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"Insider Secrets of Successful Real Estate Investors... What No One Tells You About Real Estate Investing"

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Insider Secrets of Successful Real Estate Investors

What No One Tells You About Real Estate Investing

By

Richard J. Hurst

Chapter 1: Tragic Investment Mistakes to Avoid

Let's look back at my first six rental homes. While I was excited to be the owner of six rental properties, I had no clue what was going to happen next.

Before the closing I was told that all six houses were rented and that it would be possible to increase the current rents. I was so excited!

The first of the month rolled around pretty fast. I stopped by the rental houses to collect my rent payments, and that is when my new dream began to melt into a nightmare.

My first tenant told me he did not have the rent but he was going to pay me the following week.

When I visited my second tenant I discovered, to my horror, that the previous owner had just filed eviction papers on them due to non-payment of rent. This, of course, was news to me!

And if that wasn't bad enough, I discovered that my third tenant had vacated my rental house without any warning.

I did not know it at the time, but the real work of being a property owner had just begun. I was going door to door and still could not collect all my rent money. I did, however, get quite an education from all the excuses I heard — time and time again.

My next adventure began when I went to my bank to explain that three of my tenants did not make their payments. It turned out that the bank could care less. I had a mortgage to pay, and that was all they wanted to know about.

It was my first month as a real estate investor and I had no choice but to tap into my savings to pay the mortgage payments that were due. This was not the way it was supposed to be.

My next step was to start evicting the tenants who were not paying their rent. I assumed I could get them out of the houses quickly so I could re-rent them without losing too much money.

Unfortunately — one after another —each tenant hung on till the last possible legal moment. I was now losing money faster than I had ever dreamed possible.

Things were definitely looking bad for me. I had to pay all the bills on the rental houses after I evicted the tenants. Then I discovered the evicted tenants had left me with major damages to repair. Much of the repairs were beyond my level of “fix it” experience, so now I had to hire — and pay — a contractor.

There I was, shelling out money hand over fist to the bank, the utility companies, and now to a contractor to fix the properties before I could even rent them again. I was soon spending money I didn’t have.

To make matters worse, while all of this was going on I came up with another “great” idea. If I had more properties I’d be able to collect more money and dig myself out of the financial hole I had dug myself. Sounds sensible, right?

So I kept looking for more “no money down” investment properties. In spite of all the problems, real estate investing remained my passion. In no time I had found some higher-quality investment properties. Much to my surprise, it was not long before I began to actually make a little money. My real estate investing dream was coming alive once again. I figured with just a few more deals….

Be Careful What You Ask For

It was not long after I began to make a little money with my investment properties that I started to realize I had very little time left for my family. In no time at all, I was noticing how much I missed spending quality time with them.

"Just a few more deals and I'll be able to spend time with my family again," I kept telling myself over and over. I fantasized about kicking back on the beach with all my rent money magically coming in.

What did not make any sense to me at the time was the fact that I knew that real estate investing had made more millionaires than any other type of business. Over and over I asked myself, "Why am I not making a decent profit by now?"

Before I knew it, things had really begun to pile up around me. I could no longer handle the repairs at my rental houses myself, so I had to hire a construction crew to do them for me. As a result I had to keep forking out cash from my personal funds to pay these other contractors. I looked for money everywhere just so I could scrape by for one more month.

Sleep was the next thing that began to escape me. My sleeplessness wore heavily on my family life. The whole idea behind having real estate investments was so I could spend more quality time with my family. Instead, I was spending all my time just trying to keep my head above water. What I was experiencing was a long way from anything the real estate books ever mentioned. Not even the five thousand dollar seminar I went to mentioned any of the things I found happening — and happening all the time.

I finally realized I was going to have to make drastic changes if I was going to save my sinking ship. After reviewing all my options I decided to sell off my problem properties. (It was no coincidence that they all happened to be the ones I bought with "no money down.")

Time crept by and I had no action on selling the houses. Once again, I turned to deep contemplation and arrived at yet another answer to the problem. This time I decided to sell the houses the same way I bought them: By offering "no money down" deals to prospective buyers. It seemed like a good idea to me.

Several months passed, though, and still I had no luck selling my problem investment properties. I finally ran out of money.

After reassuring my family that everything would turn out fine, I came to another realization and made another decision — only this time it was a much more drastic move.

