromwell is one of the two founders of C&M Rental and is a native Western New Yorker. His major responsibilities at C&M include Tenant Relationship Management, Vendor Management, as well as Accounts Payable and Accounts Receivable.*

*C&M Rental is involved in a wide range of activities focused exclusively in the real estate business. Future growth plans include moving into the property management business. The company's efforts are currently in the Western New York region.*

*If you would like to connect with Michael or Charles, you can do so here:*

**Website:** <http://www.candmrental.com/>

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/Tyri1>



---

3

---

# QUALITY OVER SPEED

**BY KEN LAVOIE**

My name is Ken LaVoie. My wife, Deb, and I have been investing in rental real estate for nearly five years. Our situation is fairly unique in that we did it quickly. We bought 12 buildings over 4 years totaling 49 units.

We started in 2009 and bought two single family homes. Then in late 2009 we bought a 3rd (bad move) as well as a two, four and seven unit for total of 16 units at

end of year one. I was rushing - I had this poetic sounding scheme of low cash flowing, higher quality single family and duplexes with a motherly high cash flowing seven unit “watching over them,” and providing extra cash for them when needed. I’m learning that when anything sounds really poetic, write it down but do not necessarily trust that it will work out exactly that way.

In 2010 I took a detour and bought an REO duplex in the worst part of town (which isn’t really that bad) and fixed it up for under 33k. It’s our highest per unit cash flow. I then bought a pair of houses stuck right in the middle of the city. Not great resale value, but a pair of houses for 57K makes for good cash flow.

I followed it up with another four unit, then, got really carried away and bought an 11 unit that needed major repairs. If it had not been for a state sponsored program that reimbursed me for half of the cost of all weather, energy and longevity related repairs, that property would have sunk us. To my credit, I slowed down and only bought an eight unit with a reputation as a crack house in 2011 and finally a huge seven unit in a beautiful blue collar neighborhood in 2012.

My darling wife and I decided to take a break.

Every cent had gone back into these buildings (and THEN some) and we had worked too hard to not enjoy some of the fruits. So after all that I have found that there are three things that I would do differently:

- Go a little slower and stick with multi units as large as possible.
- Stay a little smaller.
- Stay with higher quality/easy to rent (commonly referred to as A and B properties).

## Here’s Why I Would Do Those Three Things

The first two items sort of have to go together. In other words, I don’t think it’s as important to “go slow” if you’re just going to invest in single family homes or duplexes one at a time, unless you’re completely rehabbing them.

I have discovered a preference for multi-family. Yes, you have the added disadvantage of higher turnover (people get married, have kids, buy houses), and tenant squabbles. However, the old fashioned maxim of “having as many families as possible under the same roof and furnace” really works out on paper AND in reality, at least for us. My 11 unit in particular, has allowed me to make some really stupid mistakes and still be in the black at the end of the month. (Imagine being able to install a brand new furnace and have the roof painted in June and still have cash flow for that month!) We decided we wanted to see real money now vs. the possibility of appreciation, tax benefits and mortgage pay down later.

---

*We decided we wanted to see real money now vs. the possibility of appreciation, tax benefits and mortgage pay down later.*

---

On blogs these qualities are made out to be “equal” but everyone I’ve talked to (and I mean everyone, except Realtors) have said, “Make sure it cash flows.” I see the value in that. Expenses are going to be half your income, period. Most people think it’s about 20%. But I like to do things right. If a unit needs a new counter top, I put it in. If new windows are needed, I don’t want to do the five windows a year plan, I want them replaced quickly. I like to ‘front load’ repairs and upgrades. I’m 48 and I want to travel. When I do, I don’t want a heinous list of “to do’s” stapled to my flight itinerary.

Now, because we front loaded all of our repairs, and bought a lot of units in a short time, my potential for costly mistakes was multiplied. I spent a lot of unnecessary money before finding great people. I didn’t get taken advantage of, but I made a lot of judgment errors that come from inexperience. Doing too much in some areas and not enough in others. It would have been more profitable if I’d purchased a couple of four units in year one and kept them for two years and then bought a couple more, or just purchased the 11 unit and stayed again.

I’d stay a little smaller, only because we have other means of supporting ourselves in retirement and now I’m realizing too much of our net worth is tied up in the equity of our buildings. Some wouldn’t mind that. I know a local landlord who wouldn’t do anything BUT by another run down building, have his crew fix it up and

make 30% on his money. Why do anything else? But laws change, circumstances change, and I love the free lunch of diversification, even if it doesn't protect 100%, it lets one sleep easier. I'd like to keep about 20 of our 49 units and be happy with that.

---

*If I was able to go back in time and start over again, I'd pick NOTHING but higher quality areas / buildings, regardless of the higher cash flow that can potentially be had from low priced/lower income properties.*

---

## Choose Quality

If I was able to go back in time and start over again, I'd pick NOTHING but higher quality areas / buildings, regardless of the higher cash flow that can potentially be had from low priced/lower income properties. I came to the realization fairly early that you can make 75% of the income (as you would with low-priced, low-income housing) but have less than 50% of the hassles. I would also be a little fussier about "ease of renting". I wouldn't worry about what sort of work the building needed; that can be fixed. But I would be very particular about parking features, layouts, etc. If you show an apartment to 10 people, you want nine of them to like the apartment, not two. Having "desirable" apartments, even if you have to pay a little more, cuts the time they are empty down to almost nothing.

Rental rates in our area are about the same whether a building is in a bad area or good. The difference is that 8 out of 10 people who call are not going to want the unit in the bad area. So I might have to compromise just a little, or at least show the unit more. With the better area, everyone I show to would be happy with it. I think that's the secret...own apartments or houses that nearly everyone you show to will like. Why show a property 10 times when you can show it twice and have to agonize over which great tenant you place in the property?

Another upshot: Because (at least in our town) rental rates are within \$100 per month of each other whether a unit is a dump or a decent class B unit, there isn't much economic sensitivity. If renters dry up, you can come down a little but you'll still be able to rent the unit out.

To sum it up, I'd remember that quality will win out. In the end, everyone wants quality. There are some periods of time that people cannot afford quality, but they're always eyeing it...always looking forward to being able to afford quality. It's almost a hardwired desire to have the best we can afford. When you own quality units, you have units that people are "striving" for, vs. units that people are staying in "because they have no choice." Many of our units are very desirable, but a few aren't. I strayed, and experimented with "lower income" but "higher cash flow" units. True to their reputation, they have been higher cash flowing, but I have to work my ass off to keep them filled, and sometimes we have had to compromise on the quality of the tenants.

---

*Quality will win out.*

---

That's it! Doing what we did, mistakes and all, we're still doing great, so this is by no means a "complain-y pants" tirade (to quote **Mr. Money Mustache**) but I hope someone else who reads this will be able to relate to it and benefit from it in some way, large or small.

## ABOUT THE AUTHOR



Ken LaVoie hails from Providence, RI and grew up working in his family's restaurant business. He moved to Maine in 1988. After working for a year or so in the restaurant business, he began a lawn care and landscaping business in 1989 that his family still owns and operates today. After the "financial crisis" of 2008, Ken decided to move a portion of their assets into real estate and bought the family's first single family rental in February of 2009. By 2012, they'd bought their final building and now own and manage 11 buildings totaling 47 units. Ken had been studying real estate and other investing books since his early twenties, so it felt like a natural step.

If you would like to connect with Ken, you can do so here:

**Website:** <http://www.sangelproperties.com/>

**BiggerPockets Profile:** <https://www.biggerpockets.com/users/hotwired>



---

4

# GETTING STARTED THE WRONG NICHE?

**BY BEN LEYBOVICH**

*“The only thing worse than being blind is having sight but no vision.” ~ Helen Keller*

Indeed, the difference between success and failure is perspective – your capacity to make distinctions that are not obvious. Let’s call this capacity VISION. It is what opens the doors of opportunity in this life. If I had to do it over, the thing that I would do differently is see things differently...

I can not really blame myself too much for the choices I made. We know only what we know, and we make the best choices that we can, based on what we know. I simply did not know enough at the time to see things any differently.

You've come here to BiggerPockets.com to learn from those of us who came before you. In the spirit of learning, allow me to respectfully outline to you two of the elements of perspective which were not accessible to me at the time I started, in hopes that you may develop a clearer vision sooner. Let's begin...

---

*We know only what we know, and we make the best choices that we can, based on what we know.*

---

## General Thinking

Those who know me best know that I do not flip houses. You see, my involvement in real estate was predicated by a medical diagnosis of MS – Multiple Sclerosis. I won't bore you with the details, (you can read about them on my website if you desire,) but what you need to understand is that due to this medical condition, chances are good that over time, among other side-effects, I will lose considerable mobility.

I am sure you can see the problem as I saw it – it is rather hard to make a living if you can't move. This was the problem I faced a decade ago, because as a classically trained violinist, I could no longer rely on making a living with my hands. Nor did it seem smart to trade labor for income in general. I just didn't know how long I'd be healthy enough to punch the clock!

The solution that I eventually came to was passive cash flow through income-producing, investment-grade, real estate - I am a landlord! For obvious reasons, it has always been important for me to build a business which lends itself to systematization, because my goal is to literally marginalize myself – the thing has to be able to run without my day to day involvement; such is the nature of the problem that I am trying to solve.



With this in mind, I do not typically participate in any form of investing that is not passive. This means that I do not flip, wholesale, or do a bunch of other things that amount to a job, because they would ultimately not solve my long-term problem. Instead, I focus on buying assets which, after a stabilization period, generate more income than the cost of holding these assets, and I hold them.

---

*I do not typically participate in any form of investing that is not passive.*

---

The idea is that eventually the cash flow is large enough to completely replace earned income from a job; which has always been my main objective considering my medical condition, and it should be yours too, unless you want to forever be beholden to your boss. But after having said all this, ironically enough, my first deal actually was a flip.

## The First Deal

In 2006 I found a little 3/2 house. I found it by simply driving through my target neighborhood. The house had good bones but was in need of a serious rehab. In fact, as it was sitting there, it looked as though someone started the rehab but never finished.

I called the owner. We met, and long story short, I put the house under contract for about \$32,000. I estimated that with about \$20,000 worth of remodeling, the ARV (After Repaired Value) for this house would be \$85,000 - \$90,000, which gave me plenty of options.

First, I could rehab and refinance this house and keep it as a rental. A house in this location would have rented for \$750/month, and at that rate it would have generated a couple hundred dollars of cash flow a month. Option two would be to fix and flip this house for a nice chunk of money. I chose to go with option three, but I'll talk more about this in a minute.

There was one problem with this acquisition – I didn't have enough money to both purchase the house, and pay for the rehab.

I did have a line of credit which was enough to do one or the other, but not both. Since the house was in too poor of a condition to be financeable at the bank, I decided to approach a friend of mine, who is a highly paid professional. I offered him the opportunity to finance the purchase, while I used my HELOC (Home Equity Line of Credit) to pay for the rehab.

Well, imagine my surprise when having considered it, he chose to buy me out instead – he essentially gave me \$20,000 to walk away saying that this house will make a perfect rental for him. And thus, I closed on the purchase in room number 1, and a few minutes later sold the house to my friend in room number 2.

To this day, this was the easiest and fastest money I've made in real estate. Don't get me wrong, I believe I could have made more than that had I done the rehab and flipped the thing – the spread was there. But, how do you say no to an easy 20k?

Perspective

And with this we've arrived at the first teachable moment for this chapter.

What did I do with this \$20,000? I paid off a couple of low-interest car loans and a small, very low-interest student loan. All I knew was what conventional wisdom teaches us - consumer debt is bad and we should get rid of it ASAP. You know, as decisions go, this was certainly not terrible.

However, was this truly the best thing I could have done for myself in the long run?

To answer this question we have to do 2 things:

1. We have to agree to leave “feelings and emotions” out of the decision-making process and consider the issue purely from the numbers perspective.

2. We have to size-up the other opportunities for spending \$20,000 to examine the potential return on investment resulting from doing things differently.

## Feelings and Emotions

Look – there are two kinds of debt. Some debt costs you money while other kind of debt actually makes you money. This distinction is realized because some of the items that creates debt can produce income, while others do not.

---

*There are two kinds of debt. Some debt costs you money while other kind of debt actually makes you money.*

---

For example, borrowing money to buy a new car is in most cases an example of bad debt, because a car does not make money. Thousands of jobless college grads deeply in student loan debt would tell you that borrowing money to pay tuition is not much better than a car loan. Both cost you money every month, but neither brings money in, especially if you can't find gainful employment.

In my case, both of the car loans and the small educational loan cost me about \$500 combined per month. Thus, paying off all of the loans resulted in freeing up \$500/month of cash flow. This was not particularly a bad decision was it?

No, but I could have made a much smarter decision. What if instead of paying off debt, I bought a 4-plex. Where I live, as well as in a lot of places across the country, one can buy a 4-plex such for around \$100,000. Each of the units in a building can rent for \$450 with a total Gross Scheduled Income or around \$1,800/month. Expenses of ownership of an asset like this should not be much more than \$600/month - not including the mortgage. The necessary down-payment (back in 2006) would have been 20%, meaning that having put down \$20,000 I would have had to finance \$80,000. A 30-year amortized note at 6% would have made my monthly payment just under \$500.

Thus, after all expenses this 4-plex would have been able to cash flow about \$700/month:

*Cash Flow = Income – Expenses*

*Cash Flow = \$1,800 – \$600 – \$500 = \$700*

So – while paying off the loans resulted in eliminating \$500/month worth of payments, purchasing a rental building with the \$20k and leaving the loans in place would have resulted in positive cash flow of \$700/month, which, after covering the cost of the loans, would have still put \$200 into my pocket.

## Actionable Thoughts

I don't know if there would have been a more appropriate way to allocate \$20,000 for you, but for me, buying that 4-plex would have been the better option. The loans that I paid-off (at least the auto loans) were amortized to 5 years, which meant that in a few years they would have been paid-down to "0" anyway. Had I bought the building, the cash flow would have initially covered the payments on those loans for me, and once those were paid-off I would have been left with \$700/month in my pocket.

But, that's not what I did. I listened to my heart and followed my limited knowledge bank, which lead me to believe that all consumer debt is bad and should therefore be paid-off as soon as possible. As a blanket statement this may be true – consumer debt is bad. However, I hope to have shown you that with a certain amount of finesse and a different perspective, a more advantageous path can be discovered. Your job is to develop that finesse and perspective.

Though counter intuitive and certainly counter mainstream, I invite you to consider whether paying off debt is the best thing to do for you. This decision is a function of the terms of said debt, as well as your comfort zone, goals, and limiting factors, but again, I encourage you to consider it.

## Single Family versus Multifamily

Another topic I would like to touch on in this chapter is also a matter of perspective, which is why I feel it belongs in this discussion. This subheading comes up in conversations all the time:

Which is better - the Single Family Residence or the Multi-Family from a long-term hold point of view?

While the answer is somewhat driven by the characteristics of your specific marketplace, my personal preference is for a multiplex. I need to preface this discussion by describing to you my marketplace.

