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Real Reflections: Learning About Real Estate

William Kirkland

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College Scholars Project

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Real Reflections: Learning About Real Estate

May 1, 2000

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Introduction

The purpose of this project is to learn and study as much as possible about real estate. The idea behind this is to discover interesting ideas of how real estate works and how it is developed. The project involves two main areas of study. The first area has to do with research that I have completed on real estate over the past year. This includes a study of the Tennessee Real Estate Broker License Act of 1973, a look into the opportunities available for a student interested in real estate at the University of Tennessee at Knoxville, in comparison to other schools with better opportunities, and highlights of some of the most relevant information that I extracted from five books that I have studied. These five books are The Real Estate Game: An Intelligent Guide to Decision-Making and Investment, by William J. Poorvu, Getting Started in Real Estate Investing, by Michael C. Thomsett, The Absentee Landlord's Survival Guide, by Jack Rower, Profitable Real Estate Investing, by Roger Woodson, and Multiple Streams of Income, by Robert G. Allen.

The second area of study involves a series of interviews with people in the industry. These people form a diverse group which includes a commercial real estate investment broker, a commercial developer, two residential real estate agents, an individual who markets real estate agents through technology, a real estate data researcher who also invests in real estate, a landlord, and a real estate instructor. The experience and wealth of knowledge that these individuals possessed placed me in an excellent environment for learning. It is one thing to read something and be told how things work on paper. It is completely different to see people executing what they are talking about in person. William Poorvu states in his book that he “emphasizes the use of cases in the classroom -- small ‘slice-of-life’ stories about people in real business situations. In my experience as a teacher, the case method preserves the true

complexity of business situations. It prevents me and my students from reducing real estate to a simplified collection of standard techniques to employ and punch lists to check off” (Poorvu xiii).

The purpose of looking at both areas is because I feel this gives me a more broad perspective on the world in which I am about to enter. I have intermingled the two throughout the project because I do not feel that either is more important than the other and because I believe that each area complements the other quite well. By placing them together, it allows me to remember that it is necessary to continue to study each of these areas for as long as I am in the industry. This project will cover many questions that I have had about real estate, and also answer questions that I did not know existed in the world of real estate before I began this project.

The writing is intended to be more like a journal than a research paper. The idea behind this was to learn as much as possible during the time that I had instead of focusing on one or two areas of interest. This allowed me to get a broad range of understanding in everything from obtaining listings as an agent to becoming a successful landlord as an investor. This paper will serve as my guidebook over the years to come. It will help me to make better decisions about where to go and prevent me from falling into some of the pitfalls in which people before me have found themselves.

I must also take the time to admit that I know little and understand little about the real estate business. I do not in any way aim to take the position of someone who knows it all. I feel that when a person thinks he has mastered real estate, and the millions of things that go along with it, he has already lost the battle of ever understanding real estate. In one of my interviews, this was one of the first things that I learned about real estate. When asked by Tom Weiss, “How

much do you know about real estate?," I responded that I knew very little. To this he replied that this was the first step to understanding real estate. As a thirty year old veteran in the field, he was the first to admit that he learns something new every day and that he will never know everything that there is to know about real estate. I have taken his words to heart and this project is a humble attempt to put on the table all that I know and think about real estate.

I have chosen this topic for a simple reason. I love learning about real estate. I find real estate to be very fascinating and I feel that I need to learn as much as I can about it in order to be successful in it. With this in mind, allow me to begin.

The Investment Broker

Bart Weprin is a commercial real estate agent in Cincinnati, Ohio with the Marcus and Millichap Real Estate Investment Brokerage Company. He has been in the real estate business for several years and has had tremendous success. I learned a great deal from the first interview that I had with him.

We began the interview by talking about what it was like being in the field of real estate. He told me that making it in the world of real estate is not easy. One of the first things that I learned from Weprin was that the key to being successful in real estate, as with anything, is having a strong work ethic. When you first go into real estate in a particular area, you have to learn and study that area. You need to know of everything that surrounds the area. He said that you have to know as much as you can so that when people ask you questions, you will either be able to answer these questions, or know who to ask or where to go to find the answers. This means that you have to do your homework on everything from knowing the market that you are in to knowing who the people are that are involved in the area's government. He suggested that having access to market research in the area that you are working in is one of the first things that an agent must learn. He said that market research can be attained by going to the courthouse and studying information on different pieces of property. An agent should know who owns what property, how much was paid for the property, the history behind the property, and any future plans that the property might have. Weprin stated that having this market research is an important tool for an agent to have in order to give him a little bit of an edge over his competition.

An agent must also learn to effectively communicate with people in the community. To be in real estate, you have to know where the community is going, what the long range plans for

the community are and how the community plans on attaining these goals. Sometimes these goals and plans are not written on paper, but exist only in the minds of the people within the community. One way to figure these things out is through communicating with these people that live in the community. These people, he said, know things and can express things the way nothing else can. You can get a true picture and a true sense of your surroundings from the people who live in the community. "You can learn everything about the real estate and nothing about the people, and what you will find is that you really don't understand the real estate at all until you understand the people. The land and buildings can do nothing on their own; people are what make things what they really are."

The interview continued to get more interesting as we began talking about the future possibilities of real estate. He posed several different questions concerning real estate and what might happen to it in different areas. One of the most interesting concerns that he had was how the internet would affect shopping centers. More and more, he said, people will begin buying and selling things over the internet. He discussed with me the idea that this might hurt the shopping center industry. If more people are buying over the internet instead of getting out and buying things at stores, then there would eventually be no need for shopping centers. His question was what would happen to the shopping centers that would see less and less traffic. If the stores do not sell merchandise, they will be unable to pay their rent to rent the retail space. If they are unable to pay their rent, they will have to close. If they close, somebody will have to take their place in the shopping center, but if nobody can fill these spaces due to the fact that they will not make enough money either, then the shopping center will lose money. If the shopping center loses money, it will eventually have to close. So, the idea is that shopping centers might become dinosaurs and find themselves becoming extinct. This, of course, is a scenario which

would only happen if people legitimately started to buy too much over the internet that the stores would not make enough money to stay open unless they are “online.” He explained, however, that he felt as though this would never happen. His thoughts were that people enjoy getting out and doing things and this includes going shopping. People enjoy the social interaction that is involved with shopping. They enjoy the exercise that they can get while shopping and walking from store to store. Lastly, he said, people often like to see what they are spending money on before they spend the money on it. This is something that you have to do in a store and something that you are unable to do over the internet. I agree with Weprin in that I feel people enjoy getting out and going shopping. I think that people will continue to shop online, but I do not think that this will bring an end to shopping centers. Also, I feel that people like to get out and interact with other people. Shopping centers give people the opportunity to do this.

Another question concerning the future of real estate is what will happen to all of the shopping centers that are what he called “second generation shopping centers.” Weprin said that some of the older shopping centers (which he has dubbed “second generation shopping centers”) do not have some of the attraction that some of the new shopping centers have. For example, many shopping malls are now being equipped with entertainment centers that include movie theatres and other entertaining specialties. The malls that are not equipped with this are suffering because people want to go where they can be entertained and have more to do. Does this mean that these “second generation” centers need to find a way to add this entertainment dimension that is causing them to lose interest? Weprin said that these shopping centers need “retro-fitting,” or what he might call a “make-over.” He said that without changing into something more appealing, these centers could stand to lose a substantial amount of money. He said that this does not mean that every shopping mall has to put in an entertainment center. In some

instances, all they need to do is to redevelop what is already in existence. For example, he suggests that some centers change the outward appearance of the building to give it a newer, fresher look. He said that studies have shown that when renovations are made, these changes cause an increase in the amount of profit that the stores within the building, and therefore the building, make.

He also took the time to mention that if somebody or some company could come up with a way to make old Wal-Mart shopping centers busy again, they would not only win an award from the government for helping to beautify America, but they would also be able to make a great deal of money. Weprin said that these old Wal-Marts are becoming run down shopping centers of little value because they are so expensive to renovate and there are very few business that can afford to make the monthly rent payments in such a large retail space. Due to the condition that they are left in, he said, the area surrounding the center becomes run down as well because all of the business that Wal-Mart used to bring in would also bring in business for all of the other businesses around it. When Wal-Mart left, so did all of the business for the surrounding businesses. This has ultimately led to run down parts of town. What this situation needs, he said, is a business which will renovate the shopping centers and in turn renovate the surrounding area through the business that it will generate. This will make this part of town look better in all of the cities across the country that run into this same problem.

One of the last things that we discussed was how to work with the world of real estate. He said that many people have made a great deal of money in the field of real estate. He said that the most profitable way to deal with real estate was not just to sell it, but to own it. Weprin stated that real estate agents will more than likely come across one deal a year that is "too good to be true." He said that if the agent buys one piece of property every year, then the amount of

wealth and property that the agent will accumulate over the years will be tremendous. He said that although it will not be liquid assets, meaning that it will not be cash money that can be spent, the amount of money that it is worth will continue to increase over time because real estate is one of the most secure investments that a person can make with his money. The problem that real estate agents must keep in mind when buying these great deals that they do not need to cross a code of ethics in these situations. An agent must maintain his fiduciary duty to his clients and not take advantage of these clients. Not only can taking advantage of clients get the agent into trouble with the law, but it can also cause them to go against their own morals and values. As long as the agent keeps this in mind and does not cross the ethical boundary, then he should have nothing to worry about.

The most important thing that I learned from this interview was that being an agent is so much more than just helping somebody buy and sell property. There is an incredible amount of knowledge that an agent must have about the real estate business in order to work in it successfully. The agent is paid for the service that he can give his clients and the good agent will offer all that they can to the client. If the agent is concerned with just making money, then the amount of help he will give to the client will be minimal. But if the agent is willing to give everything that he has to the client, then he will have done his job the right way. Also, if the agent gives all that he can, the money will come anyway because of the reputation that he will build.

This interview also allowed me to reflect on the future of the business as I had never done before. I usually tend to look at the present state of real estate and feel comfortable about what I am getting involved with in this business. Weprin opened my eyes to the fact that there may be some unforeseen problems or hurdles that I will have to overcome in the future and I need to be

prepared to handle these obstacles when they come my way. This is a harsh reality, but one that I now realize and will take to heart.

The Game

The Real Estate Game: An Intelligent Guide to Decision-Making and Investment is a book written by a successful real estate investor and developer named William J. Poorvu, who serves as the head of the real estate program at the Harvard Business School. This book utilizes actual cases or “war stories” in conjunction with sound advice and practices that help a real estate investor to understand the proper strategies to use in order to achieve success in real estate. His purpose is to help the reader understand that becoming a “valuable investor” is the best long-term strategy that a person can use in real estate. The key to this, he says, is to buy at the right price at the right time and to find creative ways to enhance the value of what you own.

He begins the book by discussing how he feels real estate closely resembles a game. He says this because he feels it is an “interesting and challenging context for competition” (Poorvu 1). Real estate, he writes, influences the national economy as well as people’s lives by helping us to decide where we will live, work, and play. He said that one of the most important things to remember about real estate is that it involves large risks which means that an individual can either have large rewards or large failures. He also describes real estate as a game which is never played the same twice. It also is a business that requires not only intellectual commitment, but also emotional commitment. A piece of property will become more or less valuable over time and this increase or decrease in value might be predictable and it might not be. So, an individual must be prepared for both. Another important thing to remember about real estate, Poorvu states is that a piece of property will always be more valuable to some people than it is to others. It is important for an individual to try to place himself in the right place at the right time in order to see success in the field.

In describing the business of real estate as a game, Poorvu recognizes four key ingredients that make real estate run the way it does. These four elements are the properties, the capital markets, the players, and the external environment. It is important to understand that it is vital for these four variables to be taken into consideration every time that an individual engages in some sort of real estate decision. All four of these components are contingent upon one another. In other words, if one of these variables changes, the other variables are effected by this change.

In real estate, he declares, an individual must decide what type of player he will be. Does the player want to own small projects which utilize his own equity? Does he want to be a part of a real estate investment trust (REIT)? Regardless of what the individual chooses, he must make this decision to ultimately decide how he will become a part of the real estate industry. In the experience that Poorvu has had in the past, he has come to the conclusion that the individuals who enter “the game” for the purpose of making a great deal of money usually end up getting themselves into trouble. These individuals forget that if they do not do what is right for the property, then they are doing the wrong thing. If they do not understand that fixing things for the short-term can ultimately cause serious problems for the long-term, then they can find themselves in a bad situation down the road. The people that fail in this business, he says, do so because they do things that look good on a sheet of paper but do not work well for them over time when they actually put these things into practice.

Poorvu gives many types of advice to the readers throughout the pages of his book. One of the most useful pieces of advice that he gives is his “back of the envelope” (BOE) technique. This efficient and effective technique allows an investor to analyze the financial implications of a potential deal or current piece of property. Poorvu states that many individuals in real estate

utilize their own forms of the BOE instead of using spreadsheets because it allows them to assess the situation that they are involved in and almost always gives them all that they need to investigate a real estate opportunity. He stresses that an individual should not “get carried away with number crunching” (43), because he should be just as concerned with utilizing his time in an appropriate manner. The BOE method not only saves time, but it also forces the individual to “isolate and better monitor the key assumptions over time”(43). The BOE technique performs two important tasks. The first is that it lists the positives and negatives to the property to help the investor see what the property has to offer before any numbers have been utilized. The second phase of this technique involves completing some simple calculations that will ultimately give the investor some numbers that will help him decide if the project is feasible. These numbers include the calculation of the cash flow from operations, mortgage payment, cash flow after financing, return on assets, financing cost, and return on equity. These numbers will help the individual to create a “snapshot of a property’s financial performance at a given point in time” (16). It is important to understand, he says, that no matter what type of analysis an individual decides to use for a piece of property, it is imperative that the individual do this analysis on a before-financing basis.

