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FEATURE: Investment Real Estate

Full Spectrum Real Estate

If you're selling only homes, you're shortchanging yourself and your clients.

BY MARIWYN EVANS

Tired of spending hours prospecting to find clients, more hours driving them around to see a dozen properties, selling them a great home, and then never hearing from them again? Sure you are, but what's the alternative if you want regular business in your pipeline? I have just one word for you — investors.

“Instead of buying one home from you every few years, you have investors who buy one or two a year, sometimes more. I recently had a client who bought a house from me, rehabbed it in two months, and then relisted it with me. Home owners only move every six years (according to NAR), but investors are repeat customers,” explains Tiffany Elder, sales associate with Realty Executives Southpointe in Durham, N.C.

That's why this MBA and former software engineer has focused her five-year real estate career on investor clients and these days does 90 percent of her business with investors, helping her rank as one of the top producers in her office.

“In five years, I'd like to have a business where I just work with 10 to 15 regular investors,” says Noel Schewe of Exit Team Realty in Minneapolis. “Investors continue to buy.”

Like Elder and many other investment specialists, Schewe got into real estate first as an investor. “In 2002, I bought five properties in six months, and all my friends started asking me for advice on real estate investing, so two years later I decided to make a career of it,” she says.

By developing the skills to serve clients who want to invest in real estate, not just live in it, you position yourself to serve the full spectrum of their real estate needs — and build a more consistent, more profitable business model for yourself.

“Hard real estate [as opposed to investments like REIT shares] tends to move in the opposite direction from the stock market, so it offers a better way for investors to diversify their portfolios than bonds or international stocks,” says Andy Keeler, a partner in Everhart Financial Group Inc. in Dublin, Ohio. Real estate investments also benefit from tax incentives such as depreciation and the ability to use 1031 exchanges, he adds.

Like many advisors, including those who consult with major corporate pension funds, Keeler believes that investors should have 5 percent to 10 percent of investment assets in real estate — not counting their principal residence.

“Every market at every time has its share of good investments. In fact, many smart real estate investors

recognize that there's more opportunity in a downturn than in a market upswing," says Gary Keller, founder of Keller Williams Realty International and co-author (with Dave Jenks and Jay Papasan) of *The Millionaire Real Estate Investor* (McGraw-Hill, 2005).

Know the Numbers

Convinced? So, ready, set, invest, right? Not quite.

"Working with investors takes a whole different mindset. Where a traditional salesperson will look first at location or amenities, I look first at the numbers," says Elder.

Running the numbers and knowing how to interpret them for clients are critical to selling investment property, says Joe Still, ABR®, CCIM, of Still Training in Tacoma, Wash. Three skills he considers critical for real estate professionals who want to work with investors are the ability to:

- Calculate an accurate income and expenses analysis. "You can't always trust the data in the MLS; you need to be able to review a rent roll and a budget to understand a property's investment value."
- Measure appreciation with the help of a financial calculator or spreadsheet. "In the last few years, most of the gains in coastal markets have been appreciation, not cash flow, so understanding the potential upside is critical."
- Understand the benchmarks, such as capitalization rates, cash-on-cash, and internal rate of return, that are used as metrics to evaluate investment property.

Training such as the education session "The Four Measurements of Real Estate Investments," which Still will present during the upcoming 2007 REALTORS® Conference & Expo in Las Vegas, as well as courses such as "Creating Value for Your Clients" from the Council of Residential Specialists and the CCIM Institute's "Introduction to Commercial Investment Real Estate Analysis," are great places to learn the basics.

Courses on investing, advanced business degrees, lots of reading, and the school of hard knocks are also valuable in preparing for an investor-oriented business, say real estate practitioners who work with investors.

And while the standard view of investment is that it's strictly a numbers game, the long-term, more consultative nature of working with repeat investor clients requires its own set of people skills, says Dr. James Grubman, a psychologist who's consulted extensively with the financial services industry on how to work with wealthy individuals. Because working with investors is a very technically oriented field, there's a tendency for advisors to jump in and start offering data and suggested solutions, says Grubman.

Instead, slow the pace of the conversation and listen. "Make room in the conversation for the client," he says. This approach not only helps you avoid providing premature, possibly incorrect advice but also lays the groundwork for trust. "One of the biggest components in building trust is communication," he says.

A Consultant, Not Just a Deal Maker

Building trust and adopting a more consultative method of work with clients are hallmarks of serving investors on a long-term basis. "I've found quite a few clients who mistrust real estate practitioners. These clients are looking for someone to help them build wealth, not just sell them something," says Chad Dixon, ABR®, CRS®, designated broker with Hearth & Haven in Chandler, Ariz.

Like many real estate professionals who work with investors, Dixon begins a new client relationship with a one-to-three-hour in-person consultation (by phone with out-of-state clients). “You have to understand clients’ expectations, what they want to accomplish, and what their tolerance for risk is. You also have to help them understand that real estate investing isn’t a get-rich-quick scheme,” he says.

Matching clients to an appropriate financing program is another critical consulting service, says Ed Lorenzo Jr., sales associate with Realty Executives Orlando South, who does 40 percent of his business with investors. “Investors often don’t understand the impact that financing can have on the sustainability of an investment. I try to explain the options in simple terms; I don’t use a lot of spreadsheets calculating return on investment,” says this MBA.

“Sometimes part of your advisory role is to keep investors from doing something too quickly and making the wrong investment. At other times, it’s to get the perpetual researchers to just buy something,” says Schewe.

To help educate both real estate professionals and consumers, she has founded the Minneapolis Real Estate Investment Association in 2005. The approximately 100 members — composed of both real estate professionals and consumers — meet two or three times a month to hear local speakers on subjects ranging from 1031 exchanges to hard money lending. While she has found some clients as a result of the group, her primary focus is knowledge building.