In Lima, OH I can rent a three-bedroom, one-bath house for \$750 per month. In order to buy such a home and fix it up enough to rent to a good tenant, I would have to spend about \$60,000 in all. On the other hand, I can buy multi-family at \$40,000/unit or less, whereby each of the units generates rental income of \$600 - \$675. Thus, having spent 30% more per unit for SFR, I would only gain minimally on the income side. As you can see, the dynamics of my particular marketplace clearly do not support single-family investments. Is your marketplace similar to mine?

And yet, like so many others, I started out my career with SFRs. Right out of the gate I bought three houses. Let me tell you a little secret – I wasn't buying those houses because I thought that they were somehow better or represented a wiser investment strategy. Not at all; in fact, the entire time I was buying those houses, I was wishing that I was buying multiplex.

So why then did I go this route? Simple – I was intimidated with larger deals. I didn't think that I could pull bigger deals off. I mean, it's one thing to be talking \$60,000, but it's something completely different to be talking \$500,000 - right?

Here is another secret – if you think you can do something then you can do it, but if you don't think you can do it then you won't even try! I didn't think early on that I could handle bigger projects, so I shied away from them. Until one day I decided otherwise. And I wish I would have made that decision sooner. Why bother buying houses for \$200 of monthly cash flow if you can buy a 10-plex with \$1,500/month cash flow?

---

*If you think you can do something then you can do it, but if you don't think you can do it then you won't even try!*

---

“But it’s so much more money” you may object. It is, but believe me, when I tell you that once you have the right kind of knowledge, it is only marginally more difficult to put a \$500,000 deal together than a \$60,000 deal. The biggest difference is your willingness to think big!

Thank you for reading.

Good Luck!

## ABOUT THE AUTHOR



*Ben Leybovich is a multi-family investor and syndicator in Ohio. His area of expertise is creative finance and acquisition. Ben works with institutional as well as private capital. He is a licensed Realtor in the state of Ohio with YOCUM Realty. Ben is a published e-book author as well as the creator of Cash Flow Freedom University. Additionally, he is an active member on BiggerPockets and contributes weekly to the BiggerPockets Blog where he shares his well-rounded insights on REI.*

*If you would like to connect with Ben, you can do so here:*

**Website:** <http://justaskbenwhy.com/>

**Email:** [ben@JustAskBenWhy.com](mailto:ben@JustAskBenWhy.com)

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/JustAskBenWhy>



---

5

---

# THREE THINGS THAT I WOULD DO DIFFERENTLY

BY SETH WILLIAMS

## 1. Definition Over Distraction

The first things I would change if I started over today is that I would clearly define my company's "strategy statement."

One of the biggest problems I dealt with in my first 18 months as an investor can be summed up in one word:

Distractions.

In my quest to learn all that I could about real estate, I fell into a common trap that plagues the real estate education industry. I found myself getting added to dozens of email lists and being bombarded with emails on a daily basis that were pitching business opportunities and investing strategies – many of which seemed so compelling, but they had absolutely nothing to do with my primary line of business.

Since I was still a rookie and hadn't seen any major success in my business yet, it was very easy for me to get sidetracked and start chasing after other business ideas. While I obviously had the best intentions, I failed to stay focused on my chosen investing niche and, as a result, my business was pushed way off course. When I allowed these unrelated pursuits to infiltrate my daily operations, it caused my core business to suffer and my success was delayed a lot longer than it needed to be.

As I look back on those early days, I realize that all I really needed to do was pick one core strategy and stick with it. If I could have avoided all the distractions that were hijacking my thoughts and free time, investing would have gotten a lot more fun, a lot sooner.

---

*I realize that all I really needed to do was pick one core strategy and stick with it.*

---

When it comes to eliminating distractions, something that would have been immensely helpful to me is a simple “Strategy Statement” for my business. Essentially, a strategy statement is a few short sentences about the purpose of your business, what it was created to do, and how it is going to accomplish these things.

Here is a hypothetical example of what a strategy statement could look like:



*ABC Investments, LLC will acquire 15 properties by December 31, 2015, each property having a minimum free cash flow of \$100 per month. This will be accomplished by soliciting hundreds of highly motivated sellers on a monthly basis via specialized direct mail campaigns, with the goal of targeting the owners of out-of-state, single family homes with market values in the range of \$50,000 - \$100,000. All property acquisitions will be financed by their respective sellers (owner financing) unless the price is low enough to justify a cash purchase.*

You'll notice that this statement leaves virtually nothing to the imagination. There is very little ambiguity about:

- What the company's strategy is.
- What kinds of properties they are targeting.
- How a property will qualify as a "good deal".
- How many properties they intend to purchase.
- How they are going to find them.
- How they are going to pay for them.
- When their deadline for completion is.

If you want to avoid getting sidetracked in your business, I suggest that you create this kind of statement for your business and meditate on it. Print it out and tape it onto your wall. Put it on the dashboard of your car. Save it as your desktop background. Drill this statement into the depths of your subconscious mind.

A clear and concise strategy statement will have a monumental impact on your business because it has the power to direct you through all of the difficult strategic decisions that are guaranteed to come your way. It makes it very clear why your company exists, and gives you a focused answer on what to do when you're confronted with a dilemma or critical, course-changing business decision.

---

*A clear and concise strategy statement will have a monumental impact on  
your business*

---

Without this kind of direction, you will get pulled in more crazy directions than you can imagine. If you don't have a concrete idea of what you're actually supposed to be doing – you will lose your focus, your momentum, your drive and your passion... and without these things, your business may just as well be sunk.

Lucius Seneca couldn't have said it better when he wrote this famous line: “If one does not know to which port one is sailing, no wind is favorable.”

## 2. Value Over Image

Secondly, I would focus more on my value proposition and less on my brand image.

When I started my real estate business, I spent an inordinate amount of time and money on what I considered to be “the fun stuff” - developing my company logo, brand image, business cards, letterhead, website and the like. As time went on and my cash got tighter, I realized that I had spent way too much of my precious time and seed capital on trying to look good.

Developing my brand image wasn't necessarily a bad use of resources, but before I spent money on anything – I should have taken an honest assessment of what specific outcomes I was aiming for.

Here are 3 important questions I should have asked myself:

1. What are my goals with real estate investing?  
i.e. What exactly are you trying to accomplish here?
2. What specific actions do I need to take in order to achieve those goals?  
i.e. Think carefully about what you're spending your time and money on. Are these “specific actions” required in order to accomplish your goals?
3. What kind value are you consistently bringing to the table for your customers?  
i.e. – Why would anyone want to work with you?

i.e. – What kind of value are you offering to your prospects?

i.e. – What would compel someone to give you their hard earned money in return for your product or service?

It wasn't until I had these questions answered that I started taking the right actions to pull in some serious paychecks from my investing activity.

As I look back and answer those questions with what I know today – none of my answers have anything to do with the things I spent so much of my initial time and energy on. As a matter of fact, given my business model, my brand image actually has had very little to do with my success.

If I'm completely honest with myself about why I spent so much time and money on “the fun stuff”, it was probably because I wanted to look and feel good about myself, and I wanted people to think of me as a serious business owner.

---

*I wanted to look and feel good about myself, and I wanted people to think of me as a serious business owner.*

---

While a strong brand image certainly didn't hurt the way that customers and prospects perceived me, the reality is that people's perceptions mean nothing if you don't have a legitimate business, and if you haven't established a sustainable process by which you can make a profit in real estate, you don't have a legitimate business. If you make the same mistake I did (trying to convince yourself that you have a thriving business just because you have a cool website) you're only fooling yourself. Until you start making a profit, your “business” is a figment of your imagination.

If you're completely new to real estate – I would suggest that you focus on your value proposition first. Get a firm grasp on what you're bringing to the table, how you're going to be different, how you're going to stand out from the crowd, and how you're going to pull it off.

Once you've followed through and gotten a deal or two under your belt (and you have the money in your bank to prove it), then you've got a reason to start thinking about your brand image. Focus on the things that will make your business grow and pursue them with a vengeance. Don't worry about developing your brand image until you have something that's actually worth showing off!

### 3. Salesmanship Over Solitude

I would have worked harder on developing my salesmanship - Rather than intentionally avoiding human interaction.

When I started my investing career, I was not a person who “oozed with self-confidence.” It took a lot of phone calls and one-on-one interaction with sellers, buyers, and other real estate professionals, before I started to develop a knack for salesmanship.

Unfortunately, I see a lot of real estate courses on the internet that take aim at this specific kind of personal weakness. Many people suffer from this same lack of self-confidence and it's an easy temptation (especially when starting out) for us to gravitate away from the things that make us uncomfortable. The only problem with this is, the act of stepping out of our comfort zone is oftentimes exactly what we need to do in order to grow as human beings.

For many people, it isn't easy to make those first 10 or 20 phone calls. It isn't always comfortable to meet a seller at their property, give them a low-ball offer in person and wait for their response. It takes quick thinking and experience to respond quickly and confidently to a buyer who is trying to haggle with you on your price. I'm not going to tell you these things are enjoyable at first (because they aren't) but these kinds of challenges are precisely what will mold you into a highly effective business person. Knowing how to handle yourself in uncomfortable situations, learning how to ask the right questions, speaking with confidence and standing your ground in heated negotiations are all vital areas that we need to constantly develop in ourselves.

If your idea of a good time isn't spending hours on the phone every week, talking with complete strangers – I get it, it's not fun for me either. The important distinction

is this – this kind of activity will lead you to close deals and make money in real estate. If you're not comfortable with these things, it's okay! You don't need to be ashamed of it. Simply begin by recognizing the issue and then move it to the top of your priority list and start practicing to get better at it.

I'll be the first to admit that consciously walking into unfamiliar territory can be a little unnerving – but excellent salesmanship is what separates the most successful entrepreneurs from the people who just dream about it. The sooner you can develop your salesmanship, the sooner you will start winning in this business. There is no limit to how much a good salesperson can make, so believe me – you cannot afford to ignore this.

## Here Are Three Things I Did Right When I Started:

### **1. I focused heavily on automating and eliminating the busywork.**

I was lucky to have read “**The Four Hour WorkWeek**” by Tim Ferriss early in my investing career. It opened my eyes to the importance of outsourcing, automating and delegating in my business. If you're going to maintain a one-person shop, like I do, it will be very important for you to understand these concepts.

It actually took several months for me to realize how ineffective I was being with my time, but I eventually figured out that I needed to focus a lot more effort on reducing the amount of busywork in my business so I could focus my efforts on the activities that actually made money.

There just aren't enough hours in the day (especially on a part-time basis) to handle all of the mundane tasks that need to be done in a business (e.g. – accounting, organization, administration, etc.), and the kicker is this – the tasks that legitimately need to be done, aren't necessarily the tasks that will grow your business.

A couple of years into my investing career, I started dealing with some serious time constraints in almost every area of my life and it all seemed to be happening simultaneously. Things were getting crazy. My time was getting pinched in ways I had never experienced before, and after getting pushed to the point where literally every

minute mattered, I had to make some changes if I wanted to avoid going insane. I started by eliminating myself as the bottleneck in my business. Rather than designing my business in such a way that I was the one vital player that got things done, I started creating systems that would allow the business to continue working without my constant involvement.

Here are some examples of how I did this:

- Once I obtained a direct mail list – all of the production was outsourced to a third party (which ended up costing even less than when I was trying to handle this in-house).
- I directed all incoming phone calls to a well-crafted voicemail message that I created. This was a message that anticipated people's needs, answered questions, kept people on the line, and extracted valuable information before I invested any more of my time calling them back.
- I developed systems that intentionally eliminated prospects earlier in the information-gathering process. Once certain red flags were noted on any particular seller and/or property, I took them off my list and stopped pursuing them.
- Based on the preliminary information that I gathered from each lead, I developed a system to send out tentative offers to people. This allowed me to see each seller's initial response to my proposed offer and gauge their actual level of motivation. In many cases, this allowed me to easily identify the people who wouldn't accept my offers, and I was able to avoid wasting my time needlessly researching these properties.
- All of the rental units I purchased were immediately handed over to a competent property management company. To this day – I don't find tenants, I don't evict tenants, I don't do any repairs, I don't do hardly anything! My only real involvement with each property is checking my bank account when each monthly rent check is deposited and then handling the accounting (which at most, requires about 5 minutes per month).

Altogether, these efforts to streamline my processes have saved me thousands of hours that would have otherwise been completely wasted. Considering the premium that I put on my time, this improved productivity has also translated into serious money, with a major improvement in my morale and overall happiness – and honestly, isn't that the whole reason why we're doing this in the long run?

## **2. I was persistent.**

Persistence will be a huge factor in your road to success as a real estate investor. If you don't have the determination to stick to your strategy and power through the difficult times, you might as well just throw in the towel right now – that is my honest opinion.

I've dealt with a lot of setbacks in my business, and I still deal with them on an ongoing basis. We all run into obstacles and difficulties that make life hard – this is just a part of living on planet Earth and it will always be an ever-present part of running your business.

---

*We all run into obstacles and difficulties that make life hard... these challenges are also “what separates the men from the boys.”*

---

These challenges are also “what separates the men from the boys.” The vast majority of beginners in this business will likely give up before they find success. It's a sad statistic, but it speaks to the weakness of our will as human beings. If you want to succeed, in any business, you need to have a deep hunger for it – a hunger that you're willing to climb over the mountains and trudge through the valleys to fulfill.

A couple of years into my investing career, I ran across a dry spell in my business. I had spent hundreds of dollars and weeks of my time buying lists, sending out direct mail, talking to hundreds of people on the phone and making dozens of offers to various people – and for one reason or another, nobody would accept my offers.

It was incredibly discouraging, and I started to question everything. What was I doing wrong? Was I even supposed to be in this business at all? What else could I have bought with those hundreds of dollars I just wasted on marketing?

It wasn't easy to get through that stretch, and I had to do a lot of soul searching, but I didn't give up. I kept plowing through this challenging time because I knew I had a solid strategy that had worked before (after all, I had seen the proof!).

As it turned out, I was actually dealing with a statistical dry spell. After persistently sending out dozens of offers and following the same steps that I had seen work before, I eventually came across a windfall of accepted offers – so many that I couldn't even handle them all! There was actually nothing wrong with my strategy at all; I had just run across a string of “bad luck” (for lack of a better term) and when things finally turned around, it was like stumbling into an oasis after wandering through the desert for months and it was a beautiful thing.

When you've nailed down a solid strategy that you know will work, it's imperative that you stay persistent. Difficult times are a guarantee, so when you come across adversity, don't be surprised, be prepared.

### **3. I chose the right niche.**

Choosing the right niche is without question, the most important thing that I got right. Once I figured out what I wanted to get out of real estate investing (and what I was willing to sacrifice to get it), I decided on an approach that allowed me to:

- Start with the limited resources I had
- Work with minimal ongoing risk
- Deal with people who were willing to play by my terms
- Invest in properties that were easy to own and maintain
- Work in a niche that fit well with my natural talents and skills

I chose this niche because these attributes had a natural fit with a lot of the things that mattered to me. Working with a strategy like this allowed me to get a taste of success sooner rather than later – and this gave me the further motivation that I needed to keep pursuing this business.



