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*The*

**BEGINNER'S**

*Guide to*

**REAL ESTATE  
INVESTING**



GARY W. ELDRED, Ph.D.



WILEY

John Wiley & Sons, Inc.



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## W H Y T H I S B O O K ?

Why this book? In writing *The Beginner's Guide to Real Estate Investing*, my intent has been to cover all topics that first-time real estate investors need to know—but to do so in less depth than I've included in my previous Wiley titles.

Here you'll find discussions about credit scoring, mortgages, seller financing, negotiation, foreclosures, bargain-hunting, appraisal, valuation, creating value, cash flow analysis, property management, and dozens of other topics. In this book, you'll gain a profit-generating introduction to the complete range of knowledge you'll need to begin building wealth in real estate.

In other words, another title for this book might have been *Real Estate Investing in a Nutshell*. This book is directed toward those readers who want to sample all investment topics in one easy-to-read volume.

In contrast, for those readers and experienced investors who prefer more depth on each of the topics discussed herein, I might suggest that, you instead select from some combination of these titles: *Investing in Real Estate, 4th ed.* (with Andrew McLean), *Make Money with Fixer-Uppers and Renovations*, *Make Money with Small Income Properties*, *Make Money with Condominiums and Townhouses*, *The 106 Mortgage Secrets All Borrowers Must Know—but Lenders Don't Tell*, *The 106 Common Mistakes Homebuyers Make—and How to Avoid Them, 3rd ed.*, and *The Complete Guide to Second Homes for Vacations, Retirement, and Investment*.

Either way, whether you select this abridged volume or some combination of my other titles, you'll find that I always offer my readers the most detailed and practical guides to investing in real estate that are available. Although I am quite optimistic on your opportunities to build wealth with property, I never mislead my readers into believing that this wealth will come without knowledge, time, and effort.

It's certainly true. You can still get rich in real estate. But you must learn how to analyze properties, neighborhoods, and financial risks and rewards. And that's exactly what my books will help you learn.

I wish you good luck and good fortune.

Gary W. Eldred

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*The*

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*Guide to*

**REAL ESTATE  
INVESTING**





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PART ONE

Mindset + Knowledge  
= Wealth



## Get Started Now

**You can still get  
rich in real estate.**

In this book, I want to motivate and educate you. I want to get you started in real estate. I hope to persuade you that real estate investing can still lead you to a lifetime of wealth and personal fulfillment. No matter what financial goals you set for yourself, no matter how little cash, credit, or income you currently possess, *if you choose to*, you can still build your fortune in real estate.

### Just Say No to Excuses

“But wait a minute,” you say. “You can’t be talking to me. In my area of the country, property prices have climbed sky-high. Besides, I really don’t have enough cash, credit, or time to get started. And even if I did, real estate seems too complex. I can’t even balance my checkbook.”

As I travel throughout the country and talk with would-be beginning investors, I repeatedly hear these types of excuses. But it may surprise you to learn that I’ve heard these same excuses for nearly 30 years.

### *Naysayers Thrive in All Times and Places*

When times are good, people fret over the deals they’ve missed. When times are bad, these same folks claim that real estate is no longer a good

investment. Either way, they always find some way to color the future bleak (see Box 1.1).

Yet, since the early 1970s I have seen all types of booms and busts. I have seen 18 percent mortgage interest rates. I've lived through the multiple turmoils of double-digit rates of inflation, the disastrous 1986

**You can make  
money in any type  
of market.**

Tax Reform Act (which killed off the most profitable real estate tax shelter techniques), and the recent market of sky-high prices. Yet I (and nearly all other savvy investors) have figured out how to make money in every one of these market situations and all of the other types of markets in between.

Among all the lessons history teaches, none is more certain than the fact that home prices will go up. Regardless of how high you think prices are today, they will be higher 10 years from now and much, much higher 20 or 30 years into the future. Don't make the mistake of believing that "home prices have reached their peak." Before you accept the naysaying of so-called economic experts, take a quick trip through some of their faulty predictions from years gone by:

- ◆ The prices of houses seem to have reached a plateau, and there is reasonable expectancy that prices will decline. (*Time*, December 1, 1947)
- ◆ Houses cost too much for the mass market. Today's average price is around \$8,000—out of reach for two-thirds of all buyers. (*Science Digest*, April 1948)
- ◆ If you have bought your house since the War . . . you have made your deal at the top of the market. . . . The days when you couldn't lose on a house purchase are no longer with us. (*House Beautiful*, November 1948)
- ◆ The goal of owning a home seems to be getting beyond the reach of more and more Americans. The typical new house today costs about \$28,000. (*Business Week*, September 4, 1969)

