

Ready, willing, and able

You'll need to be all three to work with clients who buy residential investment properties.

by Heidi Russell Rafferty

Jim Ryan is a self-described treasure hunter. He has always enjoyed finding diamond-in-the-rough properties, putting some work into them, and selling the resulting jewel for a nice profit. Trouble was, he couldn't find a real



estate agent who knew enough about investment properties to help him in his quest.

So four years ago, Ryan got his real estate license. Now, he and his TexInvestors team at RE/MAX Premier Group in Plano specialize in helping people see real estate as a money-making enterprise. Ryan is one REALTOR® who recognizes that the stock market's volatility adds shimmer to real estate as an investment. By showing buyers how property can boost their long-term financial goals, you, too, can attract some new clients and win referral and repeat business to boot.

Selling real estate as an investment is easy once you show buyers the true numbers, says John Hayes, president and CEO of HomeVestors of America, the Dallas firm that has made famous the slogan “We Buy Ugly Houses.” When you compare stock market activity during the past 50 years to the median value increase of real estate property, “real estate wins every year,” Hayes says.

Plus, buying real estate gives the investor more power and control over future earnings, he points out. “If General Electric is selling at \$20 a share, you can't negotiate. You pay a face value for the stock. We may buy (a property) for \$67,000, put \$10,000 into it, and then sell it for \$105,000 or rent it over a period of time. So real estate is the clear winner over stock, and it's not as volatile.”

Undoubtedly, there are increasing numbers of people who are using real estate to further their financial goals, says Sherry L. Lechter. She's co-author with Garrett Sutton of *Real Estate Advantages: Tax and Legal Secrets of Successful Real Estate Investors*, which is part of the *Rich Dad/Poor Dad* best-selling book series.

“REALTORS® have a tremendous opportunity to move away from being transactional to becoming an advisor,” Lechter says. “The lifetime value of educating and helping someone is huge. She adds that this new shift in public awareness carries across the board in terms of age groups.

“We hear from people in their early 20s who are owners of a dozen real estate properties to baby boomers who are coming to the party because they realize their 401(k) isn't enough,” says Lechter. And Hayes points to a statistic released by the National Association of REALTORS®, showing that about 30% of homes sold are second-home purchases.

So how do you make investment real estate a part—or even the majority—of your business? Here are tips from Ryan, Hayes, and Lechter:

Incorporate investment services

To become the go-to REALTOR® for investment services, you first need to do a lot of homework—both on the would-be clients and the properties on the market. Your ultimate goal is for other REALTORS® to point investment buyers your way.

Understand that the investor is a different type of buyer than the dweller-seeker. Investors are emotionally detached. They either want to be a landlord or build a portfolio.

Hayes says there are plenty of people with regular jobs who buy a couple of houses a year on the side to rehab and sell for a profit. Ryan notes, “Property performance is what they look for.”

Put on a T-shirt, some old jeans, and sneakers. That way you can thoroughly research properties, says Ryan, adding that no one on his staff arrives at work in a shirt and tie. They come ready to get dirty, entering crawl spaces and climbing into old attics. Your job is 90% research and 10% communication, Ryan says. He does 100 online searches a day, researches 200 properties per week, and narrows them down to about 25 that meet a certain dollar criteria, which he visits to evaluate in person. He never recommends a property that he hasn't seen personally.

“If you don't like treasure hunting, it's not for you,” he says. “If someone calls us, I already know right now 25 properties that meet their criteria, because I'm out there doing it every day.”

Ryan adds that the typical real estate property may stay on the market 30 to 73 days, but the investment properties he deals with are on the market three to 11 days. “I don't wait for something 60 days,” Ryan says.

Almost 50% of all Texas homebuyers surveyed said that purchasing a home is a better financial investment than stocks, while 30% believe a home is about as good an investment as stocks.

“This investor, if he’s going to call me, (he’ll) say, ‘Pull the trigger yesterday,’ not this summer.”

Know the neighborhood—and active investors.

Hayes says he targets desirable neighborhoods that may have older houses but are becoming hot in the community’s mind. He also decides whether the property is in a good rental market. “It’s not so much the house structure,” Hayes says.

Lechter also advises buyers not to invest until they are sure they will have positive cash flow. For example, many investors may turn away from an apartment complex with a 30% vacancy rate. But if you have a client with good property-management skills, you should find out the cause of the vacancies and determine whether it is a curable problem. Can your client fix it and get 100% occupancy? If so, that may be an opportunity to purchase the property at a lower value because of the high vacancy rate.

Hayes also investigates who else is buying, what types of neighborhoods they target, and if they gravitate to certain types of properties. Doing so gives buyers their own market for resale if they grab the property first.

Focus on one type of investment property.

Lechter says your client may be interested in commercial properties—doctors’ offices, for example. Rather than dabble in apartments on the side, that client should only buy medical facilities. By immersing himself in the commercial healthcare niche, he becomes an expert on what makes those properties attractive to potential renters or buyers in the medical community. Explain to buyers that it also behooves them to surround themselves with people in the know about their investment niche, such as attorneys who can help with transactional details specific to their needs.

