Buying and Selling Real Estate for Fun and Profit!

By Donna Kozik

If you've been helping others make money, but not acting on your own behalf, it may be time to take a look at purchasing some investment properties yourself.

"I started as an investor and decided to get my real estate license in the early 90s," says Lisa Vander, owner of Pacific Blue Investments in Del Mar, CA, and a real estate advisor, author and radio show host. "I immediately saw an opening to educate clients about powerfully using investment real estate as a vehicle toward retirement. These clients have built substantial wealth through the years, using a strategic and analytical approach to investing," so it makes good financial sense for real estate agents and brokers to do the same thing, she explains.

While keeping in mind there are no guarantees when it comes to making money on investment properties, your experiences as a real estate agent are bound to give you a leg up when it comes to property investment success. Investing can increase your overall net worth, create a substantial retirement fund and even allow you to pursue other life pleasures now.

"I entered the investment real estate brokerage profession intending to acquire the same type of properties that I recommend for my investor clients," says Robert Vallera Jr., CCIM and senior vice president and principal of GVA IPC Commercial Real Estate in San Diego. "You could say that I drive what I sell."

Geri Emalfarb believes, "You have to be able to hold the houses in a slow market; that's when you make the most money on the rental."

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Bill Exeter has worked with many high-net worth individuals over the years, and the one thing they have in common is, "the vast majority of them have accumulated, built or maintained their wealth by investing in real estate."

Michelle Bouchet, Princeton Real Estate, San Francisco, has been an active investor for approximately six years — even before she became an agent. In 2000, she and her then-boyfriend, now-husband, purchased a three-unit residential building. "Our agent, who is now my broker, advised us to go that route instead of buying a single-family home, which is what we were originally considering," says Bouchet. "It was some of the best advice I've ever been given." A growing knowledge and interest in real estate led to Bouchet becoming an agent.

Investing in real estate has resulted in many present benefits for Bouchet, too. "It's allowed both my husband and me to start new careers in the midst of our lives," she says. "I went into real estate professionally, and he became a visual effects artist. We were able to pull money out of our real estate investments to live while we were getting started."

If you're still searching for another reason to get started, simply take a look at the statistics. Bill Exeter of Exeter 1031 Exchange Services and its affiliates in San Diego says he has worked with many high-net worth individuals over the years, and the one thing they have in common is real estate. "The vast majority of them have accumulated, built or maintained their wealth by investing in real estate," says Exeter. "I think investors should always maintain a diversified portfolio that includes a real estate component."

Plus, as a real estate agent and proponent of investing, you will

Thinking of Jumping In?

The industry's professionals and investors have more suggestions for real estate agents who are looking to invest in property themselves.

"As contractors, you are typically responsible for creating your own financial security and retirement, and it is at your fingertips," says Lisa Vander, Pacific Blue Investments. "Get an education, make mistakes, learn from your mistakes, get more education and start experiencing the power of strategic and long-term real estate investing."

Chuck Wise, Wise Investment Properties, suggests buying properties on good fundamentals, and with good prospects for cash flow early in the ownership. "I like to buy in a three-hour radius of my home so I can physically inspect the property every couple of weeks," he says. "Rental property investment is not for everyone. The good deals are captured when nobody else is looking."

Having a specialty or in-depth knowledge of a section of the market is also helpful. "An academic background in urban geography has helped me recognize clues in selecting locations with above-average appreciation potential over the past 20 years," says Robert Vallera, GVA IPC Commercial Real Estate, who, like Wise, has a Certified Commercial Investment Member (CCIM) designation. Wise adds, "Taking the time to become educated in all phases of investment and management is very useful. With the CCIM designation, I have found the education, technology and networking to be extremely profitable."

"Sometimes it is hard to switch from an agent mentality to an investor mentality — we're so conditioned to keep our clients' goals always in mind," says Michelle Bouchet, Princeton Real Estate. "However, if you want to invest for yourself, there is no one more knowledgeable or capable." She suggests setting your own investing goals and criteria, get preapproved, and learn some creative financing techniques, such as seller financing and lease-optioning.

Real estate pros also have a number of resources at their disposal. "If you don't see what you want on the MLS, don't be afraid to knock on doors and let people know that you are looking to buy property," Bouchet says. "As a self-employed person, you don't have the built-in retirement benefits the 9 – 5 workforce has, so use what you know to create your own retirement nest egg."

She adds, "Being a real estate investor is not only good for you as an individual, but also as a real estate professional. Investing has given me real world experience I can pass on to my clients."

establish even more credibility in your business. Robert Grunnah Jr. has been an active property investor in the Austin, TX area since moving there in 1992. His previous career included product marketing positions with software and Internet companies in central Texas. "While doing that, I bought a duplex in Austin in 1998, and learned that the income streams from the properties could be more lucrative than the software business," says Grunnah. "Over the course of the next several years, I accumulated $2.5 million in duplexes."

A friend from Los Angeles asked Grunnah to get him started in investing in Austin properties. Grunnah enjoyed the experience so much, he started Castle Hill Investments to help others, mostly those from the West Coast, buy investment properties in Austin.

Grunnah thinks that being an investor himself has given his company a defining competitive edge. "Most of my competition — in terms of other Realtors helping Californians invest in Austin properties — do not invest. You have credibility to your investors. I'm able to communicate real-world advice because I've already done it."