I decided to sell some of my money-making properties to the tenants themselves. The school of hard knocks was about to teach me another lesson: There was a good reason why my tenants were *tenants* and not homeowners.

I tried all sorts of creative financing to help some of the tenants buy the properties from me. I even went so far as to help one of the tenants by lending them the money they needed to pay off some of their debts so they could qualify for financing. From this little adventure I learned a lot about creative financing — and about lawyers.

All the while I continued to study long and hard, and I was able to sell off a few of my good income properties, and I began to get some financial relief which bought me some time. Once again, I began trying to sell the "no money down" houses I was still carrying.

Then I came up with another brainstorm.

I would not only sell the problem properties as "no money down" investments, I would add another five thousand dollars to the deal at closing.

I was desperate and it showed. I began to agree to any type of financing as long as I could sell these properties.

Around this same time the banks started calling to ask for my monthly payments. Things had progressed from dark and dismal to pitch black. I just could not believe that I was having trouble, especially since I was almost *giving* my properties away.

In no time the houses became vacant again, and I had no money left to repair them. I finally had to face the horrible conclusion that the money well had dried up. For the first time I was actually scared. If things did not improve immediately, I would be facing bankruptcy for a second time. I just didn't think I could ever bounce back from that.

Thinking about filing bankruptcy for a second time was more than I could take. I managed to call all the banks holding mortgages to explain my situation. Not only were they unwilling to help, many of them began to threaten to take my properties back through foreclosure.

There was nothing left to do. I allowed the banks to foreclose on the properties, and, as they say, "It was all over but the crying." My beautiful ship that was supposed to carry me to financial independence sank, taking my money and my self-esteem with it.

I was left with a thousand unanswered questions. Where in the world did things go wrong? Did I buy the wrong properties, and if so why? Was it the location or the tenants? What was the secret that enabled other real estate investors to become successful? Why wasn't anything ever mentioned in the real estate books about all the trouble I had gotten myself into?

It was at this moment of desperation that I made a life-altering decision. I was going to make it my life's work to find the answers to all of these questions. I would keep investigating, turning over every rock until I found out how to successfully invest in real estate —without going bankrupt.

As I began telling my story to other investors, I realized there were a lot of other ambitious people searching for the same answers. I vowed to never experience this nightmare again and to do everything in my power to keep other people from learning this horribly humiliating lesson.

It was no longer acceptable to lose everything just because I had a dream of making my life better for my family and myself. The miserable pain that I had experienced should not have to happen to anyone else. I genuinely hope you learn what I have learned — without all the pain and financial devastation. Truly, no one should have to go through that.

You might be asking yourself, "Why would you want to help me?" The answer is simple. I have been where you are now. I have spent my hard-earned money on real estate books, courses, and seminars just like you have.

I have sacrificed precious time with my family, forgone vacations, and pulled all my money from savings just trying to make a better life. I have also listened to my share of family and friends tell me that I was crazy.

My purpose in buying real estate is not just to make my life better. It is also to help to make the prospective seller's life better. I have asked myself many times, "If I am trying to structure a business deal to be a win-win situation for everyone — including the taxman — why aren't *more people* willing to share their real estate investment secrets?" I to this day don't know if it is due to greed, jealousy, distrust, or suspicion. I really don't have a good answer. What I do know is that everyone deserves their shot at the American Dream.

Please understand that you cannot simply buy any piece of property and make money. I know there are hundreds of books and courses that say you can, but remember I lost everything trying to follow that advice.

Having the knowledge to buy and sell property the right way requires a lot of hard work and comes with a steep learning curve. The amount of hard work involved is more than many ''would-be'' real estate investors are willing to invest.

But now for the good news: If you are willing to put in the time and effort, each time you make a successful transaction it will get easier.

I have placed all the knowledge you will need to know in this book — and without all the smoke and mirrors. Finally, you can find the correct information you need from one easy-to-use source.

If you are willing to apply the techniques that are presented in this book, you should be able to build the future of your dreams. If, however, you bought this book for a quick fix, please return it for a full refund.

Chapter 2: The Real Truth about Real Estate Investing

Are You a Victim of Get-Rich-Quick Infomercials?

Have you listened to infomercials claiming you can become a millionaire by ordering their products? I have. I have even gone so far as to order some of those products because I had the burning desire to join the ranks of millionaires.