The biggest recommendation I can give would be to choose a niche that fits well with your lifestyle and goals.

---

*Choose a niche that fits well with your lifestyle and goals.*

---

Choose something you can believe in.

This is an extremely important decision because it will become the foundation upon which you will build all of your future endeavors. If you choose something that is fundamentally opposed to pre-existing priorities in your life, you will have a long, difficult, uphill battle ahead of you (and believe me – that isn't the ideal way to begin any new adventure).

Don't get me wrong – the niche that I chose certainly has its flaws and drawbacks (after all, there is no such thing as a “perfect property”), but the benefits that I saw in it were undeniably huge, and they meshed very well with what I needed to have in a business.

Whatever niche you decide on, make sure that you understand the benefits behind it. When YOU believe in your process and your product, it will be infinitely easier for you to persuade others of the same. The people who are true believers in their business model can be powerfully persuasive when it comes to communicating these benefits to others.

I love explaining my niche to new acquaintances – the initial reactions I see are usually those of apathy and an overall lack of interest. However, by the time I get about 60 seconds into my explanation, it is very common for their eyes to widen, their eyebrows raise, and they start to become very interested in what I'm saying.

It's because I really believe in what I do and I have a clear understanding of why I chose my niche (and why I'm still using this same approach, year after year).

My niche is awesome – and there is nothing you can say that will convince me otherwise!

This kind of conviction will go a long way in helping you communicate your vision to others, so make sure you have the same kind of conviction with the niche that you choose. This doesn't mean your business model has to be flawless (because there will always be imperfections), but any issues you identify should be far outweighed by the benefits that you know are inherent in it.

## ABOUT THE AUTHOR



*Seth Williams is a graduate of Northwood University, M.B.A., and Calvin College, B.A. Seth has been an active real estate investor since 2006. With hundreds of real estate transactions closed during his professional career and nearly a decade of experience in the commercial banking industry, he has become a well-versed specialist in the realm of land investing, commercial financing and residential in-come properties. Williams continues as an active investor and is the founder of RETipster- a real estate blog centered on the discussion of innovative strategies and business insights for part-time investors.*

*If you would like to connect with Seth, you can do so here:*

**Website:** <http://www.retipster.com>

**Twitter:** <http://twitter.com/retipsterseth>

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/REtipster>



---

6

---

# THE GOOD, THE BAD, AND THE UGLY

**BY DAVID KRULAC**

I have bought and sold over 800 properties in my career, but it was not always like this. I started as a part-time real estate investor with a full-time, non-real estate job. Despite having little time for investing, in one year I bought and sold 74 properties - while still working and traveling with that job.

Because of that, it may sound like there would be nothing that I would want to do differently. But that's just plain wrong! There are several things that I would do differently, but the number one change would be to buy LESS properties. That's right, I would not buy more properties, but FEWER properties. I admit it - I bought too many properties. This is evidenced by the fact that my mother has asked me at least 100 times, "Didn't you buy enough houses yet?"

---

*I admit it - I bought too many properties.*

---

## Three Categories of My Investments

Of all the properties that I bought, I would categorize them in three ways.

- The first category is where I made money, sometimes a lot of money and more often a moderate or a small amount of money.
- The second category is where I made money but the property/deal was not worth the time, efforts, risk or money involved.
- And the third category is property where I did not make any money.

I'll discuss these categories further as we go along...

## Deals That Didn't Make Any Money

Starting backwards with the third category, obviously eliminating those deals would have saved me time, money, and aggravation. One such deal, which I call my "biggest loser," involved a partnership with two other couples. A surveyor found this "deal" through his job, but he could not put the deal together by himself. He contacted an experienced real estate investor that he knew, who in turn called me. So we formed a partnership with the three of us and our spouses, all having an equal 1/6 share.

There were negotiations between the sellers with their attorney and the three partners, resulting in signed purchase contract with major contingencies, a sizable non-refundable deposit and a lengthy time frame for resolution of the contingencies. The contract provided for extensions but they were to be executed with more sizable, non-refundable deposits.

Of course the contingency removals took much longer than any of the partners expected. One couple filed for divorce, the other couple lost interest as the expenditures increased, and I ended up losing \$80,000 personally. We never did buy the property; it hurt me badly. Clearly this was a deal that I did not need to make and would have been much happier if I had walked away when the deal was initially proposed. What did I learn from this deal gone wrong?

First of all, too many people were involved in the decision making. I like deals where I am the sole or co-decision maker. No more deals with six people all making decisions. Another mistake was not having an attorney negotiate the initial deal for our side. If the other side had an attorney, we should have too. And lastly, while “win-win” is a good idea, in this case, the deal was slanted well to the seller’s side by the partners trying to negotiate a deal in favor of the other side. The partners bent over backwards to make sure that the seller was getting a good deal. But wasn’t that the role of the seller’s attorney? The other side had their attorney and did not need to have the opposite side partners also negotiating in favor of the sellers. Its bad business to take advantage of another party.

---

*I like deals where I am the sole or co-decision maker.*

---

But the partners went too far, making the deal too sweet for the sellers. The price that the sellers negotiated was the absolute top of market, and for that price to be anywhere near reasonable, everything had to go right. The partners had unrealistic expectations and visions of a huge pot of gold at the end of the rainbow.

The number one aspect of this deal that I will never do again is agree to any sizable non-refundable deposit. I should not have agreed to it then, and I guarantee that

I will never do it again. I should not have needed to pay an \$80,000 tuition to get schooled.

---

*I should not have needed to pay an \$80,000 tuition to get schooled.*

---

There's one deal I could have lived without.

## Deals Not Worth The Effort

The second category of deals was where I did make money, but the deal was not worth the

time, effort, money, risk or aggravation. I went to a tax foreclosure sale and, at this particular sale, the properties were sold “free and clear” of all liens. The auctioneer would start the bidding at the amount of back taxes owed and if nobody bid, he would continually lower the bid, going as low as \$1. Typically, a bunch of people would jump in and the bidding would quickly rise. For this one property, the auctioneer went down to \$1 and nobody bid. At Tax Sales, I have three basic rules:

1. Know the rules of the particular sale.
2. Always do a title search and due diligence.
3. Always physically look at the property.

I know there's Google Earth, but for me I still want to see the property with my own eyes in its current condition. When the auctioneer got to \$1 and nobody bid, I violated rules 2 and 3 and bid \$1. Nobody else bid, and I became the owner of a small alley, which served three properties including a two car garage. I sent letters to the three adjoining property owners, telling them that I owned the back alley access to their properties and I would be glad to sell it to them. A guy with a two car garage contacted me, and I sold it to him for \$200. Here's the story line: I bought a property and quickly sold for TWO HUNDRED times what I paid for it. I made a tremendous profit on a percentage basis, but the low dollar value of the deal was not worth my time, and violating two of my three rules could have turned out disastrous. What if none of the

three adjoiningers wanted to buy it? Nobody else would have and I would have been stuck with it.

Another category two deal happened when I bought a house for \$50. That was the total price and there were no liens or mortgages on the house. It was an eight room brick house with a new roof and new electrical service. But the house needed everything. The previous owner had removed all the plaster from the walls and all the windows were either missing or boarded up. The previous leaks on the roof had been so severe that there were large sections of rotted floors which the previous owner had removed, leaving many large holes in the floor - some as large as 8 feet by 8 feet.

So, picture this - the electricity is turned off, all the windows are boarded up, making the house completely dark, and there are large death-trap holes throughout the flooring of this three story house. The ad I posted for it read “Exercise your Constitutional Right to Own Property - Eight room brick house with new roof and new electrical service ONLY \$1,987.” (The price came to me as the year 1987 was the Bicentennial year of the signing of the United States Constitution). I got about 100 phone calls, and I told everybody the address; however, I also told them NOT to go inside the house because of the huge holes in the floors. I told them I did not want to find their rotting corpse in the basement. Only a few people were actually interested in buying it, and I sold to the first cash buyer for \$1,000. I made 20 times what I paid, and while it was not 200 times as in the case of the alley, it was good enough for me. I learned three major lessons on this one:

1. The downside was tremendous and the upside was very limited. The condition and the surrounding properties were all negatives that I chose to ignore because of the cheap price.
2. Do not buy junk. Cheap does not mean good. When I last checked, this house was torn down and it was a vacant lot covered with trash.
3. The liability was overwhelming. It would have been an absolute nightmare if somebody had gotten hurt at this property. Even if the price was \$0.00, this property was not worth buying... EVER.

---

*Do not buy junk. Cheap does not mean good.*

---

Another Category Two property that I bought was a foreclosure that had been formerly worth \$200,000+. The pictures on the assessment website were downright beautiful. A previous owner had remodeled and expanded the house into a house that was almost magazine quality. Unfortunately, those pictures were taken a few years ago before the house was abandoned, mortgage foreclosed, tax foreclosed, vandalized and left to natural deterioration. Rain, wind, snow and mud had all ravaged this once beautiful home. The house had been empty for several years, had been broken into, and had some water and mud damage inside the house. I bought it for \$65,000 and quickly sold it as is, with no ad or commission, for \$75,000. I made money by just happening to catch the right cash buyer at the peak of the market, but the results could have easily been much different. I paid too much and was lucky to sell at a profit. Luck is no way to build a real estate career.

So, as you can see, eliminating both Category 2 and Category 3 properties would have reduced my risks, aggravation, efforts, time, and money. Those are the deals that, if I could go back, I would undo and never think of again.

## Home Runs and Base Hits

Real estate deals are like baseball - sometimes you hit a single, double, or even a triple. Very rarely do you hit a grand-slam, walk-off, home-run in the bottom of the ninth inning of the World Series. Even on a small profit deal there should be a small amount of risk and a fair return on your investment of money, time, energy, personal skills, experiences and expertise. Obviously, a moderate return or a large return would be better. But even a single is better than a strike-out, and is definitely better than getting beamed in the head. So, the number one change I would make if I could go back to the beginning would be: to be more selective, spend more time analyzing the risk and the upside potential, and pass on buying it if the property did not meet a high enough standard.



Some other changes that I would make if I could go back include: not selling the good properties that I already owned and not starting to “thin the herd” sooner.

The transaction costs to real estate are very high when compared to other investments. With real estate commissions, transfer taxes, seller help with buyer costs, home inspection items and other fees at settlement, it costs a high percentage of the deal right off the top. Today, most of the deals that I am seeing as a seller include the maximum allowable FHA closing cost help of six percent. With real estate commission and transfer tax added in, the costs to the seller are 13% or more, before home inspection items. And, since it is still a buyer’s market, the buyers are asking for minor as well as major inspection items to be corrected. A recent inspection report that I saw noted a cracked receptacle cover plate, (a \$0.19 item at the big box stores). It is almost in the realm of the unbelievable that a buyer would hold up a \$150,000 sale of a renovated house over a \$0.19 item, but they did.

On another home inspection report there was a photo of one drip coming out of a faucet. There was no water on the floor, but the inspector noted this as a major item that could flood the house. Once again, an inspection issue could be totally resolved with a cheap faucet washer. The point is: the transaction costs of selling and buying real estate are high and, since the costs are high, frequent selling increases your expenses and lowers your profits. That is not even including the income tax costs sans IRS Section 1031.

One method of lowering the transaction costs is to do fewer transactions and continue owning real estate for longer periods of time. In my case, there were several times that I sold perfectly good properties only to later buy another property, sometimes inferior in the same development or same area of town. The in-and-out transactions just churned costs and reduced profits.

In one case I sold an all brick six room ranch house with a basement and carport only to buy, a few years later, a vinyl siding five room ranch house without either a basement or carport in the same development. By reducing the buying and selling and re-buying cycle, I would have also acquired my previously mentioned goal of buying fewer properties.

And the last policy that I would have adopted sooner is to yearly “thin the herd.” Recently, in my personal review of the year, I included an analysis of the performance of all the properties in my portfolio. I looked at which properties had the best and worst cash flow, the best and worst returns, the lowest and highest vacancies and which required the most and least maintenance. With that information I chose which properties I am going to remove from the herd and take to market.

Sometimes the decision is not entirely based on the financial numbers but, rather, other factors like maybe the neighborhood has declined, the property is projected to have major capital improvement needed, or maybe the property is further away from where other real estate holdings exist. I have instituted this “thin the herd” policy over the last five years and have used it successfully to eliminate the least desirable properties in the portfolio. Because I am still acquiring properties, the total number of properties may not be declining even with the “thin the herd” policy.

A couple of years ago I sold some properties that were in prime condition and yielding good rents. One of the reasons that I sold these properties was that they were 120 years old and one of the properties had the original 120 year old roof, albeit slate. The properties that I acquired were built from 1994 to 1996, so I moved up in building age by over a century to more modern, newer structures. I also did an IRS Section 1031 tax free exchange to defer the taxes owed, which is one way of reducing the transaction costs.

In summary, the things that I would change if I could go back to the beginning of my real estate investment career would be:

1. Buy fewer properties, only buying worthwhile and profitable properties.
2. Keep more of the good properties that I owned and not sell them.
3. “Thin the herd” - periodically removing the less desirable properties from my portfolio.

## ABOUT THE AUTHOR



*David Krulac is a full time real estate investor, broker, author and speaker. He does flips, rehabs, and buy and holds. He has written a book on real estate that details 240 properties he has purchased in his career. In total, David has purchased over 800 properties for his own inventory and is experienced in many different types of real estate. Be-*

*sides holding a real estate brokers license and owning his own real estate company, David is a speaker for many events, including national real estate conventions.*

*If you would like to connect with David, you can do so here:*

**Website:** [www.centralpennlots.com](http://www.centralpennlots.com)

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/Imade12million>



---

7

# INVESTING IN TURNKEY PROPERTIES

**BY MARCO SANTARELLI**

I was only 18 years old when I bought my first investment property. It was an exciting and scary time. In fact, I had never read a book or taken a course on real estate up to that point. The only real experience I had with rental property was helping my parents and aunts and uncles renovate a single property they bought as a group when I was in my early teens. It was a family project.

My first investment property was a rundown two-story townhome that needed a decent amount of work and upgrading. I was able to purchase it with financing because the lender considered it to be livable, and I qualified for the financing because I was employed for two years with a good-paying, part-time job. I then hired my uncle who was a general contractor, and with the help of my immediate family, we jumped in to get the property cleaned, upgraded and prepared to lease.

I recall running an ad in the local paper (there was no internet back then) and having people come by the property to fill out applications while we continued working on it. I had absolutely no experience in screening tenants so I'm sure I relied on my gut feeling at least as much as what they wrote on their application.

I kept and managed that first property for a few years before selling it for a nice profit. All in all, it was a very good experience and one that I can look back and reflect on. The property was local to me, the price was right, and I was ambitious enough to jump in and just do it.

My biggest regret with that first property was selling it. Over time the market value exceeded 10 times the price I originally paid for it. I can't imagine what the cash-flow would be today!

