Chapter 1

So You Want To Invest In Real Estate…

Where Do You Start?

For the last several years there has been a tremendous focus on real estate as an investment. It has become even more popular since the beginning of the new millennium. There are several reasons for this, however I believe two of the main reasons are: 1. The Baby Boomers are aging and retirement is now on the table for them to consider and they are looking for a vehicle in which to finance their retirement years and 2. The significant decrease in the equities markets, where most investors held the bulk of their investments and retirement savings, forced people to review how and where they invested their hard earned money. This result, although normal in the fact that the stock market operates in cycles, drove home the realization of their financial exposure to market fluctuations if their entire investment portfolio was held in one asset class. In my opinion, everything in life has a cyclical nature to it, such as the seasons, the moon, stocks, bonds, resources… and real estate is no different. Therefore, timing is an extremely important component when making decisions about investing in real estate and disposing of the real estate asset.

When choosing to invest in real estate, it is imperative to define what form of investment/ownership is desired to be successful. This may seem obvious, but when planning for the future, it is prudent to set out the objective/destination first before setting out on the journey. The reason I have used this analogy is because real estate is generally not a short-term investment. We have all heard the investment adage *buy low sell high* but what I have noticed over the years is that a large portion of investors are buying high hoping to go

higher and when that doesn't materialize, they then typically sell at a lower net price than their original purchase price. Now if they held the investment through the downturn part of the cycle and waited for the subsequent rise again and then sold, if that was their intent, then they would come out ahead. What goes up must come down and vice versa.

Given the current market conditions across North America in general, it becomes even more important to be clear about one's objective. Please review the section *Know Yourself* for specific questions to ask and answer about yourself to determine what form or real estate ownership or investment will work best for you.

Due to the recent high demand for real estate there has been a significant jump in the number of real estate gurus that have appeared on the scene offering courses ranging from $1,000 to over $10,000 or more per course. Some of these gurus may have never seen a full real estate cycle. Some of these supposed gurus were also providing investment advice during the stock market heydays of the late 1990s until that market sharply corrected itself. Before you start spending your hard-earned money, please ensure that these gurus actually have experience, check their credentials and references, speak to individuals who have taken their course, and do some investigation on the Internet. The Internet is such a powerful tool for researching almost any subject.

Remember back to your school days when you had a better chance of passing an exam if you actually studied first? Real estate investing is no different. To reduce risk and improve your rewards you really need to do your research. I believe it truly comes down to a very simple equation:

PREPAREDNESS + OPPORTUNITY + ACTION = SUCCESS

Major Point: Make sure you approach real estate investing with knowledge and a written, disciplined plan.

If you would like to get started on your strategic real estate investment plan you need to be certain of 3 things:

- Where are you NOW financially?
- Where do you want to be financially and what is your time frame for accomplishing your objective?

What Forms Of Real Estate Investment Exist?

Listed below are a multitude of real estate investment types or forms of ownership, all of which hold their own risk and reward levels. These areas are definitely worth exploring to see which types resonate most with you. The list is by no means complete, as new and creative methods of investing and ownership seem to surface quite frequently in times of popularity.

Personally, I have been involved in multi-family, joint ventures both as the JV manager and as an investor. I have invested in limited partnerships in houses, townhouses, condominiums, fix and flips, and resort vacation, short-term rental properties, all of which have pros and cons to them. For buy and hold (blue chip investing) I found that the least stressful, most consistent performance, and with the least amount of direct personal work has been investment condos through a turn-key packaging process. I found that single family had the greatest appreciation potential, but it also took the most time, and involved the most amount of stress for me. Resort vacation rentals involved more small bits of time for me to manage bookings and staff for the property to remain attractive to guests. All the properties I have ever been involved in absolutely needed to be freehold as I have this insatiable need to actually own it not rent it, even though leasehold requires less capital. I actually love the idea of fix and flips for income purposes, but without the proper team it can lead to disaster quite quickly. Luckily, I have managed to align myself with some really great partners and I went into this type of investment with a shared return. You may find that you will employ more than one method to achieve your desired outcome.