Another important piece of information that is included in this book is the overview of the federal tax policy toward real estate. Understanding the tax policy involved with real estate is vital to most private investors interested in getting involved with real estate and is a key component to success. These laws must be taken into account by investors before any final decision can be made on property. One aspect of the tax policy that must be understood is depreciation. Depreciation allows cash flow from investments in real estate to be tax-deferred. Another aspect of the tax policy involves “the six key levers used by the federal government that

impact real estate investments specifically” (39): the first of these levers involves the number of years during which different kinds of real property can be depreciated; the second of these is the rate of depreciation that is allowed; the third is the tax credits that are given for certain activities such as historic preservation and working with subsidized housing; the fourth lever includes the “passive loss” rules that describe the use of tax losses to offset other income that is made; the fifth lever includes the rules regarding what can be expensed versus what can be capitalized; finally, the sixth lever used by the federal government involves the circumstances under which lower-cost, tax-exempt financing can be given for particular real estate classes. The last part of the federal tax policy that is explained by Poorvu involves the fact that “the tax rate on ordinary income and the differential rate for capital gains affect all investments – real estate or otherwise” (39). He writes that the federal tax rate for the recovering of depreciation, which is presently twenty-five percent, is between the twenty percent rate for capital gains tax and the 39.6 percent highest bracket for ordinary income. Poorvu also points out that it is important for any individual involved with real estate not to forget to include the state income taxes involved with the project in the calculations of its cost.

Another very informative topic which is thoroughly covered in this book involves the four basic ways in which one can invest in real estate from the equity side. The first of these discussed involves buying a property directly. This means that a person or group of individuals will buy a piece of property completely without ever getting themselves into any debt. In other words, the group or individual will buy the property with money that they already have. The second way involves investing in private syndications. This type of commitment is less intensive on the investor because it is more “hands-off” than the first type of investment. This type of investing calls for individuals to give money to a fund which will buy properties for them

without the individuals having much to do with which properties are bought. The third way is investing in multiproperty funds which are usually sponsored by a financial advisor. In this type of investment, some of the specific properties that are being invested in may or may not have been identified from the beginning. This also involves the individuals giving money to somebody in charge of buying the properties for them. The fourth basic way to invest in real estate from the equity side involves investing in public securities. These types of investment opportunities are often in the form of REITs. This is very similar to investing in the stock market.

Poorvu also reflects on family issues in his book. He begins this section by describing how bringing an individual's family into business can often be very tough. The disputes which normally occur in the business arena between partners can often be intensified when partners belong to the same family. It is important to realize, though, that the family can provide unique situations for what Poorvu calls "harvesting." With real estate, older generations can sell the younger generations limited partnership interests at some discount, make loans to them at discount prices, and transfer properties in ways which will allow the younger generation to take advantage of future growth in value. One way to transfer assets within a family is through gifting. For example, if an individual's son or daughter is married and the individual's spouse is living, then both the individual and the individual's spouse have the opportunity to give ten thousand dollars a year tax free to each child and his or her spouse. This means that the individual could give forty thousand dollars to each of their children who has a spouse. "If this forty thousand dollars comes in the form of an asset that is valued at a discount to its true market value," he says, "then this could be a very valuable tool for family estate planning" (234). Another opportunity that exists is the one-time \$650,000 gift exemption (which will rise to one

million dollars by the year 2006) allowed by the federal government. This amount doubles in value in the case of a couple and if it is given in property, the value could increase significantly over time.

Poorvu also takes time in his book to discuss the five distinct property types in commercial real estate. These types are apartments, offices, hotels, industrial, and retail. He writes about each of these in detail and discusses the important characteristics involved with each that must be understood in order to determine how value is created for them. This simple and easy to understand discussion helps an investor to become educated about many of the aspects that an individual will become involved with as he begins investing in commercial real estate. After reading this section, an individual will be able to make much wiser and more effective investment decisions. It can also help an individual to decide which property type will be the most beneficial for what the individual hopes to accomplish. In addition to this section, Poorvu has also compiled a commercial real estate due-diligence (due-diligence is the process of underwriting a property by buyer or lender before the property is purchased) checklist which allows an individual to follow a step-by-step process in order to successfully complete the process of buying any piece of commercial property without making any costly mistakes.

This book allowed me to, as a beginner, understand what it means to invest in real estate. It taught me that while it is a slow investment, it is usually a wise investment. More importantly, it taught me that it can be a risky business where people can lose everything that they have worked for because of a bad decision that they make once. Real estate must be studied by the investors so that they understand everything that they need to understand in order to make an informed decision with their money. It is not a decision that can be made lightly.

The Development Process

Tom Weiss is a real estate developer in Knoxville, Tennessee with FMP/Weissco, Inc. He has been in the real estate business for twenty-five years and has worked in the areas of development, brokerage, leasing, and property management. The interview with Mr. Weiss was very enlightening because knowing that I had an interest in the field of real estate, he made a conscious effort not to sugar coat the real estate industry as being an easy one.

Mr. Weiss began the interview by explaining that he had been in the field of real estate for a number of years and he has seen a lot of changes and learned something new everyday. He said that he will never be able to learn everything that there is to know about the real estate industry but that there was one thing that he knew for sure. He said that no matter what, real estate will always be a “very risky and expensive business.” He followed this fact with the declaration that what he said was an understatement. He said this so that I would understand that what I wanted to do with my life was not always going to be wonderful and successful. There would be good times and there would be bad times, but he wanted me to know from the beginning that I had a rough road ahead of me and that I needed to be prepared for it. I appreciate when a person tells me the truth even when it may be something that I do not want to hear because I know that this person is more than likely going to be honest and trustworthy. In this case, I knew from the beginning of the interview that Mr. Weiss was going to be someone that I learned a great deal from because he was going to tell me information that was straightforward and true.

The purpose of the interview was to learn some of the development process. We were going to discuss a piece of property that Mr. Weiss had purchased and wanted to develop. The property was off Old Broadway and near I-640. He said that one of the reasons that he

purchased this piece of property was because it was visible and accessible. He said that a property this visible was able to do some advertising for that business that chose to rent it from him because so many passing vehicles would see the building with the business' name on it. As we were studying the topographical survey on the land, he said that the land used to be a fairly good sized "mountain" which was ultimately flattened to how it looks now. He said that often in real estate, people will be looking for something with certain characteristics and you have to fill their need. In this particular project, a company wanted an industrial building on a bus line which is something that is hard to find. Although a company requested this, this does not mean that the company is forced to rent the building. This particular investment for Mr. Weiss is known as "Spec" building because he is merely speculating that some company will choose to move in to his piece of property after he has invested time and money into the project. An investor like himself will buy the land and build the building, find tenants to pay rent on using the building, and pay his expenses on the building from the money that he gets for rent. "The object," he said, "is to bring in more money than you pay out." He said that this is much harder to do than it is to say.

Mr. Weiss noted that in real estate, you have to know your market. This was something that I learned in my very first interview with Mr. Weprin. Weiss said that if you do not know and understand your market, you might end up losing on your investments faster than you originally expected. This is because you might build something that is not needed in the market which should result in money being spent on the project by the investor without any return from people wanting to use the property. There has to be a demand for what you are offering to the community. In order to learn the market, Weiss said that you must talk to realtors, talk to other people involved in the community, and drive around the community. He said that these three

things should give an investor a start on understanding and “getting a feel” for the community by helping the investor learn, among other things, the growth patterns of the city. One final point that he made on the topic of supply and demand is that it is best not to be the first investor to be in a particular area. He said that an investor should allow other investors to try an area out first so that if they are wrong or right, the investor can learn from what they have done.

He said that there are several tactics to try to lure people in to renting property from an investor. First, the investor must make sure that the asking price is at basically the same price as the competing industrial sites in the community. This information can be found at the courthouse and through the use of computer technology. Giving free rent and extra tenant improvements are just two other benefits that an investor might offer prospects in order to entice the businesses to want to rent the property. Another good sale point that he said an investor should use is to sell the building’s location and how profitable that might be. Again he said that “the more you know, the more you know what to ask.” This goes back once again to knowing the market.

Mr. Weiss touched on the fact that building industrial buildings is not a cheap business. He said that most of the time it is important to find investors who are willing to give a substantial amount of money for the risk of making or losing a substantial amount of money. In order to entice investors, the developers have to give projection numbers which show how much the building will make if a tenant is found at a particular price. The amount of money that the investors will ultimately make depends upon how long the tenant plans on staying and if they are able to make their payments. A developer not only has to give potential investors the possible risks and rewards, but also the market conditions and the market projection. Weiss said that

investors will ultimately help the developer to not only pay for the project, but also help spread the risk.

In a development of this nature, he said, the developer should not build everything at the beginning. Instead, the developer should only build the shell of the building in order to defer the costs because there is no use building everything else until the occupant decides what he will need. Otherwise, the developer might build too much and have to spend the money tearing down what he built and rebuilding what the tenant really needs.

This interview taught me that a real estate deal is not something that is completed over night. It might take months or even years to complete and can be a tedious process along the way. As an individual with little patience, this is a fact that I was glad I understood before I started in the business. As an individual in real estate, I have come to the understanding that one can never rely on a business deal to succeed in order to stay afloat. Each individual must always have the ability to go a long time before ever receiving a pay check. This is not like a regular job. An individual must save the money that he makes and not spend it all when he gets it. If this is understood, then it can save the individual a great deal of heartache in the long run. This interview also taught me that there is a great deal of risk involved with real estate. It is the investor who is able to minimize this risk that will ultimately succeed.

Wise Investments for the Beginner

Getting Started in Real Estate Investing is a book which discusses all types of real estate issues. It is written in a format that allows an individual such as myself to learn a great deal about real estate investing through the simple language that it uses to explain certain topics which appear to be difficult. This book helped me to answer several questions that I have been struggling with, and the more I study it, the more I learn from it. The author of the book is Michael C. Thomsett, a writer who has written several books on financial matters and who has worked as a management consultant in the securities industry.

Thomsett begins the book by giving several reasons why real estate is so popular as an investment. The first reason that he gives is that it is one of the few finite investments available. There is only so much real estate to go around. Eventually, all of the land will be used and this means that the price of property has to rise in value. The second reason is because of the history of real estate and the increase in value that it has almost always had. It has had its ups and downs just like any other investment. However, real estate has usually been higher than the Consumer Price Index and has almost always kept up with inflation. This has given investors a very stable environment in which to invest. The third reason is that real estate gives its investors some very favorable federal tax benefits. A fourth reason that he gives is that investing in real estate gives the investor something that is tangible in return. The last reason that he gives in this book is that real estate is considered to be a basic necessity for people. People need shelter, and real estate tends to fill this need.

Most investors, he says, start out by buying houses and renting them out to tenants. Many of these investors become developers later, but they start by buying one or two properties and being the landlord of these properties. The investors who are usually involved with

commercial and industrial properties are individuals who tend to specialize their interests and knowledge in these areas. A key to starting out in real estate investing, Thomsett writes, is to follow three basic steps. The first of these steps is to study the local economy and the cycles that occur within this economy. An understanding of this will give an individual a strong foundation of knowledge on which he can build. The second step that he recommends for those beginning in real estate investment is to gather all of the necessary information that will be needed in order to make an informed decision. The last step that he stresses is for individuals to set goals for themselves and create a list of investing rules to follow consistently.

Thomsett also takes time in this book to touch on his real estate rules of thumb. He said that in addition to studying real estate cycles and becoming keenly aware of the real estate market in the community, there are also six additional rules that an individual must be aware of in order to see success. The first of these rules is that real estate is a long-term proposition. Usually, he says, the people who get into the business looking to get rich quick are the same individuals who lose in the business. Real estate is an investment that is the most beneficial over an extended period of time. It is important for individuals to understand this before they get involved in the business. The second rule is that real estate markets are based regionally. If the local market in New York City is declining, and an individual writes an article about how real estate is no longer a good investment, this does not mean that real estate in Georgia is declining. The differing markets in different regions do not directly correlate with one another. The third rule is that “the big run-up is never really over.” At least once a decade, the experts will advise us that we have missed the opportunity to invest in real estate. What the experts fail to see, though, is that there will be just as many opportunities in the future as there have been in the past, if not more. Real estate is not a one-time opportunity for individuals. The fourth rule that

Thomsett stresses is that it is impossible for an individual to recognize exactly where he is in the real estate cycle. It is always easy to look back on situations after they have passed, but it is extremely difficult for an individual to predict where he is in the present. The fifth rule that he stresses is that real estate is not a liquid asset. When an investor places his money into real estate, the degree of speed with which he is able to retrieve his assets is much slower than many other forms of investment. As a result of this, Thomsett recommends that investors keep a certain percentage of funds in some sort of liquid investment. This ensures that if any money is needed in an emergency, this money will be available without creating a dilemma. The sixth rule that he stresses in this book is that if you select real estate diligently, you will eventually make money. It is rare, he writes, for real estate to lose value over time. While the value on a particular piece of property may decrease over time, if the investor is willing to wait, the investment in the property will more than likely pay off. In the end, the only two values that really matter in a real estate investment are the amount of money a piece of property is bought for and the amount of money for which it is sold.

While several people in the industry are trying to sell the idea that real estate can make an individual rich quick through little or no money down and other techniques, it is important to understand that the advice from these people may not always be the best advice to take. Making money in real estate is much easier if the individual understands what he is getting into and knows his limitations. Thomsett claims that most individuals will be unable to maintain more than one or two properties at a time because any more than this will require too much time and energy and will leave you very little leisure time. If an individual owns four or more properties, then he will more than likely be dealing with one crisis or another all of the time. When an individual reaches six or more properties, this will take up almost all of the individual's time and

the investor might even consider giving some of the income from these properties to a management company who will in turn be delegated many of the problems that come with these properties. Everybody, he says, has heard the stories of how to get rich quick by buying all of the properties, but these stories rarely mention how the investor will have to deal with the leaking roof or the broken sewage tank. One important thing to remember is that when an owner has a problem with a property and sells the property to another individual, the problem now becomes the problem of the new owner. The point that he is trying to make is that being a landlord is not as easy as collecting the rent check every month and making a huge profit. It takes a great deal of time and effort to make it work effectively. An individual who is interested in this part of the real estate business needs to know just how much he can handle. If the landlord is effective managing ten properties, then he should make sure that he does not try to handle any more than these ten. The problem comes when an investor loses control over his properties and gets himself involved in a situation that he is unable to handle.