---

*My biggest regret with that first property was selling it. Over time the market value exceeded 10 times the price I originally paid for it.*

---

## Lack of a Strategy

Fast forward to 2003... I had bought and sold several properties up to this point and now I was getting the itch to start investing again. Real estate was booming all across the country and it seemed that you couldn't lose regardless of where you chose to invest. I just knew I had to get back into "the game".

Before buying my next property, I had signed up for a very expensive set of boot-camps offered by a well-known real estate author and guru. Someone I actually respected because he walked his talk.

As I travelled from city to city taking these boot-camps with other wanna-be investors, I came to the realization that most new and wanna-be investors lacked a clear investment strategy. At the time, this also included me. I wanted to “do it all” so I quickly started implementing every strategy I was being shown and taught. This included some wholesaling, some rehabbing using general contractors, some buy-and-hold residential properties, a few small apartment buildings, and even the creation of a small apartment syndication that I eventually decided against pursuing.

Being spread so thin was problematic and stressful, but what I learned was invaluable. The biggest lesson learned from that experience was that it is best to focus on the one strategy you enjoy the most and can do your best at. Only after you have created systems and mastered your first strategy should you consider branching out into new or additional strategies.

I have to admit that I was never a big fan of wholesaling or rehabbing properties. That’s not to say that they are not good strategies for someone else. But for me, I quickly fell in love with rent-ready, passive investment properties – what you might call “turnkey” properties.

## What is “Turnkey” Investment Property?

Most of the early properties I had bought came from the multiple listing service (MLS). The MLS was NOT my favorite source to find properties, but it made it somewhat easy, because I could filter and sort by using any criteria I wanted. It was like finding the proverbial needle in a haystack, but the deals were definitely out there. Of course, anytime you are buying property off the MLS there is always some level of negotiation expected by the seller, so often you end up creating your own good deals.

As I invested in dozens of properties over the years, I found that the quickest, easiest and least stressful properties I bought were the “rent-ready” ones. More specifically, I found that new-construction properties were my favorite because there was vir-

tually nothing to do aside from some basic due diligence and the hiring of a professional property manager to lease up and manage my property.

---

*I found that the quickest, easiest and least stressful properties I bought were the “rent-ready” ones.*

---

Of course today there are multiple sources to find yourself properties including “birddogs,” wholesalers, retail sellers, distressed sellers, auctions, realtors, the MLS, websites such as Zillow, new home builders, and of course turnkey property providers.

When I was getting started I don’t think there was a definition of “turnkey property” or “turnkey investing.” I think, for the most part, people simply referred to turnkey property as “rent-ready property,” and turnkey investing as “passive real estate investing.”

Today there is no formal definition of what a turnkey investment property really is. Most people, I think, have a basic idea of what it might or probably means, but judging from the questions I get from all of my investor clients, I can tell you that the definition is still quite nebulous.

If you ask 10 people what a turnkey property is, you’ll probably get 10 slightly different answers.

I have two definitions for what a turnkey investment property is, but my most basic definition is:

“A safe, clean, and functional property that is completely rent-ready.”

However, over the years, and through experience, I’ve refined and expanded that basic definition into what I use today both personally and for my investor clients. A turnkey investment property is:

- “A property in a stable or growth market.”
- “A property in a desirable neighborhood.”

- “A new or newly-rehabbed property (i.e. safe, clean, and functional).”
- “A property that is leased, or in the process of being leased.”
- “A property under professional property management.”
- “A property that is cash-flow positive.”

If you're a rehabber or someone who likes to buy-fix-and-hold properties, then incorporating the above definition into your investment strategy will help lower your overall risk.

This expanded and more detailed definition has helped narrow down the markets and neighborhoods where I look for rent-ready properties that make sense from a location and financial perspective.

## Why Invest Out-of-State?

Being a resident of Orange County, California, I've witnessed property values explode from 1998 to 2007. I live in a cyclical real estate market that is very expensive. Sometimes I refer to it as a “bubble” market. As the years have gone by, my ability to find properties that made sense locally decreased rapidly. Today, the rent-to-value ratio is so low where I live that you'd have to buy most properties with “all cash” or with a very large down payment to get a positive cash-flow.

Of course, there are always exceptions in every market. For example, a distressed seller or distressed property with a low purchase price could make the numbers work favorably. I find those situations are far and few between though, and the amount of time it takes to find them is not worth it for me. That's a strategy better suited for wholesalers and flippers.

The scenario in my local market is similar to those in many other markets around the country. In general terms, the same situation exists in other local markets around the U.S. This is particularly true along the coastal markets in states (like New York, New Jersey, Hawaii, and Connecticut, etc.).

The fact is this: every market is unique and has its own local economy and other factors that affect its housing market. Therefore, while one market is experiencing eco-



conomic growth (jobs and population), another geographically different market can be experiencing an overall economic decline (i.e. Detroit).

---

*Every market is unique and has its own local economy and other factors that affect its housing market.*

---

## Where Would You Rather Invest?

Although I place cash-flow at the top of the list when it comes to any investment, the health of the market is the make or break factor for me in real estate. Investing in stable or growing markets reduces your risk and increases your long term growth potential.

It's amazing that you can purchase a 3-bedroom property in Southern California for more than ten times the price of a 3-bedroom property in many other good markets in the Mid-West, Texas, Tennessee, etc. That property in California will not likely cash-flow, while that property in the other states will cash-flow well and produce very good rates of return.

Another benefit to out-of-state investing is the ability to leverage your investment capital. If I had \$100,000 to invest in my local market, I might be able to purchase a \$500,000 property with 20% down (my \$100,000). I would be lucky if it produced a positive cash-flow, but it's highly unlikely.

Taking my same \$100,000 of investment capital I could purchase five properties priced at \$100,000 in another more prudent market where it makes financial sense to do so. Your cash-flow would be higher and you now control five properties instead of just the one.

Most of the risk in real estate lies in the land value of the property. In markets where land values are very high there is increased risk of those land values coming down – and when they come down they can fall quite far. Now, contrast that to less expensive markets where land values are low. In those markets, your risk is mitigated by

the fact that land values cannot drop below zero, so your exposure in land value price changes are far lower. This to me is true risk mitigation!

Related to the fluctuation in land values, there is another major benefit to out-of-state investing: diversification! Because every market is local and moves independently of one another, it makes sense to invest across multiple markets.

---

*Because every market is local and moves independently of one another, it makes sense to invest across multiple markets.*

---

I believe it makes the most sense to focus on one market at a time, accumulating from three to five income properties per market. Once you've added those three to five properties to your portfolio, diversify into another prudent market that is geographically different than the previous one. Typically, that means focusing on another state.

I made the mistake back in 2004 of investing in too many properties in the same market. A few years later that market turned down and the value of my properties dropped. I could have limited my exposure in that market by simply buying my other properties in different markets.

So, am I suggesting that you invest out-of-state? Not necessarily. I'm simply suggesting that you invest where the numbers make sense.

## If I Started All Over Again

You don't know what you don't know! You learn what you don't know by educating yourself, learning from others, taking action and learning from your experiences. That's simply how it works.

I really wish I knew what I know today back when I got started. That knowledge would have accelerated my wealth creation. Fortunately, that knowledge is not wasted because it's just as valuable today as it would have been for me back then. I can also use and share that valuable knowledge with my family, friends, and clients.

Knowing what I know today, I would focus on acquiring as many turnkey properties as possible in multiple growth markets around the U.S. (Again, I'm using my expanded definition of "turnkey" here.) I would also purchase a mixture of single-family, duplex and fourplex properties.

Finally, if I was starting all over again today, there is absolutely no question that I would begin by doing research to find the best real estate markets to be investing my cash. It is very clear to me that it's the best way to lower your risk, maximize your returns and diversify your portfolio.

## ABOUT THE AUTHOR



*Marco Santarelli is an investor, author and the founder of Norada Real Estate Investments. Marco started investing at the age of 18 and hasn't stopped since. He had accumulated a total of 84 units by 2006 from California to Florida. It is one of his goals in life to help others create wealth through real estate investing. Marco has purchased over 150 units since starting his real estate investing career and his passion for REI is evident in his many ventures into the industry.*

*If you would like to connect with Marco, you can do so here:*

**Website:** <http://www.noradarealestate.com/>

**Phone:** (800) 611-3060

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/MarcoSantarelli>



---

# 8 STARTING OVER WITH SELLER FINANCING

**BY BRIAN GIBBONS**

When Brandon asked me if I wanted to write an article about what I would do today if I had to start over knowing what I know now, I jumped at the opportunity.

Whenever credit is tight, creativity is important. Today, many home buyers can't buy because of debt to earnings ratios, credit history, a new job, and various other factors.

---

*Whenever credit is tight, creativity is important.*

---

Another issue that is prevalent in America is that many houses have little or no equity. The Wall Street Journal stated that as of February 2013 there are 20 million houses in the United States that have no equity or very little equity.

On January 10, 2014, the Dodd Frank Act became active. This Act is supposed to assist the general public from predatory lending, forcing lenders to apply strict guidelines as to "the ability to repay."

Knowing what I know now, I believe that this is a great opportunity for focusing on seller financing. Let's talk about what seller financing is, and how it helps people with very little equity sell their homes on terms versus for cash.

## What is Seller Financing?

Let's say that a house is worth \$100,000 dollars, and they owe \$95,000 on the property. This \$5000 of equity is not much to work with, as there are "costs to sell" such as realtor commissions, closing costs, sellers concessions, holding costs such as PITI payments while marketing the property, and any repair costs to help the property compete with similar properties. Many times these "costs to sell" add up to well over 10 to 12% of value of the property. This causes great stress for people trying to sell their homes. Where can they find the money to bring to the closing table of their seller home?

For more expensive homes, the "bill to pay at the closing table" needed to sell the home can be quite large. A \$500,000 house, with costs to sell over 10% could force sellers to break IRAs or 401(k)s to sell their home.

Now, let's talk a little about flipping & wholesaling.

To find a property with enough equity, the right kind of seller, the right location, the right kind of repairs, etc., is not easy. Many wholesalers spend a huge amount of

money on marketing to be able to get the right kind of house with the right kind of seller so they can flip a deal for a few thousand dollars.

Retailers, people that pay cash for properties that need rehab work done, are picky. They only buy houses that they know they can make a profit with reliably. Retailers want to get in quickly, sell quickly, and find the next project.

## So What Does This Have to Do with Seller Financing?

Many flippers and wholesalers waste a lot of leads. Many of their leads have little equity out and are pretty houses with no work. These leads could be another profit center.

---

*Many flippers and wholesalers waste a lot of leads.*

---

The skill sets needed however, are different than wholesaling flipping.

The players with seller financing looks like this:

- The seller, who generally has a pretty house and a current mortgage with little equity; not a rehab and distressed.

- A buyer, who has money to put down but has some kind of mortgage qualification problem. The buyer could be self-employed, new on the job, have debt to earnings ratio issues, credit issues, etc. Many of these buyers have high income, they just can't get mortgage today. They could get a mortgage in say 12 – 36 months.

- The real estate investor, who has a deep understanding of seller financing, can "problem solve" with the seller to provide solutions that will help the seller sell on terms, market for the seller financing buyer, and flip the contract. Or, the real estate investor could purchase the property on terms, and keep the property in his or her portfolio, and rent it out or sell on terms.

The tools in the toolbox for the seller financing real estate investor can be:

- Subject to existing financing or subject to wrap around mortgage or all-inclusive trust deed,
- Agreement for deed or land contract or installment sales contract,
- Lease option - either assignment or sandwich lease option,
- or Private first mortgage for free and clear properties.

## What About the Dodd Frank Act?

Now, I just want to touch on the Dodd Frank act, which was passed in 2010 in the US. Although primarily focused on large banks and mortgage originators, there are some significant consequences for any real estate investor looking to dive into seller financing.

The penalties for not proving that the potential seller financing buyer has the "ability to repay the loan" are ridiculously onerous. 36 months of payments, attorney's fees and court costs can be awarded to the seller financing buyer if proven in court that the seller financing buyer was not properly underwritten according to the eight underwriting factors:

1. Dodd Frank applies only to consumer loans on residential real estate.
2. Dodd Frank has a very small "de minimis provision."
3. Dodd Frank requires every lender to consider the borrower's ability to repay the loan.
4. Dodd Frank requires that lenders consider at least eight factors applied against reasonable underwriting guidelines or the lender must write off "qualified loan."
5. Dodd Frank requires lenders to wait at least 120 days of delinquency before foreclosing.
6. Dodd Frank gives persons who sell subject to the existing liens a break on getting another loan (important for subject to investors.)
7. Dodd Frank combined with the Safe Act in various states will require all owner finance transactions (except the exemptions) to be originated by a Residential Mortgage Loan Originator (RMLO)

8. Dodd Frank does not apply to commercial or loans that are not consumer loans.

Whew! Is there opportunity to operate with the current new government regulations including the Dodd Frank Act?

I believe so.

What you can do is buy as many properties as you want on terms, but the trick is selling properties on terms. What it all comes down to is this:

When marketing "we buy houses business" and you get a lead from a home seller, ask yourself, "is this a wholesaling lead, a retailing lead, a seller financing lead, or joint venture lead?"

If the deal is "thin", (meaning there is not enough equity for a retailing real estate investor to be interested in buying and rehabbing property,) you could joint venture with the seller, bring in private lending cash to fix the property, make a profit off the joint venture, maybe even double your money that you paid in rehab costs, and when the property sells, the home seller would make more money with your joint venture than they would have selling to a traditional wholesaler.

If you are going to be involved with seller financing, you need to think about how you can solve the seller's problem by using creative tools such as subject to, wrap-around mortgages, lease with option, or private first mortgages.

You may want to be conservative on selling on terms if you buy on subject to or wrap. You may want to just rent out the property.

If you lease option the property and assign your lease option for a fee, the onus is on the seller to underwrite the tenant buyer that moves in. I strongly recommend you use an RMLO.

If you sell to an investor, have the investor sign a statement that the investor will not use property as a primary residence, only as a rental property, non-owner occupant.



I believe in the stronger opportunity in using private mortgages to buy free and clear houses. If someone has been in a house for 30 years, and you offer them 105% value of the comps, but private mortgage at 3%, you could get into the house with no bank financing.

## Conclusion

That's what I would do right now, in order to profit during the current mortgage origination climate. It is going to be an exciting time for real estate investors that comply with the new government regulations!

Best Wishes to All at BP Nation!

## ABOUT THE AUTHOR



*Since 1986, Brian Gibbons has been active in traditional and seller-financing purchases and sales of residential and commercial properties. He specializes in Lease Option Assignments but originally got his start in Real Estate Investing through rehabs, flips and the use of private lenders. Brian also acts as a coach, coaching sellers in selling their properties one on one. Brian also has two young kids and is well-versed in Dodd Frank.*

*If you would like to connect with Brian, you can do so here:*

**Website:** [www.REISkills.com](http://www.REISkills.com)

**LinkedIn:** [www.linkedin.com/in/brianjgibbons](http://www.linkedin.com/in/brianjgibbons)

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/REISkills>



---

9

---

# RISING OUT OF THE ASHES!

**BY KAREN MARGRAVE**

We were asked to write a chapter looking back over our investment careers and tell others if we had it to do over again, what we would do differently. Plenty of people will share their success stories, and all of us will love reading them. However; for me, I want to share a different story, in hopes it will help inspire someone to forge ahead.

