
PROFILES OF REAL-LIFE MILLIONAIRE REAL ESTATE INVESTORS

Although this book has only three names on its cover, it contains the wisdom and expertise of many people from different social, economic, and cultural backgrounds. Fortunately for the authors, the two things those people all have in common are a passion for real estate and a willingness to share their wisdom. Without both, we would not have been able to craft a comprehensive book that speaks so powerfully about building financial wealth. For this we are immensely grateful.

Because each person's story of how he or she became a Millionaire Real Estate Investor was compelling and inspirational and because we had a limited amount of space, it was extremely difficult to select only 21 stories to share. We fretted, we scratched our heads, and we wrangled over who to choose before finally deciding. The amazing individuals featured in the pages that follow were chosen because of the breadth, depth, and diversity of their investment journeys. Separately, the thread of their individual stories may not have been the most colorful or the most fantastic, but as a whole their successes weave a rich tapestry that fully illustrates what it takes to become a Millionaire Real Estate Investor. These people see the endless possibilities of wealth building through real estate. They were our inspiration, and we hope they will inspire you.

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

JOE ARLT

Virginia Beach, VA

Years Investing: 8

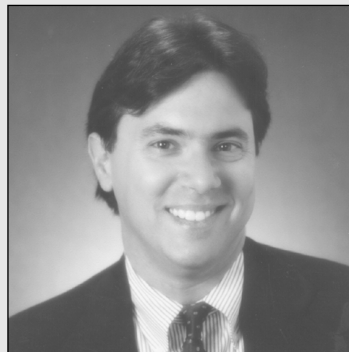
Number of Deals in 2004: 30

Career Deals: 500 or more

Current Units Owned: 400

Areas of Expertise: Lease options; subject-to acquisitions; and VA foreclosures

Real Estate License: Yes



Do you hate infomercials? Think people never buy that stuff? Or if they do, never do anything with it? Joe Arlt will tell you different. The former certified public accountant with, in his words, a “fancy Ivy League” MBA could be the poster child for late-night infomercials. He changed his life after watching one by real estate investor John Burley. Arlt’s interest was piqued enough that he took one of Burley’s five-day boot camps in January 1996.

“I made two decisions after the seminar: I wanted to give real estate a try, and I didn’t want to continue living in New Jersey,” Arlt recalls.

He immediately started investing part-time, driving from New Jersey to Virginia Beach (his soon-to-be new home) to take advantage of the many repossessed houses surrounding the large military base that were financed by the Veteran Affairs Administration. Arlt put his finance and accounting background to work and started buying the properties subject to the existing mortgage or on a wrap. He then resold each property on a wrap. Arlt now owns 250 single-family homes in the area and has an ownership interest in more than 250 other properties across the country.

“I do long-term lease option agreements,” he says. “I’ve created a transaction where the people moving into the house are basically buying it, but I get to treat it like a rental, so taxwise it’s viewed as an investment, not a dealer property.”

Arlt, who got his real estate license in 1997, serves as the chief operations officer of the business he established with Burley, who serves as the president. When scouting deals, they look for a deal that will give them a 50 percent annual return on their net investment. Their main goal with lease options is to create cash flow.

"If I'm wrapping for cash flow, I want price and terms," Arlt says. "And when I'm dealing with tenants on these lease options, I'm always skeptical and always prepare for the worst."

It took a while to hone their buying and leasing formula, but they found a method that yields a solid return. For example, if they purchase a house for \$70,000, they spend about \$10,000 for the down payment and closing costs. Arlt and Burley then price the house at \$87,900 and market it as a 10-year lease-option agreement with the ability to exercise the option to buy after one year. After the tenant-owner makes a down payment of, say, \$4,000, their total net investment is only \$6,000. The renters usually pay 10 percent interest because they are not qualified buyers, with part of the rent going toward the total purchase price. On a deal like this Arlt and Burley net about \$4,200 a year. This may seem like a trickle, but when you factor in the large volume of deals they conduct, the cash flow becomes a waterfall.

"I'll be doing this business probably until I die or until I can't do it anymore," Arlt says. "Real estate is a great investment because if you buy it right, you can't go wrong."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DON BECK

Philadelphia, PA

Years Investing: 25

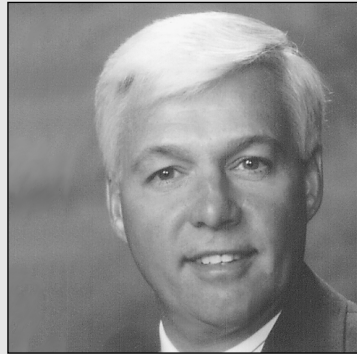
Number of Deals in 2004: 0

Career Deals: 65

Units Owned: 105

Areas of Expertise: 20–40 unit complexes

Real Estate License: Yes



Don Beck had been an elementary school teacher for 12 years when he bought his first home and in the process changed his life.

“It was a duplex,” he says. “I lived in one half, rented out the other, and from then on it was just ‘get out of my way.’”

It had taken Beck two years to build up the courage to make that first buy in 1979. But over the next five years he bought 80 more units, and by 1984 he had decided to retire from teaching. However, not everyone congratulated him on his decision to pursue financial independence over the security of a nine-to-five job.

“I walked into the principal’s office and turned in my resignation,” he says. “The principal said, ‘I guess the real estate’s been going pretty well.’ I told him it was. But with that, he picked up the phone and called the school psychiatrist to check me out because I was tenured and my wife was pregnant with our first child.”

Beck knew that he wasn’t crazy and that becoming a full-time investor would bring more rewards than just money. It gave him time and freedom. After their child was born, Beck carted his newborn daughter around with him while he looked for more investment opportunities and worked as a landlord. Instead of pouring all his energy into other people’s children, he had ample time to devote to his own.

“Investing gave me a lot of flexibility to adjust my schedule around my family,” he says. “It gave me the chance to be a homeroom dad and attend all my kids’ school plays and sporting events and to be there when they came home from school.”

While Beck started out buying duplexes, he eventually settled on midsize complexes of 20 to 40 units. He initially developed this strategy when the high prices of single-family

homes in his suburban Philadelphia market meant they couldn't generate cash flow. However, he soon learned that apartment complexes had other advantages.

"I've got one roof, one heater, and one on-site manager taking care of everything, instead of 20 single-family homes with 20 roofs and 20 heaters and a full-time maintenance guy running all over the place to take care of them," he says. "Plus, if one tenant moves out, I lose only one-twentieth of my income."

Beck's recipe for success includes one ingredient that many investors overlook: failure. Making a few lousy deals early on, he says, is ultimately how investors learn they can move beyond failure. It helps them break out of a confining comfort zone and learn the skills, the discipline, and the courage to make bigger, bolder deals that *don't* flop.

"But fail fast," he jokes. "There's less zeros at the end."

After two decades of investing and acquiring 100 units, Beck is still disciplined. But rather than using that discipline to pore through real estate books on his lunch hour as he did when he was a teacher with duplex dreams, he now disciplines himself to know when to stop.

"You have to be careful that it doesn't consume you," he says. "I simply don't need another 50 or 100 units."

Even though Beck is happy to manage what he has and leave acquisition to others, he still insists that nothing else even comes close to the benefits of real estate investing. With only a small percentage down or even nothing down, you get 100 percent control of a valuable asset. You get tax advantages. And of course you get someone else paying off the mortgage.

"To this day I still say that if anyone can come up with an investment that can do better than that, please tell me what it is and I'll probably get into it," he says. "But of course, no one can."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DWAN BENT-TWYFORD AND SHARON RESTREPO

DelRay Beach, Florida, and Bailey, Colorado

Years Investing: 13

Number of Deals in 2004: 75–100

Career Deals: Over 1,000

Units Owned: Three commercial buildings, one duplex; two lots; and 12 single family homes.

Areas of Expertise: Short sales and wholesaling; rehabbing; and subject-to acquisitions.

Real Estate License: No (Dwan) and Yes (Sharon)



Business partners Sharon Restrepo and Dwan Bent-Twyford launched their careers as Millionaire Real Estate Investors from the most unlikely places. Restrepo was a 25-year-old widow and Bent-Twyford was a recently divorced 29-year-old mother when each decided to bet it all on real estate—and they won big.

Restrepo and her husband dreamed of rehabilitating houses before he was killed in a motorcycle accident. Alone and in mourning, Restrepo decided to keep her husband's dream alive and used the settlement money from his death to buy a dilapidated single-family house. Since she knew nothing about houses or investing, she decided that the best way to learn and avoid getting taken advantage of was to do all the renovations herself, from repairing a falling-down roof to cleaning up a mold infestation so bad that it made her sneeze blood. The experience taught her about rehabbing, but more important, it also taught her a valuable lesson: don't fall in love with the house. She spent so much time and energy fixing the house, she forgot that the point was creating not the house of her dreams but the bottom line. With all her fancy tweaks and touches, the house ended up being too expensive to sell. Fortunately, she was able to lease-option the house.

"I probably made a whopping 500 bucks on that house," Restrepo says. "But during the time I bought and sold that one I bought and sold three others, and they were home runs."

Bent-Twyford's first deal was more lucrative than her future partner's. Broke and alone after her divorce, she happened to meet some investors who bought and flipped foreclosures. Bent-Twyford borrowed \$3,000 from an aunt to buy a car, got a list of prefore-

closures, and with her baby on her hip started knocking on doors. After about a dozen nos she found a seller. Like Restrepo, she fixed it up herself.