The book also discusses several factors that should be kept in mind when considering the present and future value of a piece of residential property. The property should be quiet in terms of traffic flow. It should also be well-maintained by its current owners. Another factor is that it should be in an area of low crime. It should also be in a well-developed area with very few vacant lots surrounding it. The property should also be close to conveniences such as shopping centers and transportation. Lastly, the property should be zoned for residential or residential-commercial mix to prevent the property from being surrounded by businesses which would cause the property to decrease in value.

The more I read about real estate, the more I realize how little I know. This was the case with the section of the book involving keeping good records. Thomsett lists several reasons to

keep good records and begins his list with the fact that it is required by law. In order to claim the deductions that an individual has on his income, the individual must keep clear records that can prove the expenses that he is claiming. The second reason on his list is that an individual will profit from keeping good records. As records are kept over the years, important information is maintained and can be used by an individual for future analysis. The third reason that he lists is that proper analysis depends highly on accurate records. If an individual has not kept reliable records, then the process of analyzing these records can become extremely frustrating. The last reason that he gives is that in the event of a tax audit, good records are vital. If an individual is audited, he will have to be able to prove every deduction that he has claimed on his annual tax return. If the individual is unable to do this, he will run in too many problems.

Often in real estate, it is difficult to decide the best time to buy, sell, or wait. Thomsett takes time in this book to cover this problem. Generally, he says, it makes sense for an individual to buy real estate when five specific conditions occur. The first of these conditions is that you should buy when you are financially able to buy. He advises that an individual consult a financial lender before ever getting involved in looking at potential properties. This lender will be able to let the individual know if he will be able to obtain the financing and will also show the lender how much financing he will be able to receive. This depends greatly on the individual's income and credit history. Another condition that he says should prevail is when it is a buyer's market. When there are numerous properties for sale and not enough buyers in the market, then the advantage obviously goes to the buyer. One way to figure out what kind of market exists is to compare local housing costs with averages at the regional office of the Department of Housing and Urban Development. A third condition is when you believe that the cycle is at the bottom. For this, an individual must complete an analysis of the real estate market looking at the number

of properties on the market, the spread between asked price and sale price, the time required for the average sale, the number of new housing starts, the number of sales in the past year, and the recent population statistics. By studying these numbers and statistics, an individual should have a much better idea of where the conditions of the market are. A fourth condition is that there is a demand for rental units. The demand for rental units should be high enough that an individual should not have much difficulty finding suitable tenants for the property. The fifth condition is that the amount of rent is adequate to provide you with the cash flow that you need. In other words, he is saying that the amount of rent that the individual will be receiving will be enough to cover most if not all of the expenses that the individual will have.

Thomsett states that there are also several conditions under which an individual must sell. The first of these conditions is that the individual wants to sell. As an investor, an individual must learn to resist temptation and exercise patience in the process. However, when the individual reaches the goal that he set out to obtain through the investment and wants to sell the property, then he should do so. The second condition listed is that it is a seller's market. When the market is in this condition, the seller will have the luxury of getting several different offers on a piece of property. If an individual has the patience to wait, this market will eventually come around and will pay off for the seller. The third condition is that the individual believes that the cycle is at or near the top. This, again, is something that an individual must decide based on an estimated guess.

The last set of conditions that Thomsett reveals are those that involve when an individual should wait. The first of these conditions is when an individual is not certain whether the timing is right to sell. As an investor, this is one of the hardest conditions to understand. However, if there is any doubt about where the cycle is, it is best to wait than to rush in to something that the

individual will regret later. The second condition is when the individual would sell in the right conditions, but is willing to wait. The reasoning behind this is investors should be patient and wait for the offers to come to them so that the individual will get the best offers possible. The third condition is when cash flow is acceptable for the moment. If the rental income is able to pay for the mortgage, and the investment is bringing in tax benefits, then there is no pressure to sell, and it is to the advantage of the owner to wait until the right offer comes along. The fourth situation in which the individual should wait is when he does not have any specific plans for the proceeds if and when the property is sold. This prevents an individual from having to react to circumstances beyond his control rather than create the circumstances that he desires. If an investor has no plans for the capital and there is no need for him to use the money in another area, then it might be in the best interests of this investor to wait and take no action on the sale of the property.

The last part of this book that I feel is of great interest involves the mortgage payment. Thomsett discusses the fact that an individual can save a great deal of money on a mortgage if he simply understands that he can reduce the interest cost. Something that I have always had a problem with in real estate is how people describe it as such a great investment, but you end up paying twice as much on the property through the mortgage than what you actually “bought” the property for in the first place. So, the revelation that I learned in this book was that you can actually prepay your principal and save a great deal of money by not paying the interest on that principal. In other words, he says, an individual can pay off the entire payment for January including principal and interest and then go ahead and pay off the principal for February and March and never have to pay the interest on the February and March payments. The individual would then pay for what was supposed to be the April payment in February. Of course this

concept will only work in situations where the individual has the extra money to pay the principal, and the lender specifically states that there will be no pre-payment penalties. If the individual can overcome these two problems, the amount of money that the individual can save is absolutely amazing.

The most powerful knowledge that I obtained from this book comes from the six rules of thumb that he wrote about. I feel that this is the best advice that is given in the book because it is simple to understand and easy to follow. I am going to attempt to follow these rules in the future and I feel confident that they will help me make sound decisions and hopefully lead me to success. This book has also shown me that I must study the environment around me in order to know when the best time will be to buy, sell, or wait on a property. This market research is imperative to the investor and can not be overlooked or the investor will pay the consequences eventually.

Active Agency

Jay Willis is a residential real estate agent with Prudential Volunteer Realty in Knoxville, Tennessee. He has been a part of the real estate community for several years and has had a great deal of experience. During the interview that I had with him, I was again amazed as to how much I did not know about real estate.

We began the interview by Willis giving an overview of what he does. As an agent, he is responsible for finding his own clients and is interested in obtaining as many clients as possible in order to sell the most property. Willis is able to get his name on the market in several different ways. One way that he is able to get his name on the market is through advertising. Through Prudential Volunteer Realty, Willis advertises nearly every Sunday in the “Real Estate” section of the *Knoxville News Sentinel*. Another way that Willis is able to get his name out is through referrals. If Willis does a good enough job giving people the service that they want from an agent, then more than likely, these people will tell others about him. He said that one of the ways that he serves his clients is through knowledge. He feels that he knows enough about the business to give people strong and solid advice. As an agent, he not only wants to sell a home, but he also wants his clients to understand everything that is involved with the process. He says that it is the “little things” that make a difference to the customer, and he feels that every client should be treated as though they are the most important client that the company has. “People like to know that you care, and if you don’t honestly care about the welfare of you client, then you need to find a new career.”

The purpose of getting one’s name out in the real estate business is ultimately to obtain as many listings as possible. The more listings that an agent has, the more property he will have the opportunity to sell. However, if a real estate agent relied solely on advertising to the public, the

agent would miss a great deal of business. Making “cold calls” involves calling people on the telephone that you have never met before and letting them know who you are and what you do. The purpose of these calls is to generate business by ultimately becoming a real estate agent for the people with whom you speak. Willis stated that the way to do this is to call a certain amount of people everyday and let them know that you are there. This will get your name to people if they are interested in buying or selling a piece of property. The way to make this work is to be extremely nice to people when you speak with them and avoid being pushy or annoying by calling too much. Calls should be repeated every six months to ensure that your name stays fresh in their minds. Willis reiterated the idea that the agent needs to make sure that these phone calls are not annoying the people that are receiving calls, but are instead very helpful to them. During these calls, the agent should answer any questions that people might ask. This will let the people know that the agent is very knowledgeable in the field and willing to help them do more than just buy or sell their property.

Willis believes that most of the people in the real estate business do not work as hard as they should. He thinks that a strong work ethic is one of the keys to success in the business. Willis stated that most of the time he has to create business for himself. Without a strong work ethic, he would not be able to have as many clients. Another way that he solicits business is by going to developing subdivisions and getting to know the developer in charge of building the subdivision. If Willis is able to obtain the listings on the properties that are to be sold in the subdivision through the developer, he will create a great deal of business for himself. This gives an agent what Willis calls a “window of opportunity” because through one person, he is able to obtain the listings on numerous properties and open doors for himself and his career that would otherwise be closed. By gaining these listings, the agent will not only keep himself busy through

the next several years to come as the project develops, but he will also be seen by other developers as an agent that has the capabilities to sell multiple properties in a subdivision. He is also able to create future business from the people to which he sells the property.

As with any business, people are always trying to get a step ahead of their competition. The business of real estate is no different. Over the last several years, Willis and Prudential Volunteer Realty have seen a need in the industry that they want to fill. Willis stated that in many subdivisions, there are a number of vacant lots that have not been recorded and are not being utilized. Willis wants to enable Volunteer Realty and its agents to track and market available properties in Knox County's newer subdivisions. He also wants to provide the means for Volunteer Realty to track and be able to predict trends in Knoxville real estate. In order to do this, Willis and Volunteer Realty have teamed up with the Market Edge to develop a template on Excel with the pertinent information necessary to inform their agents on available properties. This is to be done through obtaining maps and gathering information to be inserted in the template. This information will show the agents which lots in Knox County will be available and what kind of market capability each lot has. This will give Jay Willis and Volunteer Realty an edge over their competition in this area because they will have some valuable information that nobody else will have. It will also help increase their business because they will have access to many pieces of property that they have been unable to tap into in the past because they were unaware of them.

The greatest lesson that I learned from this interview was that I have to work harder than my competition in order to beat my competition. I may not be the greatest salesman, have the most knowledge, or know the most people, but if I am willing to come into the office every day and put everything that I have into my work, then there are no limitations on what I can do.

However, the minute that I get satisfied and I stop pushing myself to achieve greater things, then I will become like many of the agents that Willis was referring to in the interview. It is imperative that I maintain a strong work ethic in order to succeed in the business and be personally satisfied with my performance.

Real Estate: A Good Investment

Profitable Real Estate Investing is a book written by Roger Woodson to show his readers how to become wise investors in real estate and to profit over time. He stresses in this book that the investor should always remain focused on a successful, balanced and risk-reduced portfolio. He also takes the time in this book to explain the mistakes that he has made and show the reader several shortcuts that can be used to make the real estate business much easier.

Just the other day I was talking with someone, and this individual was discussing how he predicted that real estate would not do as well here in the next few months because of the interest rates beginning to increase. At first, I found myself believing him and doubting whether or not I should continue to pursue real estate during such trying times. I found myself once again being reassured as to my choice of profession when I began reading this book. Woodson reminded me that land and buildings have endured several financially difficult times over the past few decades. In fact, if an individual will look at the history of real estate, he will find that in the end, the patient investor will almost always win with real estate. One reason behind this is because real estate does not usually have any problems keeping up with inflation. For example, a landlord has the ability to raise the rent that his tenants pay if the cost of living rises. While this occurs, the landlord's mortgage payment will stay the same and will not increase with inflation. This, obviously, can be advantageous to the landlord and will put him in a winning situation with his investment.

Woodson suggests that the single-family home may not be the ideal investment for the first time investor in real estate. He describes this type of investment as one whose cash flow may not be high enough to carry the investment's expenses. Instead of the single-family home, he suggests that individuals who are beginning to invest in real estate invest in a small apartment

building which consists of four or fewer rental units. A four-unit apartment complex is a great first investment because it does not require all of the individual's time and money. After the investor learns to deal with this property, he can begin to expand his portfolio. Woodson says that whatever the individual decides to do when he first gets involved in real estate, he should measure the deal by deciding what the worst-case scenario might be if he buys the property. If this deal would not break his financial situation and he felt confident about the deal, then he would sign the deal. If, on the other hand, the deal had the possibility of bankrupting the individual, then the individual should never sign the deal, no matter how great it looked. Another piece of advice that he gives to the novice real estate investor is to stay away from investing in larger buildings until the investor has had several years of experience in real estate investing. This allows the investor to get his roots under him and figure out many of the small details before getting himself involved in investments that are over his head. For instance, something as small as finding the right plumber to work on the smaller, beginner properties that an individual owns can help save a great deal of money later with the larger properties. After owning the four-unit complex and deciding that it is time to move up to the next level of investment, Woodson suggests investing in six to twelve unit complexes or a property which is zoned for mixed use. Another option at this point is to get involved with fixer-upper properties and rehabilitation work. This second step is when the business of real estate will begin to become lucrative for the investor.

Woodson ties the appreciation rate on real estate to the cost-of-living index and the rate of inflation. He says that it is not uncommon for a property to appreciate in value at a rate of five percent a year. It is important for the investor to understand, he says, that there is no way to know exactly what will happen with a property over a period of time. An individual may

purchase a piece of property that decreases in value over time. History shows us, however, that for the most part, property will always increase with time and usually keeps up with or exceeds the increase in inflation.

The use of property that is already owned by an investor to purchase other pieces of property can be an extremely profitable way to create a portfolio. This leveraging can be very rewarding, but it can also cause the investor a great deal of problems. If financial problems occur with one of the properties that an investor is purchasing, and this particular piece of property is tied in with another piece of property that the investor is purchasing, then the investor might cause himself to lose both of the properties and in the process owe a great deal of money to the lender. There have been many investors who have gone bankrupt as a result of property being bought in such a fashion. So, Woodson recommends that individuals make certain that they understand exactly what they are getting themselves involved with when they leverage properties. Otherwise, they might get themselves into some trouble for which they will have to pay for a long time to come.