Over time, my money dreams washed away as I received product after product that did not live up to its claims. I was a victim of the infomercials. Are you? Or is someone you know?

You might be wondering why we all fall into this trap in the first place. The answer is simple: It is easy to fall for the lure of easy money when you are living from paycheck to paycheck.

What the Infomercials Don't Tell You

The main problem with infomercials is that the person who owns the product is, more often than not, making more money from the products they sell than from using the advice they put into the products.

Net Worth is Not the Same as Cash

Now, this concept can be a little tricky. In order to understand this concept, you have to understand what the infomercial celebrity is really saying. For example, he or she may claim that, "Jim used our product for six months and now has a *net worth* of one million dollars!"

Can you see the hidden truth in that example? Well, here it is: What they neglected to tell you is that net worth and cash *are two very different things.*

Cash can be spent while net worth is an arbitrary figure. When someone says they have an investment property with a net worth of $100,000, what they are really saying is that they have an appraisal for that amount. If someone purchases their property for that amount, then they have a cash value of $100,000. The main question you have to ask yourself is this: Who did the appraisal?

An Example to Clarify the Point

Let's say you bought a house that needed a few repairs. You paid $40,000 for the house and you added another $10,000 in fix-up costs.

Next, you call an appraiser to appraise your newly renovated home, and here is what you find. The appraisal comes in at $100,000. You are ecstatic! You have just made $50,000 — or have you?

$40,000	Original amount paid for home
$10,000	Money spent for upgrades
$50,000	Total amount invested in home
$100,000	Amount appraised for
- $50,000	Amount actually spent on home
$50,000	Net Worth amount

The problem in this example is that the $50,000 net worth is all on paper. Even when you have an appraisal in hand, it is not REAL money until someone buys the property for the full amount.

Your real estate is only worth what someone else actually pays for it. Now that you know the difference between net worth and cash value, it's your turn to decide if the infomercial salesman is hiding the truth.

Are All Infomercials Bad?

No. Not all infomercials hide the truth. There are products sold on TV that have made a huge improvement in peoples' lives. People who have received real value are then amenable to appearing on TV to give testimonials.

The question that comes to mind is, however, how many people receive true value and how many do not?

According to the law of averages, for every 100 people who try an infomercial product, one will have success with it. Why? Here are a few of the reasons:

- It requires too much work
- The product will only work in certain areas
- They would have to do something out of their comfort zone
- They have a poor attitude
- They fear rejection
- They are afraid of what their friends or family might say
- They are afraid of failing after they put their heart and soul into it
- They did not see the hidden truth in the advertising

- The product is a scam

Think for a minute about how many people you know who bought an infomercial product at one time or another. Out of those people, how many of them are rich right now?

That's my point.

If you ask each person why the product did not work you will get excuse after excuse. Remember that excuses are like elbows: Everyone has at least two.

Everything Has a Price

Everything comes with a price and real estate investing is no exception. You have to put in the time and effort to make success a reality, and most people today simply don't have what it takes to do that.

Where to Start if You Have Never Bought Real Estate Before

You must begin by asking yourself this question: Why do I want to buy investment properties? Take a few moments to really think about this question.

Many people will respond without stopping to think. They announce immediately that, "I want to make money." "Making money" is all well and good, but what kind of money do you want to make?

Do you want monthly income or yearly income? How soon do you want that income? The question of why you want to buy investment properties is not a simple one, because as soon as you answer one part of the question, another part comes up. Being a real estate investor is very rewarding but it is a very tough profession, too.

After you have thought long and hard about this question, it is time to ask yourself if you are willing to put in the time and effort necessary to become successful. Ask yourself the following questions:

- Do you want to buy real estate because your friends are buying it?
- Do you want to resell or to hold the property?
- Can you afford the extra debt if things don't go as planned?
- If you plan to resell the property, how long do you want to hold it and how much profit do you want to make on the transaction?
- If it needs fix-up work, how much will it cost?
- What are the upkeep (maintenance) costs?
- Can you rent the property for a high enough rent to receive a positive cash flow every month?
- Do you want the responsibility of managing your property, or will you hire a management firm to help you?
- Do you know everything you need to know, or do you still need help?

Do not be alarmed if you don't know the answers to all these questions. As you go through this book you will get the answers. The purpose of the questions —at this point — is simply to start you thinking.