"I took all the classes at Home Depot to learn to tile, lay carpet, everything," Bent-Twyford says. "It got to the point where when the guys at the store saw me coming, they'd run because I asked too many questions."

Her house sold in two days, earning Bent-Twyford \$22,000.

"I thought I was rich," she says. "I wept because I was so happy."

The two investors met at a small seminar—they were the only women there, and so they started chatting—and soon formed a partnership to do rehabs. But after several years of successful rehabbing and learning exactly how to find a great deal, they branched out into wholesaling.

"It's a lot less work," Restrepo says, "and since you get good deals under contract and then find *other* people to buy them, you don't even have to own the property."

Then they mastered short sales. But no matter what kind of investment they try, both agree that some of their most valuable lessons are those they learned at the outset. Restrepo always comes back to the lesson she learned on that first house.

"Any time you make an emotional decision concerning your business, you will lose money," Restrepo says. "Every time we lost money it was because we compromised a business rule or made an emotional decision."

For example, when they were first rehabbing, they had a system where they always had three houses in the works: One was on the market, one was being worked on, and one was just bought. At one point they were down to two houses, both of which were up for sale, and were feeling desperate to buy. They walked into a house where the numbers seemed to work, trying to ignore the insects flying around them.

"Swarming termites," Restrepo says with a laugh. "We were literally swatting termites away while we were saying to each other, 'Seems pretty good. What do you think?' That was another deal where I think we made about \$500."

Bent-Twyford says another lesson they learned in the "salad days" was the need for absolute commitment in order to succeed.

"I think a lot of people who get involved in investing don't always put 100 percent into it because they have a job," she says. "But for me it was do or die because I didn't want to put my daughter in day care. After you wait tables at Denny's, you'll do anything to not do that again."

Restrepo and Bent-Twyford agree that the beauty of real estate is that with just a little courage and pluck, a path begun for simple reasons—to keep a dream alive or to avoid waiting tables—is one that eventually can lead to financial independence.

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DYCHES BODDIFORD

Marietta, GA

Years Investing: 24

Number of Deals in 2004: 40

Career Deals: Hundreds

Units Owned: Owns industrial land, timber land, and commercial properties, as well as “plenty” of residential rentals

Areas of Expertise: Discounted mortgages; distressed property; and development

Real Estate License: No



It's every employee's worst nightmare: the Friday afternoon staff meeting after which no one needs to come back on Monday, the day when your paycheck, your sole source of income and financial stability, vanishes overnight. It's the day your company downsizes, and despite years of stellar performance, you and your coworkers are laid off.

Atlanta investor Dyches Boddiford was called into the president's office for one of those meetings in 1991. But for Boddiford, who already had spent a decade building his real estate portfolio, losing a vice presidency in a computer company was not a nightmare but an opportunity: it was the push he needed to go to work for himself as a full-time real estate investor, a move he had wanted to make for a while.

“I got up Monday morning, had a shower, shaved, did everything like I was going to work,” he says, “but instead of getting into my car, I just went down to my little home office and started hitting it full-time.”

Because Boddiford had built more than one stream of income, he could keep afloat when his primary income dried up. Not one to let a lesson go by unlearned, Boddiford varies his approach to real estate investment deals and never depends on a single investment strategy to fit every situation. While the former sales executive concentrates on rental properties in middle-class neighborhoods, he is no stranger to lease options, fixing and flipping, owner financing, and developing resorts and manufactured housing lots.

“Having a toolbox of strategies allows me to pick the one that is right for the deal rather than trying to make every opportunity fit into one cookie cutter,” he says.

As the Atlanta real estate market goes through its inevitable cycles, that toolbox enables Boddiford to adjust to its whims. In general, he believes that there is no “right” time to

buy but firmly believes that different strategies work better at some times than at others. "Time in the market is more important than timing the market," Boddiford says.

For example, while Atlanta recently had a soft rental market, the city still enjoyed solid sales and healthy appreciation. Boddiford looked for the first time into buying properties through conventional mortgages. His reason? The interest rates. Boddiford had bought virtually all his previous properties through cash or owner financing. However, with interest rates at historic lows, he reasoned that the low-rate mortgages would themselves be an investment that he could later sell through owner financing once rates moved back up. But, he says, "no matter what cycle the market is in, you always need to buy the property right on price and/or terms."

Boddiford also applies this flexible approach when evaluating his investment portfolio. Once a year he sells off his weakest-performing properties, which he determines by ranking them according to a variety of criteria: how hard they are to rent, the desirability of their neighborhoods, and how much maintenance they require. Once he determines the 20 or 30 percent that do the least for him, he figures out a way to use a tax-deferred 1031 exchange to leverage his money into a more profitable property.

To develop this kind of dexterity with the tools of real estate, Boddiford advises new investors to invest in their education first. "In the real estate area, you're going to pay for an education one way or another," he says. "You've got two options: you can go to classes and learn from other people and their mistakes, or you can go out in the real world and make your own mistakes. And it's always less expensive and less time-consuming to learn from somebody else."

For his own education, Boddiford took real estate licensing courses at the local community college and, of course, talked to other investors. But just as he warns against skimping on education, he warns just as strongly against getting so caught up in the books and courses that you forget to buy anything. At some point, he says, you have to take the plunge. That's what Boddiford did: after an intensive six-month search, he bought his first three properties on three consecutive days and, true to form, using three kinds of financing. In other words, at least some of your education has to come from your own experiences.

"The worst thing you can do is learn continually without putting some of it into practice," he says. "It's called 'analysis paralysis.' Beginning investors get paralyzed by thinking they have to learn everything about every strategy. But you don't. You just have to learn enough to get started."

But as in Boddiford's case, once you get started, there's no limit to the kinds of deals that can be made. Boddiford's new tactic is manufactured housing and coastal development. But as he says, "there are so many areas I could move into. That's what I love about investing in real estate."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

RENATA CIRCEO

Atlanta, GA

Years Investing: Owned rentals for 16 years; serious investor for 4 years

Number of Deals in 2004: 5

Career Deals: 21

Units Owned: Five single-family homes; two duplexes; six condos; and an 18-unit apartment building

Areas of Expertise: Buy, & Hold; fixer-uppers; and middle and high-end homes.

Real Estate License: Yes



Many beginning investors have to combat their share of naysayers as they launch their real estate investment careers. Usually the biggest critics are people who aren't investors but are quick to say, "Tenants are a pain" or to make ominous predictions that you'll "lose your shirt."

Keeping other people's fears from infecting your drive to invest can be a challenge. An even more challenging situation, though, occurs when the person doubting you is your own father. That's what happened to Renata Circeo when as a young college graduate, she approached her father—a buy-and-hold investor in single-family houses—about a loan for the down payment on her first condo.

"He said, 'I know you want to get into real estate, but I think you're a little young,'" says Circeo, now 15 years older and much richer. "I said, 'I know, Dad. I just wanted to give you first right of refusal.' And I went and found another investor."

That was in 1988. After living in her first property for six years and letting roommates pay down the mortgage, Circeo bought a second house. Six years later she picked up the pace, buying another five.

Circeo's strategy is to keep the number of units she owns to a handful, because she enjoys her work in the entertainment business too much to give it up for full-time investing. With this in mind, she carefully shapes her investment strategy to fit into her nights and weekends.

"I'm a classic overachiever," she says. "And I've learned that things suffer when you spread yourself too thin."

One aspect of this strategy is to focus on higher-end properties in which she can maximize her cash flow and long-term appreciation without having to deal with a huge number of units. A firm believer in the “worst house—best neighborhood” approach, she finds run-down properties that need a little sweat equity and rents them out to stable middle-class tenants, keeping turnover and maintenance low.

Circeo also tailors her financing to fit her strategy of long-term security rather than short-term cash flow. Her technique is to pull equity out of her current holdings to buy more houses. This works especially well with the well-maintained houses in pleasant, safe neighborhoods she already likes to buy. Those houses have enormous potential for appreciation, and a little work can mean huge equity gains. Circeo says one of her best deals was her second house, a five-bedroom, two-and-a-half-bathroom that she paid \$151,000 for in 1994.

“It was a beautiful house, huge yard, but not well taken care of,” she says. “The inside was absolutely filthy, with holes in the wall, and the refrigerator was getting ready to fall into the basement because the ice maker had been leaking for at least two years.”

But what some people would have walked away from, Circeo walked into, and her eye for a diamond in the rough paid off. A year after she bought it, the newly fixed-up house was appraised for \$215,000, and by 2003 it was valued at \$349,000, equity she could then pull out to buy more.

Another tool Circeo likes to use is interest-only loans, which reduce her monthly payment significantly. Even though she pays them off like 15-year fixed mortgages, this type of loan gives her the option of dropping down to the minimum payment if one of her houses has a maintenance emergency or unexpected vacancy or she needs the cash. (The risk of high-rent single-family houses is that vacancies are much more expensive.)

But even as her net worth grows, Circeo finds that many people still express their doubts about single women investing alone.

“There is still this perception of, ‘Oh, don’t go out and do it. Wait until you get married and have some security,’” she says.

The solution, she found, was to go to investment clubs and other events where she could build a network of strong professional women who were also going at it alone and succeeding.