As stated before, there have been many individuals involved with real estate that have tasted defeat. Woodson suggests that owning more than one property and more than just one type of property can reduce the risk of failure. In order to do this the proper way, he suggests that individuals develop an investment strategy. An investment strategy is a personal decision, but requires an individual to do some diligent research and to take some sound advice from professionals who are experts in certain areas of interest to the investor. This investment strategy should be used by the individual as a map to make a path that the individual wants to take in order to get from where he is today to where he wants to ultimately find himself. The plan should not exceed more than ten years as it will be hard for the individual to plan that far ahead,

not knowing where his investments will take him or how well they will do. Each year, a goal should be set and the individual should try to meet this goal. An important thing to remember is that the strategy is not set in stone. It can and will be changed. The best investors will see the changes that need to be made in the market before anyone else. These types of investors have usually had several years of experience and have accomplished a great deal of research.

There are several types of properties that an individual can become involved with which can make him a substantial amount of money over a short period of time. One of these types is called the “quick flip” (35). A quick flip property is a piece of property that an individual can buy at a good price, take a short period of time repairing and restoring, and sell within a year for a substantial profit (keeping in mind the short term capital gains tax). There are several ways to find a quick flip piece of property. The first way is through auctions. Property which is bought at an auction can often be bought at a great price, but it can also be somewhat risky in that the buyer may not be able to fully inspect the property before the sale. Another way to obtain this type of property is through real estate brokers. The problem with this, however, is that many brokers see the property first and often have first shot at the best available property before the individual ever knows that it is there. A third way to find these kinds of deals is through contractors. Sometimes, contractors get themselves involved in situations which can mean bankruptcy if they do not get out quickly. In these situations, it may be advantageous to the investor because he can get a good deal out of a property because of the situation that the contractor is in at the time. Another way is through lenders, who can give an individual a tip on property which might be foreclosing. One more way is through real estate professionals, such as lawyers, who are asked to liquidate a piece of property quickly which can mean a great deal for an investor.

As I read this book, I knew that I was beginning to make progress and that the hours of studying and writing were beginning to pay off for the future. I learned some very important things about investing that will stay with me throughout the rest of my life. First, I received some sound advice on how to start investing and what to invest in when I have the ability to do so. I have always wanted to start my investing with single family homes that I could rent out to families. This book suggested starting with a four unit apartment complex that would place me in a better situation because of tax advantages and greater income. The book also suggested diversifying my portfolio in order to give me a more stable investment package. The third thing that I learned from this book was that I needed to begin developing an investment strategy for the next ten years. This helped me to realize that I do not need to just invest in a property when I feel that it is a good investment, but I need to have a plan of where I want to be and what I want to accomplish with my investments. Overall, this book gave me a secure feeling that investing in real estate is a wise investment to make over time.

Marketing the Product

Klane Maples is Vice President of Product Development for AgentWeb.net in Nashville, Tennessee. He has been part of this company since it began seven months ago. The interview that I had with him involved a detailed discussion as to what his company is able to offer the real estate industry.

AgentWeb.net is a technology company that deals exclusively with real estate companies and agents. Maples stated that the company prides itself in being the total technology solution for the real estate industry. The company works on a local level with real estate agents and companies by offering services that deal with the area in which the agent or company does their business. This does not mean that they offer services only in the Nashville area, but they are able to give information concerning the area that the agent or business is in to the people that need it. For example, this company might do a website for John Doe from Milan, Tennessee. On this website, the company will not only include a great deal of information concerning John Doe, but will also include information about Milan, Tennessee. This allows the customer to get more from the website than they can at other websites.

It is no secret that technology is taking over the world. Maples said that in today's business world, people are going to have to accept the fact that computers are needed more and more every day in order to succeed. Those who choose not to use computers will ultimately be choosing to fall behind. This idea is no different in the world of real estate. AgentWeb.net has been developed as a company that allows real estate agents to come to grips with this reality and use it to their benefit. Maples and his company make it easy for real estate agents and real estate companies to become up to date with technology and in the process, help them achieve greater success in the business world.

The company started with the idea that they would just do web development work due to the fact that the real estate industry is “so far behind in every sense of communications.” In an age when the public is becoming more and more computer friendly, the real estate community needs to understand that it too must learn to use technology. Maples said that this company founded itself on creating web pages for real estate agents which gives the agents more exposure to clients. For example, many people enjoy going out for drives and looking at houses even if they have no interest in buying a house any time soon. People tend to notice the houses a little bit more if it has a sign in front of it that says “for sale.” This sign typically tells the agent’s name, number, and the name of his or her company. AgentWeb.net wants to design and host websites for these agents so that they will be able to list their web page on the sign as well. When a potential client sees the agent's web address, Maples said that they will immediately believe that the agent is “on top of things.” This shows that the agent is a step ahead of other agents and the agent will come across as a harder working, smarter agent that is willing to go the extra mile for his clients.

After some brainstorming and some long hours in the office, Maples and AgentWeb.net decided that they should begin offering more services to the agents that worked with their company. They wanted to begin reaching for their goal of becoming a total technology solution for their clients. At this point they began to offer virtual home tours of the houses that the agent was listing. Maples stated that these virtual tours would give the customers something tangible to look at to ensure that the agent was working hard for them. He also said that these tours would increase the amount of people visiting the website. Not only do people enjoy looking at the outside of homes, he said, but they also enjoy seeing what is on the inside. If a person is driving by a home that they like and see a statement at the bottom which reads “To view a virtual

tour of this home, please check out www.johndoe.com,” then they will be more likely to go to the website and look at the tour. In order to view the tour, however, the customer must first go to the agent’s website and the customer will immediately have his or her first knowledge about the agent before they ever meet the agent. Also, while they are viewing the piece of property that they originally planned on viewing at the site, they will more than likely check out a few other listings that they agent has posted on the website as well.

There are two types of virtual tours that AgentWeb.net offers. One is the standard virtual tour that exists on the agent’s website. The other type is the e-mailable virtual tour, or the enhanced virtual tour, that the agent is able to e-mail to people as an attachment. Maples said that what most agents do right now is send out information through the mail concerning any listings or other information that they might want people to know. Not only does this take a great deal of time, but it also consumes postage, letterhead, and other resources that can be very expensive. So, he said that his company allows agents to send e-mails to customers where the agent can describe the listings that he or she has and send a virtual tour of these listings as well. These e-mails will also include the agent’s picture, company logo, and website address. Maples said that this allows people to once again learn about the agent and establish a connection with the agent before they even see the agent. These e-mails not only save time and money, but they also make the agent look sharp and ahead of his or her field. Another benefit to them is that they have the capacity to reach more people than just the people who originally receive them. With mailings, people rarely send something that they receive from a real estate agent to somebody else because they consider it “junk mail.” Maples believe, however, that these e-mails have a good chance at being forwarded to other people and ultimately reaching people that the agent never would have reached otherwise.

Another service that Maples and AgentWeb.net have thought of that they now offer in addition to the website and the virtual tours are electronic business cards, or the marketing profile of the agent. These come in the form of compact disks that can be distributed at open houses, area business, and other places. These disks can be inserted into computers where they are automatically installed and can be used immediately. For example, Maples stated that one agent in Arizona goes into local businesses that do not have a relocation company working with them and hands the secretary fifteen to twenty CD's. She then explains to the secretary that any time someone is relocating to the area, or just moving in the area, they should be given a CD which will help them find a place to live and become more familiar with the area where they will now be living. The CD that she hands out includes her profile, testimonials from satisfied customers, communication links to important information about the community, school links showing which areas are zoned for which schools, and current listings that she has available. These listings are kept current because the CD has the capability to be linked with all of her current information on her personal site or any other external site.

Basically, Maples and his company have the resources to help real estate agents and real estate companies market themselves through today's technology. All of the things that they offer not only help agents market themselves and their products, but they are also great listing tools to offer people who do not yet have an agent. According to Maples, one more thing that this company will begin to offer the real estate industry is training courses in technology. AgentWeb.net will begin teaching agents everything from how to use e-mail to how to turn on a computer. As information technology consultants, the company would upgrade a real estate company's software, advise them on what type of computers to buy, help them install their network, and teach them how to use the hardware. In other words, said Maples, "we will teach

technical skills and fill technical needs in an effort to continue striving towards our goal of being the total technology solution for the real estate industry.”

As I reflect on this interview, I realize that I must always keep up to date with technology and use it to help me grow in my business. I have come to the realization that I must learn as much as possible about technology and its potential for my business so that I can become more valuable to clients than my competitors. Technology is not going away. In fact, it is a necessity in today's business world. I plan on using this technology in the future and I look forward to learning more about it as it continues to grow. In my mind, technology can either be your enemy or your best resource. I plan on it being the latter in my work.

Finding the Investment

Multiple Streams of Income is a book by Robert G. Allen which is devoted to the theme of explaining an abundance of information on how an individual can generate wealth. The author himself started with very little and turned what he had into a real estate portfolio that gave him a great deal of money. He mentions several ways that an individual can create and develop wealth and one of these ways is through real estate. He dedicates only two chapters of this book solely to real estate, but these chapters are very helpful in understanding it.

“Many of us,” he says, “waste time, money, and energy in endless moneymaking schemes while the greatest source of wealth is lying right at our feet -- real estate” (121). He writes that real estate can give an individual “versatility and power” and that the best time to buy it is “today” (122). He also mentions some staggering statistics that show how real estate has grown over the last sixty years. In 1940, the median price of a home in North America was \$2,000. This grew to \$7,000 in 1950, \$12,000 in 1960, \$23,000 in 1970, \$62,200 in 1980, \$94,000 in 1990, and \$136,000 in 2000. These are staggering statistics and show just how the value of real estate changes over time.

One of the major theories that Allen believes in that he feels will help people reach success in the real estate world is that “while the vast majority of sellers are inflexible in their prices and terms, a small percentage of sellers are highly motivated to sell” (126). He says that the secret to real estate is finding this type of seller and then determining whether or not the property that these sellers have is a good value. In order to find these people and discover whether the property that they have is a good investment, the individual must go through three stages.

The first stage is finding the highly motivated sellers. There are several reasons that individuals might be highly motivated sellers. These include divorce, obsolescence of property, negative cash flow, transfer, wrong management approach, arrears in payments, negative location, taxes, estate situations, retirement, competition with neighboring properties, out-of-area owners, neurotic fears, debts, ignorance of investment principles and market conditions, time constraints, investment capital, ornery partner, need for status symbol, and sickness. Most of these reasons are tied to personal situations that have occurred in the owner's life and not with the property itself. Allen lists nine ways to find these sellers and ultimately find once-in-a-lifetime deals. The first of these is through newspaper classified ads. The second is through realtors and real estate agents. The third is by an individual's own sphere of influence. A fourth way to do this is through focused wandering around. A fifth way is through banks and lending institutions. A sixth way is through an individual's own ads. A seventh way is through direct mail. An eighth way is through investment clubs, associations, and exchange groups. The last way is through other professionals. Each of these can provide the investor with step one of the processing of the deal, the contact with these sellers. After finding this lead in the sellers that the individual has contacted, there are still three more steps that must be completed before the property is owned by the investor. The second step in the process involves completing what Allen refers to as a "Bargain Finder Form" (128). This is a one-page form that Allen has created which should be filled in by the individual looking at the property. This form will give the individual a property score which will tell the individual whether he should walk away from the deal or inspect the property. If the score tells the individual that everything looks promising, then the individual should complete a physical inspection of the property to verify all of the information given to him by the seller. The individual should even go as far as to hire a property

inspector to do a report on the property. The investor should always have the seller pay for the inspection as part of the negotiation. This inspection might uncover problems that will make the investor no longer interested in the property. However, if it does not, then the individual should move to step three. Step three is to write an offer to purchase the property on terms that will benefit the investor. If this offer is accepted by the owner of the property, then the individual should proceed to step four. Step four is to buy the property. This is a very tedious process because only one lead in one hundred leads might turn out to be a property that an individual will purchase. This, says Allen, can be very discouraging at times, but if an individual is willing to stick with the process, then it can be very beneficial.

There are four things an individual must remember when looking at a potential property. The first thing is to let his fingers do all of the walking. A property should never be looked at until it has been given a score by the Bargain Finder Form and the individual believes that it has potential to be a good deal. This will save time and money. The second thing is to never fall in love with a property. One day, an individual will have to sell the property that he is buying and it will be easier to do this if the seller has not allowed himself to fall in love with or grow attached to the property. The third thing to remember is to never be afraid to ask sellers questions about their property. Allen suggests that the individual could even go as far as asking the seller what he plans on doing with the money after the sale. This might reveal some insightful information to the individual which could be used during negotiations. The last thing to remember is that the first person to mention a number loses. An individual should always let the seller tell him all of the numbers first. This could save the investor thousands of dollars.