Our family has been in real estate development for close to 30 years. We have developed both residential and commercial projects over that time. Having lived in a

small city in northern California, and for the most part growing up there, we had the advantage of knowing the area very well, and understanding the needs of the market.

We were lucky in that we were able to find a niche in the market; and over the years built many office buildings, small office parks (that were planned as PUD's), office/retail condos, medical and dental office buildings, as well as residential properties. We were very successful for many years.

## The Rise and Fall of Our Business

When the residential market was heating up, we had an opportunity to purchase some acreage that was nearing the final stages of the subdivision map process with the state. It was a 48 lot subdivision, that we would build out as spec homes. There was what seemed like a minor issue between the Army Corp of Engineers and the City, regarding a tiny (probably 100 sq. ft.) portion of property deemed 'sensitive'. The Army Corp wanted it fenced off and protected and the City agreed, but they wanted a gate (should anyone need to clean out any debris the wind might blow in). They fought for a year over that, costing us money and more importantly, CRITICAL time. It was the difference between a successful project and a failed project.

As fate would have it, the next year it all hit the fan. All of us had heard the predictions, but had no idea the reality of what would come. We were into the subdivision and had half the houses built and sold when the market CRASHED... hard. The area we lived in was highly dependent upon construction, and everything died. The unemployment rate soared to around 20%, and housing values plummeted. Foreclosures were everywhere.

Most of what we had ended up going to the subdivision and a commercial project, carrying them. We had been through recessions before, but knew this was going to be different. We began selling our assets, making our number one priority getting our lenders paid off and satisfied. We kept what we knew we would need for work, and sold everything else.

We thought it would be a good five to ten years before the area recovered. We made a decision to move to southern California, knowing the market rebounds there

first, the economy is broad based, and it has so many incredible things to attract investors. In addition, we had adult kids that lived in the area. We figured that southern California values would take an initial hit, but would bounce back, and it has proven true.

The one asset we kept was our house. It is a huge modern farm-style home and guest house, on 20 acres with a big seasonal pond, and within minutes of some of the most incredible recreational areas in the country. The value of our house had dropped, but we knew it was unique enough that it would be a smart move to keep it. It has the potential to be turned into a large Bed and Breakfast property, a wedding venue, or a host of other income-producing options should we decide to pursue that; plus it had good equity.

We decided that the best potential for renting it, in the market at that time, would be to rent rooms to students going to a nearby ministry school. Students come from all over the world to attend that school so I placed an ad for tenants, hired a couple as house managers, and filled the house with 14 college-age girls. The rent easily covered our payments. Then, we moved.

---

*No matter where you are, just starting out or a seasoned veteran, it helps to clearly identify these things and know what areas you need to shore up, etc.*

---

Next, we took stock of what we had to work with. No matter where you are, just starting out or a seasoned veteran, it helps to clearly identify these things and know what areas you need to shore up, etc. For us:

- We are experienced developers, licensed brokers, and general contractors, with experience in all phases of development, and construction.
- We are able to physically do many of the high dollar jobs on our projects if needed.
- Our adult son does architectural drafting and 3D renderings, enabling him to draw site plans and the designs for potential residential and commercial pro-

jects, which is a huge advantage in getting visions across to lenders, and potential buyers. Plus he can physically work on jobs if needed.

- Our son-in-law is a licensed electrical contractor, and can do other work as needed.
  - All of us have experience in real estate development, construction, sales and leasing - giving us a very solid foundation. Just about anything that needs to be done in our business, can be done by at least one of us.
    - We are good at finding off market properties in our “niche”. Our niche being projects similar to what we have successfully done in the past.
    - We understand this business, inside and out.
  - Most importantly: KNOW what you KNOW, and what you don’t know! Plan accordingly.
- 

*KNOW what you KNOW, and what you don’t know! Plan accordingly.*

---

After moving to southern California, we began doing small jobs while we got a feel for the area. We weren’t sure what our niche in southern California should be, and we needed time to get a “lay of the land”. We wanted to stay within the types of projects we were familiar with, rather than having to learn a new area of development, plus a new geographical area.

In seeking out investors that might be in need of contracting services, I came upon BiggerPockets. Reading the stories of the successes of others that were buying up REO’s, doing rehabs, etc. was encouraging. The fact it was basically real time information was incredible. I was hooked. Not knowing anyone in business in our new area was hard, but BiggerPockets was like finding familiar friends to converse with.

It was hard not knowing anyone else other than family in southern California. Rather than being in one city, where we knew every piece of dirt like the back of our hand, we were in Orange County, with several cities, each with their own challenges.

In addition, there's so many developers, investors, builders, REITs, etc. with so much money it's unfathomable. It could be extremely intimidating if one started thinking about the logistics of the competition, etc. Thankfully, we didn't!

My husband spent a lot of time going to building and planning departments - getting to know which ones were going to be the easiest to work with, what the cost of everything was here, the locations of good subs and suppliers, etc. We found that in some areas it can take 18 months or longer to get a project through planning and in others it could be a matter of weeks.

After realizing that there was a feeding frenzy for REO's, and prices were being driven up to over market value in many areas, we decided the time was right to look at new construction, even though lots were extremely hard to come by.

To our amazement, a vacant parcel of land where a house had burned down and the lot had been foreclosed on, came on the market in Lake Forest, CA. We jumped on it, and made an offer with a 30 day close. It was accepted. Our business literally was going to rise again from the ashes of that lot.

---

*Our business literally was going to rise again from the ashes of that lot.*

---

Our son immediately drew up a floor plan and renderings. We then approached one of the lenders we had used in the past, got him up to speed on the southern California market, and all the reasons why investing in southern California made sense. He agreed, and gave us financing. I then put an ad online and began marketing the house. The first people that called wanted to buy (though we didn't go into contract until the lot had closed). We then built the house, closed escrow, and the new buyers are now happily living in the house.

There are some great projects here that we want to do, and in fact, we are starting another spec house in San Clemente, financed by the same lender, and we already have interest from a potential buyer. There's also a medical office project that we've done all the preliminary work on, and it will be very profitable, if we can pull the pieces together.

## Overcoming Obstacles

One of the biggest obstacles for us is that our past lenders are accustomed to making smaller loans than what is required in southern California. However; they're beginning to understand the advantages of doing larger loans, on higher end properties, in a healthier economy, and have already loaned us over 1.5 million dollars.

The good thing is that there are very solid profits on the projects here, and properties appreciate very well, making it much easier to build a business up. For the first time ever, we are considering taking on joint venture partners on select commercial projects, which will allow us to get back into the commercial arena, while we continue to build our foundation and team.

I wanted to write this, so that if there's someone else out there that has taken a hit and they think they can't get up again, that they should not lose heart. Look at what you CAN do, not at what you can't. There will always be naysayers telling you that you have to have a credit score of this or that, you have to have X amount of cash, you need more experience, or any number of reasons why you won't make it. Don't listen to them. Take what you have, whether it's money, skills, experience, education, or whatever, put it together with a heavy dose of tenacity, and build on it. Even if you only have tenacity, that's a start!

Don't get me wrong, if someone is telling you something is wrong with your plan, project, etc., you should listen! If they have valid points, consider them, and find ways to overcome the obstacles they see. Get educated on the business and your market. However, don't quit trying because you are afraid of failing.

For us, even though we didn't have a lot of cash, we did have our relationships with our past lenders, our skills, our licenses, our experience and our determination. Another huge benefit is that our projects are located in Orange County, California, an area that has some of the highest valued properties in the country, and properties that are appreciating, meaning less risk for lenders. Rather than solely selling ourselves, we can sell the project and the area.

Some of what makes southern California attractive for investors:

- Unemployment is 5% (and falling. This means people can afford to pay their mortgages).
- A highly educated and diverse workforce.
- World class educational and healthcare facilities.
- Culturally diverse population.
- Broad based local economy - home to many of the Fortune 500 companies.
- Some of the highest valued property in the country with solid demand.
- Amusement parks, recreational opportunities, shopping, sports teams, etc.
- Serviced by every major airline.
- Perfect weather year-round and beautiful beaches.

Southern California carries its own. People will always want to come here. Property will always be in demand. For those of us who are doing real estate development, that's perfect!

One thing I can say for sure - had I not wandered onto BiggerPockets, I don't think I would have been as hopeful myself. It's not that no one else was in our shoes. In fact, it was quite the opposite. But people like Will Barnard, J Scott, Bill Gulley, Rich Weese, Bryan Hancock, Brian Burke, Sharon Vornholt, Ann Bellamy, and so many others who wrote of their success stories and shared their areas of expertise, inspired me again, and for that I am forever grateful!

Joshua Dorkin, Jon Holdman and Brandon Turner have worked very hard to put together the premier site for people to come and find (basically real-time) advice on any conceivable real estate investment deal and ask others about anything remotely related to the business. It's a great network.

As for us, I don't have a doubt in my mind that relocating was the best move we ever made. My only regret is not having done it years ago. Our business is rising out of the ashes and will be better than ever with the lessons we learned.



Remember the saying, “A journey of a thousand miles starts with the first step”. Take the first step, and then build on it.

## ABOUT THE AUTHOR



*Karen Margrave is an owner in Parlay Investments, LLC in Orange County, CA, where she designs and develops both residential & commercial properties to meet the demands of investors and investor/users. With 30+ years of experience as a developer, contractor, and broker in California, Karen is a seasoned REI veteran.*

*If you would like to connect with Karen, you can do so here:*

**Website:** [www.parlayinvestments.com](http://www.parlayinvestments.com)

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/brighterdays>



---

10

---

# REAL ESTATE CLUBS, INSPECTIONS, AND MORE

BY PAUL TIMMINS

Growing up in a duplex I liked the idea of tenants paying down the mortgage.

My career was in Law Enforcement and adult education, but I decided it was time to put my career experience to work in real estate. I began to learn more and more about real estate and put my observation and communication skills to work for me as a real estate investor.

My first property was an old duplex where I learned quickly about tenant selection and relations, lead laws and evictions the hard way. My second property was building a single family home, and the learning continued while dealing with the “builder from hell.”

The following chapter contains three areas that I wish I knew and I wish I would have used at the start of my investing. Hopefully -you can use my advice to further your own investing career.

## 1.) Your First REIA Meeting

One of your most valuable activities that you need to do ASAP is attend your first REIA club meeting. The networking, deal-making, team-building and source of local education will be found at the meeting. You will want to get the most out of your time at the meeting to make it a profitable experience. So let's get started.

### How to Find the Meetings

Lets check out “Real Estate Investment Clubs” Massachusetts on Google. The first result [www.ReiaClub.com](http://www.ReiaClub.com) produces ten REIA clubs across Massachusetts.

I visited several of the club sites and found additional clubs listed. I noticed a search site for The National REIA. I followed the link to Massachusetts. There were three clubs listed which are associated with the National REIA. This is important because you will get additional benefits through National REIA.

You can also search Yahoo, MSN or Google groups with the same search criteria. Some of these groups have an online-only presence where you can visit and interact in advance.

### **Prime the Pump**

Let say you have selected the group but find that the meeting is two weeks away. You need to prime the pump. Go onto the club's website. My local favorite is Eastern Massachusetts REIA at [MyEasternMassREIA.com](http://MyEasternMassREIA.com) . When looking at a club, I want to see a variety of activities and educational opportunities.

I would look to view who is listed on the “Contact Us” page. I would then select at least one staff member and contact them. I would ask them about the club - how many members belong, how many show for the typical meetings, etc. I would tell them that I would be coming to the next meeting. They would then be looking for you and would be ready to introduce you to certain members.

### **Business Resources/Vendors**

Check out the listed Business Resources/Vendors for the club. Call several and tell them you will be coming to the next meeting. Ask them what they think about the group. When you see them at the meeting they also will be introducing you to different people. This will jumpstart your networking.

### **30 Second Commercial**

You need to develop and practice a couple of different 30 second commercials about your business. You will use these when speaking to others who ask, “What are you doing?” It does not have to be super detailed. You can describe anything further when they question you about it.

---

*You need to develop and practice a couple of different 30 second commercials about your business.*

---

### **Networking**

SHOW UP EARLY. Get there at least 15 minutes early. If the meeting starts at 6:30, you better be there by 6:15. This is a great opportunity to speak with the club officials and introduce yourself. The meeting will begin with an open networking session. This is typically a very relaxed setting where you have the opportunity to socialize and interact with everyone else.

Your goal is not to simply collect business cards but, rather, have conversations, make connections, and then exchange business cards for contact information. When you are first meeting someone, always ask them what they are doing, and ask a couple of follow-up questions to get them to continue to talk. Eventually, they will likely ask you what you do. This is the opportunity for your 30 second commercial.

HINT: Members of the REIA will have formal name tags; new people like you will have paper name tags. You will want to speak to everyone with a paper name tag. These people can be a great resource for you. Some of these people come to the meetings because they have money to invest. Find them, get them talking, and they might want to invest with you.

### **Announcements**

People take their seats when the networking period is over. You will hear some general announcements and an introduction to the topic and speaker for the evening.

### **Presentation/Training**

A guest speaker will present a topic for their presentation or training opportunity. Often, this will be paired with a pitch to buy something. You will get excellent information from the presentation and learn about opportunities.

### **Upcoming Club Events**

The group leader will describe the events that are coming up over the next three months or so. Listen carefully and identify the session that will be the most beneficial for you.

### **Who Has a Deal?**

One of my favorite parts of the meeting is when the members with a deal can stand up in front of the group and present a deal to everyone. Watch the different ways properties are presented - some are more effective than others. Model your future presentations after the exceptional ones. Some people will have pictures and fur-

ther information to give in the back of the room. Talk to these people about the deals later. Learn how they push the good features of the deal.

### **End of the Meeting Networking**

Don't be in a rush to leave. You have a second chance to network - make the most of every moment at the real estate club. Make connections, build relationships, and see your business thrive.

Let's move on to the second item I wish I would have known more about when getting into real estate: the due diligence.

## **2.) Doing the Due Diligence BEFORE the Site Visit**

Okay, let's say you have presented an LOI. If accepted, you will be doing a site visit. BEFORE you go, you want to do as much due diligence as possible. (Due diligence is the work you do between the offer and the closing to make sure there are no surprises).

The following are ten steps you must complete before you go.

### **1. Google Everything**

You will want to find out as much as possible about the property. Google the property name. Check to see if there are any comments or reviews of the property. Google the property address, street and area. Look for any problems or concerns as these may become value plays for you.

Additionally, you can use Google to find out a lot of information about the area. Enter the street and address separately into Google within quotes e.g. "Smith Street" Boston, MA. This will pull up any articles good or bad about the area. We did that for one property and found an article about a recent house fire on that street and a murder that had happened in the street two months earlier.