*(continued)*

**Box 1.1** Those Folks Who Listen to the Naysayers End Up with a Pile of Regrets

*(Continued)*

- ◆ Be suspicious of the “common wisdom” that tells you to “Buy now . . . because continuing inflation will force home prices and rents higher and higher.” (*NEA Journal*, December 1970)
- ◆ The median price of a home today is approaching \$50,000. . . . Housing experts predict that in the future price rises won’t be that great. (*Nation’s Business*, June 1977)
- ◆ The era of easy profits in real estate may be drawing to a close. (*Money*, January 1981)
- ◆ In California . . . for example, it is not unusual to find families of average means buying \$100,000 houses. . . . I’m confident prices have passed their peak. (J. E. English and G. E. Cardiff, *The Coming Real Estate Crash*, Warner Books, 1980)
- ◆ The golden age of risk-free run-ups in home prices is gone. (*Money*, March 1985)
- ◆ If you’re looking to buy, be careful. Rising home values are not a sure thing anymore. (*Miami Herald*, October 25, 1985)
- ◆ Most economists agree . . . [a home] will become little more than a roof and a tax deduction, certainly not the lucrative investment it was through much of the 1980s. (*Money*, April 1986)
- ◆ We’re starting to go back to the time when you bought a home not for its potential moneymaking abilities, but rather as a nesting spot. (*Los Angeles Times*, January 31, 1993)
- ◆ Financial planners agree that houses will continue to be a poor investment. (*Kiplinger’s Personal Financial Magazine*, November 1993)
- ◆ A home is where the bad investment is. (*San Francisco Examiner*, November 17, 1996)
- ◆ Your house is a roof over your head. It is not an investment. (Karen Ramsey, *Everything You Know About Money Is Wrong*, Reagan Books, 1999)
- ◆ The trends that have produced the housing boom . . . have nearly run their course. This virtually guarantees . . . plummeting home prices and mass foreclosures. . . . (John Rubino, *How to Profit from the Coming Real Estate Bust*, Rodale, 2003)

**Box 1.1** *(Continued)*

### ***Build Wealth in Any Market***

You've heard it said before, "The only constant is change." And when markets change, that change creates opportunities. Here are just a few examples:

- ◆ When prices appreciate fast, you can "fix and flip" for quick profits.
- ◆ Appreciating prices also give you the tax-free benefit of cash-out refinances.
- ◆ Falling interest rates (even with stable prices) reward you with a refinance that lowers your monthly payments and increases your cash flows.
- ◆ Depressed markets provide you with an abundance of foreclosures, motivated sellers, and bargain-priced properties.
- ◆ High rates of inflation drive up market interest rates and cut down short-term demand. That's the perfect time to look for seller financing, lease options, and low-interest-rate mortgages that you can take over (assume) from the sellers.
- ◆ High rates of inflation also reduce the number of newly constructed houses because builders must pay higher construction costs and higher interest rates. Fewer housing starts clearly signals an excellent time to buy. A slowdown in new housing always foreshadows a jump in prices as growing demand outpaces new supply. (California perfectly illustrates this point—albeit low housing starts in California are now being caused by tight land-use controls, environmental protection, and restrictive growth management policies.)

These moneymaking examples merely touch upon the multitude of strategies you will discover throughout this book, but they illustrate one central message that I have advocated throughout my career and in all of my writings:

- Q. When's the best time for you to invest in real estate?  
A. Today.

But don't jump to the wrong conclusion. By saying "invest today," I don't mean that you can never go wrong. Rather, I mean that there's never a wrong *time* to invest if you choose the right strategy. And that's what I'm going to show you.

## You Must *Believe* It to See It

**The time to start  
really is now.**

Given the large rewards that most savvy real estate investors have achieved over the years, I've often wondered why most people fail to invest in real estate. After much thought and talks with hundreds of would-be investors, I've come to this conclusion: Most people simply don't believe in the future and they don't believe in themselves.

As a result, most people don't believe in their ability to actually make big money in real estate. These negative thinkers erect a wall of excuses that blocks their vision. This wall prevents them from seeing the profit potential that lies in front of them. So, will you join the ranks of the naysayers? Or will you open your mind to a promising future?

### *Imagine the Future*

Think about your future. Imagine you're reading the real estate classified ads 10 years from today. What do these ads of tomorrow say?

Are property prices higher or lower than they are today? Are rent levels higher or lower than they are today? If you believe in the continuing growth of the United States, you must believe that just as with every past decade, today's property prices and rent levels will look cheap relative to where they will stand 10 years from now (see Table 1.1).

### *Reprogram Your Self-Talk*

Ask yourself whether you really want to benefit from those future gains. Or would you prefer to merely watch others reap these near-certain

**Table 1.1** Historical Growth in Median Home Prices

<i>Year</i>	<i>Price</i>	<i>Year</i>	<i>Price</i>
1970	\$23,000	1990	\$ 95,500
1975	35,300	1995	113,100
1980	62,200	2000	138,400
1985	75,500	2005	182,000 (est.)

Statistical Abstract of the United States 2003, p. 723

profits? If you do want to succeed—yet you feel blocked by excuses—then reprogram your self-talk.

**What Is Self-Talk?** In his mind-opening book, *What To Say When You Talk to Yourself* (Pocket Books, 1986, p. 25), Shad Helmstetter writes,

You will become what you think about most. Your success or failure in anything, large or small, will depend on your mental programming—what you accept from others, and what you say when you talk to yourself.

After years of study, this nationally renowned psychologist has found that as a matter of habit, most of us swamp our optimism and hence our motivation to change for the better with negative self-talk.

Think about your own thoughts. Do you accept the negative as “true” or “the way things really are”? Do you frequently focus on risks rather than opportunities? Ponder these familiar excuses that you’ve either said to yourself or heard others say hundreds of times:

**You must believe  
it to see it.**

- ◆ I can’t remember names.
- ◆ It’s just no use.
- ◆ No matter what I do, I just can’t keep the weight off.
- ◆ I never have enough time.
- ◆ I’m just too disorganized.
- ◆ I’m no good at math.
- ◆ I’m always running late.

Now think about this: If you program yourself with these types of negative self-descriptions, will you undertake any serious efforts to change these or other undesirable traits and habits? Of course not! And the same thing stands true for those beliefs (self-talk) that can block you from getting started in real estate. Once again, think about the types of excuses that I frequently hear:

- ◆ Prices are too high.
- ◆ I can’t afford to buy.
- ◆ I missed so many good opportunities.
- ◆ I can’t get financing because of my credit problems.



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