The second stage that an individual must go through is funding. Every individual must find a way to finance bargain properties or there will be no way for the individual to ever own

the property. To do this, the individual must learn to negotiate. Allen suggests using the nothing down technique that he has helped make famous. Nothing down, he states, does not mean that there is no cash involved, it just means that there is none of the buyer's cash involved. Allen lists several techniques that can be used to achieve this goal. The first of these techniques is the "ultimate paper out technique" (140). This can be used when the seller wants to act as the bank. During this technique, no cash ever changes hands. Instead, the buyer begins making monthly payments to the seller and the seller begins to see principal and interest payments just as the bank would. The second of these techniques is the "lease/option technique" (143). This involves the investor looking into the newspaper and finding an ad which says "rent to own," "lease to buy," "lease option," or "option to buy." This will usually pair you with an individual who owns two properties and is stuck with having to pay two mortgages. The ideal situation here is to lock the seller in on a rent price and option to buy at a price that will not change with inflation for two to three years. It is also important to make sure that at least some of the money given each month is placed towards the purchase of the property. At the end of the contract, the individual should have the property appraised. The appraised value will exceed the option to buy value and the individual will be buying a property that will already have increased in value before the property is purchased. Not only will the individual have equity built into the property, but will also have the opportunity to immediately make money off it if he decides to sell the property right after he buys it. The third nothing down technique is the "anything but cash technique" (145). This technique allows the buyer to place valuable items other than cash as a down payment. An example that Allen gives is the use of a motorcycle as a down payment. This allows the individual to use his own assets even if he does not have cash. So, he is not in debt, and has still made a large payment. The point of this technique is that the buyer uses anything that he can as

a down payment as long as it is not cash. The fourth nothing down technique is the “divide and conquer technique” (145). This technique involves using credits, collected rents, deposit money and any other form of raising money to pay the down payment without ever having to take any cash from some sort of savings. This allows the buyer to put off paying for the down payment until a later date. A fifth technique is the “other people’s money technique” (148). This technique can be used when an individual does not have any money to put down, but other people do and are willing to give the individual this money under the right conditions. For example, if somebody is willing to put up the money for the down payment, and a deal is made with this individual by the buyer for the buyer to do all of the work on the property in return for the down payment, ultimately making the individual giving the down payment a partner, earning half of the total profits when the property is eventually sold, then this particular buyer would be using this technique.

The third activity to an individual’s real estate success involves farming. This is the part of the process that involves harvesting the profits from the property. Before a property is ever bought, it is important for the investor to have an idea of exactly how he intends to make a profit on this property. In this activity, there are basically two choices for the investor. The first choice is to buy and hold. This means that the individual buying the property intends to become a landlord. The other choice that the individual has is to flip the property. This means that the individual has bought the property below the market value and intends to resell the property quickly in order to make a profit. Allen suggests that investors should invest in both of these choices at least once every year. Each requires critical skills that the investor must learn in order to see success. The buy and hold strategy involves management skills and finding long-term

tenants that will take care of the property. The flipping strategy involves the “buying-right” skill and skills in marketing the property so that it will sell quickly (151).

This book taught me that if a person is willing to put work into this business, he will find a way to make it work for him. If a person is looking to buy a piece of property and is willing to take the time to find the right property for the right price, he will be spending his time wisely. As this book teaches, more than likely there are owners who will my wants for a property. As an investor, it is my job to find these owners through tedious research and dedication. Also, I must be creative in making deals work the way that I need them to work. If I do not have the money that I need to make an investment, I have to create a solution which will allow me to buy a property without putting myself in a bad situation. So, this book teaches that if someone is willing to look, he will more than likely be able to find a way to make it in real estate investing.

Knowledge is Power

Dale Akins is the owner of The Market Edge, a company in Knoxville, Tennessee which specializes in collecting real estate data for real estate companies, local government agencies, and other groups who need this type of information. Akins has been a part of the real estate industry for over fifteen years in several different capacities. Over the years, he has come to understand a great deal about the business of real estate and is putting this knowledge to use for the community and for himself. The day before the interview, Akins' company was mentioned in the Business section of *The Knoxville News-Sentinel* as the "official statistical reporting service for the Home Builders Association of Greater Knoxville." I named this section "Knowledge is Power" because I felt that Akins came across as an individual who had done his homework on real estate. It seemed as though he knew so much about everything due to all of the experience that he had received, and there seemed to be a burning desire inside of him to turn this knowledge into success. He truly loved learning about real estate and I realized that this was the type of burning desire that I would need to succeed. I think that understanding this was more important than the information that I learned from the interview.

I realized that this interview was going to be extremely enlightening from the very beginning. The first thing that we did was drive through the Fort Sanders Area as he explained to me that when he was my age, he would drive around this area and look for prospective property. When he found something that he thought would be profitable, he would check into this piece of property. He would track anybody who bought the property and see how well he would have done if this had been him. He would go to the Court House and find out information about the property, attend meetings concerning any zoning changes that were being made to the property, and sit back and watch the property develop into a profitable piece of land for the

owner. During this process, he would constantly ask people questions and try to figure out things that he did not understand.

It was during his college days that he received his first experience in the field of real estate. He began working in the mornings at an appraisal office from seven to ten. After he attended his classes from about ten to three, he would proceed to his second job working for a mortgage company from three to eight at night. While working for these two companies, he received invaluable training and was able to learn a great deal of information by being around the business all of the time. If he was asked a question by a client for which he did not have the answer, or if he overheard something that he did not understand, then he would find the answer either through questioning somebody that would know the answer or through research that he did on his own. He eventually quit his job with the appraiser and began work full time with the mortgage company at about thirty-five hours a week. After he graduated from the University of Tennessee, he managed the Construction Lending Office of Nations Bank for about ten years. When he turned down a move to another city for a better position for the second time, Akins was told that he no longer had a job with Nations Bank. It was at this point in his career that he moved full time into what he was at that time doing on the side. Since then, The Market Edge has achieved tremendous success and is continuing to help those in the real estate business better themselves and the service that they are able to offer.

Akins continues to be a very hard working individual, beginning each day before the sun rises and ending it long after the sun goes down. He uses his business as a way to pay the bills and put food on the table “for the kids” as he said. This is not the only thing that he does, however. Akins said that he also buys property and creates value for it. This is where he feels the bulk of his money will ultimately come from. He invests in property and through this

property, he is able to create net worth without creating income. He said that a person should not invest in a property that has no potential to increase in value after the sale. Akins feels that one “can manipulate real estate” and turn it into a profitable investment if it has potential to become profitable. The catch with investing in real estate, he said, is that it can be a very time consuming and very risky. A person might tie up a piece of land for ten thousand dollars through an option and try to get the piece of property rezoned. If the government decides not to rezone the property and the buyer then feels that because of the decision not to rezone, the property is no longer worth the investment, then the buyer has ultimately lost ten thousand dollars in the deal without anything to show for it. This process might also take thirty hours of the buyer’s time, which he has also thrown away when he could have been spending this same amount of time on something much more profitable.

During the interview, Akins told me several secrets to success in the real estate business. He started off by saying that first and foremost, it is important to play by the rules. Akins said that there are many people in the business who have broken the law. He feels that this is a risk that never has to be taken. “It is too easy making money legally through real estate and there is no reason to risk breaking the law by trying to make money in an easier way. The government already makes it easy enough as it is.” One of the secrets that he told me was to buy at least one piece of property every year that “can be manipulated.” For example, he stated that if a property can be bought at a price where the mortgage payments and real estate taxes involved each month are less than the amount of money that the property can be rented for, then the property would be a good investment.

He said that there are several steps that a person must take when looking at a prospective piece of property. First, the person must find a prospective piece of property that looks

appealing to the person and contains what he or she wants in a piece of property. Second, the person should go to the Court House and find any and all information concerning the property. This information might include the property's dimensions, deed history, tax liens, problems of the past and present, parcel identification number, and zoning. When a person buys a piece of property, the person is expected to have "due diligence" of property. This means that it is expected that the buyer has a complete understanding of what he or she is buying. For example, if you buy a house in a subdivision that does not allow fences, then it is the responsibility of the buyer to understand this rule and any other rule that applies to the subdivision or area. If there seems to be no problems with the property and the investment possibilities look favorable for the buyer, then the third thing that a person must do is to contact the owner. The buyer should be able to discover who the owner of the property is by looking at the name which appears on the deed at the courthouse. Sometimes, this person will have passed away, Akins said, and it is at this point when the potential buyer must find the name of the individual to whom the property now belongs. This name should also appear in the files on the piece of property at the courthouse. Akins stated that when he attempts to buy a piece of property, he might go through fifty to sixty attempts before he finds one that he is able to buy. Sometimes, he said, the owner will want more money than you can afford to pay for the property or the owner might not be interested in selling the property. This reiterates Akins' previous point that real estate investment can be a very tedious and time-consuming process. However, if everything falls into place the way that the buyer needs it to, then the process will continue to proceed. The fourth step that a buyer must take is to obtain a sales contract for the piece of property. If this is a piece of property that the buyer needs rezoned, then it might benefit the buyer to get a sales contract with the agreed upon amount for which the owner will sell the property to the buyer, but wait

approximately sixty days before going to closing. During these sixty days, the buyer should attempt to have the property rezoned. This will allow the buyer to create value for the property without creating this value before the sale. The problem with this concept, however, is that if the property is not rezoned by the Planning Commission then the buyer may decide not to buy the property. This will mean that the buyer will lose all of the money that he put into the project and therefore fall victim to the risk involved with investing in real estate. If the Planning Commission does rezone the property, however, then the buyer should go ahead and close the deal buying a piece of property for less than what it is worth through the rezoning process. These sixty days should also be used by the buyer to complete any further research on the property that he sees as necessary to do before buying the property. For example, Akins stated that if a "rock clause" is added into the contract then the buyer has the option to dig on the property to make sure that there is not rock under the surface which will prevent the land from being utilized the way that the buyer intends to utilize the property.

Another secret to success that Akins revealed to me during the interview was his investment plan for an individual involved with real estate. Akins said that he feels a smart investment policy would be to buy one piece of property every year for at least fifteen years. He said that in the world of real estate, one is more than likely going to find at least one piece of property every year that is an unbelievable deal. The individual should buy conservatively when he buys the property. This means that nothing should be bought without first fully investigating the property that the investor is looking to buy. If you don't do your "homework" on a piece of property, then you are leaving yourself open to the possibility of getting into trouble with it. Akins said that he knows from experience what it is like losing on a deal, and he even said that in real estate it is all too often the way that you learn the ins and outs of the business. However, he

states that if you can prevent yourself from learning the hard way, you should try to do so as much as possible if you want to be successful in the business. Akins said that if you get “burned” too many times, you might dig yourself into a hole from which you are unable to get out. He feels that rental property is probably the best investment that a person can make considering the fact that ideally, the mortgage payments on the property will be paid, for the most part, by the tenants that occupy the building. After properly investing in the rental property that he recommends for at least fifteen years, he believes that the investor will have put very little of his own money into the investment but will have fifteen properties to his name. In other words, the investor has the ability to allow other people to buy his property for him.

He said that an example of this type of investing would be to buy the first piece of property when the investor was twenty-five years old. When this investor became fifty-five years old, he would have a net worth of over a million dollars with fifteen pieces of property helping to pay off the mortgage payments for three of these properties. Another benefit of this is that throughout this process, he would not be obligated to pay taxes on any of the interest that he would be paying to the lender. The investor can also use the depreciation value of the property to help defer taxes on the property. These two “tax break” tactics will not keep the investor from ever paying taxes on the property, but will simply help defer some of these taxes until a later date. Of course, Akins said, it is not quite as easy as it sounds. It does take a great deal of time and you almost always need a down payment on the property. The down payment on a piece of property can be anywhere from ten to twenty-five percent of the total cost of buying the piece of property. This is where yet another one of his secrets comes into play.

Akins said that if an investor has the ability to come up with the down payment on the first piece of property that he buys, then the rest can be generated as a result of the first property.

Akins recommends that the first piece of property be bought as an owner occupied piece of property where you are able to obtain a loan of up to a ninety-five percent of the total price of the property. The Internal Revenue Service (IRS) has a rule that if a person lives in an owner occupied piece of property for three years and sells it before five years with the total cost of the sale being less than \$500,000, then the owner of the property does not have to pay any capital gains tax on the property after it has been sold. In other words, Akins said, I recommend that an investor buy a duplex and rent one side of the duplex to a tenant while living in the other side. At the end of three years, the investor should move out of the duplex and rent both sides of the residence to tenants and buy another duplex. Before the first duplex has been owned for five years, it should be sold so that there are no tax consequences on the sale of the property due to the IRS rule. The investor should then take the money that he has made on the sale of the original duplex to buy yet another piece of rental property. This should help start a “snowballing effect” which will allow the investor to have more money each year than he had the previous year. This extra money will enable him to buy at least one more piece of property each year. The investor can use the other properties as leverage when buying new property, but must always remain conservative and insure that he never “gets in over his head.”

One more piece of advice that Akins told me during the interview is to always have a mentor. He said that it is too hard to go into the real state business and try to learn everything on your own. “If you want to find out how to make one million dollars, talk to someone who has done it. Likewise, if you want to go into the field of real estate, you have to learn the business from somebody who knows the business.” I think that this project is allowing me to do just that.

The greatest thing that I saw through this interview was that hard work and knowing the business will take an individual a long way in real estate. I learned that Dale Akins loves what

he is doing and I want to have the same burning desire for it that he does. Dale is honest and has a great deal of integrity and these qualities are more important than the money that an individual can make in real estate. This interview also reinforced my belief that an individual can do any thing if he really wants to do it. I think that these lessons will stick with me for the duration of my career in real estate and I am grateful to have learned them. I also learned that if you enjoy your job and love what you do, then it is really not work at all.

The Real Estate Opportunity at the University of Tennessee

Section 62-13-303 of the Tennessee Code Annotated states that any person that wants to obtain a broker's license must first have several prerequisites for licensing. One of these prerequisites is that the person must "have held an active real estate license for at least thirty-six months or ... hold a baccalaureate degree with a major in real estate for at least twenty-four months." This section also discusses the fact that an individual is allowed to complete the sixty hours of classroom education in "a school, college, or university approved by the commission, including thirty classroom hours covering the basic principles of real estate." This section of the law allows for a person who has gone to college and majored in real estate to become a real estate broker one full year before an individual who has not graduated from college with a major in real estate.