### **2. Check with the Local Police**

Check the local police and sheriff websites and search their online database for crimes in the area. Look for the community policing contacts. Call and speak with them. Tell them you are looking at a property in their jurisdiction. Do they know the property? Is it causing problems for them? What do they feel about the area? Is it an area they would want their daughter around at night? Is there a local Crime Prevention group for the neighborhood? If so, who would be a contact person?

---

*Check the local police and sheriff websites and search their online database for crimes in the area.*

---

To research more about possible crime in the area, check out:

- <http://www.neighborhoodscout.com> for neighborhood information and crime rates.
- <http://www.bestplaces.net/crime/> to compare crime rates
- [http://dir.yahoo.com/News\\_and\\_media/Newspapers/](http://dir.yahoo.com/News_and_media/Newspapers/) to locate daily, weekly and monthly local newspapers. These can help you find any information, and including the word crime or problem when searching will help focus your search.

### **3. Check with Local Fire**

Check the website of the local fire department. Often, you have the ability to check for previous fires, chemical issues and ambulance transports. Are many of the calls in the area drug related medical events?

Call the local fire station, not the emergency number, when it is quiet. Have a conversation with the desk firefighter. Do they know the property? Have they had any trouble with flooding in the area? Do they have problems with the building's fire alarm? Are there any underground storage tanks on the property?

### **4. Check the Local News**

What are the local newspapers? You want the daily, weekly and monthly publications. Check their online articles searching for crime, economic development, job

growth, infrastructure improvements, the location and property. If there is a college in town, check the college newspaper and any off campus guides they have. See the area from the student's perspective. Check the local business newspaper. See <http://www.newspapers.com/> to search for newspapers by area and content.

## **5. Contact the Chamber of Commerce**

Call the President of the Chamber of Commerce. Tell them you are expanding your real estate holding into their area. Ask them what they can tell you about the current business climate. You can say you are looking at a certain property right now. Do they know anything about the area? Ask for referrals - who do they like and know in the local banks, who is best Real Estate Attorney, Property Inspector, Property Management firms, etc.? Remember you will be getting good referral names as well as their strong name drop.

## **6. Contact the Economic Development Office**

Access the state, county and city/town Economic Development office websites. Draw up any reports on the site which talk about job growth, local support for improvements, etc. These reports are helpful for noting trends and statistics that you can use for your business plan and property package. Call the local office - ask about area development and the specific area you are interested in. Are there any local funding sources to access for improvements?

## **7. Call Property Management Companies**

Not counting the current property management company, call at least three other companies. Have a discussion with them, explaining that your company is moving into the area. Ask them if they know the area and the property you are looking at. Is that property something they could manage? Ask what they are seeing for local per door costs. The property manager should offer to drive by and look at the property for you. Their experienced eye will give you a huge advantage.

## **8. Check Out the Competition**



Call adjacent properties to see what their rates are, and ask about their property - do they have any vacancies? Tell them you are looking at the other property. Ask them how does their property compare? Call several adjacent properties, and you will notice some trends. If the property package lists recent comparable sales, call those properties and gather information firsthand.

## **9. Financials**

Get the strongest financials you can. If you have presented the offer, they should provide you with more accurate documentation. The rent roll is going to show the vacancy rate and history. Are there any sweetheart deals, long lease, or noticeably lower rent? Are they short or long term leases? Were a number of apartments rented recently? Discover surprises sooner than later.

## **10. Gather Your Local Team**

Line up your local team members. This includes: Property Management firms, Real Estate Attorney, local Real Estate brokers, retired banker, bird dogs, etc. Arrange to meet with your local team members on your site visit. Also include the advisors in your team, the chamber president, economic development office contacts, the local landlord association and local REIA contacts.

This section looked at the things I wish I had known early in my career about due diligence before stepping foot on the property. The next, and final, section also deals with the due diligence, but focuses on the work done “on the ground.”

## **3.) Buy in a Neighborhood, Not Just on a Street**

The third thing I wish I had learned involves the research about the neighborhood. At this point, you have located a property that looks interesting. However, the numbers alone don't mean anything if the property is not located in a good neighborhood. Therefore, a good question to ask yourself is:

**Is the property on a street or in a neighborhood?**

That might sound like a funny question, but there is a large difference. A neighborhood is a community recognized by those living within it, thus, in higher demand. As a result, property values tend to be higher in neighborhoods than on just a normal street. I believe this was an incredibly important lesson I learned and wish I had learned earlier.

When checking out the neighborhood, what should you be looking for?

You want to be looking for “defects” that would negatively affect the property value. These would include:

- Is it a clean street, are the properties kept up, are the blinds open indicating residents care about the community?
- Are the properties all surrounded by fencing or are they open?
- Do you see flowers, plantings, and decorations in the yards? Do people spend time outside taking care of these things? Do they display holiday decorations outside? The more holiday decorations placed outside, the less they are concerned about them being stolen.
- Is there evidence of graffiti - on the street signs, houses, everywhere? Remember touch up painting indicates past “tagging.” The higher the street signs are mounted, the higher the crime potential.
- Are there “For Rent” and “For Sale” signs? This would indicate competition or a defect on the street.
- Talk to the neighbors. Say something like, “Hi! I am looking at fixing up this property. Can you tell me about it and the neighborhood? Do you know what the rent rates are like in the area? Do you know anyone looking to rent, sell, or buy in this area?” We once located a buyer within 15 minutes of talking to the neighbors.

Remember everything starts as a street, but when you find a neighborhood you have residents who care about their slice of the pie and will find much greater success as a real estate investor.

## Conclusion

I believe these three key areas will prove to be very valuable for you in real estate, as they have proven extremely valuable to me. Now go out there, build your brand and team, get the best of the best to work with and advise you, work with people you enjoy being around, and go make things happen!

I wish you luck and happy hunting for your next deal.

## ABOUT THE AUTHOR



*Paul Timmins is a real estate investor and educator out of Boston, Massachusetts. His first entrance into real estate was as a child where he lived in a duplex and watched his dad collect rent and deal with tenants. Later, his first property was a duplex where he had the opportunity to learn firsthand how to be a landlord. His real estate took off when he began to partner with others to acquire two and three family multifamily properties out of state. Paul currently*

*works for a real estate education company, Creative Success Alliance, where he works with individuals who are acquiring apartments, single family homes, multi-family homes, student housing, self storage and mobile homes.*

*If you would like to connect with Paul, you can do so here:*

**Email:** [paul@CreativeSuccessAlliance.com](mailto:paul@CreativeSuccessAlliance.com)

**LinkedIn:** [www.linkedin.com/in/paulvtimmins](http://www.linkedin.com/in/paulvtimmins)

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/BunkerHill>



---

11

---

# RE-DOING YEAR 1, 2, & 3

BY ANSON YOUNG

If I had to do it all over again, what would I do?

I wouldn't waste time with lengthy intros, that's for sure. So let's jump right in!

Be consistent, have a good attitude, and always be willing to learn. Do this, and you will do better than 98% of your newbie peers (and better than I was).

I am going to map out for you what the first three years would look like if I started over. I'm going to tell you what worked, what didn't work, and what I should have done. This recap will be full of actionable steps that you can take to learn from my mistakes. If I would have followed this, I would have three islands and five jets by now. Are you ready? Here we go!

## **Year One:**

### What worked:

1. After landing in a new city with nothing but **Rich Dad, Poor Dad** under my belt, experience-wise, I immediately started reaching out and networking.
2. I found someone more successful than myself, and pretty much begged her to let me do anything at all for her, all of her crap jobs in order for me to learn anything I could.
3. I started learning everything that I could about the business; starting with the free info online from great real estate communities. Then moving on to half a dozen books.

### What didn't work:

1. I had ZERO direction, I had no goals and no specific plan to implement. I had NO IDEA which niche I wanted to go into. I flailed around needlessly.
2. I PAID money to a guru in ANOTHER STATE. Needless to say, without local knowledge or consistent instruction, it didn't work out.

### What I should have done:

1. Made a plan, set goals, and executed it.
2. Worked on market knowledge.
3. Learned the ins and outs about areas/prices/etc.

In year one, I gained a ton of knowledge. By 'apprenticing' under an experienced agent/investor, I learned a TON of info... for FREE! She taught me how successful investors were making money in MY market. But I just didn't APPLY that knowledge directly.

At least not until I did a lot of reading and asked a ton of questions.

---

*By ‘apprenticing’ under an experienced agent/investor,  
I learned a TON of info...for FREE!*

---

## **Year 2:**

### What worked:

1. I TOOK ACTION and bought my first house! I dove in and it felt amazing!
2. I didn't have the funds so I RAISED private money for the down payment (thank you bro!).
3. I worked with another investor and got out of my comfort zone by KNOCKING ON DOORS! Talk about having to quickly overcome fears!

### What didn't work:

1. I had NO IDEA what to do with the property I bought. I tried to lease option it. I tried re-selling it. I ended up moving into it.
2. I STILL had NO GOALS and no specific plan to implement. Do you think I did great this year? No. How could I with no roadmap?

### What I should have done:

1. Found a niche and went after it with all of my effort.
2. Formulated an EXIT strategy (or multiple!) on my investment property.

My apprenticeship paid off, and I bought my first house from an investor who worked with my mentor! However, I had NO CLUE what I was doing, and I foolishly did not reach out for help! I could not find a lease option buyer, and my wife and I ended up moving into it. At least it was a nice house! It all worked out in the end. In this case, some ACTION was better than NO Action.

## Year 3:

### What worked:

1. I sold my 'investment' house for a profit and moved back to CO! I made a ton of money and inadvertently timed the sale right before the market crash in AZ.
2. After moving, I went to work for an experienced agent learning valuations, BPOs, and short sales. And I eventually got my real estate license.

### What didn't work:

1. I didn't REINVEST the profits from my first deal back into the business!
2. I let my initial momentum slow to a halt!

### What I should have done in addition to what worked:

1. I should have bought a 4-plex with my first property's profits and moved into it for a few years. My momentum slowed to a stop and I paid for that. I didn't do my next deal for another year!
2. I should have started to learn how to find motivated sellers that were off market on my own. Or at least I should not have put all my deal finding eggs in one basket!

It took way too long to do my first deal! In retrospect, I should have been working on a few good strategies. When the market shifts and all of your eggs are in one basket, you are going to wish you diversified your deal finding strategies!

---

*When the market shifts and all of your eggs are in one basket, you are going to wish you diversified your deal finding strategies!*

---

Find a few that work well, and CONSISTENTLY use them. Year three was pivotal - I got licensed, I learned short sales and valuations, I was ready to do my first flip at

the beginning of year four. Why did it take so long? Analysis paralysis, indecision, procrastination, etc.

If I could go back, knowing what I know now, I would have launched out of the gates in year ONE!

## Don't Be THAT Guy (aka Me)

What actions can you take TODAY, THIS WEEK, THIS MONTH and THIS YEAR to make sure you LEARN from MY mistakes and Succeed?

1. Find your niche - what do you want to do in this real estate game? Wholesaling, flipping, buy and hold, etc.? Figure it out! BiggerPockets has a great beginners guide to help new people figure out what they want to do. Go check it out.
2. Start networking - go out immediately and find people who are doing what you want to do, and then start learning everything you can from them. Buy them coffee, do crappy jobs for them while learning the ropes - whatever it takes.
3. Learn as much as you can - BiggerPockets.com, books, blogs, forums, etc.
4. Start learning YOUR LOCAL MARKET. Drill down into neighborhoods, find out where investors are investing and start knowing what is happening in those hot areas.
5. Start evaluating potential deals - get good at the numbers and know WHAT works in your market and WHAT DOES NOT.
6. Get out there and DO A DEAL. You won't get everything right the first time, but most investors will tell you that their first deal taught them INVALUABLE lessons for their next 20 or more.
7. Take CONSISTENT ACTION. My old mentor said "You are either CONSISTENT, or you are NON-EXISTENT". Everyone can be consistent for a week or two, but those who take consistent action over the course of YEARS will absolutely crush it in this business.

When you follow this, make sure to take me on a jet to your private island as a thank you gift!



## ABOUT THE AUTHOR:



Anson Young is a full time real estate investor and part time adventure-taker. He is a wholesaler and flipper who currently day-dreams of land-lording. Anson lives in Colorado with his wife and son (who joins him on the aforementioned adventures). He plays in a band and is way too into cold showers. In addition to this, Anson is an active contributor to the BiggerPockets Member blogs and community.

If you would like to connect with Anson, you can do so here:

**Anson's BiggerPockets Blog:** <http://bit.ly/1p7NwSv>

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/Anson>



---

12

---

# 12 THINGS I WOULD DO DIFFERENTLY

**BY SHARON VORNHOLT**

I love the subject that this book covers because I have run this thought through my mind probably a hundred times; “If only I’d known this when I first got started....”

Some people like to say that they wouldn’t change a thing. But I believe that the vast majority of real estate investors would disagree if they were completely honest.

“Shortening your learning curve = making more money quicker.” The truth of the matter is that you “don’t know what you don’t know” when you are just starting out.

---

*Shortening your learning curve = making more money quicker.*

---

So wouldn’t it be incredible to have a guide that would tell you what those (unknown) steps are that you should be taking; a guide that would have answers to questions you didn’t even know you needed to ask? That is just what you will get with this book, so here we go.

So if I were just starting out today what would I do differently?

A whole lot of things! But here are my top 12 things I would do differently.

## 1. I Would Have Started to Build My “Expert Status” Right from the Beginning

Even if you are brand spanking new to real estate investing today, if you dive in and become a serious student of this business you will accumulate a vast amount of knowledge within a relatively short period of time. Typically a few years pass, and one day you realize that you are beginning to feel like you “belong to the club.” This feeling is much like the one you had when you were a kid when you finally were allowed to sit at the grown-up table during the holidays.

One day you will suddenly realize that you actually know quite a lot about real estate investing and this business; in fact you know a whole lot more than the average person. When you are in the company of other investors you have ideas to contribute, and people listen to what you have to say. The problem is that most of us also come to the realization about this same time that we haven’t created any type of platform to share our knowledge and showcase our expertise like writing a blog or creating videos.

In the past couple of years I have come across some newer investors that have begun this process as soon as they started their real estate investing businesses. How I wish I had done that.

My advice is to take some steps early in your business that will ultimately position yourself as one of the “go to people in your industry.” When you have the knowledge and the experience to really “sit at the big table”, you will already have your platform in place.

## 2. I Would Have Worked Hard To Build a Strong Web Presence Right from the Beginning

Looking back, I wish I had created or invested in a different type of website right from the beginning and figured out ways to make my web presence stronger. Many years and many opportunities were wasted in the process.

Unless you are experienced at web design, you will probably put this task off for way too long. Then when you finally decide to do it, you really have no idea where to start so you will make some wrong choices. I finally have some great resources to point folks toward so they don't make the same mistakes I did.

### **Your First Websites**

My first website was one of those “package deals” or canned websites as I like to call them. You will typically pay a flat monthly fee, choose one of their templates and have a website up in no time. The problem with most of those sites in the early days, were that they look exactly like what they were; a cheap website that a beginner would have. This is not the type of branding you want for yourself and your business. Always be thinking about branding.