“Seek those people out,” she says. “Seek out the women who can be your mentors and don’t let the doubters bring you down.”

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

JERRY CLEVINGER

Kansas City, MO

Years Investing: 9

Number of Deals in 2004: 112

Career Deals: 800

Units Owned: 53 single-family homes and
2 commercial buildings

Areas of Expertise: Foreclosures; wholesaling

Real Estate License: No



Everyone knows that money is important. However, just about everyone also knows that many things are more important than money, especially time. Nevertheless, most of us stay on the grind, unable or unwilling to take the kind of leap of faith Jerry Clevenger took in 1997.

Clevenger had a solid career in banking, rising eventually to president of the mortgage division, when he started investing in real estate in the mid-1980s. It was a fluke, actually: He was hired to ghostwrite a chapter about foreclosures and realized he could master the business easily. He started spending his free time doing research at the courthouse and hunting down leads.

Clevenger always thought real estate would be just a part-time money-making hobby until he got full custody of his two children. Suddenly, time became more important than money. Clevenger realized that even though he earned a comfortable six-figure income at his day job, it came with a six-day-a-week schedule that would leave him precious few moments with his kids. He quit his job and started investing full-time, thinking that stepping off the corporate ladder would be a financial sacrifice with emotional rewards.

"The main thing was to have time with my kids," Clevenger says. "I could be home during the day, drive them to school, and be there when they came home from school."

However, he discovered that his leap turned out to not be such a big sacrifice after all. In his first year as a full-time investor he made three times what he had at the bank. More important, being willing to sacrifice his paycheck so that he could focus on his relationships gave him both time and money.

Clevenger's investing success came through mastering foreclosures, mostly of single-family houses or duplexes. However, he doesn't just hit the courthouse steps, and he definitely doesn't go at it like the Lone Ranger, patrolling his territory for the elusive great deal. Instead, he finds his best deals by working with real estate agents who comb the market for him.

"In the beginning I thought I could do everything myself, from finding them to selling or renting them," Clevenger says. "But I went from just doing a few deals to doing a lot more deals and more profitable ones by using agents."

By developing a level of trust with a few agents Clevenger is able to pursue more complicated transactions such as REOs (bank-owned foreclosures) and short sales (buying foreclosed-upon houses for less than what's owed on the mortgage). He also can act fast. He did that in one instance when an agent who had been watching an REO property called him early one morning to say the price had been dropped from \$65,000 to \$39,000. Clevenger immediately faxed in an offer for \$42,000, which was accepted.

"I immediately sold the house for \$54,000, and I'd never seen it," he says. "So is that agent worth it? You bet. She gets a well-earned commission on the acquisition, and I walk out making \$12,000."

Clevenger says agents are particularly valuable for new investors, who too often buy the wrong property or buy too high because they jump at the word *foreclosure*.

"I've found that if I advertise a house and say 'foreclosure,' I will get three times the calls I will get on any other house," he says. "People just assume it's a good deal, but that's not always true. One month there were over 600 foreclosures in our area. Out of those 600, maybe 50 of them were okay deals. Fifteen were absolutely great deals."

In trying to find the absolutely great deal, Clevenger warns investors to assess not only a property's physical condition and market conditions but also the financial condition.

"Just because it's an old mortgage doesn't mean it's a good deal," he says. "You'll find that people may have signed forbearance agreements or filed for bankruptcy. I can show you lots of those where on paper you think this is a good deal, but then when you get all the facts in, it's not."

Clevenger and his wife now own 53 single-family and two multifamily properties worth more than \$4 million. He still has time to spend with his son and daughter, now college age, who benefit not only from the extra time with their dad but also from hands-on, close-up exposure to their lucrative future careers.

"They know how to repair a basement. They know how the mortgage industry works," he says. "My daughter knew when she was a freshman in high school that in college she'd get her MBA, specialize in real estate, and start flipping houses."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DON DEROSA

Atlanta, GA

Years Investing: 7

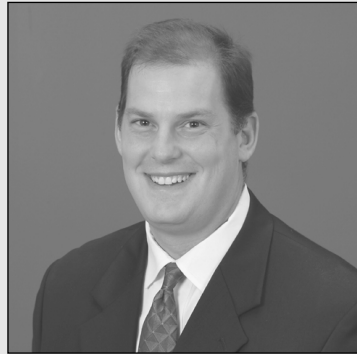
Number of Deals in 2004: 30–40

Career Deals: 100–150

Units Owned: Over 35

Areas of Expertise: Subject-to acquisitions; short sales; and fix and flip

Real Estate License: No



“There’s a million ways to make a million dollars in real estate investing. Start by picking one.” That’s what veteran investor Don DeRosa tells his beginning students, and the former Airborne Express manager should know. He became a full-time investor in real estate by focusing on one technique at a time.

“Once I find something I enjoy, I pour everything into it and master it,” he says. “Once you master it, it pushes you toward the top.”

DeRosa began pouring himself into real estate investing in 1993, inspired in part by the fact that his parents had rented duplexes successfully. The first approach he decided to master was the “subject to.”

“The first four properties I bought, I bought for one dollar apiece, subject to the existing financing,” he says. “I gave them each one dollar in earnest money and closed the deals over the kitchen table.”

But it wasn’t until 2001 that DeRosa became a full-time investor. He was pushed into it when, like many investors, he got laid off from a job he didn’t like as much as investing anyway.

“The day I lost my job was the happiest day of my life,” he says. “I wanted to send my employer a thank-you note.”

Once he went full-time, DeRosa gradually branched out from the subject to by learning the ins and outs of short sales. Of course, trial rarely comes without error, and DeRosa made his share of mistakes as he experimented with different approaches. Rehabbing, for example, proved particularly challenging.

"The first rehab I did was a disaster," he says. "I did everything wrong: I paid too much, had no due diligence, and picked the wrong contractor. But I learned a ton. It was a \$40,000 mistake, but I probably saved myself a million dollars because I never repeated those mistakes again."

Nevertheless, the fact that doing something new almost inevitably involves some of those beginners' mistakes underscores the value of getting good at one thing rather than dabbling in every idea in the book and never mastering anything.

"Investing is like muscle memory," he says. "It takes less time and energy the more you do it."

These days DeRosa focuses on short-selling second mortgages. He says his tight focus helps him make the key move that separates successful investors from the rest: systematizing and automating as many of the details as possible. For example, when people call with homes to sell, he knows they need instant personal attention. But these days he gets so many calls that he has both a receptionist and a full-time answering service trained to follow scripts that flag the calls with a potential to turn into a good deal and close the door quickly on overleveraged ones that won't work.

As DeRosa spends his days looking for properties, his four assistants do the same thing, armed with spreadsheets on pocket PCs that compute the profit margin on any property. If they find one that fits DeRosa's criteria—for example, he wants to see at least \$20,000 net profit and a 200 percent ROI—they are authorized to make an offer.

DeRosa says his focus also helps with one of the hardest parts of the business: getting the phone to ring. After all, building a reputation as an investor in a certain kind of deal means that people in your community know who to call when they come across that type of deal.

"You have to get leads coming in before you can make an offer and find anything to buy," he says.

After 10 years in the business, mastering one approach after another, DeRosa now has depth *and* breadth, along with a business so systematized that he can just about walk away and let it run on autopilot. It's a position, he says, that all investors can reach if they're disciplined about the way they build their knowledge.

"Learn one way to buy," he says. "Get good at it and then learn a second way. Then a third way . . ."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

ELMER DIAZ

Houston, TX

Years Investing: 20

Number of Deals in 2004: 36

Career Deals: Over 200 fix and flip wholesale; over 200 fix and flip retail; over 600 apartment rentals owned; and over 200 single-family rentals owned

Units Owned: 56 single family homes; 42 apartments

Areas of Expertise: Wholesale; fix and flip; fix and rent.

Real Estate License: No (but co-owns three real estate offices)



Few investors can lose it all and bounce back, and fewer still can do it twice. But Houston investor Elmer Diaz did just that, learning several valuable lessons in the process: that making a million isn't as hard as keeping it and that neither means anything if you can't help people along the way.

Diaz bought his first house as a college student—using a student loan to make the \$1,500 down payment on an FHA foreclosure—and rented it out to his college buddies. His younger brother managed the property, and Diaz leveraged the equity into two more houses and another duplex. His budding investing career took a turn for the worse, along with the rest of the Houston economy, with the 1980s oil bust. Diaz lost his first property.

"I was sweating bullets when the constable walked in to serve the papers. I thought I was going to jail!" he says. "I told him that I'd never broken the law. He smiled and said, 'There's nothing wrong. You're just one of the 250,000 people who are losing houses in Texas.'"

Because Diaz's other properties weren't as leveraged as that one, he was able to keep them, survive the loss, and thrive. Soon he jumped straight from fixing up single-family houses and renting them into working with large complexes. By 1994, when he was in his early thirties, he was a millionaire, and by 1996 he owned 600 units and 100 houses. But while he was acquiring those units, he was failing to acquire the skills that would help him manage them properly.

"I did everything backward," he says. "I should have had the systems in place before growing to this next level. You have to start by learning the building blocks of the business."

The crash came quickly. In the last few months of 1996 the haphazard way he had built his empire caught up with him. Without effective systems in place to hold contractors and managers accountable, his properties deteriorated and had high vacancy rates. His employees began stealing from him—one contractor stole enough materials to build himself a house. Diaz sustained a \$50,000 negative cash flow for six months running, and finally, in December, his business hit bottom.