The problem with this, though, is that not all schools offer this major. The University of Tennessee is one of these schools that does not offer this major. Twenty years ago, the University employed three full-time and two part-time faculty members to teach a series of classes which students could take in order to major in real estate. These classes were certified by the state and could be used by students to satisfy the state educational requirements. As funding for the University was cut, four of these faculty members left the University. The remaining faculty member, Dr. Thomas Boehm, was left with the difficult task of being the sole individual employed by the University to teach real estate. In a discussion with Dr. Boehm, he stated that there are both advantages and disadvantages for students in regards to not having a major in real estate here at the University. The advantage to not having this major is that it allows students to obtain a broader based degree through a major in finance which calls for a student to take a wide variety of courses. This will give the student more fundamental tools and more "breadth" in

financial matters. A disadvantage, he said, is that a major in real estate could create relationships with people in the industry which might open up several job opportunities for students. This is a tactic that is being successfully utilized by the Logistics and Transportation Department. He also said that a major in real estate would also bring more students interested in real estate to the University. Dr. Boehm stated that he would like for the University to have this major because it would allow him to specialize in one specific area of real estate. He explained that this would benefit students because they would be able to learn more from several teachers who specialized in one area rather than one teacher who taught all areas.

As of now, no student of the University will have the opportunity to major in real estate. This means that they will not only be unable to learn as much as they should about real estate, but this will also cause them to be unable to become a real estate broker after only two years of being an affiliate broker. Instead of offering real estate as a major, the University offers some alternatives. One of these alternatives is through the Finance Department of the University which offers a list of courses in its department that it recommends for individuals interested in a career in real estate. These courses allow students to concentrate in real estate, but this concentration will not appear on their degree. Three of these courses are based on real estate and are offered jointly through the Finance Department and the Urban Studies Department. Finance 280, "Introduction to Real Estate," gives a general overview of the principles and concepts involved in real estate. Finance 481, "Real Estate Finance and Investment Analysis," is a course that discusses the investment and financial aspects of real property through a variety of ways. Finance 482, "Urban Development and Finance," is a course that involves a study of urban land value and use, urban problems in the United States, and primary and secondary mortgage markets. While all three of these courses are extremely enlightening and contain important

information that all people in real estate should know, they are unable to offer the amount of education that an individual truly needs in order to enter the field of real estate on the same level on which students from other colleges, universities, and schools are able to enter into the field because of their opportunity to major in real estate. In addition to these courses, the University offers a non-credit course called Real Estate Principles through the Professional and Personal Development Department. This 60-hour course prepares you for the Tennessee Affiliate Brokers Examination in real estate and discusses social, economic, financial, and legal problems involved in the acquisition, ownership, use, and disposition of real estate. It is also meets the state education requirements for an Affiliate Brokers License.

A major in real estate would allow an individual to learn all different aspects of real estate and help them to understand the business and everything that goes along with it. It would help the individual to realize not only what particular career in real estate the individual wanted to work in, but would also give the individual a strong foundation of understanding as to the other careers available in real estate and how the individual's choice of career works in conjunction with these other careers. This type of knowledge gives these individuals an advantage because it allows them to have a better understanding of the people and situations with which they will be involved before they ever have to experience it on their own. Ultimately, students who graduate with a degree in real estate are able to have a better understanding of the business that will help them to succeed.

For example, at the University of Georgia, students are able to enter into the undergraduate Real Estate Program in the Terry College of Business in order to achieve a Bachelor of Business Administration in Real Estate. This program “provides the student with an analytical foundation and a firm understanding of the areas of real estate finance, investment, and

valuation” (<http://www.cba.uga.edu/realestate/>). The major in real estate is directed toward students planning for a career in real estate brokerage, leasing, mortgage lending, investments, management, appraising, or development. This program offers a variety of courses that help students obtain a well-rounded curriculum to prepare them for the world of real estate. Each student is required to take several core courses including Real Estate Principles, Principles of Valuation, Real Estate Asset Management, and Real Estate Finance and is given a choice to take either Real Estate Development or Real Estate Law. Each is also required to take six hours of courses related to the major that come from a list of thirteen possible classes. These thirteen classes include Principles of Risk and Insurance, Business Law, Entrepreneurship and New Venture Formation, and Account Management and Professional Selling. I list these courses in order to show the vast difference between the Georgia program and the Tennessee program. The most highly recommended of these related courses is the one that involves doing an Internship. “The Internship program is intended to combine academic work with practical, applied experience in a business or government setting” (<http://www.cba.uga.edu/realestate/>). Students are encouraged to complete this internship during the summer between their Junior and Senior year in order to give them a first hand experience of what it will actually be like for them working in the business after graduation. To most students, the best way to learn something is to do it, and this is exactly what the Internship program allows these students to do. This program also helps students to understand whether or not they will actually enjoy working in real estate before they finish a degree in it. As shown from the list of classes and opportunities that are available at Georgia, the students from this University will be far more prepared for the world of real estate than a student at the University of Tennessee.

As far as Tennessee residents go, there are only two Universities or Colleges in the state that offer a degree in real estate. The first is East Tennessee State University which offers a Real Estate degree through the Finance Department of the College of Business. The second is the University of Memphis which also offers one through the Finance Department. A degree from either of these institutions would allow an individual to qualify as one who “holds a baccalaureate degree with a major in real estate” and thus will allow the individual to have completed the time prerequisite for a broker’s license in two years as opposed to the three years that any affiliate broker without this degree will have to wait.

In essence, the University of Tennessee, Knoxville does not have the funding to offer an education in real estate which will fully prepare an individual interested in this field because it does not offer a major in real estate which would allow its students to fully and adequately study it. This is not to say that the courses offered are not taught well or completely, but is to say that the three courses offered do not have the ability to educate students the way that an entire curriculum of real estate can. This gives students at the University of Tennessee, Knoxville who are entering the field of real estate an unfair disadvantage compared to students at other colleges and universities that they will be competing with who have majored in real estate. At the present time, Dr. Boehm is working on contacting alumni who might be interested in helping to fund a real estate program at the University of Tennessee. It is simply a matter of funding, and until this issue is no longer a problem, he and the students at the University will have to continue to make the best of the situation that they have been dealt.

This study has motivated me and shown me that there will always be disadvantages in life that every individual will face. It has also given me an example of how the lack of funding for higher education has affected me. I do not blame the University for not offering the major in

real estate which might hinder my success in the long run. I do, however, feel that the State of Tennessee has caused me to miss out on a variety of learning opportunities that students at other Universities have had. More importantly, I see that the University will continue to operate in a funding crisis which will weaken it until the State decides to do something to stop it. This is a terrible predicament and one that I hope will be taken care of before too much damage is done.

Building a Foundation

Jeff Keas is a residential real estate agent in Jackson, Tennessee with the Town and Country Realty Firm. He has been in the business of real estate for two years after spending nearly fifteen years in another profession and is already seeing the fruits of his labor. This interview gave me a taste of what it will be like during the first couple of years working in real estate.

The interview began by discussing the amount of income that people involved with real estate earn. Keas explained that an agent receives a commission off each piece of property that he sells. This percentage may change from sale to sale depending upon who owns the property and how much the property is worth. Typically, he said, this percentage is anywhere from six to seven percent of the total sale. This percentage may go down if the agent is competing with other agents in order to obtain the right to the listing or if the price of the property is very high. This percentage may go up if the agent has a history of selling property at a higher price than the seller asks or in a much faster time period than other agents. The commission that is made on the sale must then be divided with the broker and the company through another percentage. He said that typically when an agent begins working with a broker, the commission is split equally between the agent and the broker. In these situations, the broker and company for which the agent is working will usually be paying for any office expenses and supplies that the agent might have. This might include office space, telephone services, secretarial services, internet services, and, most importantly, advertising. This percentage might increase for agents the longer that they stay with the company or the more property that they sell. In some instances, agents are able to receive one hundred percent of the commission. In exchange for this, however, the agent will typically receive little or no paid expenses from the broker or office.

Keas was also quick to point out that the road to success in real estate usually does not happen over night. He even said that an agent should prepare for the idea that he might make little or no money in the first six months as an agent. He said that this can be extremely frustrating for a beginning agent, but if the agent is willing to stay with the job through the tough times, then it will often pay off later on in his career. Once on the job, Keas stated, most companies will provide some type of on-the-job training for the agent. He noted that the national companies usually required their agents to go through an extensive and highly organized training period. On the other hand, the smaller independent offices usually train their agents by having the agent work with a mentor for a period of time so that the new agent can see common real estate practices first hand. He insisted that no matter which type of training the agent receives, it is important for the agent to learn all that he can so that he will be able to have a working knowledge and rich understanding of how things operate.

In addition to this advice, Keas also filled me in on some of the advice that he had been given when he started in the business. One piece of advice was to give away business cards in order to broadcast availability. He said that an agent should tell everyone that he knows that he is now a real estate agent. This will enable the agent to make contacts and even if these contacts have no need for the agent's service, they may know yet another contact that does need it. Another piece of advice that Keas gave to me was to work with all of the company computers and figure out how the programs work that I will be using to serve my clients. He said that you do not want to wait until there are clients in the office with you to learn how to utilize the software because it will not only make you look unprofessional, but unprepared to be their agent. One more piece of advice that he gave was to fill out sample forms that will be used during transactions. This, he said, will save you time and hardship later as you are working with clients

because the agent will understand what all of the papers are for and will be able to complete them in an accurate and timely fashion. Keas said that mistakes should never be made in the paper work because mistakes like those can cause serious damages to the validity of the transactions.

In a discussion on investing in real estate, Keas said that he was interested in buying houses that have been foreclosed. Foreclosure occurs when an individual is unable to make the payments to the lender that he is supposed to make on a piece of property. When this occurs, the lender sells the property for at least the amount of money that the lender is still owed and sometimes sells it for more. This, Keas said, can be a great opportunity for an individual interested in investing in real estate. Most of these properties are auctioned off and usually sell for less than the market value. The lender in these situations is often just interested in making the money back that is still owed to him and not making a huge profit off the property.

He also discussed another type of investing in properties through buying run down properties and fixing the property through renovation and restoration. First, an investor must find a piece of property in the right price range that he can afford. Keas said that the next thing to do is to start work on this property and begin to add value to your purchase. He said the best way to do the renovation is with your own two hands. This is because the amount of money that you will pay someone else to do the renovation will be more than the amount of money it will cost to purchase the materials for the project. He said the key to this investment is to sell the property as quickly as possible when the renovations are complete in order to save yourself from having to pay too much money on the property in the process.

Another aspect of real estate that Keas is interested in working with is home inspection. This is a job, he said, that can be performed by an individual while the individual is an agent

because the two jobs can work together with one another very well. The Federal Housing Administration (FHA) requires that a home inspection be completed on a home before they will approve giving a loan to an individual interested in purchasing the home. This is done to protect the investment that the FHA is making. The home inspector is hired to examine the home and find out if anything needs to be fixed on it before the sale is made. These inspectors are required by the State of Tennessee to take a class in order to become certified for this task, but they are not given a license. Keas said that in the next few years, Tennessee will require individuals to obtain a license in this field so the appropriate time to obtain certification for home inspection is now.

This interview showed me that while there are a variety of opportunities available in real estate, it will always be up to me to create business in real estate. Keas showed me that the first thing that an agent must do is sell himself. If a potential client does not believe in you as a person, then the potential client will not trust you with his property. The agent must also sell the fact that he will be able to meet the needs of the client. If a person in real estate is unable to perform these two tasks, then he will more than likely not make it very long in the business. In real estate, you can not expect for the business to come to you. You have to go out and get the business. This is extremely important to understand before beginning in real estate.

Flourishing as a Landlord

The Absentee Landlord's Survival Guide is a book which addresses many concerns that individuals have as they become interested in becoming landlords. The advice that is given can be used by the reader to save hundreds and even thousands of dollars in the future. Just as important, however, the book can prevent many headaches that people endure in the business. The author of this book, Jack Rower, wrote it so that beginners in the business could take his advice as an experienced landlord and become informed about what will work for them.

Rower begins this book by explaining that anybody interested in this type of business must do his homework. These people must gain as much knowledge and complete as much planning as possible. The problem, he says, is that no matter how much an individual plans or knows, he is still going to run into problems as a landlord.

Rower sets out five basic principles to succeed as a landlord. These principles serve as the fundamental outline for the book. The first is that the individual must understand what he owns and why he owns it. As a landlord, a person must understand exactly what belongs to him. This will allow the individual to understand exactly what he has to work with and leave him no questions as to what is his. The reason for owning a piece of property is a question each landlord should answer. After serious consideration of this question, each landlord should assess whether or not he should keep the property. For example, there have been many instances where an individual is willed a piece of property after somebody else has passed away. While this property might have been some sort of income for the deceased, the person to whom it now belongs may decide that the trouble that comes with the property is trouble that the new owner does not want to have. So, the new owner must decide why he wants to own the property or if, in fact, he would rather sell the property. Also, before becoming involved with being a landlord,

it is important for an individual to sit down and figure out his long-term and short-term goals for his career and the lifestyle that he chooses to live. If the individual chooses to own a piece of property, he should understand that there are several fundamental financial reasons that will benefit him. The first of these benefits is the tax incentives that come along with it. The second benefit is the long-term appreciation of the value of the property in comparison to the original purchase price. The third benefit is that it allows an individual to build equity through the help of others and, in the process, earn rental profits. In other words, an individual is able to apply the rental income that comes from people other than the investor to the investor's own equity. The fourth benefit of owning a property is that it is a "hedge against inflation."

The second principle of success is that an individual must minimize his time, risk, and costs involved with being a landlord. After evaluating these three very important factors, an individual should not only understand exactly what type of commitment he is making, but should also understand whether or not he wants to make this type of commitment. For example, in order to reduce the costs involved with this business, it is important for the individual to understand the tax strategies that go hand in hand with rental property. The strategy will vary from person to person and property to property because every situation can be different. The best way to understand the strategy that will be the best is to hire an accountant. A landlord is able to deduct almost all of the expenses that are related to the maintenance, rental, and management of the property as well as the mortgage interest, real estate tax, and tax preparations. Other deductible items include the utilities, communication (such as telephone, faxes, and postage), supplies, legal fees, travel (including meals), safety deposit box, the amount of money lost due to vacancy, the costs of maintaining the lawn, the costs of managing snow, rubbish removal, and in some circumstances the association or condo fees.