A much better choice would be to set up a basic Wordpress site and put a simple opt-in form on your site for collecting leads. This site doesn't have to be fancy. Using one of the platforms like Wordpress will allow your website to change and evolve over time as your knowledge and expertise grows.

If you are like a lot of folks and you have no idea how to do this, head on over to [fiverr.com](https://www.fiverr.com). You will find a whole list of people there that can do this task for you for just \$5.00.

### 3. I would Have Started My Blog Much Sooner

This is one of my biggest regrets. I waited years to start my blog.

Most of us think think we don't have anything valuable to say or to contribute when we are just getting started, but that couldn't be further from the truth. When you are new to real estate investing there will be a lot of other people that are new also. They will be happy to watch you grow and will celebrate your successes. They will also be grateful to have the opportunity to learn from your mistakes.

#### *Why Do You Need a Blog?*

Blogging is also one of the best ways to get known by your peers, build your credibility and develop your “expert status.” As you grow, you will have many opportunities come your way because of your blog. One unexpected bonus that I discovered was that I love to write. Teaching others how to do this business and how to side-step some of the problems I have encountered along the way has also been extremely rewarding. As I teach others, I learn so much. Blogging has given me a platform to do that. Wordpress.org is once again the platform I would recommend for your blog.

---

*Blogging is also one of the best ways to get known by your peers, build your credibility and develop your “expert status.”*

---

### 4. I would Have Added a Blog Component to my “Buying Website” Right from the Beginning

This one may have some folks a little puzzled; “Why would you do that”?

Your lead generation website for buying houses should be set up not only to attract motivated sellers, but to keep them coming back. Just getting someone there one time may not be enough. They may have found your website, but may not be ready to sell now.

By providing great content they will be more likely to return to your site again in the future. The lesson here is to be the business that stands out; dare to be different.

*What are some reasons they might not be ready to sell?*

These folks may not be ready to sell today for any number of reasons. Some of those might be:

- They haven't finished going through personal items in the property in the estate
- They may be afraid their job is in jeopardy and may just be looking at options at this point
- An absentee owner might be in the first stages of deciding whether or not to sell the property; owning this property just may not be painful enough (yet.)
- The homeowner has not fully realized that they cannot avoid foreclosure. Once again, they are just doing "research."

It doesn't really matter what the reason is; they just aren't ready to sell now. Your goal should be to find reasons that they will come back to your site. You can do this by offering content and videos that would be of interest to them.

If having a regular blog feature isn't feasible then here are 4 ideas for you:

1. Post some "evergreen content" that folks they can come back to; some pointers or advice that won't become dated over time. If you just post something new once a month, it gives potential sellers a reason to come back to your site when they are ready to finally sell. If possible have them subscribe so that you can put them into an auto-responder series that will keep your business fresh in their minds.

2. Create an “ethical bribe” to get them to subscribe. This could be some type of guide or a list of helpful tips on moving or getting your house ready to sell.

3. Create a few “how to video’s” for simple repairs, simple staging tips or even lawn maintenance tips. There are a million topics you can choose from.

4. Simply find something the average homeowner will like. Always be sure to say something like “Check back for more tips, videos and other helpful ideas to help your next move go smoothly.”

## 5. I Would Have Started To Use Video Sooner

I have mentioned video several times already, but I can’t stress enough how important it is to your web presence. Creating some simple videos will catapult both your web presence and your credibility.

Like most people, I waited way too long to begin. I read articles and kept watching all of those videos that told me exactly what I needed to do, but I still didn’t take action. Once I finally did, I became a video creating monster. One day I actually said this out loud, “Good grief; it really is that easy.”

You don’t need a lot of fancy equipment to get started with video.

### **There Are Just 3 Things You Will Need to Make Videos**

1. Some type of camera

For making many types of videos, all you will need is your webcam on your computer or your smart phone. You can quickly and easily do video interviews, “how to videos” and post helpful tips. If you have an iPhone or other smartphone you can make short videos just about anywhere.

I have a great little camera a Kodak zI8 that I bought a few years ago before I had my iPhone. It was just over \$100 and it takes great still shots and video.

2. An external microphone

I would recommend that you buy an external microphone, and that will set you back less than \$40 for a decent one. This will improve your sound quality tremendously.

### 3. Decent lighting (either natural or purchased)

My home has a lot of trees in the yard, so we don't have a lot of natural light at times. I purchased a photography/video lighting kit that I use all the time from Amazon.com. These kits start at about \$50 and go up from there.

Remember that you don't have to be a "movie star" to create great video. People want to learn from "regular folks" just like you and me. In fact, you can make videos where you don't even make an appearance in the video if you don't want to. Just teach someone something. It really is that simple. There are literally a million ways real estate investors can use video in their business and on their blogs and websites.

## 6. I Would Have Outsourced Much Sooner

This is probably the one thing I regret the most.

Most of us can't add employees right off the bat. In fact some of us (like me) don't want employees. But I do need help, and there are many avenues that are available to all of us that don't involve putting someone on the payroll we are "responsible for feeding."

I think the easiest way is to solve this problem is through outsourcing. There are a number of reputable sites like Odesk and Elance to name just two. You can find workers that have particular areas of expertise then hire them by the project or for a certain number of hours a week. They are affordable and remarkably good at what they do.

*What could you do with an extra 8 hours a week?*



What if freeing up those 8 hours a week would only cost you \$25 to \$30 for those 8 hours of outsourced work? What could your virtual assistant do for you that would make you a huge return on that investment?

I also love Fiverr.com. You can get just about anything done on Fiverr for just \$5 bucks. They are great for:

- Graphics such as creating E-book covers, podcast images
- Creating intros and outros for your podcasts and videos
- Solving computer issues
- Setting up Wordpress sites
- Writing basic press releases

There is no end to the talent you will find on this site. You can find literally thousands of folks willing to do endless tasks on Fiverr for \$5.00.

## 7. I Would Have Automated My Direct Mail Campaigns Much Sooner; it's Actually Cheaper to Outsource Them

I spent a lot of years doing my direct mail letters myself thinking that this was the most economical way to manage this process. I reasoned that I could print them, and then I could sit in front of the TV and fold, stuff and hand address them in the evening. My daughter also agreed to give me a hand. I hate to admit it, but we did this for far too long.

Don't be fooled into thinking this is the best use of your time.

*This habit is costing you money!*

It's costing you money because it is almost impossible to stay on track with your direct mail campaigns when you try to do it all yourself. The number one reason people fail at direct mail is that they don't have a system set up to keep this process on track. To be effective at direct mail you have to mail monthly. Before you know it you have missed your deadline for the month. Shortly after that you realize it has actually

been two months since you got your direct mail letters out. Once you get so far behind, you inevitably throw in the towel because this process has become so difficult.

---

*To be effective at direct mail you have to mail monthly.*

---

### **Making Direct Mail Easier**

There are a number of options for you to make this process go smoothly. You can purchase a list of names from Listsource.com or a similar list source provider. There are a lot of companies that will do this for you, but most people say that Listsource.com is the “gold standard” in that industry.

These companies can get all types of lists like absentee owners, free and clear properties, pre-foreclosures, foreclosures and many other popular list types. You can then upload this list to one of the direct mail companies and they will do your mailing for you. I have some resources for that too now.

### **How much does this cost?**

A postcard printed and mailed by someone else will set you back just about the amount the actual postage would cost you. Think about that for a minute; they will do all of the work for the price of a stamp. Outsource your mailings so that you have a steady stream of leads coming in all the time.

Choose a company that offers multiple types of mail pieces. You definitely want one that offers both letters and postcards. Postcards are more economical to send out and will work for most niches except probates. Yellowletters.com and Click-to-mail are two companies that a lot of folks use.

## **8. I Would Have Taken Advantage of More Avenues to Shorten My “Learning Curve.”**

Like a lot of other people I am an avid reader, and I have always considered myself to be a lifelong learner. I frequently listen to webinars in the evening. There is no denying that there is an endless supply of free information available to all of us.

But most people will reach a point where this “hunt and peck” method of finding information is just not the most efficient method of learning. This is especially true if you have reached a more advanced stage in your business. You are eventually going to have to invest in some programs and most likely hire a coach. Not doing this will actually stall your growth. Remember that “coaches even have coaches.” They never quit learning and getting better at what they do.

---

*Remember that “coaches even have coaches.”*

---

I have invested in a number of programs myself over the years. A better way to put this is that I have invested in myself both personally and in my business. In most cases, I wasn't disappointed. There are always a few that you wish you had skipped, but for the most part this investment in myself got me over a particular hump or moved my business forward in a significant manner. One thing I will say is to choose your program wisely and make sure it is right for you at your particular stage of business.

I don't recommend spending a lot of money on these things when you are brand new. It is just too overwhelming; you get so much information thrown at you that none of it sticks. People tend to just give up in frustration when this happens. But once you start to face hurdles or need big chunks of information, unless you want to stall the growth of your business, you will need to make this type of investment in yourself.

## 9. Masterminds and Accountability Partners

Two things I didn't do for a very long time were to get an accountability partner and join a mastermind group. The main reason is I just didn't know that I needed to do

this. Both of these things are free, and they have catapulted my growth. Get on board with this right from the beginning.

## **Accountability Partners**

When you are looking for an accountability partner, you want someone that is also a real estate investor. This person doesn't have to be in your exact niche or have the same investing strategy, but they do have to understand your core business. They should also not be located in your area, because you can't share information freely with someone that is a competitor.

Your ideal accountability partner should be someone that is supportive and will help keep you on track where your goals are concerned. But you also need someone who will actually hold you accountable for what you say you will do; someone "that will hold your feet to the fire" when you need it. My accountability partners and I bounce ideas off of each other, feel like we can be candid with each other and have become great friends.

---

*Your ideal accountability partner should be someone that is supportive and will help keep you on track where your goals are concerned.*

---

I have two accountability partners now and they each live in a different state than I do. We made the decision sometime ago that the three of us would get together once a week for our call. In our case, three minds are better than two.

## **Mastermind Groups**

If you can't find an existing mastermind group to join (most will be limited to a certain number of people), then start your own. The key to a successful mastermind group is to have a diverse group of real estate investors that are at similar stages where their business growth is concerned.

But here's the thing; you want them to bring different skill sets to the table. You are there to help each other grow and fill in "gaps" in your learning, provide strategies that have worked for you, and to be able to learn from folks that already have experience in areas that you are lacking. Being part of a mastermind group is absolutely life changing and will benefit your business in ways you cannot imagine.

## 10. I Would Have Developed Secondary Income Streams and Passive Income Streams Sooner

For most real estate investors, this passive income will be come from owning income producing property. There are certainly other ways such as note buying and tax liens to achieve this result without being a landlord. But owning rental property is by far the most popular way to develop a passive stream of income.

For any real estate investor that goes down this path, the next decision will be what type of property they will buy and hold. Most people start out with single family homes although some real estate investors jump right in to multi-families and commercial properties. Find your comfort zone and whatever you choose will be the right decision for you.

### **Should I Go Big or Stay Small?**

Deciding whether to "go big" or stay small will inevitably come up at some point in your investing career. If you get hung up on this point, I would challenge you to ask yourself this question;

"How many paid off properties will provide you with the lifestyle you are looking for? That you want?"

Is it 10 paid off properties netting you \$8000 or \$9000 a month? Maybe you want 20? I think you will find that the number is smaller than you originally thought you would need.

Once you have decided on how many paid off properties you want then you need to figure out how to get there, without being on the "30 year mortgage treadmill." One

way to do this is through wholesaling properties that don't meet your buying criteria and then paying down the loans on your investment property with these chunks of cash.

Just don't wait too long to get started.

What if you don't want to be a landlord?

If this sounds like you, then there are other ways in addition to being a landlord or buying tax liens or notes that will provide you with passive income. Here are some things to consider:

- Seller financing properties for other investors would be another way to develop strong passive income streams if you have the means to do this. Investor to investor seller financing also isn't covered by the SAFE Act of 2008. Be sure to get up to speed on the Dodd Frank Act, too, before going down the "seller financing path".
- Maybe teaching others is something you would be interested in.

You could create informational products to teach others about real estate investing.

If that doesn't sound like something you would enjoy doing then look into affiliate products.

I have one friend that owns several multi-family properties that also has a thriving ATM business; talk about making money while you sleep. Owning ATM machines is a great way to add passive income to your real estate investing business, and it's a relatively low investment business compared to buying property.

Develop coaching programs to help other folks learn the business of real estate investing. While this is not a passive stream of income, it is another way to make money in this business and help others at the same time.

Whatever choice you make, start early to develop additional streams of income for yourself.

## 11. I Would Have Started to Develop My Personal Brand Sooner

I want to start right out by saying that personal branding is so important right from the beginning. If you haven't already done this, everyone should buy their "name domain" now. I haven't gotten my personal branding site up yet, but I have the domain "sharon.vornholt.com". If you have a common name, you may really have to get creative with this one. For instance, Mike Smith might have to get a domain that is something like MikeDanielSmith.com or Mike-D-Smith-Atlanta.com. Just be creative, but nail down a domain.

---

*If you haven't already done this,  
everyone should buy their "name domain" now.*

---

You may have a great investment company, but chances are that unless you have a really well known or catchy name like "MemphisInvest" most folks are never going to remember the name of your company. That is especially true if they are a motivated seller that just "happened on your site" or is someone you have only spoken to on one occasion. But if "Sharon Vornholt" made the impression she should be making when she speaks with a motivated seller, they are much more likely to remember her name. (This works even better if you have a name folks can actually pronounce and spell).

*What should I do with this domain?*

At some point you should have some type of a website with a blogging component for your business. In time, most real estate investors will also have a buying site, possibly a selling site and a cash buyer's site. You may also have other types of websites depending on your business model. The point is that you will have multiple websites and many different pieces that make up your business.

Think of your “name domain” site as being the one that is your home base. This is the site that you can really tell people who Mike Smith is, all about your company “ABC Property Investments,” and really showcase all of your expertise all in one spot. From this site, you would put a link to all of your other individual sites from this home base. Now you have really built your brand.

One other benefit of doing this is if you ever decide to change your business model for instance from being a wholesaler to being a note buyer or a real estate educator, you will already have your personal branding in place; they will already know your name.

Don’t wait until you have been in business for many years like so many of us did to make a focused effort at personal branding.

## 12. I Would Have Created Systems to Help Others Much Sooner

We touched on this earlier, but I want to talk a little bit about some more advanced types of learning. Sites like BiggerPockets and blogs like mine are great places to learn. These types of sites have been invaluable to me. But there will come a day when many folks will need “something more.”

They are going to need some type of program; a more formal type of mentorship or long term coaching. And these will all be paid programs.

All seasoned investors come to a crossroads where they simply cannot help all of the people that contact them every week on a one to one basis. They discover that what is being asked of them is to devote 2-3 hours a day or more in some cases answering questions and providing guidance to folks in addition to trying to run and to grow their own business. It just becomes an impossible situation.