Advise your clients

You will continue to build loyalty among investor clients if you offer sound insight into their buying decisions. Here are ways to do just that.

Offer three top reasons for investing. Ryan says those three reasons are: leverage, property improvement, and control of the investment. “If I want to buy \$100,000 of Wal-Mart stock, I need cash. But if I want to buy property in Plano (worth \$100,000), I can buy it with \$5,000.”

Once in the property, the investor can physically change it and upgrade its value. And the investor can refinance it if he chooses to do so.

Demonstrate how the property will build wealth. Hayes tells people to use as little of their own

cash as possible when buying an investment property, so they can have more cash available to leverage into more properties.

Here’s one example of a property Hayes recently bought with very little cash: a house was selling for \$75,000. Hayes put up \$1,000 initially to confirm he would buy the property. “That may be the only money out of pocket,” he says.

Because the property was in bad repair, Hayes acquired a 45-day interim loan that ran at about 18% interest—not a 30-year mortgage at the 6.5% interest rate. “It’s called, ‘hard loan money,’” Hayes explains.

He borrowed \$85,000 so he could have \$10,000 to fix up the house during the next 30 days. Then he found a renter who would pay \$1,100 a month.

After the repairs, an appraisal revealed the house was worth \$115,000. Hayes immediately paid back the interim loan and got a 30-year mortgage, with all of his closing costs included in the loan.

Plus, the renter had paid the first and last months’ rent and a \$1,000 security deposit. The monthly mortgage payment is less than \$1,000 per month, and Hayes now has a positive cash flow.

Emphasize the importance of an exit strategy. Hayes says, “It’s the first thing we think of. Is it an ugly house (to be refurbished and resold) or a rental house? How much will I pay for it? How much to finance it? What are we going to do with it if we have it?”

The buyer has several options to consider before purchasing.

Highlight tax advantages.

Lechter’s book outlines 1031 exchanges, which roll the gain from a buyer’s old investment property to a new one. (When the buyer sells the old property, he defers taxes if

The median income of Texans who purchased non-primary residences/second homes in 2006 was \$93,100, compared to a median income of \$75,000 for people who purchased a primary residence. The median purchase price, though, was \$157,000 for those buying a primary residence and \$135,000 for people who were not.

he reinvests all of the proceeds from the sale into a new property.)

The 1031 exchange is for property that is bought with the intent of immediate sale rather than the intent of holding it for investment, she writes.

Avoid money pits. You must evaluate the property prior to sale, Hayes advises. Last year, his company bought more than 7,000 properties, and every once in a while, a “money pit” surfaces, he admits. But it’s rare, especially if you protect yourself with a thorough appraisal.

His company has developed proprietary software that helps his staff evaluate each home, but you can follow some of these same guidelines: Compare the square footage and amenities to comparable properties. Estimate repair costs—paint, carpet, foundation repairs. And determine how much the house will be worth after it’s repaired, how much it will cost to get it repaired, and what the price is that a buyer should pay to make sure he’s getting the property at a substantial discount.

“We try to buy at 65% of the after-repair value,” Hayes says. “It’s a good rule of thumb for an investor to follow. Fifty percent—that’s great. Sometimes

it makes sense to buy at 70 or 80%, depending on your exit strategy.”

Decide if the investment real estate market is right for your personality. Ryan says that if you’re going to give clients the best advice possible, first you have to like them. This may sound like a joke, but Ryan is quite serious.

“Investors are a hassle,” Ryan laughs. “If you understand the hassle, it’s OK. A lot of REALTORS® understand the hassle but don’t want to deal with it.” Ryan brings up an analogy, pointing out that he’s good at mowing yards but doesn’t like messing with it. If you *do* like being involved with investors, though, there’s certainly a business opportunity in helping them achieve their goals. ★

Heidi Russell Rafferty is a freelance writer in Lexington, Kentucky, who specializes in real estate and small-business issues.

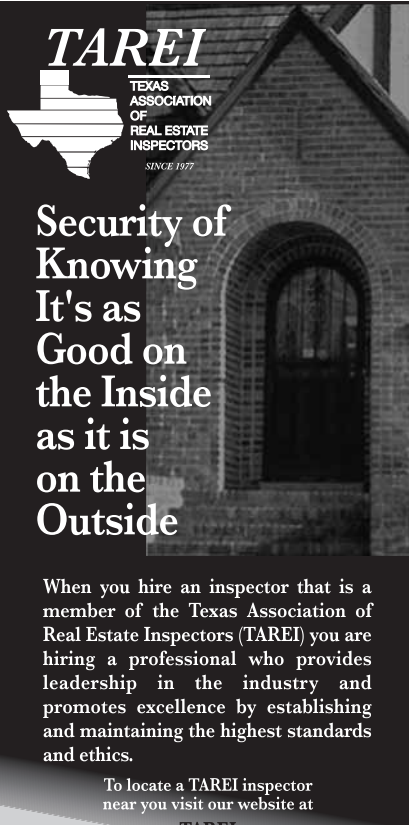


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