Jeff's Story

Jeff is a friend of mine. He started off in the real estate investment business like many other people. He jumped right in with no clear direction. Jeff's story is a classic example of Murphy's Law: If something can go wrong…it will. His story is also reminiscent of other real estate investor stories.

Once you've heard his story, you will see how different decisions on Jeff's part could have turned things around.

Jeff had his interest piqued in real estate investing after he'd left the stock market along with several of his friends. He noticed a real estate investment seminar advertised; curious, he signed up and attended.

During the seminar Jeff heard the speaker say their students were enjoying the good life in a short period of time. The speaker told the attentive audience how they took average men and women by the hand and guided them through the maze of real estate investing using their mentoring program. Jeff was ready to sign up until the speaker explained that the program would take some time before students would see a positive cash flow.

Jeff, being impatient, left and decided to go it alone. He figured he could make just as much money, and without the wait. Jeff also thought he would save his money for actual investing instead of spending it on the mentorship program.

The very next day Jeff went to the library and checked out several books on "no money down" real estate investing. He took the time to read the books so he could apply the approaches.

In just a few short months Jeff became a real estate investor with his first purchase of a rental property. Not long after, Jeff invested in his second rental property and immediately quit his day job to become a full-time real estate investor.

Jeff now thought of himself as a real estate pro and began regularly giving advice to all his friends at the golf course.

One afternoon, a tenant called to complain about a broken water heater. Jeff confidently explained that the lease stipulated that the tenant was responsible for fixing the problem. The tenant responded with proof that it was Jeff's responsibility. Jeff responded with anger and fear. He swore he would never fix the water heater.

His buddies at the golf course all praised Jeff for being so knowledgeable, but they also all would have simply fixed the water heater and been done with the problem. Not Jeff. He maintained he was right to the point that a large burly man served him a subpoena during a golf game. Jeff was really angry after reading the paperwork: His tenant was suing him.

Jeff was still angry when he entered the courtroom a few days later. When it was his time to speak, he went on and on about all the time and money the tenant was wasting by dragging him into court. After all, he explained, the lease said the tenant was responsible for all repairs.

The judge took one look at Jeff's rental agreement and told him it would never hold up in any court of law. He explained to Jeff that he was responsible for fixing the hot water heater — along with addressing the list of other complaints the tenant had brought with him.

And, the judge ruled that the tenant was allowed to live in the building rent-free until all the repairs were made properly! The ruling cost Jeff a ton of money and only added fuel to the fire of his anger.

Jeff's Mistakes

Jeff's first mistake was that he had no plan for what to do when problems came up at his rental properties. Another mistake was that Jeff never asked himself the questions that you were presented with earlier. Jeff had no idea why he wanted rental properties. Worse, he knew even less about running them.

Jeff was in the real estate investment business, but he had had no intention of ever being a landlord.

Jeff's third mistake was using outdated real estate books. For example, he never took his lease agreement to his attorney to look over. He simply copied it out of one of the library books and used it without a second thought.

Information and laws change on a regular basis. As a real estate investor, it is your responsibility — as it was Jeff's —to keep up with changes.

Jeff's fourth mistake was that he did not invest in his future. He should have at least taken the initiative to enroll in that real estate mentoring program, especially since he had absolutely no previous experience.

He would have learned a wealth of information that could have saved him from making such a big mistake. At the very least, Jeff should have listened to his friends who also held rental properties. Instead, he decided he knew more than everyone.

I still talk to Jeff from time to time and, to this day he still thinks the judge and his tenant got together and took him to the cleaners. He has never realized that with a little preparation and a plan he could have avoided the misery he endured. He has never owned a rental property since that first bad experience.

Seek the Help of a Mentor

Jeff could have done several things to keep himself out of trouble. First, he could have enrolled in a mentoring program.

A “mentor” is a person who has already met the challenges you face and has overcome the obstacles that will stand in your way. Mentors, while essential, are not cheap. They will help you to achieve your goal, but they could take over 50% of the profits. In addition, you will be doing all the legwork.

You can think of a mentorship as an “earn-as-you-learn” program. You will have to pay in the beginning, but it will be worth it because you will have earned money and achieved your goals with the mentor’s help.