“I was about \$4 million in debt. My personal debt was about half a million,” he recalls. “I woke up on December 15 in tears and said, ‘God, get me out of this.’”

Diaz never filed for bankruptcy but sold off most of his holdings and spent three years repaying debts. Diaz describes it as a painful, humbling time but one that taught him important spiritual lessons. His financial straits taught him the true value of money and its ultimate purpose: to help people. That epiphany hit him hard during Christmas 1997, when his father-in-law had a car accident and needed \$3,000 to buy another car to get to work. Diaz wanted to help but couldn’t until a \$3,000 settlement check from an old, forgotten-about lawsuit appeared in his mailbox.

“That was a turning point for me. It showed me that when you are on the right path, money will show up,” he says. “And the right path is the spiritual path. The spiritual path is helping people.”

Diaz learned important business lessons as well. His downfall came because he let his business get too complex and didn’t take the time to implement systems to support his real estate empire. Having grown older, wiser, and grayer since his financial collapse, Diaz now urges newbies to start as simply as possible. Rather than landlording, which requires mastering a whole suite of skills, he recommends wholesaling. By finding deals and selling them to more experienced investors, beginners can hone the most basic skill of all while they’re building up their reserves.

“You’ve got to get good at buying houses. You’ve got to learn how to spot a good deal,” he says. “The second thing is that you’ve got to learn how to evaluate what kind of shape a house is in. A lot of people get good at buying but not at understanding the mechanics of the house. They don’t understand that changing that wall is not \$500, it’s \$1,500, and that’s what takes some people to the cleaners.”

As investors grow their businesses, Diaz recognizes that different people will take different paths. But by the time they’re ready to branch out, the wise ones will have mastered the basics. And that, he says, boils down to just one thing: buying right.

“The hardest part of this business is finding the deals,” he says. “They’re out there. But you have to spend a lot of time looking for those deals.”

But as Diaz knows, when an investor is prepared, time spent finding deals is an investment with rewards that aren’t just material but spiritual.

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DAVID FAIRWEATHER

Bethesda, MD

Years Investing: 29

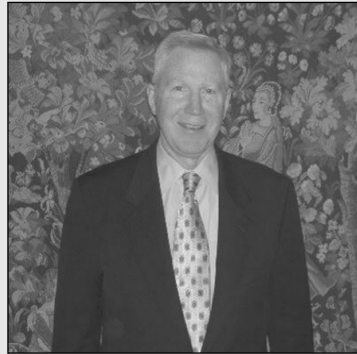
Number of Deals in 2004: 10

Career Deals: A “couple hundred”.

Units Owned: Over 700

Areas of Expertise: Does a little of everything but considers his strengths to be in assessing property values and adding value

Real Estate License: Yes



The United States is a country where people tend to praise speed and daring more than patience and caution. But David Fairweather believes that while decisive action has its place, a smart investor more often will look like the slow and steady tortoise than the jumpy, impatient hare. His emphasis on safety dates back to the time when, as a young man from a lower-income background, he ended the family tradition of lifelong renting, faced his fears, and bought his own home. That was in 1971, and the home he bought cost \$42,000.

“When I bought my first house, I put my life’s savings into it,” he says. “I wasn’t very old, but it was my life savings.”

When he sold that house a few years later for \$109,000, his *profit* was \$67,000. That single event convinced him that no matter what his day job was—he currently earns a comfortable living as a real estate broker—he would build his wealth through real estate investing. But no matter how many properties he buys, and he buys enough that people kid him about “buying them like other people buy shoes,” part of him will always remember that cautious young man putting it all on the line to buy his first home. For Fairweather, caution is key, and maintaining the reserves to get you through an eviction, a maintenance emergency, or a market shift gives you a financial cushion to soften the blows. For investors who are just starting out, he recommends keeping at least three to six months’ reserves per property.

“Reserves are the most important thing in real estate,” he says. “You can’t get hurt if you keep a lot of money as reserves.”

Fairweather recognizes that at first this may seem like a sacrifice and that it may be tempting to plow ahead with more acquisitions. "Just give it time," he says. "As your number of properties grows, those reserves start building up faster than they're depleted because it's unlikely that something will go wrong with all your properties at once." That means that eventually this cautious approach results in greater flexibility, options, and freedom. For example, having plenty of reserves allows Fairweather to respond to the market in ways that keep him from needing even more reserves, for example, by enabling him to maintain a competitive edge by keeping rents low to minimize vacancies.

"Rents are very market-driven, and you can lose your tenants based on what else they can rent," he explains. "So if you're basing your rents on some formula attached to the value of your house, you'll see your tenants walking out the door."

Fairweather's approach extends into an aspect of the business he says many investors ignore: maintaining the properties. "The government doesn't give you depreciation for nothing," he jokes, and goes on to say that what you spend on roof repairs, HVAC servicing, and lawn maintenance will make all the difference in the long term.

"The trick to gaining wealth through real estate is to own it a very long time and take very good care of it," Fairweather says. "But you don't get anything for it if you let it run into the ground. So maintaining your properties ensures that they'll be around for a long time and so will your tenants."

Keeping tenants happy isn't just good for business. For Fairweather it's simply the right thing to do.

"I'm very grateful to my tenants because they are paying off my building," he says. "I don't know anybody else that's going to do that for me. For the exchange of a decent home, they're willing to pay off the mortgage for me. That's a pretty good trade-off."

In addition, he believes investors need to make a trade-off with themselves, sacrificing short-term toys such as a new car or a vacation to put money back into the business. It's one more way, Fairweather says, that taking a cautious, conservative approach will yield huge returns over the long haul.

"You can make a tremendous amount of money as a real estate investor if you treat it like a business," he says. "It's not a hobby. It's not a casual thing you do. The reward you reap is commensurate with the effort you make."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

TAMARA FULLER

Columbia, MD

Years Investing: Owned rentals for 6 years;
Investing seriously for 3¹/₂ years

Number of Deals in 2004: 11

Career Deals: 35

Units Owned: 75

Areas of Expertise: High-end rentals; Flipping distressed properties in emerging neighborhoods; and finding ways to do deals that have fallen through with other buyers.

Real Estate License: No ("But my real estate agent loves me!")



Success in real estate investing depends in part on defining your Criteria. Some people look for all-cash deals, some look for the biggest multifamilies they can find, and some specialize in rehabbing diamonds in the rough.

For Tamara Fuller, one of her Criteria is fireplaces.

"It's a quirky thing, but almost every home I buy has a wood-burning fireplace," she says with a laugh. "It gives the home that extra touch of warmth."

Of course, it's not *just* the fireplace that Fuller seeks but everything the fireplace stands for. Fuller rents higher-end homes in pleasant neighborhoods in Howard County, Maryland, a turf she chose after extensive research revealed that it had one of the wealthiest and best-educated populations in the United States. After all, Fuller is a busy management consultant who got into investing as an alternative to putting her money into underperforming stocks, not as a way to spend a lot of time collecting rent or managing contractors.

"I don't have those skills, and I'm not really looking to acquire them," she says. "I like working in a suit, and when I'm not in a suit, I don't want to spend my time chasing tenants or wielding a hammer."

There is a method to Fuller's careful consideration of aesthetics, even though some investors would consider it madness. Fuller is building a brand that she calls Symphony Homes. She chose a niche—nice, comfortable homes for people who can appreciate

and take care of them—and maintains that brand no matter what. For example, at one point a downturn in the market meant she had seven vacant homes at once. But rather than dropping her price just to get warm bodies under lease, she worked with realtors, asking them to send her buyers who were looking for a short-term rental as they sought their own homes. Soon she filled all her vacancies—at full price.

“Price contributes to your brand,” she says, “and my brand is that I have the best rental homes in Columbia, so they have to be priced accordingly.”

As a decidedly non-full-time investor, Fuller emphasizes the need to build a network of professionals to deal with the details. She has a handyman, a property manager, agents who help her find properties, and a regular cleaning staff to return the homes to pristine condition between tenants. But one network she stresses the importance of building early is the financial one.

“Establish relationships with lenders long before you need them,” she says. “The time to start courting banks is not when the time bomb is ticking away on a contract that has to close in two weeks.”

Before Fuller sought out lenders, she established her financial Criteria. Since she bought her own four-level townhome in the mid-1990s, which she still owns as a rental, Fuller has made it her practice to buy properties that rent for 1 percent of their value and acquires them on 15-year mortgages for faster equity buildup and debt paydown.

“I started buying property in earnest when I was 35,” she says. “That means when I’m 50, I’ll be basically debt-free and have substantial retirement income.”

Besides carefully analyzing the where and how of investing, Fuller has fleshed out her future financial plan. Not yet 40 years old, she is well on her way to attaining her goal of owning 100 units and retiring at age 50. Best of all, she did it in a way that didn’t affect her lifestyle negatively.

“The thing you have to remember,” she adds, “is that it’s not just the money, it’s your life.”

