

5 Things I Wish Someone Had Told Me Earlier

by Vena Jones-Cox

It is a major regret of my youth that no one ever bothered to tell me that working for a living was a drag, or that depending on a job to make you rich was a fantasy. I guess I was aware on some unconscious level that my dad's real estate investor friends were able to go to Europe for months on end while my friends' parents—even the ones with great jobs—were lucky to put 2 weeks of vacation time together each year, but I always assumed that my dad's friends had so much spare time because they were unemployable, never having been told that, despite their paint-spattered overalls and 15-year old pickups, they were multimillionaires.

In short, when I entered the “real” world after college, my education was sadly lacking in some very important areas. In the ensuing years, I've learned some lessons about the world of real estate—some painful (never give a big earnest money check to a seller until you know he actually owns the property), some pleasant (it is possible to hire other people to do the jobs you hate). Each time real estate investing teaches me something new, I wonder why somebody didn't just sit me down and tell me about it years ago. How much easier my life would have been if only someone had told me these things early on...

1. Real Estate Isn't About Properties, or Deals, or Financing.

About 4 weeks into my real estate career, I made my first deal on a house. In one of the most obvious examples of karmic retribution I've ever experienced, the seller of this house was one of the little old ladies that I'd once accused my parents of taking horrible advantage of. However, this particular little old lady surprised me by telling me right up front that all she wanted for her home was the loan balance plus \$1,000 to move, despite the fact that the property was worth about \$15,000 more than that. It seems that her husband had recently died, and that she was moving out of state to live with her daughter and grandchildren. In short, she wanted to be gone by the end of the month.

Now, while this was my first actual deal, I had made approximately 100 offers up to that point that went nowhere. Like many first-time investors, I hadn't fully absorbed the lesson that real estate was about people, not properties; as a result, I had made all of my offers on houses where I thought the seller should be motivated to sell for some reason. I never once asked whether or why the seller wanted to sell cheap, because, hey, the house was ugly right? Who wouldn't be ready to sell cheap?

It was this lady that taught me the all-important lesson that people don't necessarily want what you think they should want. Her house was in pretty good shape; she could have sold it for full value in 60 days or so. But what she wanted wasn't top price, it was speed. She wasn't motivated by money, but by a desire to

put the property behind her. As a result, she was pleased as punch to take about 2/3rds of the value of the property at the closing a week later. And if someone had bothered to tell me right from the beginning that not every owner of a junker house or a house in a questionable neighborhood automatically wanted to sell cheap (even though it was the logical thing to do!) perhaps I could have saved my time in making the previous 99 offers. People are funny, and the only way to really know what they want out of a deal is to ask them. So if you're making offer after offer and getting rejection after rejection, you might want to think about talking to sellers about what they want, instead of assuming you know.

2. Never, Ever Rent to Anyone You Know.

It's inevitable: someday your buddy (or brother) Joe is going to need a place to live at exactly the same time that you have a vacancy. It's going to go through your mind that this might be the perfect solution for both of you. Joe's a nice guy, and with his carpentry skills (he was the one who drilled through the fridge door in your college apartment to invent—the Keg-A-Rator!), you know he'll fix your place up real nice. So, in a gesture that you will never cease to regret, you offer Joe your vacant property. He gets a discounted rent, you get a tenant you can trust, everybody wins. Everybody, that is, except anybody who's even remotely involved in this situation. The thing about renting to people you know (and this also encompasses lease/optioning, carrying financing etc) is that you and your friend/family member enter the agreement with opposing viewpoints in terms of the benefits of the situation. You go in happy because you know your buddy will treat you fairly—meaning that the rent will be on time, the repairs you agreed on will be made in a timely fashion, and he won't turn your new refrigerator into a Keg-a-rator. HE goes in happy because he knows you'll treat him fairly—meaning that you'll let him slide on the rent at Christmas, take his time on the repairs, and indulge his longtime dream of raising Rottweilers in the basement. You think he'll be the perfect tenant; he thinks you'll be the perfect landlord. It's a conflict of outlooks that can't be resolved without lawyers or fisticuffs.

Remember, when you become a housing provider, your outlook on life undergoes a major change. Your friends who are still tenants probably haven't had the benefit of experiencing that kind of entrepreneurship, and more than likely have no idea what it's like to invest huge chunks of time and money in a property. My partner once lost not one but an entire group of college friends when he evicted one for nonpayment of rent; suddenly he'd become "The Man" and was no longer welcome at the poker games. I have a brother who can't see me at family gatherings without eventually coming around to the subject of how shabbily I treated his best friend by forcing him to pay late fees every month. I have never, ever seen a situation like this work out to the satisfaction of both parties. If you have, I'd like to hear about it. On the bright side, since no one ever tells people that renting to friends and relatives is a very bad thing, there are an awful lot of buying opportunities out there generated when owners realize they're never going to see a dime out of Joe. Keep your eyes open for these situations; they can become some of your best deals.