Other Ways of Mentoring

If enrolling in a mentoring program is too costly for you, there are other methods of finding a mentor. One way is through the Internet. The cost is relatively low and there are hundreds of mentors to choose from. But here’s a word of caution: Be careful if you choose the Internet mentoring route.

Some online real estate gurus hire college kids to dispense information over the phone and the Internet — the problem is the people giving the information have no practical experience.

If you call in with a question, the person answering searches a computerized list of questions to find answers. (You can check to see if this is happening by providing different real estate scenarios on the phone and waiting to see if they can answer your questions — without putting you on hold while they check with their manager.)

Another method for finding a mentor is by reading books written by successful people. You can also listen to CDs and audio courses and/or attend seminars.

The marvelous thing about books and CDs is that you have the information at your fingertips twenty-four hours a day, seven days a week.

If you choose to attend a seminar to find information on mentoring, make sure you can afford it. Don't put yourself in debt before you are able to go into business for yourself. Take one step at a time and do not spend money you do not have.

Don't be embarrassed or afraid to ask for help. Remember that no one is an island, and few people have ever achieved anything without hard work and help from friends and mentors.

If You Have Bought a House Before, You Already Know Enough to Get Started

It may sound strange, but if you have ever bought a house before then you actually have enough knowledge to get started as a real estate investor.

You don't believe me? Well, let me ask you a question or two. When you bought your first house, did you know what neighborhood you wanted to live in? Yes, you did.

Did you already know what type of house you wanted to buy? Yes, again.

Did you already know how much the bank would lend you for the mortgage? Yes.

The above questions are basic. If you answered yes to any of them, then you already know enough to get started as a real estate investor. The basic questions that got you started on your own personal home will help to get you started on your first investment property.

What Are You Looking For?

Let's take a closer look at these questions. To buy an investment property you have to know what kind of house you want to buy.

For example: Do you want to use the property as a rental home or a property to simply "flip"? If you want a rental home you will use the same process you used to buy your residence.

If you want to "flip" the property immediately after you buy it, then you need to research what types of houses sell the fastest in the area where you want to purchase the property.

You will need to have some idea of where you want to buy a home. If the south side of town is the fastest-moving section, you want to buy in that part of town. The quality of the school system may also be very important in determining what neighborhood you decide to invest in, just like you would want to choose the best school system for your kids.

You would make sure that the neighborhood was going up in value and that homes were not sitting on the market for a year or longer. You might pick a home in a neighborhood where people were not afraid to walk at night, and if you lived there you would feel comfortable. You would also know in advance how much house you could afford.

You would go to a mortgage broker and have them shop for the best rates and terms for your investment, the same way you would when you bought your personal residence. As you can tell, a lot of the same questions that need to be asked — and answered —when you buy your residence also apply when you are buying an investment property.

I hope these questions will get you thinking of the similarities between buying your personal home and buying investment properties. Of course, answering these questions does not comprise the entire process of buying an investment property — it is more like the appetizer to a steak dinner — but this is where you really start to dig your teeth into real estate. So now it is time for some self-taught geography lessons.

Divide Up Your Town

Take a map of your city and divide it into four sections. Label each section: North, South, East, or West. Then take a weekend and start driving through each section.

You will discover in no time that the street names get easier to recall. As you drive the different areas you should begin to take notes about which areas look run down and which areas look nice. This will give you a quick reference to look back on whenever you need it.

If you follow this method you will become an expert in your area in no time. After you are done with the city, divide up the county in four sections and repeat the process. Do this for each county and town you can find. In the beginning, be cautious with how far you choose to go: In other words, set some limits to the geography you'll investigate.

Always Be On the Lookout

As you drive the area, be aware of the houses you pass by. Constantly be on the lookout for houses that fit your predetermined criteria.

If you find a house that looks like it will fill your investment needs, make a point to get in touch with the owner or Realtor who has the listing. Not only will they be able to answer your questions, they will also be able to give you more in-depth knowledge about the area.

The Next Step

I will be going into more detail for each step. However, for now I want you to have a general idea of what to expect.

Once you choose what area of town you'd like to invest in, and you locate a house that meets your criteria, you will need to call your mortgage company to determine how much money you are able to borrow.

You may want to call several places to compare the amounts of money they say you can borrow. But *make sure that they do not pull your credit when you call!* If you have your credit pulled today and do not buy a home within 30 to 45 days, you will have to begin all over again. Another reason to not have your credit pulled is to keep your credit score high. Each time someone checks your credit it lowers your credit score.