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

RON GARBER

Orange County, CA

Years investing: 20

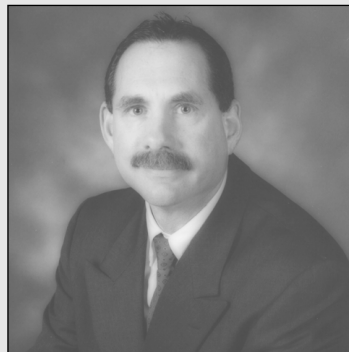
2004 Deals: 0

Career Deals: 30

Units Owned: 20

Areas of Expertise: Foreclosures, fix and hold

Real Estate License: Yes



Many investors get their start with the help of a mentor, an experienced advisor who may say only a few words, but words with the power to push a novice in a new, life-changing direction. That's what happened to Ron Garber in 1985 when a wise mentor shared with him the "bucket theory" that set Garber on the path to total financial independence.

The theory is this: Everyone has control over three financial "buckets." The first bucket takes care of family obligations; it's the baseline with which you take care of your home, your health, your children's education, and other day-to-day necessities and monthly expenses of life. Once that bucket is full, you can start filling the second bucket: long-term investments. That bucket isn't full until it generates enough income to take care of all the needs of bucket 1 with passive income.

"Then, after you've filled buckets 1 and 2, you've earned the right to play and have toys. That's bucket 3," says Garber. "The problem is that people start backward, and because they start with the play bucket, they aren't able to fill bucket 2 and create substantial wealth by investing."

Garber does things the other way around: His problem was not thinking past bucket 1. While he earned a fine living as a top-performing RE/Max agent, he and his wife were careful and conservative financially, for example, paying down the mortgage on his own home to own it free and clear as quickly as possible. But the bucket theory made Garber realize that he needed to pay more attention to his long-term investments.

Fortunately, financial planning is something Garber takes very seriously. At the end of each year he and his wife take a cruise where they can clear their minds and focus on their futures. On that year's cruise Ron and his wife decided on a course of action. Their life—bucket 1—cost about \$5,000 a month. They already had discipline from paying

off their own home, and because Garber was already working hands-on in the owned real estate market, he was in the perfect position to master foreclosures. So, they reasoned, five paid-off single-family houses in the \$110,000 range would generate about \$5,500 in monthly cash flow and allow them to live comfortably off the passive income.

As planned, the couple bought five rental properties and poured as much of Garber's salary as possible into paying them down. Three and a half years later they had done it: five houses, free and clear, netting a little more than \$5,000 a month. As usual, at the end of that year they went on their financial planning cruise.

"Well, we've zeroed it out," said Garber. "We've done it. What do you want to do next?"

His wife thought for a moment. "Let's do it again," she said.

"Once we had the model, it was easy to just say, 'Let's do it again,'" he says. "We knew what price range to buy in and how to fix them up." Now that they had a proven model, they only needed to replicate it.

But one thing was different: they now had their rental income in addition to Garber's salary, and so they could move even faster. Two years and five more paid-down properties later the Garbers embarked on their annual cruise with the knowledge that whatever happened, they could count on \$10,000 a month in passive income. Once again Garber asked his wife what she wanted to do next.

She didn't have to think about it. "Let's do it again," she said.

This time it took only a year and a half to come up with five more paid-off houses. Then, when the California real estate market took off, their rental income skyrocketed along with it. Now Garber owns 20 rental properties free and clear, all three of his buckets are overflowing, and he sees no reason to buy more real estate.

"My focus became taking what I had and really shining it up and adding to it," he said. "For example, I add bedrooms or bathrooms or whatever I need to add to the value of the existing portfolio."

But that doesn't mean he's done investing. Having learned the power of systems, models, and mentors, he sold his brokerage firm to his own protégé, and applied the model he developed in real estate to buying small businesses. Like houses, many businesses are undervalued, and many have values that can be increased dramatically through small, targeted fixes to carefully researched weaknesses. Best of all, though, is the feeling that comes from knowing you've found a model that works.

"When I was a broker, I didn't trust that there was a duplicable model for my success no matter how successful I was or how many awards I won" he says. "That was a terrible feeling. So now I tell everyone that it's the models and systems that make the difference—the difference between success with a bad ride and success with a great ride."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

BILL GOACHER

Asheville, NC

Years Investing: 32

Number of Deals in 2004: Only one fix & flip because he's "still working a \$1 million office rehab from previous year"

Career Deals: 175–200

Units Owned: 108

Areas of Expertise: Adaptive rehab of old commercial buildings (converts to art studios, work spaces, warehouses and live-work units); has also rehabbed single-family homes

Real Estate License: No



As in the old saying about beauty, disaster is also in the eye of the beholder. At least that's what Bill Goacher believes. He likes to tell a story about some rehabbers in Asheville, North Carolina, who had jacked up an old house on a steep hill to fix its foundation. That was simple enough until the house started to shift a little, and then a little more. And then the whole house rolled off its foundation and down the hill, ending up as a big pile of rubble.

Disaster? Sure. But as Goacher points out, the investors still ended up with a nice clear lot in a very desirable neighborhood.

"They sold the lot for \$30,000 and ended up making \$5,000," he says. "They had anticipated making \$35,000 or \$40,000, but they still made five grand! So I'd say that in real estate the real disasters are few and far between."

The former industrial engineer started investing in real estate more than 30 years ago to avoid the potential disaster of becoming an "odd lotter." After five years of investing in the stock market and getting poor returns, Goacher attended a stock-buying seminar in hopes of turning his investments around.

"The guy teaching the seminar told us that an odd lotter is somebody who buys fewer than 100 shares," Goacher recalls. "A savvy investor watches what the odd lotters are doing, the small guys, and he does just the opposite because the odd lotters are always wrong. So I said, 'Hey! I'm one of those. I'm always wrong!' I only had a \$6,000 nest egg at that time, so I started looking to buy real estate."

Where Goacher fell short as a wizard of Wall Street, he more than made up for it as a guru of Main Street, snatching up more than \$5 million worth of properties during his career. Even with that volume of deals Goacher's only "disaster" was a multifamily property where he only broke even for nine years.

Of course, most of his deals were not even close to that "disaster." The key, Goacher says, is learning to see what others might miss, and that means knowing your market. The best way to do this, Goacher tells new investors, is to look at 50 or 100 houses before making an offer on a single one. That way, when the right property comes along, you can write an offer immediately. However, he likes to put it a bit more colorfully.

"You can't steal in slow motion," he says.

Part of finding the deal, Goacher says, is *making* the deal by ignoring the asking price and instead offering only what the house is worth based on capitalized rent.

It also means thinking creatively and seeing a deal where someone else might see an eyesore. One of Goacher's biggest successes was an old brick building in a mostly abandoned industrial section of Asheville. At that time, the mid-1980s, no one saw value in large, vacant urban property, and lenders laughed at him when he applied for a loan.

"I can tell you, nobody's going to lend you money for that building," one banker said to him. "That area is full of vandals. And the building is terrible! It's got no windows."

"Yes, it does," Goacher shot back. "I've counted them; there's 82 windows in it. There's just not very much glass."

In the end Goacher's eye for a deal proved the skeptical banker wrong. He owner-financed the \$130,000 mortgage on the 26,000-square-foot building and rented out its 14 units to entrepreneurs and artists. His bold purchase marked the beginning of the neighborhood's revitalization. Soon the rest of the old warehouses and factories were snatched up, and when Goacher finally sold that first building in 2002, it fetched a tidy \$535,000.

Like just about anyone who does anything for 30 years, Goacher has evolved over time. Now he pursues industrial and commercial projects rather than residential. But he still says residential is the way to start, with a combination of rehabs and long-term holds to both create income and build wealth.

"You might do a dance that would be 'Flip, flip, keep. Flip, flip, flip, keep. Then flip, keep, keep. Then flip, flip, keep, keep,'" Goacher says. "And eventually you get to the point where you build up your portfolio to where you have some of those that will build wealth, which are the buy, fix up, and keeps."

Goacher has reached—and exceeded—that point. But whether it's residential, industrial, or commercial properties, he's ready to keep dancing.

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

ROB HARRINGTON, JR.

Framingham, MA

Years Investing: Over 25

Number of Deals in 2004: 6 commercial buildings

Career Deals: Over 200

Units Owned: Hundreds

Areas of Expertise: Takes problem properties and converts use; improves properties through efficient property management (increases the NOI); and commercial real estate

Real Estate License: Yes



Everyone's heard the old saying that the three most important things in real estate are "location, location, location." Rob Harrington echoes this saying when he explains the top reasons why he invests.

"I love real estate. I love real estate. I love real estate," he says.

The Massachusetts-based investor found his true love early. He was just 19 years old when he used savings, including money earned delivering papers, to buy his first property. It was a single-family house he converted into apartments and rented to fellow college students. Although the property generated cash flow, it also emptied his savings account, and so Harrington teamed up with other investors to buy more. By the time he graduated he owned 11 properties, all purchased in the high-interest-rate environment of the early 1980s. Contrary to many investors' thinking, Harrington believes it's best to buy when rates are high because that's when prices most accurately reflect the true value of a property.

"When rates are high, the property can't hold as much debt and therefore doesn't hold a lot of value," he says. "But when interest rates increase, the property can hold more debt and therefore is more valuable."

That kind of big-picture thinking saved Harrington from the tragedy that thinned the ranks of real estate investors in the 1980s: the Tax Act of 1986. As apartment complexes became the favored tax shelter of the wealthy, Harrington realized that prices were being driven upward artificially by people who didn't care about a property's ability to generate cash flow.