Traditional forms of residential property ownership options

- Single Family dwellings
- Condominiums
- Townhouses
- Duplexes
- Multi-suite houses (3-plex, 4-plex, etc.)
- Small Apartment buildings
- Large multi-family properties
- Raw Land
- Recreational property
- Manufactured Homes

Less Traditional forms of ownership and Syndications

- Limited Partnerships
- Real Estate Income Trusts (REIT)
- Real Estate Exchange trade funds (EFT)
- Cooperatives
- Co-ownership
- Rental Pools
- Leased Properties
- Mortgage Investment Corporations (MIC)
- Undivided Interest In Land (UDI)
- Fractional Ownerships
- Time Share
- Joint Ventures
- Crowdfunding

Commercial/Retail

- Retail Space/Units
- Strip Malls
- Office Buildings
- Condo-Titled Office, Retail, Hotels and Resorts
- Mini or Self-Storage Facilities
- Mobile Home/Trailer Parks
- Manufacturing Facilities
- Light Industrial Facilities
- Industrial Parks/Units

Less traditional methods to acquire, invest and own

- Bank Foreclosures
- Property Tax Liens
- Rent To Own
- Assignments of Purchase Contracts
- Limited Partnership (LP) Structures

From the above list you can see there are many different types of real estate and ways to invest. To determine what best suits you, again it really comes down to you and your particular situation, your strengths and weaknesses, and what are your objectives or desired outcomes. This leads us to the next section. **Make a plan that suits your unique personality and limitations.**

Major Point: Along with each form and type of real estate there are associated potential rewards and risks. It is imperative to determine what method is right for you.

Know Yourself

A good question to ask yourself is, "Why do you want to invest in real estate?"

- Know the big *WHY*
    - Why are you even investing – being aware of your goal and vision enables you to be clear about why you're investing in real estate and what you're trying to achieve. In turn, this provides you with a touchstone, so you can ensure the decisions you're making fit with your big *WHY.*
    - Think of it this way, if you were financially secure then what would you do? What is your passion? Is it family, travel, giving back, etc.? Real estate investing is a means to an end. If you were already wealthy would you still continue to invest in real estate and if so, why? If you're

> in this category it may be that you'll get other forms of satisfaction from real estate investing such as the pleasure of providing homes to families, the thrill of being involved in a development from the ground up, or the pursuit for the right investment property.

When working with clients, before we even begin to discuss real estate, it is absolutely critical to my clients' success to uncover their WHY. So they want to invest in real estate. Great! What will the real estate give them? What do they want to get out of it? The reason answering this question is so vital is that it provides the fuel and foundation for them and their real estate investing success. It is NEVER about the money. Money is just a means to an end.

I have compiled a number of questions to help you to determine if real estate investing is for you. If your answer is yes, then the next step is to explore the type of real estate investment that best suits you.

It is imperative to really understand yourself, know your strengths and weaknesses, likes and dislikes, negotiables and non-negotiables, and finally to know what you want to accomplish. How much time you have to dedicate to your real estate investing? Can you spend the necessary time identifying and managing your investments? If not, you will have to make some pretty tough choices or find alternate means of accomplishing the most important tasks.

Delegate your weaknesses – just as it is best to play to your strengths, it's also wise to be aware of your weaknesses or the gaps in your knowledge, experience, and/or skills. We can't be experts in everything so having a good team that complements your expertise will help you fill in the gaps in your knowledge. This is particularly useful when you've mastered a niche and are ready to move on to new opportunities.

All of this will determine what steps you will need to take to achieve your desired outcome. Most of my clients over the years have a regular job to earn money they use to invest, so time is always a premium for them.

One particular client comes to mind. He is so busy, travels, and works in a province and city so removed from his own family that the only way he could invest in real estate is if it was fully turn-key i.e. passive investments. The money he has invested is working for him without him dealing with the research, all the acquisition intricacies, and the day-to-day operations. This method has allowed him to build up a diversified, multi-million dollar real estate portfolio. He has taken advantage of what he knows about his strengths, weaknesses, and his negotiables vs non-negotiables when it comes to real estate investing.

Personally, I choose to be a financial partner in my fix and flips, even though I can swing a hammer and have done renovations in the past. I am also familiar with the fundamentals of the chosen market but am not physically located there nor am I familiar with all the detailed research required to be successful in that market for fix and flips. Luckily, I have trustworthy partners so I am confident to participate in this particular field of real estate investing, without being too hands-on.

Below you will find detailed questions worthy of asking yourself concerning the following areas of your life as they relate to you.

- Personality
- Financial Status
- Time Frame
- Skills And Abilities
- Knowledge
- Objectives



Key Questions To Ask Yourself

Here are some important questions (in no particular order), that can assist you in clarifying your objectives.