Even though there is a lot more to buying real estate than these simple steps, this gives you a good starting point and puts you on your way to understanding the fundamentals of investing.

Can You Still Buy Investment Property With No Money Down?

In a word, yes. However, a better question would be, do you really want to?

The thing you have to remember is that there are two different kinds of no money down deals. The first is the kind of deal you structure yourself. The second kind is when someone offers the deal to you. Even though they may look the same on the surface, they are really very different. Knowing the difference will literally make or break you.

Your No Money Down Deal

This type of deal is one where you go out and put the deal together with your own strategy and terms.

For example: You find a house whose owner is offering regular terms and conditions and you put together a no money down offer. This turns the deal into a no money down deal.

Let me explain: One day I was out looking for an investment property and found a house that needed a little fixing up. The house was listed with a real estate agent, so I called my broker and made an appointment to see it.

After I had a chance to see the house, I went back to the office and wrote an offer on it. I offered to pay full price for the house if they would agree to pay all closing costs along with a fix-up allowance of $3,800 — to be paid at closing.

Having the sellers pay the closing costs while adding the fix-up fee allowed me to get into the house with no money down because the $3,800 fix-up fee is the exact amount I needed for the down payment.

I could have used the $3,800 to make minor repairs, but there is no law that says you have to use the money that way. Instead, I used the money as the down payment. This kind of deal is not that hard to put together, but you will have to give the seller something in return for accepting your offer.

In this case I gave the seller the full asking price for the house. There is one catch, however: If you do this kind of deal, it means the house will be 100 percent financed. Make sure you have the income to cover the higher mortgage payment.

Someone Else's Deal

This second type of no money down deal is when you see an owner advertising that the property is being sold "for no money down." This type of no money down deal could spell trouble for you, so be cautious.

You might be wondering why this could be a bad deal. The reason is that it is geared toward locating new real estate investors. In this case it is a deal that sounds too good to be true; which, of course, means it probably is.

When I first started my real estate investment business, I had no idea there were two different kinds of no money down deals. All I wanted was a chance to get started. After a year, I still had not put together a no money down deal.

You may remember that my real estate friend ended up telling her broker just how badly I wanted a deal. The broker turned around and structured a deal with properties he knew the owner wanted to sell in a hurry.

I was ecstatic! I felt I had hit the lottery because the deal was for seven houses instead of just one.

When I took a look at the properties, I only saw their potential and small fix-up projects that I could handle myself. I even blinded myself to the one house that was in the worst shape. I saw the problems in front of me but was blinded by the possibility of the deal. So, I closed my eyes, not wanting to rock the boat.

The lender did not share my enthusiasm. He refused to lend money on one of the houses because it was in such bad shape. So, the broker had to restructure the deal to include only six houses.

Owning "No Money Down" Houses

After six long months, I finally received the no money down deal I had been searching for. I even received money back at the closing, which made me the happiest man on the planet. Little did I know then that my happiness was about to end.

Almost overnight I was inundated with repair work. I had to fix broken toilets, replace broken hot water heaters, repair heating units that failed, and replace locks in the houses where the tenants had left in the middle of the night. I also had to clean up trash, both inside and outside the houses.

My no money down deal was draining my bank account instead of building it up. It did not take me long to wake up from my dream state. The reason the seller sold me these houses on such good terms was because he could not wait to get rid of them.

Ask Questions

I neglected to ask any questions on my first no money down deal. I mistakenly thought that if I asked any questions I would blow the deal.

In looking back over the experience, I realized I should have asked questions like:

- What kind of neighborhood are the houses in?
- Do the houses need any fix-up work?
- How much do you estimate the fix-up costs will be?
- Are you having any trouble with the tenants?
- Do you receive all of your rent money on time?
- Are any of the tenants behind in their rent?

- Do you have any vacancies?
- Are any of the tenants moving out soon?
- What are the terms of the leases?
- Why are you selling if they are such good rentals?

Make sure you learn from my first big mistake by learning to ask these questions. Also, watch the seller's eyes as you are asking the questions to make sure they are telling you the truth.

If they will not look you in the eye, and they try to avoid your questions, you know something is very wrong. Also, watch out for sellers who say they are selling so they can pursue another type of business. That type of statement is a giant red flag to watch for.