So what’s the answer?

Let me just say upfront; none of us likes those sleazy, guru types selling overpriced, poor quality programs. But I know first-hand that there are a lot of folks in this



business that have put together quality, affordable informational products and coaching programs that are designed to fill in those inevitable “learning gaps” folks come across. This will indeed become one path of passive income for some people.

## Final Thoughts

I hope reading this guide will help you to:

- End procrastination and step outside of your comfort zone for good
- Take actionable steps to build your business and your brand
- Open your eyes to the bigger possibilities that are waiting for you if you will only take the first steps

Thanks for reading!

## ABOUT THE AUTHOR



*Sharon Vornholt is a full time real estate investor, writer, blogger, coach and internet marketer. She is the owner of Innovative Property Solutions in Louisville, KY. Sharon has been investing in real estate since 1998. She owned and operated a successful home inspection company for 17 years. It was during that time that she begin investing in real estate. She has been a full time investor since January of 2008. Sharon is an experienced rehabber, a buy and hold landlord, and she now specializes in wholesaling in the niches of probates and absentee owners. She is also an expert in real estate marketing. Sharon runs her own real estate blog and is also a contributing author for various national sites.*

*If you would like to connect with Sharon, you can do so here:*

**Website:** <http://louisvillegalsrealestateblog.com/>

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/svornholt>



---

13

---

# IT'S NOT ALWAYS EASY BUT IT'S WORTH IT

**BY KAREN RITTENHOUSE**

If I were to start my real estate investing career over again today, knowing what I know now, what I would do differently is the following (in no particular order of importance):

**I would accept how difficult it was going to be.**

I had never owned a business before. We knew this venture would be tough because it was just us - no one else was going to be responsible for anything. No longer could we go home at night or on the weekends and just “veg-out”. This was like having a baby - 24 hours a day, 7 days a week of complete responsibility.

And, like having a baby, unless you’ve experienced it, you don’t understand what it means. Mental understanding is nothing like real-life-experience understanding. I expected it to be difficult - I had no idea how far from accurate my expectations were.

**I would try to keep in mind how rewarding it would become.**

We had goals and a business plan. We had a big “why?” when we started out that we used to keep ourselves from getting off track or giving up on what we were trying to accomplish. However, as big as we stretched our goals, as detailed as our business plan was, as important as our reasons to succeed truly were, I had no idea the size of the reward we would be reaping if we refused to be deterred.

I cannot stress enough how large the obstacles are that get thrown in front of you over and over and these obstacles are ever-changing. The temptation to say, “this is too hard - I’ll try something else instead,” is HUGE. Every time you give up on your dream and start toward a new one, you are starting over. The challenges may be different, but they will still be there. To win big, you have to grow big. To grow big means overcoming big challenges. We did, but they would have been far less daunting if I’d had any idea of the enormity of the rewards waiting further down the line.

---

*To win big, you have to grow big. To grow big means overcoming big challenges.*

---

**I would know that true wealth was going to take longer than all the gurus said it would.**

“Just buy my product / follow my system and you will see big results.” I have yet to personally meet anyone who is wealthy following the process laid out by a program

they purchased. Everyone I know of true wealth followed the experience of a coach/mentor as they blazed their own trail. It looks easy on TV; it sounds easy at a seminar, but it is hard work and it takes longer than you think it will. It's important to know that when you're starting out so you're not disappointed or distracted.

**I would realize how hard working with my spouse would be.**

Who's the boss? Yeah, right. And that's only one problem. Who's right? Who knows more? Who's point of view is best? Who gets to have the final decision? It's one thing if you have a business partner that lives in a different house - way different. In very little time, the business is the only thing you talk about. After all, what else is there? Exactly...

**I would pay less for private money.**

Starting out, we offered too much out of fear that we wouldn't get it. It turns out that people are happy to place their money safely in an investment that is collateralized by real estate. Years later, we took profits to pay off the original "expensive" money when we gained the knowledge and expertise necessary to offer less return. Most of those lenders were so happy with the regularity of their returns that they chose to stay with us even when offered lower interest rates. Take care of your private money lenders and they will stay with you forever. (And, they encourage their friends, family, and co-workers to invest as well.)

---

*Take care of your private money lenders and they will stay with you forever.*

---

**I would sell more properties instead of holding everything.**

Even though it did teach us to be lean and clean without waste, I would definitely sell more. In the beginning, we had a long term picture that involved holding properties to get there. Naturally, the larger our portfolio, the sooner we could get to that end goal. Because of our tenacity, we refused to sell anything for about five years.

During that time, we created quite a hefty portfolio. Looking back, holding everything was probably not necessary, and having chunks of cash now and then would have allowed us to breathe better and make some different investing decisions.

## What I Would Do The Same

If I were to start my real estate investing over again today, knowing what I know now, here is what I would do the same:

### **Pay for a good real estate coach - from the beginning.**

Who you pay for coaching will change over time. There are lots of investors who know more than you do, especially when you're first starting out. You want to constantly be following someone who is successfully doing way more than you are and is actively doing it - not someone who used to do it. The economics and legalities of what we do change at lightning speed and it's important to be mentored by someone who is actively engaged in the business you want to be learning. Far better to walk through a minefield in the footsteps of someone who's already crossed it successfully.

---

*Far better to walk through a minefield in the footsteps of someone who's already crossed it successfully.*

---

### **Get involved in a real estate mastermind group to share ideas of what works and what doesn't.**

If two heads are better than one, how about six or seven? Not only can they help guide you and point out things you would never think of on your own, they also hold you accountable. When you meet monthly and say, "this is what I'm going to accomplish in the next thirty days," within thirty days you'll get it done. After all, you don't want to go back and tell them you weren't successful!

### **Enter into this business with my spouse.**

As difficult as this was - can you say “counseling?” - my spouse turned out to be the best partner I could ask for. There are a number of reasons for this - including the fact that no one else cares nearly as much about whether or not each deal makes a profit. No one will ever look out for your business more than the person who gets 100% of the profit or loss that you get.

No one will ever care as much about how every decision affects you and your family for the long term as your spouse. Yes, it’s tough, but two eyes and two brains watching out for and learning about everything that needs to be done turns out to be a big advantage.

Get outside help to guide you on how to make decisions together, divide the responsibilities, and keep your marriage as well as your business intact. One thing a lot of our students say is, “you’re so lucky your spouse is in this with you to help you and understand all that’s involved.” I have to agree.

### **Focus on the long term rather than short term results.**

Disappointments in the short term happen often and the results can trip up your enthusiasm and stamina. Always have those long term reasons and goals in front of you to keep you putting one foot in front of the other, especially when overcoming the big obstacles. We use lots of projection calculators to see where we’ll be in 5, 10, 20, 30 years. Today may be lean but, boy, retirement looks amazing!

### **Refuse to be stopped.**

No matter what the media says, the banks do, the legislators change, the tenants throw your way, the private money lenders require, the attorneys ask for, and on and on and on. Tackle bite sized pieces - one day at a time - one project at a time - one document at a time. Keep overcoming. That’s what this business requires.

### **Hold as many properties as we could.**

It made life in the short term tough, but the long term rewards are so worth it.

### **Continue to create business plans as often as possible.**

These keep you on track. Business plans make you aware of where you've been, where you are, and where you are heading. They're the only way to plot progress or distractions and for years they've kept us on the One True North toward our goals.

### **Build a team and staff.**

Real estate investing is not a solo business. Our first hire was a bookkeeper. Bookkeeping is essential but not something we wanted to spend our time on; it's not something that generates income. Find out your pain points and hire others to do what you don't want to do or can't do.

Your job is to generate income. One of the best ways to do that is sitting in front of sellers negotiating deals. Work that can be hired out and handled by others should be hired out and left for others to handle.

### **Surround ourselves with like-minded people.**

We all need peer groups. A mastermind group of other investors doing what you're doing will help you make decisions, point out alternative solutions, keep you motivated, offer support when you struggle, and hold you accountable to your own goals and timeline.

### **Keep a real estate and business coach.**

For years we had real estate coaches. Once we had real estate investing somewhat mastered, our next struggle became owning and operating a business - another new frontier. So, we found someone who was successful at doing exactly what we wanted to do.

Our holding company was operating in the red at that time. We were confident it would turn around as the economy recovered and property values began to rise. Our business coach looked over our companies, made some tweaks to our operations, and within a matter of months that same company was six figures in the black.

I can't stress strongly enough that you don't know what you don't know. You can't ask the right questions when you don't know what they are. Find someone in

every area of your business who has “been there, done that” and will point out what you don’t know today.

---

*Find someone in every area of your business who has “been there, done that” and will point out what you don’t know today.*

---

**Always stretch beyond what we believe is possible.**

This business requires a lot of stretching. There are so many moving parts and a lot of them are frightening - dealing with mortgage companies, private lenders, hard money lenders, attorneys, title companies, insurance companies, local/state legislation and the IRS, just to name a few.

You must be willing to function outside your comfort zone and go where you’ve never gone before. Those who constantly retreat back into the safety of what they already know are never truly successful.

**Have a clear vision of where we are headed and stick to it.**

That vision allowed us to sacrifice for the business even when it was painful. We always had our big picture plan emblazoned in front of us.

**Create goals.**

It’s so true that if you don’t know where you’re going, you don’t know how to get there, nor will you know when you’ve arrived. But it’s actually much more than that. The first time we wrote down our goals, we wrote our one, three, five, ten, and fifteen year goals. Who knows what in the world will happen in fifteen years? I wrote “retired”.

Fascinatingly enough, we accomplished our one, three, and five year goals all in the first six months! A couple of things about that: (1) we’d never written or tracked goals before so we had no idea how much we could accomplish in a specific time period (2) we were moving way too fast! The next year, we hit our one year goals in 8



months. The third year, we hit our one year goals in 10 months. We can now predict, with a fair amount of accuracy, just what we can accomplish in 12 months.

Every year, our goals are much larger for the year ahead than they were the year before. And, every year our businesses have grown exponentially. Coincidence? I believe the amazing growth is due to the fact that we pay attention to the details. The fun part is when you review those goals to see if/when you hit them, and the next fun part is being able to stretch them.

Without goals, you have no frame of reference and no scorecard. Without a scorecard, you have no idea how you're playing the game, so you can't correct and improve and, by the way, you can't celebrate unknown victories!

**ALWAYS have contracts with contractors including pay schedules and deadlines.**

There are not enough pages to write out the importance of this!

**Never depend on banks.**

Ever.

We started our business in January 2005 and didn't want to depend on banks. In 2008, we were glad we hadn't. We have a neighbor who had all of his commercial loans with one lender. Unfortunately, his private residence was tied to them. Recently, this lender decided to no longer do commercial loans so they stopped renewing the ones on their books.

Our neighbor was caught in this trap and unable to find commercial financing quickly enough elsewhere. He lost - not only his commercial properties, but his personal residence. Banks can change/create the rules without your approval. And they do.

**Build good, solid and honest relationships.**

**Keep your word no matter what - even if it means you don't eat.**

## ABOUT THE AUTHOR:



*Karen Rittenhouse and Jim Williams have been investing in real estate full time since January 2005. In that time, they have purchased hundreds of single family properties, opened a full-service real estate brokerage, a property management company, a coaching/training business, and Karen has written multiple books on real estate.*

*If you would like to connect with Karen, you can do so here:*

**Website:** <http://www.KarensPerspective.com>

**BiggerPockets Profile:** <http://www.biggerpockets.com/users/krittenhouse>

# THANK YOU

I want to express a deep sense of gratitude for the 12 authors of this book who have donated their time and expertise to help others learn from their stories.

Thank you!

This book represents the true spirit of BiggerPockets - that knowledge is best gained through community. If you are just getting started with your real estate investing journey, I invite you to come join the world's premier destination for real estate professionals, BiggerPockets.com.

BiggerPockets is a 160,000+ member strong social network of like-minded real estate entrepreneurs looking to help each other succeed.

The following is a list of *The Nine Core Beliefs of BiggerPockets Members*, which will give you a great overview of who we are and why we do what we do.

## **1) Real Estate Education Should Be Pitch Free**

There is a time and a place for making money off information - but BiggerPockets is not that place and today is not that time. Members at BiggerPockets believe in openly sharing advice and information without a hidden agenda. Please do not jump on the forums and talk about your website or product. If you want to post an ad, please do so in the BiggerPockets Marketplace, keeping our question and answer forums pitch-free.

## **2) Your Past Failures or Successes Don't Determine Your Future**

You may have failed in the past or been wildly successful - but the only thing that matters as you move forward is your next action. BiggerPockets members, whether

newbie or seasoned pro, are continually learning, growing, and sharing to redefine their future.

### **3) There Are No Secrets to Success**

Most real estate Gurus pitch a "secret" to success and will only share that secret after three monthly payments of some ridiculous amount. At BiggerPockets we believe that the only secret is that there are no secrets. All the information you need to become a successful investor is out there to find. BiggerPockets is designed to bring that information together, in one place, and create a community to discuss that information in a pitch-free, safe environment.

### **4) "Get Rich Quick" is Not a Reality**

Yes, people have made money quickly in real estate. However, the overnight successes are simply the exception, not the rule. BiggerPockets' members believe that true wealth is made from solid education, a strategic plan, proper implementation, and time.

### **5) No Question is a Bad Question**

You've heard the cliché before: There are no dumb questions. At BiggerPockets - we encourage open discussion about any topics relating to real estate investing. If you can't find the answer through our search tool on the site, then simply ask it in the forums. The answers to your question will not only help you - but countless others who come behind you to read it.

### **6) What You Put In, You'll Get Out**

The most successful users on BiggerPockets are ones who have fully committed to jumping in with both feet. By engaging daily with other investors, asking and answering questions, reading blogs, and in any other way participating - you will get results. You will receive back what you put in.

### **7) Investors Should Add Value**

BiggerPockets' members believe that investors should be respectful to the community they work in, seeking to better the areas around them and provide valuable services to their local community.

## **8) There Are Many Paths to Real Estate Success**

There is no "one single way" to invest in real estate. Real estate investing methods are as diverse as the investors who use them. That said - there are definitely many ill-advised and incorrect ways to invest in real estate, which we make no qualms about discussing.

## **9) We Help Each Other Succeed**

BiggerPockets is here for you. Our community exists to build each other up in success and add a voice of reason and responsibility to the investing community. Our members deeply and honestly care about the success of other members and work hard to build our industry as a whole.

If you want to be part of a movement of movers and shakers that's starting to make an impact in the real estate investing world, join us. If you want to be part of a group of entrepreneurs dedicated and committed to building real and serious wealth through real estate, join us. If you want to engage in a community of likeminded real estate enthusiasts without being pitched to buy a \$997 product in exchange for knowledge, join us. Membership to BiggerPockets is free.

If this sounds like too much work and you're unwilling to make changes in order to live a better life, no worries. Thanks for your time, feel free to read some content around the site, and we wish you the best of luck in the future. We'll be here when you are ready.

**[Click here to join the BiggerPockets Social Network](#)**