THE EXPECTED RETURN

Just as many of your own clients know, investing in real estate is a good long-haul strategy to building wealth. Vallera says some of his investments have been long term — more than 10 years and yielding internal rates of return starting at 12 percent. And if you have strong nerves, short-term investments can be even more lucrative. Vallera has other investments that were highly leveraged and held for shorter time frames. "They have typically created pretty spectacular returns," he says. "It has definitely been worth it."

Chuck Wise of Wise Investment Properties in Leucadia, CA, owns a number of cash-flow producing properties, ranging from small office buildings and strip retail, to condos and apartments. Although it's difficult to calculate true returns without "taking our money off the table," says Wise, "on the properties we have exchanged, had we taken cash and paid taxes, our returns on property we bought in the mid-1990s were more than 1,200 percent. We look for an internal rate of return in excess of 20 percent for

Robert Vallera Jr. warns real estate professionals to be aware of negative cash flow generated by single-family homes and condos purchased for rental in high-priced areas, such as coastal markets.

© PHOTOGRAPHER: DENNIS SABO|AGENCY: DREAMSTIME.COM properties we are currently acquiring."

When it came to managing the properties they bought, some investors do it themselves and some hire others. "I've always managed my own property, since it's all been in San Francisco," says Bouchet. "Being a real estate agent is helpful, because I come into contact with so many people who are affiliated with this business — tradespeople, attorneys, etc. — so I have a network in place to help when I need it."

On the other hand, Vallera believes it's a better use of his time to hire professional property managers. "I primarily hire others so that I can focus on my brokerage business and on finding other investment opportunities," says Vallera.

WHAT IF THE MARKET SLOWS?

Just like other investors, slow markets can unnerve even seasoned agents and brokers. But there are different strategies you can apply to make it when the market is sluggish.

"In a slow market, I put the home up for sale or rent, and whichever I feel is a better deal, I take," says Geri Emalfarb, a Certified Broker Association member and top member of Chicago's Baird & Warner. "You have to be able to hold the houses in a slow market; that's when you make the most money on the rental. Be prepared to hold through slow times by adjusting the rent if necessary."

Emalfarb also cautions real estate professionals to invest only if they are comfortable with their knowledge of the particular market. "Of course the advantage of being a Realtor should be that you can buy the houses 'right.' This should always be a business decision and should never be an emotional buy," she says.

Exeter reminds agents that real estate valuations always rise over the long term, but the short term can be difficult in challenging economic times. When wondering what to do during those challenges, Exeter suggests keeping in mind a four-word phrase: cash flow is king. "Always invest for cash flow," he says. "Growth in value is just the icing on the cake."

If the market appears to be weakening, Vallera suggests you consider shifting to a low-leveraged position, and "buff out" the properties you own to give prospective residents an enjoyable living environment while you maximize your net operating income. "Focus on multi-family and commercial properties that will provide break-even or positive cash flow after taking into account all of the long-term costs of ownership, including long-term maintenance costs," says Vallera. "I emphasize long term, because if you can't hold the property through a down cycle, you will probably have to heavily discount the property if you need to sell it."

Real estate professionals who want to invest in property tend to be flush with cash at the "wrong" times, when the market is high, notes Vallera. "The best deals appear when the market is dead, and that's when real estate professionals typically lack the excess capital to acquire property," he says. "Such down markets are when property syndication becomes the highest and best use of your time."

He also warns real estate professionals to be aware of negative cash flow generated by single-family homes and condos purchased for rental in high-priced areas, such as coastal markets. "That negative cash flow, coupled with the potentially irregular income stream encountered by real estate professionals in a down market, can lead to foreclosure," he says.

Some investors own a number of cash-flow-producing properties, ranging from small office buildings, strip retail, to condos and apartments. Chuck Wise suggests buying properties on good fundamentals and with good prospects for cash flow early in the ownership.

But being in the business does have its perks, too. "There are times when an alert commercial or investment agent will first notice shifts in the market and can take action before that information becomes common knowledge," says Vallera. "That provides tremendous opportunity to use your knowledge to create value for yourself and for any co-investors you might approach."

Wise says he can be patient during slow markets "because our rates are fixed and our loan to value is around 50 percent," he says. "Some of our cash-flow producing properties are free and clear, and investments in notes and deeds of trust augment the cash flow. We also maintain adequate cash reserves, and we view slow markets as buying opportunities."

No matter the state of the market, there should be a way to make it work for you, adds Bouchet. "I believe there is always opportunity out there — whether from an investor or a real estate agent perspective," she says. "A good real estate investor is oftentimes simply a good problem-solver, whether it's solving a problem with the property or solving a problem for the seller."

"Anyone who has been in the game for a full cycle, about 10 years, knows that you get bumps and bruises along the way," adds Vander, who started investing in Southern California in 1989. "The San Diego real estate market plummeted in 1989, which is when I received my first tough lessons about owning investment real estate." But she persevered, and today is a successful investor and advisor. "If you have a strategy, which considers your ability to hold onto properties when the market corrects itself, as well as a good team around you," she says, "I would surmise that there isn't a better investment vehicle."

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