It is important to understand that it is smarter as an investor to be cost conscious, but not to be cheap. Also, it is important for the individual to know that he should get the property rented and keep it that way. This does not mean that the individual should rent the property when the property is not ready to be rented, but as soon as it is ready, the tenants should be found. Like costs, time can be saved in a variety of ways as well. One way to save time is to make an inventory of your property. This inventory can help the individual keep up with everything and keep organized.

Minimizing risk is also an extremely important factor of being a landlord. In today's society, individuals are being sued for everything, and people do not think twice about it. In other words it is important for an investor to understand that being a landlord can place an individual and his property at risk. In order to minimize this risk, Rower suggests that an individual upgrade the insurance that he has bought on a property to rental property coverage status. This means that the individual is covered when there is a tenant using the property. Some insurance policies are bought which only cover the property when there are no tenants on the property. Many landlords assume that the insurance that they have purchased covers the property at all times because they have not reviewed the details of the policy as thoroughly as they should have. The problem comes when the insurance does not cover the property at all times and the assumption that the landlords make about this coverage can get them into trouble. He also emphasizes that insurance is not the place to "play miser" because it can save the individual a great deal of money in certain circumstances. Rower also mentions that investors should obtain written verification from the insurance company of exactly what the individual is paying for because many of these policies do not cover the property after it converts from owner-occupied to tenant occupied. Another way to avoid risk is to keep up with the employment rate

in the area where the property is located. "Rents and residential markets," he says, "are directly related to local employment. As employment increases, other things being equal, demand for housing, rents, and the value of the property will increase" (40). If the local employment rate drops, Rower states that the investor might be better off selling the property and investing in property in another location.

The third principle that should be followed is to find and use the best available resources. By this, Rower is saying that whenever possible, individuals should use professional services. This might seem like wasted money because of the price that some professionals ask for, but in the long run, it will save the individual more money than it costs. He recommends hiring a nationally certified residential real estate appraisal in order to receive an unbiased, accurate, and widely accepted estimate of the property. Rower also says that before ever buying a piece of property, an individual must have a licensed professional engineer review the property and give an evaluation of the maintenance requirements and costs that can be anticipated. He recommends that the individual hire a full time property management company that will provide the individual with the best way to look after his property while he is not there. In addition to these two individuals, he also recommends hiring an accountant and a lawyer as necessities for success in the business.

The fourth principle to success is that an individual must know his rights and enforce them. Each landlord has certain rights "that accrue or are not denied to him according to the laws of every jurisdiction that his property is located within and that he chooses to enforce" (84). If these rights are not enforced or used by the landlord, then they are surrendered. For example, one of these rights is the right to be paid promptly for the use of the property and given extra money if the payments are late or unreliable. This, without question, is a right which should be

enforced by the landlord in order to keep sufficient control over the property. When a landlord refuses this right, he is placing himself in a bad situation. It is important to remember that “it’s your investment, your money, take care of it” (85).

The last principle that is given by Rower is that an individual must know his responsibilities and meet them. For example, a landlord is required by law to meet the contractual obligations to his tenants. He also assumes the liability as service provider for quality and safety of the product that is being used. In other words, a landlord is “responsible for meeting his lease obligations and renting a property that’s fit for human habitation and maintained in good faith” (81). In addition to this, the individual must be sure that the property meets all of the safety codes that apply to the property. The investor is also responsible for paying all taxes, fees, and expenses that are associated with the property in a timely and efficient manner. Every landlord should also pay special attention to following the Fair Housing and Civil Rights Laws that make it illegal to discriminate against certain individuals.

This book showed me that I should not go out and dive into becoming a landlord without doing a great deal of research first. There are so many things that an individual must learn as a landlord before he becomes involved with it. So, it is important to seek advice from other when getting involved in this type of investment. After reading this book, I plan on using professional help in my investments throughout my career. I believe that this will cost money in the beginning, but will save me money in the long run. This book also showed me that it is important to know when to save money and when to spend it as a landlord.

The Father of the Old City

Kristopher Kendrick is a real estate developer who specializes in the development of historic properties. He has been called the “Father of the Old City” by my advisor Dr. Paul Pinckney, and I have to admit that this was probably my most anticipated interview of the semester because I have always been very intrigued by the Old City and how the history of it has been preserved.

He has been in the business since 1973, when he bought Patrick Sullivan’s Saloon with the concept that he would be able to turn it into a profitable business. Kendrick considers himself to be a classicist and as a forty-year-old entrepreneur, he saw too many historic properties being destroyed and wanted to save them. In an attempt to do this, he began buying these properties and giving them value because he knew that these buildings needed to be saved and he wanted to save them. Kendrick stated that he does not consider what he does to be work. Instead, he views it as a mission to restore the Knoxville that exists but that has been neglected for so long.

Kendrick’s primary focus is in city living. He owns and operates over three hundred apartments and condominiums in Knoxville and said that he stays with the historic area of the town because this is what interests him and this is where his emotions lie. As a young man in New York City, Kendrick noticed all of the old buildings that were being utilized and “taken care of.” He realized that Knoxville, Tennessee had these same buildings but nothing was being done with them. In a risky move, Kendrick started a new restaurant in the Old City in 1985 which he named Annie’s (now Lucille’s). In order to make this work, he pulled together thirty people in the community as business partners in the restaurant. Each person paid two hundred dollars and out of this six thousand dollars, he was able to start the restaurant. He already owned

the restaurant equipment, and he hired a lady named Annie to run the restaurant. With the six thousand dollars, he bought Annie five new dresses and all the food that he would need to start serving. He immediately had thirty customers from his original investors, and these people received twenty percent off their meals. The restaurant was a tremendous success, and business in the Old City has not been the same since. Kendrick now owns most of the buildings that make up the Old City as well as other pieces of property in the downtown area. He rents out the property that he owns for both business and residential use depending upon the location of the property.

Throughout this practice, he has accumulated a great deal of property and a number of different tenants. Kendrick's business is so successful that he has a tenant waiting list of people interested in renting out his property when it becomes available. Most of his tenants are young, and he can usually tell whether or not they will be good tenants when he meets them. If he has a question about a potential tenant and feels as though they may not be a good tenant for him, then he simply turns their name and social security number in to a credit company that he has an account with and in thirty minutes he can view their credit history. He has had problems in the past with tenants and has even evicted a number of them for breaking some rules that he has with the rental property regarding respect for the property. In these cases, the tenants will usually lose the security deposit that they are required to pay before they move in a property if enough damage has been done to the property. They may even be charged additional money for damages that exceed the security deposit amount.

The number one rule in real estate is, as everybody already knows, "Location, location, location." This number one rule does not apply to his business he said. He and his company chose to walk off the beaten path and go into the downtown area of Knoxville and put their

money where their mouth was. Nobody else was willing to do this, but he believed and now it is paying off for him. There were times when he would be renovating several buildings at a time with construction crews of twenty men at different locations. Now, he usually does a new building every few months. He decides what properties to renovate through the “emotions that he feels with the buildings.” If he likes the building and the environment where it is, then he will take what the property has and make it work. He feels that it is simple to design but “it takes a creative mind and artistic expression to turn something that used to be a general store into an ‘economically fashionable’ piece of property that can be useful and work as something other than a general store.” For example, in 1990, Sturkey Oaks was a fifty-six room whore house in downtown Knoxville. The building was not very well taken care of and the building was being used in his eyes “unappropriately” with every cubicle filled by a girl for prostitution. Kendrick saw this building not as a whore house, but as an opportunity. He bought the building from the former owner and shut it down for a year with boards on the windows and locks on the doors. He wanted it to be clear to everyone that the building would no longer be used as a whore house. Today, Sturkey Oaks is the home to many people who want to live in the city. The apartments have wooden floors and several of them are blessed with an incredible view of downtown from the balconies that were once used for prostitution. The single reason for the turnaround of this building was the same reason that the Old City is where it is today. It was through the vision of one man and his faith that “highly individual people who want to do their own thing” would want to live in the city.

Kendrick hardly ever has two places that look alike. Each has its own personality and its own character which may come from brick walls on the inside to bath tubs which were made in the 40’s in the bathrooms. Sometimes he will rent out what he calls shells. With shells, people

are allowed to create their own environment as long as they maintain the history of the apartment and respect the environment in which they are dwelling. Kendrick stated that his business is not an ingenious idea that he developed. In fact, he said that “I haven’t thought of a new idea in four hundred years.” He attributes the idea of development within the city to the Europeans who have been utilizing their city properties for centuries.

A typical day for Kendrick revolves around these rental properties. He usually arrives at work at about seven in the morning at one of his many properties to take care of the maintenance of the property, including making sure that his employees have properly cleaned the hallways and replaced any lightbulbs which might need to be replaced. He usually deals with the problems within these properties throughout the day. In addition to this, he keeps his eyes out for other properties with which he would be interested in investing. He also completes a great deal of paper work that has to be finished on a daily basis to ensure that the business is run smoothly and efficiently. Kendrick says that he often works sixty or more hours a week as he works throughout many afternoons and into the night in some situations. He always has to be prepared for anything that could happen and, he said, things are always happening. He is quick to remind someone, however, that he thoroughly enjoys what he does and does not consider it to be work. He usually has his employees clean the properties once or twice a week and in addition to cleaning, they should check to see if any routine maintenance needs to be completed. These employees are often tenants of the building that receive a discounted rent payment for their services. This same type of system usually works with the groundkeepers as well. The groundskeepers are responsible for keeping the landscaping of the property looking professional at all times. He likes to inspect the buildings on his own every week or two to ensure that the proper work is being done by those that are supposed to do it. He considers these properties “his

babies” and likes to keep them “clean and respectable” at all times. In addition to the tenant workers that he has, Kendrick keeps a secretary to work as a receptionist and to handle some of the paperwork that is involved with the business. He also has a crew of four maintenance men that repair different things on his properties. These individuals, like Kendrick himself, tend to stay fairly busy. He said that he does not always enjoy the hassle of having to repair things all of the time and his checkbook does not appreciate it much either; however, sometimes “you have to do what you don’t like in order to get to what you do like.”

In addition to the development aspect of his business, Kendrick also owns a real estate company that lists and sells properties that he feels that they can help sell. This part of the company does not beat on doors for business but allows it to come to them. They will only accept listings on a property that they feel they can sell. They do not run advertisements for these properties either. Kendrick said that he only advertises the rental property that he owns.

The success that Kendrick has had is not only known in Knoxville. People in other communities have contacted him and asked him to do for their city what he has done for Knoxville. To these people he simply replies that he will not live long enough to finish what he started here, and there is no possible way that he would have the time to do it elsewhere.

This interview taught me that real estate allows people to have the freedom to do what they love to do. Even though Kendrick spends hours and hours working with his properties, he is his own boss and has the freedom to do as he pleases. Kendrick could hire other people to do some of the tedious work, but since he enjoys this work, he does it himself. He also has the right to sell his property and move on to other projects if he wants to do so. What I am saying is that these properties give him the freedom to make his own choices about work and he does not have to answer to a boss. It is through owning this real estate that he is able to have the freedom to

live his own life and not the life that someone else wants you to live for them. Understanding that there is a great deal of work involved and pressure to make things work, I think that this would be a great way to make a living.

Tennessee Real Estate Broker License Act of 1973

The business of real estate is as diverse as the people who are involved in it. There are people who have made and lost millions of dollars handling real estate in some form or fashion. A person can become involved in the real estate industry on a variety of levels ranging from managing a REIT (Real Estate Investment Trust), like Ken Heebner of Capital Growth Management Realty Fund, to appraising commercial, industrial, multi-family, and special-use properties, like Scott Rurik of Scott Appraisal Company. The most common way to become involved with the real estate business involves the buying and selling of property as a real estate affiliate broker through a real estate license.

If one reviews the Tennessee Code Annotated, he will find that only a few people are exempt from the licensing requirements when it comes to selling real estate. Owners reserve the right to sell their own property. Individuals who are operating under a power of attorney for another person, called attorneys-in-fact, are also exempt from these requirements. Attorneys at Law and Court appointed individuals are exempt as well. Resident managers of apartment complexes whereby their services are limited to the management of that complex alone are another group that is exempt. Lastly, an Officer of a Corporation authorized to act with authority of that corporation is exempt from license requirements (T.C.A. 62-13-104). In other words, if a person does not have a real estate license, he is more than likely going to be unable to legally sell real estate (T.C.A. 62-13-301). This presents quite a problem for the person attempting to enter the field of real estate as an affiliate broker.

A study of the "Tennessee Real Estate Broker License Act of 1973" reveals just who is allowed to obtain a real estate license in the Volunteer State and what requirements must be met by these individuals in order to earn this license. In 62-13-303 of the Tennessee Code Annotated

it is written that “Licenses shall be granted only to persons who bear a good reputation for honesty, trustworthiness, integrity, and competence to transact the business of broker or affiliate broker in such manner as to safeguard the interest of the public, and only after satisfactory proof of such qualifications has been presented to the commission.” For example, a person who has been convicted of repeatedly breaking the law while engaging in previous business transactions will more than likely be turned down by The Tennessee Real Estate Commission. This Commission is a judicial body that “shall have the power to do all things necessary and proper for carrying out the provisions of the ‘Tennessee Real Estate Broker License Act of 1973’ not inconsistent with the laws of the state”

There are several other qualifications that an individual must have before obtaining the license of affiliate broker in the state of Tennessee. First, the individual must complete an application for examination by the Commission. This application must include a fee issued by the Commission of sixty dollars and “certification of satisfactory completion by the applicant of sixty classroom hours in real estate at school, college, or university approved by the commission, including thirty classroom hours covering the basic principles of real estate.” These classes should prepare the individual for the Commission’s examination and usually end with the individual taking a comprehensive exam of the material that was covered in the class so that the individual will be certain that he is prepared to take the state’s exam. Second, the individual must pass the examination given by the Commission at the ASI (Assessment Systems, Inc.) Testing Center. After passing the test, the individual is allowed six months within which he must submit an application for the affiliate broker license to the Commission. If the application is not sent within sixth months, then the individual must retake and pass the Commission’s test once more. The application for the affiliate broker’s license must include a fee issued by the

Commission of eighty dollars, sufficient proof that the individual is at least eighteen years of age, has been a resident of the state of Tennessee for at least forty-five days, and has graduated from high school or obtained a G.E.D., and “a sworn statement by the broker with whom the applicant desires to be affiliated certifying that, in his opinion, the applicant is honest and trustworthy, and that the broker will actively supervise and train the applicant during the period the license remains in effect” (62-13-303).