“People were falsely creating value in the depreciation,” he says. “People were making investment decisions based on tax advantages.”

As prices rose and people seemed to be buying high on the assumption that they could always sell higher, Harrington realized it was time to act. He sold all 35 of his units at the peak of the market and then bought more when the market crashed after the tax laws took away the value of depreciation.

But while big-picture thinking has been an important part of his strategy, Harrington says careful attention to details—maintenance, vacancies, taxes—is what makes him successful today. Every month he evaluates all his properties on the basis of one line item—for example, taxes in February, electric bills in March, heating bills in April—and figures out ways to reduce his costs in that area of expenses. In other words, he works line item by line item, not building by building, to shave costs.

“The key in real estate is to watch your nickels and dimes,” Harrington says. “If you watch your nickels and dimes, the dollars will follow.”

These days Harrington has his formula down: he does his numbers based on a 15-year mortgage and looks for properties he can improve just a little to charge more rent. He encourages new investors to find their own niche but says the key to becoming as much of a raving real estate fan as he is to get off on the right foot.

“Make sure the first property you buy is a winner,” he says. “Make sure you look at everything. Ask yourself if you can reduce expenses to increase the net operating income or what you can do to make someone want to live in your building rather than someone else’s. If you make it on the first deal, you’ll make it on the next ones.”

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

CARLOS HERBON

Ogden, UT

Years Investing: 15

Number of Deals in 2004: One 156-unit mixed use building

Career Deals: 50

Units Owned: 261

Areas of Expertise: Buy & Hold

Real Estate License: Yes



In 1970 Carlos Herbon and his wife came to the United States from Argentina with only \$120 in their pockets. The couple stepped off the plane in Los Angeles and bought two hot dogs for five dollars. "We said, 'Wow, our money isn't going to last long,'" Herbon recalls.

Fortunately, Carlos and his wife didn't let their lack of funds and the cost of living in the United States discourage them from seeking a better way of life. While they've pursued many ways of making a living in the United States, from construction to owning a jewelry import business, the way they've made it, and made it big, is through owning and renting properties. They've made the improbable journey from having \$120 to being Millionaire Real Estate Investors. The Herbons, like thousands of other immigrants before them, were able to achieve the American dream of financial independence. They did this through being inventive, overcoming setbacks, and doing whatever it took. The Herbons and their three sons truly have the mindset of Millionaire Real Estate Investors.

"You can do anything you want to do as long as you have the big desire to do it," Herbon says. "It has to be an obsession. But you have to have a plan first, then have the obsession to execute it. And you have to dream big."

Like many other investors, Herbon first became interested in real estate investing through the back door: he and his wife bought a duplex because they had difficulty finding a place to rent with three young boys. They bought it for \$15,000 in the 1970s and rented out the other unit. Instantly Herbon saw the value of being a landlord: using other people's money to pay the mortgage. However, it was his next property that created his real estate obsession: leverage. He bought the triplex next door for \$1,000 down against a \$5,000 mortgage.

"When we left Argentina, you had to pay cash for properties. There were no loans," Herbon recalls. "But here it's easy. You can control a lot of money by leveraging into properties."

The monthly payments on the triplex were only \$50, but the rental market was much hotter than that, and so Herbon was able to rent it to college students for a total of \$900 a month. From that moment on he and his wife were sold, and they've been in the buy-and-hold mode ever since. "We never sell any properties," Herbon says. "There's no reason to sell. If you need money, you go to the properties and take out equity, and the renters pay for that."

Their strategy has paid off. Herbon, his wife, and their three sons now own more than \$3 million in property, which brings in about \$30,000 a month in rent. Each family member plays a role in the business, which is operated out of their house. Herbon is a real estate agent, his wife is a loan officer, and their sons manage and maintain the properties. They've been so successful at real estate investing that they've turned to helping other people launch their own careers while continuing to acquire at least one property each month.

During the last three years Herbon has worked with a dozen investors. He finds deals for them, shows them why it's a good deal, and then coaches them through the entire acquisition and rental process. He also provides them with the checklists they need to find good renters, keep vacancies down, and manage the properties. For Herbon, working with investors not only generates a commission and builds his clientele but also gives him an opportunity to help others realize their dreams.

"I tell people that a failure is just an experience," Herbon says. "Anything that goes wrong is just another thing that you know for the future."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

VENA JONES-COX

Cincinnati, OH

Years Investing: 15

Number of Deals in 2004: 35–50

Career Deals: Over 500

Units Owned: 35–50

Areas of Expertise: Wholesaling; no-money-down acquisitions; and lease options

Real Estate License: Yes



You'd think that growing up the daughter of one of Cincinnati's best-known real estate investors would infect anyone with the investing bug. Not Vena Jones-Cox. Instead, helping her father manage 13 apartment buildings convinced her *not* to go into real estate.

"I was pressed into service all the time to answer phones, clean stoves, and paint," she says. "I decided that I was absolutely not going to get into real estate."

Instead, she studied sociology at college and got a job at Procter & Gamble. However, a mere six weeks of the day-to-day grind drove her right back to real estate, especially after a seminar on wholesaling taught her that investing in real estate does not have to mean following in her father's footsteps and being a landlord. Jones-Cox decided to brave a new investing trail and focus on wholesaling. She sold most of her deals to a single client with whom she had a strong, long-standing relationship: her father.

She chose wholesaling because she didn't want to deal with tenants and didn't think rehabbing was worth the risk.

"Rehabbing is an extraordinarily risky venture," she says, explaining that it's easy for costs to run over or contractors to rip you off. "I've seen people put money up for materials and then never see the contractor again. I've seen contractors cover things up instead of fixing them, like not doing the drywall or wiring and saying they did."

However, she soon recognized that wholesaling, while a lucrative job, was just that—a job, not a wealth-building strategy. She finally settled on lease options as her long-term approach.

"You get all the same benefits you get with a rental, such as cash flow and depreciation, but the big upside is that your tenant buyers take on responsibility for repairs and maintenance," she says. "Your tenants help you maintain the property and increase its value by improving it."

The strategy, she says, also helps her maximize the number of properties she can buy.

"You're leveraging the tenant-owners' money," Jones-Cox says. "If your goal is to acquire lots of properties and you're holding all of them without pulling out the money, you have to earn the additional money to buy more properties. But with lease options you pull out the equity every two to five years and then use that money to purchase more property."

One thing Jones-Cox admits is that even those who have been steeped in real estate for decades can get into a bad deal. She looks back with humor but little fondness on a four-bedroom 1966 home in the suburbs. It seemed like a good deal: she bought it subject to, with \$1,800 down and \$1,200 to repave the driveway. But just three months after the first tenants moved in, the basement flooded with water. Later it flooded with sewage. Horrified, the first tenants moved out and were replaced by new tenants, who ended up getting evicted. When Jones-Cox tried to sell the property to some contractors, they discovered maintenance problems, from black mold to a cracked heating exchange, that caused them to back out. The house stood vacant and unsold for quite a while.

"I wrote a poem about that house," she jokes. "It won the 'worst deal of the year' from our Real Estate Investors' Association."

After 15 years in the business Jones-Cox is now working on a new approach: allowing herself to let go of the details. For example, she just farmed out her short sales to a woman who gets 30 percent of each deal.

"We're in the advanced investor stage where we're less interested in squeezing every dime out of the deal and more interested in doing lots of deals and making them as easy as possible," she says.

Systems are key, she says, from screening potential buyers in lease options, to marketing wholesale deals, to managing rehabs. Nevertheless, she recognizes that developing systems doesn't make it any easier for some people to relinquish control of a lovingly built business. That's something else she knows from personal experience: Her father, now 76, still works 10 hours a day. But that's just another difference of opinion between a successful father and a daughter with different approaches to running their investments.

"I believe that the more you're able to say, 'This isn't something I need to be doing, and therefore I can give it up,' the more opportunities there are for growth," she says.

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

CATHY MANCHESTER

Norway, ME

Years Investing: 5

Number of Deals in 2004: 6

Career Deals: 20

Units Owned: 22 units and 2 raw land

Areas of Expertise: Fix and flip; residential rental; and seasonal rentals

Real Estate License: Yes



Every investor tells the story about his or her favorite deal. The crown jewel in Cathy Manchester's portfolio is the four-bedroom, two-bathroom oceanfront house with the boarded up windows. The house had gone under contract almost as soon as it hit the market, but the owners didn't want to let anyone do inspections, and so it just sat.

Manchester didn't care. She knew from the location and the size that it was a pearl waiting to be snatched up. She immediately bought it for \$499,000 and put \$20,000 into rehabs. After the renovations were completed, Manchester began renting out her beach house for \$4,000 a week during the summer. But what made the deal even sweeter was that the house was appraised for \$750,000, which created a wonderful opportunity to leverage the equity.

"The best part is, I not only have a house that brings in substantial rent during the season, I've got access to a \$250,000 equity line," Manchester says. "I use this equity line like cash to buy other properties and flip them."

Manchester swears by equity lines. First, they're fast: no loan approvals, no appraisals, no paperwork. On top of that she saves thousands of dollars in closing costs and fees. Of course, Manchester knows this strategy isn't appropriate for *every* deal.

"If I'm going to hold a property a long time, I'll get a mortgage. If I'm looking to flip it for quick cash, I won't," she says. "There's no sense taking out a mortgage and paying \$2,500 in closing costs and doing all that paperwork if you're going to flip it in less than a year."