1. What is my risk tolerance level on a scale of 1 -10?
2. Do I worry about problems or am I a problem solver?
3. Am I a people person?
4. Am I a good judge of character?
5. Do I like to do research and am I willing to do the necessary research on the property and the market to make a more informed decision?
6. Am I willing to learn all about the pros and cons of the various types of real estate ownership?
7. What Capital or Equity is available to me?
8. Do I like the negotiating game?
9. How much time do I have available to focus on this?
10. What is my current cash flow situation?
11. Can I afford to make all the mortgage, tax, and utilities payments if the property goes vacant?
12. Do I want to fix things or do renovations myself?
13. Am I a speculator or an investor? (know the difference, see chapter 3)
14. Am I a patient or an impatient person?
15. What exit strategies do I want to employ?
16. Do I want to hold on to the properties short or long-term?
17. What is my time frame for building my portfolio?
18. What is my time frame for replacing my current income with income from real estate?
19. What monthly cash flow do I desire to receive before and after the mortgage is paid off?
20. Am I looking for cash flow only?
21. What is more important to me, appreciation or cash flow?
22. How long am I willing to financially carry a property before it has positive cash flows?
23. What is my knowledge and skill set for doing repairs, renovations?
24. Do I know anyone who owns investment real estate now, how long have they been doing it and what has their experience been?

25. Am I willing to do it all on my own?
26. What people do I know that I can go to for qualified advice and/or assistance?
27. What connections do I have in banking, accounting, property management or commercial/real estate law?
28. Am I willing to take a share in an investment at least to start?
29. Am I interested and willing to only invest locally, or within my state or province, country or internationally?
30. What form of ownership do I want or is it best for me to hold the real estate as personal ownership, Family Trusts, Corporate ownership?
31. In my will, how do I want to pass on my real estate, and to whom?

By answering the above questions, you will quickly determine what steps to take and the direction you need to develop a successful real estate investment strategy that achieves the greatest success.

There are as many real estate strategies as there are investors. Many individuals enjoy the thrill of the game of doing it all themselves, while some join investment clubs and others may gather a team together to assist in the process. There is no one right way to invest, but you need to find the way that will work best for you, in order to meet your objectives.

Other Considerations

Now that you've looked a bit deeper, we also need to consider two other elements to help you make your choice.

1. Motivation

Understanding the *why* can help direct the *what* of your real estate investments.

For some, using a particular form of real estate investment vehicle will create greater tax benefits. For investors with a larger portfolio, different forms of ownership can spread and potentially reduce the risk of real estate investing. Determining

what forms that best suit your objectives will be an important step. For other investors, creating a legacy through real estate investments is a key factor for their chosen portfolio. Passing an investment on to your heirs will impact which investment type to consider. This consideration will require that you determine the exit strategy ahead of time to minimize tax implications.

2. Perspective
Liability and tax considerations are the primary reason to consider a variety of real estate investment vehicles. In my experience, each element is a moving target and your choice really comes down to your values and motivation.

Major Point: Knowing your strengths and weaknesses, what you are willing to do, your time frame, the desired objective and writing out a strategic investment plan will significantly increase your success in real estate investments. Once you have begun the process, review your plan regularly to make adjustments, as they are required. The other key thing to review is how you are feeling about your real estate investments.

The majority of the people I have met already have a job and are looking to invest and own real estate without getting directly involved in all the issues that can accompany the ownership of revenue properties. In short, they are not looking to buy another job. Many people starting out come to me to assist them to build a strategic real estate investment plan that will meet their current situation and their future objectives. If you would like to know more about how I have been helping clients build a positive cash flowing diversified real estate portfolio, please email me at aschulhof@gmail.com.

What Should I Do If I Want To Invest In Real Estate Successfully?

My recommendations are as follows:

1. Answer the questions that I wrote on pp. 15-19 of this chapter
2. Determine your current financial situation
3. Determine your desired outcome (be specific) i.e. I want $XX, so that I can do XX, have XX
4. Determine the length of time you have in order to achieve you desired outcome (be realistic)
5. Build a mastermind team of experts to assist with your real estate investing plan
6. Determine what real estate investment or ownership forms best suit you and your situation
7. Determine which markets you are interested in
8. Financially, emotionally, mentally and physically prepare yourself to be able to take action once you have identified a viable investment opportunity
9. Take action

Here is the link to your real estate action planner
https://www.subscribepage.com/k6s7v6_copy[1]