If the applicant is awarded the license by the Commission after the application process is completed, then the applicant can begin working as an affiliate broker. However, the state requires that the affiliate broker must complete a thirty-hour class that is approved by the Commission within twelve months of the license issue date. In addition to this, the affiliate broker must provide proof to the Commission that he has completed sixteen hours in continuing education courses every two years after the first year at any school, college, or university that is approved by the Commission. Also, in 62-13-307 of the Tennessee Code Annotated, it is written that each affiliate broker’s license will expire on December 31 of each even-numbered year and will become invalid on this date unless it is renewed on or before December 31 through a fee paid to the Commission that the Commission issues.

By obtaining this license, the individual will now be able to participate in a variety of real estate transactions in which he otherwise would be unable to participate unless he was an “exception” to the rule as stated in 62-13-104 of the Tennessee Code Annotated. An affiliate broker is “any person engaged under contract by or on behalf of a licensed broker to participate in any activity” in which a broker is allowed to participate. This means that each affiliate broker has the opportunity to “solicit or negotiate the listing, sale, purchase, exchange, lease or option to buy, sell, rent, or exchange for any real estate or of the improvements thereon or any time share

interval, ...collect rent, auction, or who advertises or holds himself out as engaged in any of the foregoing” with the intent of receiving a “fee, commission, finders fee, or any other valuable consideration.” This also means that the affiliate broker has the ability to “be employed by or on behalf of the owner of lots or other parcels of real estate” in order to “sell such real estate or any part thereof, in lots or parcels.” The license also allows the affiliate broker to “engage in the business of charging an advanced fee or contracting for collection of a fee in connection with any contract whereby he undertakes primarily to promote the sale of real estate through its listing in a publication issued primarily for such purpose, or for referral of information concerning such real estate to brokers.” Ultimately, the affiliate broker’s license allows an individual to carry out a great number of responsibilities for other people by helping them to achieve what they want to achieve with the real estate that they own.

This study has offered me a greater understanding of the law by which I must abide. Not only was this information necessary for me as I obtained my license, but it is necessary for me to continue to review it throughout the duration of the time I hold this license. I feel that it is imperative that I understand it thoroughly in order to be a successful agent. Those who do not understand this law can not only get themselves into trouble, but can also seriously damage their careers as a result of this lack of knowledge.

Creating Business

Dennis Kern is the owner and teacher at the Professional School of Real Estate in Knoxville, Tennessee. He has been involved in real estate for over thirty years and during this time has seen and heard about as much as anybody in the business. Kern spent over twenty years as a broker in Florida and is now teaching in order to spread the knowledge that he has learned. In this interview, Kern gave great advice about being a successful real estate agent.

Kern has numerous ways to help a real estate agent create business. His best piece of advice for agents, he said, is to concentrate on getting listings instead of getting buyers. The busiest office in town, he said, is the office with the most listings. He believes that if an agent has the listing on a property, the buyers will come to the agent. He is not saying that the agent should not advertise the property and try to sell it. He is simply saying that there are better ways for an agent to spend his time rather than driving potential buyers around all day looking at property. He believes that mistakes like these can be catastrophic for the young agent. Individuals who get involved in real estate must use their time efficiently and productively. In fact, Kern said that he used to give his agents time sheets so that they could record what they did during the day. This, he said, allowed each agent to see where he was wasting time and where he was spending his time productively. The agents who were required to turn these sheets in at the end of the day were usually the most productive agents.

Kern said that he is a strong believer that an individual must do something to generate listings. An agent that sits around the office and waits for the phone to ring will make very little money. Agents who set goals and make a plan for how to reach these goals will almost always reach these goals. Agents should come to work to work and not play. Kern said that for every listing that an agent obtains, there will be a corresponding buyer at some point during the future

for another deal. He is not implying that every listing will produce a buyer for that particular property. What he is saying is that each time an agent receives a listing, he will make contacts in the process which will produce a buyer for him at some later date. For example, Kern stated that if an agent set a goal to make \$40,000 in a year with the average house in the area selling for \$100,000 and the average commission for the listing being six percent, which he would split with the agent that sold the house and then split his \$3000 with his principle broker, then the average cut of this commission for the actual agent would be \$1500. At this rate, the agent would need to come up with eighteen listings to meet his goal. These eighteen listings would produce \$20,000 and the corresponding buyers that these listings created would also produce \$20,000.

Kern knows countless ways for an agent to obtain a listing. One of these ways is to go to the courthouse and compile a list of the people that are getting a divorce. He said that the agent should write a letter to each of these people saying nothing about the divorce but offering a free market analysis on their home. He suggested calling each of the individuals receiving the mail three or four days after sending the letters. Out of the people contacted through this method, several will be willing to list their home through this agent. Another way that Kern suggests obtaining listings is through the Guaranteed Buyback Rule. This is a rule which the agent adds to the contract which states a couple of things which should be advantageous to the seller and the agent. First it states that if the property is not sold within ninety days, the listing price will be dropped ten thousand dollars. If after an additional ninety days the property is still not sold, the agent will buy the property from the agent. Also, if the seller agrees to this, then he must also agree to buy his new piece of property through this same agent. The commission that would have been earned by the sale of each of these properties should be looked upon as an additional discount on the sale price of the property that the agent bought from the seller. Thus, the agent is

buying a property at a very discounted price and should be able to sell the property for a substantial profit down the road. In this situation, both the agent and the seller win. Another way for an agent to obtain a listing is through what he referred to as farming. This is when an agent goes out at least once a month in a specific area and walks door to door introducing himself and mentioning nothing about real estate. During these meetings with the people in the neighborhood, the agent should concentrate on focusing all of the attention on the people that he is meeting. The agent should take notes on these meetings so that the next time he makes his visits, he will remember what he talked about the time before. Each time the agents goes door to door, he is to take a gift which can be used by each household in the neighborhood. This gift could be a calendar, candle, ruler, ornament, or anything else which bears the agent's name, company name, and phone number in an effort to get a piece of advertising in the homes so that the home owners see the agent's name on a daily basis. An agent who is willing to do this can often dominate the area in which he is concentrating. Another way that he suggests obtaining listings is by going to the courthouse and finding out which owners have filed unlawful detainer actions, or evictions. Kern said that often in these cases, the owner of the property who is filing the case is often tired of dealing with the property and is ready to get rid of it. Kern suggests sending these people a letter and offering a free market analysis. As with divorces, these situations will often land the agent a few listings. The point that Kern was making with all of these examples is that every agent has to find out where he will fit in and how he will generate business. The key is that an agent has to stand out from his competition in order to beat the competition and obtain the listing. Often, he said, agents that specialize in one area of real estate tend to do well and are seen as an expert in this area. This is yet another tactic that he suggests using to make an agent stand out from his competition.

Kern also said that it is important to always keep in contact with old clients. He said that this is where much of an agent's business will come from as he becomes an established agent. He said that one way to do this is to send them a note of congratulations on the anniversary of buying their property. This will not only cause these clients think of the agent as thoughtful and caring, but will also keep the agent in their minds. This does not mean that agents should not go out and create new business. In fact, Kern suggested that agents contact at least twenty new people every day in order to create new business. Also, he suggested that in order to keep the agent's current clients happy, the agent should call the sellers every Friday and give them an update on what activity the property has had that week.

This interview was extremely enlightening for me because it showed me how to create business in several ways that I never thought of in the past. Before this interview, I felt as though most of my listings in the future would come from cold calls that I made which might not be very successful. His recommendations, though, showed me how to make these calls more successful through several different strategies. I learned that in order to be successful, an agent must find out what he is good at and where to concentrate his time in order to be the most effective. I feel much more comfortable going into this business as a result of his advice.

Conclusion

This project was something that I needed to do before making my leap into the world of real estate. It forced me to open my eyes to things that I never knew existed. My life, as I see it, will be as Weiss said, a continuous learning process that will never be completed. There will always be new laws that I will need to study and new problems that I have to conquer. It also helped me form new ideas. I now feel more prepared and I am able to legitimately set goals for myself for the future as an educated individual. I have learned how to get involved, how to stay involved, and how to see success while, at the same time, avoiding pitfalls. I plan on sitting down over the next few weeks and, following the advice of Woodson, develop an investment strategy that I will attempt to follow over the next several years.

I think that it was necessary for the project to cover a mixture of people, literature, and research in order to get a proper balance of learning. I am a true believer that people learn best by experience and the process by which this project was completed gave me some incredible experience as a beginner in the field. The people that I was fortunate enough to meet and interview showed me extreme patience and shared a wealth of knowledge that I would have been unable to read about in a book. On the other hand, the books that I read and the research that I completed allowed me to focus my thoughts on studying individual concepts and understanding them thoroughly. This mixture provided me with an environment for learning that proved very successful. I knew that I would learn a great deal doing this project, but I never imagined to learn so much or to be as excited as I have been about learning it.

I feel that it is necessary to include a list of the most important things that I learned through this project in order to give myself a short list of ideas that I should keep in mind as I enter the world of real estate. The first issue to keep in mind is that there are all types of ways to

get involved in real estate. An individual can choose to be an agent, an investor, a developer, an appraiser, or any of a number of different occupations and still be involved with it. I feel that it is important to get involved in some area because eventually, every person will deal with real estate in one way or another. By getting involved with it and learning it as best as he can, an individual can place himself in a position which will help him later in life. I also find it interesting to know that if a person enjoys real estate as I do, there are so many different ways to make a living dealing with real estate and work with something that you enjoy. I think that this is very important. The second issue that I hope to keep in mind is that an investor should attempt to buy at least one piece of property every year. I think that this is a smart system because it allows an investor to have plenty of time to pick one piece of property each year and will allow the person to make a smart decision. Also, this will allow a person to increase his wealth and allow other people to pay for his investment. While this may seem risky, if a person minimizes his risk, this practice can be very rewarding. The third thing that I learned that I found to be valuable is that every investor should create a ten year investment strategy. I have always set goals for myself, but I never take the time to write them down and actually design a plan to meet them. I think that this strategy will help me to stay focused and keep me eyes on the goals that I have set. I also feel that it will help me to see a future that I want to have that is obtainable. The fourth thing that I will strive to remember from this project is that it is important to use professional services when I need to do so. This is not to say that everything that is done has to be done by somebody who is an expert in that particular field. This means that I should utilize the services of a lawyer, an accountant, appraiser, or any other professional that might cost me money in the short-term but save me a great deal of money in the long-run. Because I am the type of person that feels that I can do it all by myself, I hope to take this advice to heart and save

myself some heartache over time. The fifth issue that I plan to remember is that this business is very risky and time consuming. I tend to do things on a whim without putting enough thought into them before it is too late. In real estate, this can get me into trouble from which I may be unable to recover. So, I must keep in mind that I need to make smart decisions in order to minimize risk. I also need to keep in mind that my time is very important and should be used effectively and not wasted. This brings about the sixth issue that I need to keep in mind which is that I should utilize my own "back of the envelope" technique (Poorvu 43) and "Bargain Finder Form" (Allen 128) in order to save myself time when searching for investment properties. I feel that this will help me to figure out which properties are worth investigating and which ones are not without wasting too much time on the ones that are not. While I may not have this technique perfected for several years, I think that it is worth learning. The seventh thing that I hope to take with me is that I should always attempt to find highly motivated sellers when investing in property. I think that without question this strategy will help me to make wise investments that will allow me to buy low and sell high. Although this strategy may be tedious at times and time consuming, I feel that it will be time well spent when the right sellers are found. This takes me to the eighth issue that I need to keep in mind which is to buy foreclosures when possible. Buying a foreclosed property can be one of the best investments that an individual can make in real estate because of the incredible deal that it often gives the investor. While this is not always the case, if the investor researches the property and does his homework, buying a foreclosure can be just what the investor is looking for in a property. The ninth issue that I hope to take with me from this project is that I can use property that I already own to buy other property. Realizing that there is tremendous risk involved in this practice, if it is done right, I can create a substantial amount of income from it. This is a process that I plan on using when I find myself in the perfect

situation for it. The tenth thing that I plan on taking from this project is the understanding that I can save a great deal of money on the mortgage payments of my property if I can pay the principal before I have to pay the interest. This is something which I hope I will be able to use in the future in order to save myself thousands of dollars. It will also allow me to increase my equity at a faster pace. These ten things are by no means the only things that I learned from this project. They are merely a short list of issues that I plan on referring back to from time to time to remind myself of important information that I need to keep in mind. This list will also serve to keep me focused on the task at hand.

This project answered many of the questions that I had about real estate and it also created many questions that I hope to answer in the future. I will always refer back to these pages in the years to come. I plan on using real estate throughout the rest of my life in order to help me reach the places where I want to be and to fulfill my dreams. The words that I have written in this project may not jump off the page or seem very profound to an individual reading them. But to me, these pages represent the beginning of something which I hope will one day be great. This project was designed so that I might learn as much information as possible about real estate. Undoubtedly, it has served its purpose.

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