3. There's No One Best Way to Invest in Real Estate.

Most new investors have a "guru", a teacher to whom they look not only for advice, but for a world view that helps to direct and focus the newbie on a particular strategy. These gurus can take the form of a professional teacher/instructor, a mentor, or, as was the case in my early career, a family member. One of the major attractions of gurus is their certainty that their particular strategy is the be-all and end-all of real estate investing. My father was a good example of this: he had a cookie cutter that involved buying low-end homes for cash, lease/optioning them, and then ultimately refinancing packages of 5-10 at a time to get more cash to buy more houses. No property, no matter what type, condition, or area ever got any other treatment. And like most gurus, he was willing to defend til death the idea that other strategies were less profitable, more difficult to execute, and generally inferior to his particular favorite.

The guru is a compelling figure to the new investor precisely because he (or she!) is so focused and certain of himself. Following a particular guru can be extremely valuable for the overwhelmed newbie since it allows him to really, really learn how a particular technique works. The downside of guru-worship is that it limits the new investor's experience. Most gurus—and not just those who have seminars to sell—advocate one or two strategies to the exclusion of all others. As a result, their followers tend to have a narrow viewpoint in terms of what a "good" deal is, and therefore to pass up a lot of profit opportunities. Once I'd quit working for my father, the "pay cash for houses" option dried up and I was forced to learn some new strategies for putting food on the table. Wholesaling properties for quick cash became a prime focus of my business, and quickly became a huge profit center. One day about 2 years ago, I went back through my files of offers I'd made when "Buy and Lease Option" was the only thing I knew, and discovered that I'd walked away from over \$100,000 in wholesaling profits during the time I was stuck in that mindset. Many, many properties that didn't fit my dad's "cookie cutter" would have been great little flips, but I simply couldn't see them. And never mind all the times I hung up on a seller with an expensive, pretty house for sale, because I couldn't get it for 70 cents on the dollar.

4. People Are Liars.

Somehow, I grew up with the idea that lying was a bad thing to do and that getting caught lying was embarrassing and could get you into a lot of trouble. Somehow, people who apply for rentals missed this lesson growing up, or have unlearned it in adulthood. Because no one ever told me this, I spent the first four years of my real estate career checking applications only superficially, and as a result ended up giving over control of my houses to some real tenants-from-hell. I actually believed that my properties were cursed, since perfectly good applicants somehow self-destructed just weeks after moving in.

The first thing that clued me in was when I got not one but three separate calls

from collection agencies about one tenant within a few weeks of having rented to her. I kept telling the callers that they had the wrong lady, since my tenant's record was clean when I checked it. Finally, one of the creditors gave me a description of the tenant and her car, and I realized that I'd somehow missed something. A little detective work uncovered the fact that I'd actually checked her sister's credit, since the name and social security number on the application were hers. Furthermore, the "boyfriend", whose \$35K/year job in a nursing home qualified her to rent the home, was actually an ex-husband who had no intention of living in the home OR of helping with the rent, and the "prior landlord" who gave such a glowing reference was actually the tenant's mother. Needless to say, she was evicted a few months later having paid only the first month's rent.

Since learning this lesson, I've become an application-checking fiend. I look at driver's licenses. I cross-check current addresses with those on the credit report, then cross-check owner's names with those of landlords on the application. I use the Criss-Cross directory to make sure that the work phone number actually belongs to a business. And I have a firm policy that nobody gets to live in one of my houses if they've told a major lie on their application. After I discovered that something like 60% of my applicants were giving false information on their applications, I developed a full-page instruction form explaining to all potential tenants that lying about their rental, credit, criminal, or work history would result in automatic rejection and loss of their application fee, and you know what happened? Not a thing. I've rejected 8 out of the last 10 applicants I've had due to falsification of the application. Go figure.

5. You Never Get to the Point Where You Know "Enough".

When I had been in real estate for about 4 years, I figured I was pretty hot stuff. I knew all the basic strategies backward and forward; I'd done over 100 deals; I'd spent maybe 1,000 hours in classrooms learning more. I honestly believed that there was nothing else that I really needed to know to be successful. Then one year 7 of my lease/option tenants refinanced in a 4-month period. Staring down the throat of a mid 5-figure income tax bill, I suddenly "discovered" the 1031 exchange, a technique that's been around for decades, but which I thought applied only to old guys who were ready to get out of the business. About that time, I also started doing a radio program, and my attorney recommended that I look into land trusts as a way of keeping my name out of the public record. Then I discovered that escrowing documents could protect iffy lease/option deals to a degree that made me comfortable. And last week, I found out that a "mortgage to secure option" was a valid way to record one's interest at the courthouse. So in case no one's told you yet, the moral is:

*In the real estate business, knowledge is profit.
Keep learning all the time, and don't forget to pass a little of that knowledge on to
the folks who are coming up behind you.*