The equity line is just one of the creative ways Manchester leverages her properties to squeeze every bit of revenue out of them. For example, she bought a six-unit apartment building that was underutilizing its downtown parking lot. Instead of pushing rents to

their maximum—many of the tenants were elderly and couldn't easily afford it—she concentrated on renting out the 18 underutilized parking spaces for \$300 a year each. Another creative move was helping an investor buy an ugly, dated house that no one wanted even though its oceanfront property was gorgeous. She helped the investor buy the house for \$270,000 and gift the structure to the fire department for a total tax write-off. Once the fire department had finished its training (which meant they burned it down), the owners cleared away the debris and sold the empty lot for \$360,000.

"I just find properties where the numbers aren't great and figure out ways to make them great," she says.

Manchester says her real estate license helps a lot in this regard. Simply taking away the commission, for example, makes flips with slim profit margins a lot more appealing.

"I just bought a single-family house for \$142,000 and will sell it for \$165,000. Hopefully, I'll do it with no real estate agent other than myself, and of course I bought it with my equity line," she says. "Now, for an investor it wouldn't work. But with no commission and no closing costs, I'll make about \$13,000, and for doing nothing other than shuffling some papers around, that's a very minimal risk with a great reward."

Manchester stresses that it doesn't take a license to get the good deals. As an agent, her first priority is helping her clients find the deal of their dreams.

"As an agent, there's nothing better than helping your investor-clients make money," she says.

Manchester says that investing is not all that hard. Her 18-year-old daughter, for example, bought and sold her first property (raw land) for an \$11,000 profit. She put that into a condo, which she plans to update and sell for a profit a couple of years down the road. "So here's a young kid who is doing deals while in college," she says. "So it's pretty easy once you focus on doing it."

These days Manchester's life as a successful real estate agent and investor is worlds apart from the 15 years she spent as chief of police in every way but one: she still gets to help people.

"I was really concerned when I got into real estate that it would all be about the money and not about helping people," she says. "But it wasn't! I was totally blown away with what a difference we can make in people's lives. That's what hooked me."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

BARBARA MATTSON

Rockford, IL

Years Investing: 7

Number of Deals in 2004: 30

Career Deals: Over 150

Units Owned: 100

Areas of Expertise: Judicial sales (foreclosures); assisting other investors; and auctions

Real Estate License: Yes



Many people get into real estate investing to get rich. Barbara Mattson got into it to survive.

Mattson was a home health care nurse when her husband, a construction worker, injured his back on the job and was confined to bed. For nine months Mattson supported the family on her nurse's paycheck, fought to get worker's compensation to pay the medical costs, and juggled bills that grew bigger and heavier each month. She never dropped the ball but did come close.

"I paid Peter by borrowing from Paul like a lot of other people," Mattson says. "I always kept my bills paid, but I was in a rotating nightmare."

She also bought her bored, bedridden husband a set of tapes on investing to listen to. He never paid attention to them, but Mattson did, and that changed both of their lives. When worker's compensation finally paid up, she took the \$20,000 settlement and, rather than paying off debt, bought her first investment property.

"I thought, 'If I can build up enough to replace Tom's income, it won't be so bad if he really can never work again,'" she says. "My philosophy became survival."

Mattson didn't just survive but thrived. She soon got her real estate license, initially to stop paying other people commissions, and soon afterward got her broker's license. She now owns three real estate companies in addition to 100 rental properties.

"My life went from total negative to total positive," she says. "It was amazing."

Now Mattson focuses her investing on helping other people achieve their dreams. As someone who knows what it's like to struggle, she takes particular pleasure in helping

people in financial distress. For example, she takes over the mortgages of people in foreclosure and lets them stay in their homes in a lease-option deal. This gives them a chance to preserve their credit and often buy their homes back once they've straightened out their lives. She also offers a rent-to-own program for potential buyers with poor credit.

"They have three years to repair their credit using me as their mortgage company," Mattson explains. "Then they turn around and refinance me out, and they're in the home that they wanted."

There is no shortage of ways to help people, Mattson says. For example, she recently struck a win-win deal with an elderly woman whose vacant house was trashed by vandals. The house was completely destroyed: Every window, every pipe, and every light bulb was smashed. The owner didn't have the money, ability, or interest to rehab the house. She approached Mattson, who assumed her \$20,000 mortgage debt in a deal called a quick-claim, put \$15,000 into rehab, and got the house reappraised for \$70,000. Mattson then took out \$56,000 of the home's equity, gave the owner \$20,000, and kept the rest.

"She didn't want to deal with the house and didn't care about the money," Mattson says. "So everybody won. That's the kind of deals I put together, ones where everybody wins. That's why I love what I do."

Mattson loves it so much that she wants to help as many people as possible experience the way real estate can turn a person's life around. She offers sponsorships for single moms and members of minority groups to earn real estate licenses.

"I'm helping them see that these options are open to them," she says. "I want them to see how great this work is. Not only am I making money for myself, I get to help others learn how to do it. I love my job!"

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

JIMMY AND LINDA MCKISSACK

Denton, TX

Years Investing: 12

Number of Deals in 2004: About 30

Career Deals: 150 or more

Units Owned: 95

Areas of Expertise: Foreclosures; and buy & hold

Real Estate License: Yes



Not having enough savings to invest in real estate is the most common excuse people give for not making those investments. What's less common, though, is to hear people say they had to get into real estate investing so that they could *save* money. But that prompted Jimmy and Linda McKissack to start investing in a "forced savings account." In the early 1990s the couple was making plenty of money as successful real estate agents but spending it all.

"I had a lot of cash, but I had no wealth," says Jimmy, a former nightclub owner. "And the cash would always disappear as soon as we got it, so we'd end up broke again."

Investing in bricks and mortar, they realized, would put their funds in a place they couldn't easily access. As Jimmy puts it, "Real estate is pretty much a forced savings account because your money's tied up in an asset that's appreciating."

They started buying three-bedroom, two-bathroom brick homes in middle-class neighborhoods in and around Dallas, and for the first time in their lives they began to have not only cash but wealth. By 2003 they had a net worth of \$10 million, the bulk of it directly tied to their real estate holdings: 48 single-family properties, a fourplex, a duplex, a small complex, commercial space, and a residential development.

However, their "newfound" success didn't erase the memories of their financial ups and downs during the 1980s. For one thing, Jimmy had a successful restaurant that went belly-up when he tried to expand.

"We made a lot of money in Denton and decided to go down to Dallas and build a real big place down there," he recalls. "We took all our money and all the money we could borrow and did that deal and lost our rear ends down there."

They also had lived through the 1980s in Texas, a time when other investors were so highly leveraged that they ended up owing more money on their properties than the properties were worth. Their memories of losing it all and watching the same thing happen to others shaped their conservative investment approach.

“We watched people lose everything because they were too leveraged,” Linda says. “We wanted an approach that would not overleverage us.”

When they started out, they developed a formula that emphasized long-term security. They’d put 20 percent cash down on each deal. Each property had to be at least 10 percent below market value, and it had to generate cash flow at a minimum of \$200 a month after taxes, insurance, principal and interest, and property management fees on a 15-year mortgage. Although their approach has evolved over time—these days, for example, they do some 100 percent financing deals—every deal is still at least 80 percent loan-to-value.

While the McKissacks recognize that their approach isn’t for everyone, especially not those who don’t have access to much cash, Linda says it’s what fits their lifestyle, comfort zone, and long-term goals.

“Not everyone might like it, but I’d recommend it to my children because it would help their business survive the ups and downs,” Linda says. “And that way they’d get to keep whatever they built.”

Of course, like anyone who’s built a business, Jimmy and Linda have had snags along the way. They like to laugh about the property one of their partners bought on the courthouse steps based on a drive-by inspection, not realizing that the whole back side of the house was missing. Not only that, the previous owner took everything in the house when he left: the sink, water heater, doors, windows—*everything*.

But despite the inevitable drawbacks both Jimmy and Linda believe their biggest mistake was that they didn’t start investing sooner. Jimmy thinks that if they had started a property management company sooner, they would have saved a lot of headaches. For Linda the mistake was that they didn’t buy more and buy bigger.

“I wish we had learned more about how to exchange smaller properties for eightplexes and learned more about apartment units,” she says. “If you’re going to do this, you might as well do it big.”

But what matters the most, she says, is that they did it.

“That’s the message I give people who are always waiting for the right time to do something,” she says. “Do it now.”

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

BILL O'KANE

Chicago, IL

Years Investing: 28

Number of Deals in 2004: 5

Career Deals: 50–55

Units Owned: 2,800 residential units and over 200,000 square feet of commercial space

Areas of Expertise: Rehabbing and repositioning; management; and investing in highly appreciating locations

Real Estate License: Yes



An investor's mindset is something that's built up over a lifetime. Many investors can look back on some moment in their childhood or some life-changing experience that shaped their outlook. For Bill O'Kane serving as an altar boy in his church taught him the lesson he believes all investors must learn: preparation can defeat fear.

"The priest made sure you knew the routine and knew what you had to do," he says. "So even though I was up there in front of a thousand people, I wasn't nervous at all."