Unreal Expectations

I was recently watching a TV show in which a man was enthusiastically telling the interviewer how their product had changed his life so drastically that he was able to quit his dismal day job in just nine short months. He then was able to live off of his investments.

It is so hard not to want the same success this man had achieved. After all, who wants to work forty-plus hours a week at a job they hate, especially when they could be living the good life in just nine months?

Even if this man was telling the truth, not everyone can achieve riches. The public has been taught through advertising and instant credit that anyone can enjoy the good life now and pay for it later. This produces unreal expectations.

You Can Still Be Rich

I will be the first one to tell you that you can become rich in real estate. However, it does not happen over night. The reason is simple: Real estate investing requires a lot of hard work.

I have seen the TV commercials and seminars claim that all you have to do is buy five or six houses a year and in a few years you can retire and live off of your investments.

After all, they explain, that requires only buying one house every two months. It is possible to buy a number of houses per year. But that is not what a typical real estate investor does. The typical investor usually buys one or two houses per year.

The average profit on a home that doesn't need any work and has a good tenant averages around $100 per month. If you have two rental properties, do not have any vacancies, and everyone pays their rent on time, you will profit $200 per month. That works out to $2,400 per year.

If you keep this up for the next ten years, you will own twenty houses with a total of $2,000 per month and $24,000 per year. If you did it for twenty years, it would be $4,000 per month and $48,000 per year.

2 Houses x 10 Years = 20 Houses
20 Houses x $100 per House = $2,000 per month
$2,000 per month x 12 months = $24,000 per year

2 Houses x 20 Years = 40 Houses
40 Houses x $100 per House = $4,000 per Month
$4,000 per month x 12 months = $48,000 per Year

You may think that $48,000 dollars is not that much money, but think about how much income these rental houses will be bringing in after they are paid off.

The average rental income in the US (at the time of this writing) is between $500 and $600 per month. If you owned 20 houses free and clear, at $500 per month, you would make $10,000 per month and $120,000 per year!

What do you think the average rental income will be in 20 years? Two, three, ten, or twenty times as much as today? I don't know, but I do know it will be higher and that means more money in the investor's pocket!

Here's the main question: Are you willing to do all the work necessary — and work for twenty years — to achieve this level of success?

It Takes Work

Buying houses is more work than the average person is willing to do. I know from experience that you have to search a lot before you can find a deal that will make you money.

The general rule is to look at *one hundred* houses before you buy one. Just stop and think of the time and work it takes to look at one hundred houses.

Most people give up even before they look at fifty houses. It's easy to see why. Still, there are some ways of cutting down the number of houses you have to look at.

For example:

- Know what to look for in newspaper ads
- Know what questions to ask when calling sellers
- Know what to look for in the courthouse
- Know the right people to ask about properties

I will go into more detail on these subjects in the following chapters. For now, just know that it will take a lot of hard work on your part to succeed. However, the good news is: You can succeed!

If you can set realistic goals, and do not expect to have instant results, then you will make it in real estate investing.

Breakeven Cash Flow

Another reason people have unreal expectations is that they don't understand how to make a profit. They mistakenly think that a breakeven cash flow is a good thing. Actually, it is a death sentence!

If the renter misses one month's rent or the house needs some repair work, bang…you are in a negative cash flow position. The money that is lost has to come from somewhere, so you will lose your hard-earned savings.

To avoid this from happening to you, make sure you have a positive cash flow from the very beginning. In Chapter 4, I will explain more about positive cash flow. For now, understand that you do not want a breakeven cash flow.

One of the biggest mistakes new real estate investors make is thinking they can charge higher rents than what the market will bear. They assume because they paid a higher price for their house they can turn around and charge a higher rent — and that is not true. You will only be able to rent your property for the amount that everyone else in your area is charging for rental homes comparable to yours.

Remember, the renter does not care what you *paid* for the house. They only care about what you are *charging* for their monthly rent.

Another fact to consider is that most renters only stay in the house for about a year. So, make sure that you don't overpay for a house when you buy it.

Another major misconception is to buy a house with a breakeven cash flow to benefit from the tax deductions. Never, and I repeat, NEVER, buy a house for tax deductions! A tax deduction does not put a positive cash flow in your pocket every month.