Investing isn't that different, O'Kane says. It's doing your research, learning your market, and knowing exactly what to do when an opportunity comes your way that can conquer the new-investor jitters and ultimately lead to success. These days O'Kane is prepared for whatever the market throws his way. Since he borrowed half of the \$7,000 down payment and bought his first three-flat in Chicago in 1978, he's accumulated scores of multifamily units and one large office building. For O'Kane finding a good deal is a matter of negotiation and figuring out where everyone's willing to sacrifice.

"I've always enjoyed the art of the deal," he says. "One of my rules is that I always find out the other person's priorities and compare them to my priorities. If there's not a conflict there, you should be able to make a deal."

His ability to find a win-win solution is illustrated by the first "trophy building" he bought in 1986. It was a 31-unit apartment building with six storefronts, worth about \$1.2 million. However, the seller was demanding no less than \$1.4 million, a price O'Kane wasn't willing to pay.

"The negotiation was breaking down," O'Kane recalls. "But then they offered to loan me the \$400,000. That allowed me to get a \$1 million loan from a lender, and they actually gave me a check for \$400,000 at closing."

That building, which O'Kane bought for nothing down, is worth around \$8 million today.

O'Kane says another way preparation is key is in finding deals in the first place. O'Kane knows his market inside and out—"Almost down to the per-foot level," he says—and also knows where to go for financing. In fact, doing research to find investor-friendly lenders actually helps him find investor-friendly properties.

"When you find the lenders who want to work with investors, they will be a valuable resource on what's going on in the marketplace," O'Kane says.

O'Kane is a firm believer in the old saying about location. What he wants in a property more than anything else is that it be in the next hot area.

"There's an old line: 'Buy on the fringe and wait,'" he says. "I think properties appreciate the most when you buy them in a neighborhood that's going to 'pop' in a few years."

O'Kane stresses that it takes knowledge of the marketplace to know what the "new hot market" will be: a brand-new subdivision on the outskirts of town or a transitioning urban neighborhood. But no matter where it is and what is going on in the marketplace, O'Kane is adamant that there's only one good time to buy: now.

"It's kind of like a football game," he explains. "You take what the other team's defense is giving you. If they're shutting down a long pass, you go for a short pass. If they're letting you run, then run."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

WENDY PATTON

Detroit, MI

Years Investing: 19

Number of Deals in 2004: 30

Career Deals: Over 650

Units Owned: 39 (She's "trying to get down to 30 from the 175 owned in 2002")

Areas of Expertise: Lease options; subject-to acquisitions; and rehabbing

Real Estate License: Yes



When people talk about "creative finance," they're usually not talking about the way Wendy Patton got started in real estate. Patton used credit cards, and lots of them, to launch her investing career. As a recent college graduate burdened with student loans and earning an entry-level salary, Patton took advantage of the cash advances her numerous credit cards offered. She took cash advance after cash advance to put down payments on her ever-growing portfolio of rental properties.

"I still have my cards, and they stretch 50 feet long," she says. "Literally. I have them taped together to show people. That's what I thought 'zero down' meant."

While Patton's version of creative financing was definitely on the short list of what not to do, it did allow a 21-year-old woman with little knowledge and few resources to get started in the business. Of course, Patton's knowledge and resources quickly expanded as she threw herself into as many courses as she could find—she estimates she's spent \$50,000 on courses—and networked with the local investing group. In fact, they're the ones who persuaded her to make the leap and buy her first property.

It was 1985, and Patton had just graduated from college with a negative \$20,000 net worth when she moved from Colorado to Detroit to take a job with Electronic Data Systems. There was a housing shortage in Detroit, and so the company put her and many of her coworkers in a hotel for six months. But almost as soon as she got to town, she sought out the investors' group, which gave her the credit card idea. After a short stay in the hotel Patton bought a house and got two coworkers to move in with her. Each one paid \$250, which more than covered Patton's \$438 monthly payment. From there she just kept going.

"I bought three more rentals within four months," she says. "I really didn't know what I was doing, but I just did it. Everyone else was hanging out at bars on Saturday night, and I was painting my rentals."

These days Patton doesn't recommend running up six-digit credit card bills to buy property.

"I never went bankrupt, but there were many months when I was terrified I couldn't make the payments," she says. "It was a very, very, very dangerous way to do it."

However, she *does* recommend the other half of the strategy that got her where she is today: buying and selling houses on lease options. After all, most lenders would have considered her totally unqualified when she started out and was buying hundreds of thousands of dollars of property each year on a \$25,000 salary. By lease-optioning from an owner, she could skip the credit check and income verification, plus her payments would be lower than they would have been if she had been taking out a new mortgage. Then, when she had control of the property, she could turn around and lease-option it to a tenant, pocketing the difference.

"It's control without ownership," she says. "You're able to control these properties by using their equity, but without having to own or maintain them because your tenant is acting as the homeowner. When they improve the property, the equity increases, but you get to leverage that, not them."

In almost 20 years of investing Patton also tried rehabbing, land development, and commercial property but never found anything she liked as much as lease options, and now she's considered an expert by her peers. By 2003, the year after she finally paid off the last of her credit card bills, she had done more than 600 lease-option deals, primarily single-family houses. Now she's at the point where she's gotten so good at structuring deals that the next step is to do *fewer* deals, only the most profitable ones. However, one thing she won't scale back on is her desire to learn.

"I go to as many courses and seminars as I can," she says, "even now that I don't need it as much. I'm happy to spend \$1,000 on a person's course if it's going to teach me one tidbit, one idea that will make me \$100,000."

PORTRAIT OF A MILLIONAIRE REAL ESTATE INVESTOR

DON AND RYAN ZELEZNAK

Phoenix, AZ

Years Investing: 30 (7 years for Ryan)

Number of Deals in 2004: 6 office/condo buildings; 4 single-family homes; 3 condos; also building 12 office/condo buildings with over 1,400 units (they'll keep and rent 5–10% and sell the rest)

Career Deals: Thousands

Units Owned: 100,000 square feet of office space; 20 residential rentals; 70 acres of commercial land; 12 office/condo projects; 4 commercial projects; 2,500 lot golf community; and currently building over 1,400 residential homes.

Areas of Expertise: Real estate syndication (over 5,000 units in 70s and 80s); fix and flips (over 1,200); as well as foreclosures; wraps; lease options; and developing opportunity for clients.

Real Estate License: Yes



If you're good at what you do, eventually the business comes to you. That is how Don Zeleznak built not one but several businesses, finding and making real estate deals not in one but in two states, using different strategies.

In 1974 Zeleznak was a financial manager in Minnesota when he and his wife moved from their condo into a house big enough for them and their new baby, Ryan (now an investing whiz in his own right). But instead of selling the condo, they rented it out. A couple of years later, when they moved again, they did the same thing. Those simple decisions planted the seeds of a massive investment syndication business: Zeleznak found people who wanted to sell their properties and brought investors to the table. He crafted the deals, which eventually involved hundreds of units.

"We started small, and the deals got bigger and bigger," he says. "Over the course of that six-year period I probably had 300 investors, and we had syndicated about a hundred million dollars of residential deals."

Zeleznak quickly became a multimillionaire, and his phone never stopped ringing: everyone seemed to know that he was the go-to guy if you wanted to buy or sell. He also started a management company that eventually handled 5,000 units. But by the early 1980s Zeleznak was ready for a change. First, most of his syndication deals

involved people who used their investments as tax shelters, and he knew that the proposed tax laws would change everything. Second, the long Minnesota winters were starting to become a drag. In 1984 he sold it all and moved to Arizona.

“For the first year and a half all I did was play tennis and relax,” he says. “I was unwinding from a very busy six to eight years.”

But Zeleznak wasn't satisfied simply relaxing, and so soon he threw himself and his son into a new business, one he continues to this day: wrapping loans to nonqualified buyers and putting together wrap deals for other investors. It's a win-win situation, he explains. Investors make a profit, and people whose poor credit would shut them out from traditional financing finally can buy homes of their own. While the deals involve some risk for the investors and buyers, Zeleznak says most have very happy endings.

“Out of the 1,100 deals we've done, we've taken back about 47 or 48 properties on foreclosure,” he says. “So we have around a 4¹/₂ percent default rate, which is pretty good considering the types of credit issues these people are challenged with.”

One of the big advantages of wraps, he says, is that they aren't as labor-intensive. Besides working with Ryan to continue their mortgage wrap deals, Zeleznak has been focusing lately on developing and financing large-scale commercial deals, which are also less management-intensive.

“Remember, I was involved in rentals in a very big way in the Midwest and know the headaches that go along with that,” he says. “But how do you think people treat the property if they plan to own it?”

Zeleznak attributes his success with wraps, like his earlier successes, to an investor's mindset that allows him to see opportunity within calculated risks. It's not a mindset he believes everyone has, though, and he tells a story about his grandmother to illustrate that.

“She gave me \$10,000 to invest because that money was earning only 5 percent at the bank,” he says “I put her into a conservative mutual fund; she couldn't sleep at night because she had read all these articles about the downturn of the stock market.”

When he transferred her money into a bond fund, she started sending him articles about how the government was falling apart.

“That's when I said, ‘Grandma, it's time to put the money back in the bank,’” he says.

But for Zeleznak, who has the mindset, the skills, and the knowledge to recognize and act on a good deal, there's *no* good time to put money in the bank. Whether it's a rental, a rehab, or a wrap, Zeleznak and his son consider the possibilities and act.