Finding and Keeping Investor Clients

Investment clubs — either joining one or starting your own as did Dan Forbes, CRS®, GRI, of Premier Team in Bradenton, Fla. — are a great way to both inform consumers and find new business. Forbes’ year-old Bradenton Real Estate Club now has some 80 members who pay an annual fee and meet weekly to network. So far, Forbes has gained seven clients from the source.

Other practitioners, such as Dee Statham of Homeowners Consultants Inc. in Elliot City, Md., have gained valuable knowledge and clients by joining existing real estate investment clubs. For Statham, the Mid Atlantic Real Estate Investors Association not only netted her some 14 clients but also taught her how to think like an investor. For example, says Statham, she advises her buyers who plan to renovate and resell never to pay more than the maximum allowable offer — 70 percent of the after-repair value, less the actual cost of repairs.

Since the full-spectrum real estate approach involves assisting clients with both investments and home ownership, one way to locate investor clients is to team with a top residential salesperson.

That’s what Jay Michael, president of Estate Properties in Chicago, did. Michael focuses only on high-end residential properties, but he found early on in his five-year real estate career that “a lot of our residential clients were already making bite-sized real estate investments (condos, for example) and were looking to us for help.”

To offer clients the commercial expertise and develop deals for larger residential and commercial properties in the \$500,000 to \$5 million range, Michael teamed up with childhood friend Alex Samoylovich in 2003. Now the pair both locates individual investments for clients and creates passive joint venture investments for members of their Urban Investment Group.

“There’s definitely a void in the market for investors who want to buy properties between the smaller residential properties and institutional-level properties,” says Samoylovich.

Referrals and out-of-state buyers are another prime source of both home buyers and prospective investors. One practitioner who — at least for the time being — is on the receiving end of many of these referrals is Realty

Executives Southpointe's Elder. She gets regular calls and referrals from California and even Australia.

"Salespeople there don't want to let their investors get out of the habit of buying real estate, so referring them to another part of the country is a good strategy," says Elder. Someday, she says, the North Carolina market will slow and she'll be referring clients to California. "Real estate is always cyclical," she says.

Elder gets referrals through her own contacts, other Realty Executives franchise members, and lately from her membership in the [National Association of Residential Real Estate Investment Advisors](#). This agent referral network, which was founded in 2004 by Las Vegas real estate practitioner Sean Brown of Realty Executives in Henderson, Nev., operates as both a referral network of prequalified real estate practitioners with investor clients and an online resource where the same practitioners can post reports on market conditions in their areas.

Sales associates earn a referral fee, with a small percentage going to NARREIA. Brown began developing the idea for the network when he was looking for a way to help his own investor clients get geographic diversity in their investment portfolios. "Even in a softening real estate market, there are dozens of markets where you can still find properties with positive cash flow," he says.

Sometimes, finding new clients or keeping the ones you have requires casting a wider net — like Mark MacKenzie, ABR®, CRS®, of Mark MacKenzie Real Estate Planning LLC in Phoenix. After building a "decent client base of mom and pop investors," he found that the only way he could find properties with positive cash flows was to look beyond his market area.

He's now licensed in New Mexico and Oklahoma as well as his native Arizona and regularly reviews NAR statistics, MLS inventory reports, and pending sales numbers to spot opportunities. He also travels to check out investments first-hand.

MacKenzie, who's the author of *The New Gold Rush: Real Estate* (Fortune Publishing Company, 2003), favors an investment strategy that uses interest-only loans with a five- to seven-year fixed rate. "Appreciation is a fantastic byproduct, but the interest-only loan allows my clients to build maximum cash flow and get a higher return on their 10 percent to 20 percent equity position," he says.

A turnkey solution for investors looking for greener pastures has also helped Wendy Patton, a broker with Majestic Realty in Clarkston, Mich., find and keep her investor clients. Patton, the author of several investing books, including the new *Making Hard Cash in a Soft Real Estate Market* (Wiley, 2007), with partner Justin Ryan, provides her investors with the opportunity to buy at preconstruction prices. She hires researchers to ferret out up-and-coming markets and then takes on groups of between 75 and 150 investors at a time to view and purchase properties in a locale.

Tax attorneys, CPAs, and a 1031 exchange mediator are also on staff to facilitate the investing process. This fall, she's planning her first tour for real estate practitioners to acquaint salespeople with the opportunities she sees for their clients in Biloxi and the Mississippi Gulf Coast markets.

"Investors have a tendency to want to buy where everyone else is buying instead of where there are emerging opportunities. We try to find the markets with positive dynamics and upside potential," she says. "That's how real estate professionals add value for investors."

Serving the Full Spectrum

So whether you want to develop a full-blown investor strategy like Patton or simply expand your business model to help your clients build wealth through real estate, there are clients out there eager for your advice.

“If you don’t take the opportunity at the closing table to ask home owners who’ve just bought a home from you if you can set a time to talk to them about their real estate investment portfolio and how they can build wealth, you’re missing a great chance to extend your business,” says Keller.

Making Life-Long Advising Pay

The most obvious way that having long-term relationships with investors pays is by generating repeat business and thus multiple commissions from the same client. But as the consulting model gains traction, will residential real estate practitioners also be able to charge for advice rendered?

Maybe, says Harvey Green, president of California-based Marcus and Millichap Real Estate Investment Services, at least if the commercial real estate sector is any indicator. Increasingly larger commercial investors want objective, arms-length opinions on rents and property value and are willing to pay retainer fees to commercial brokers to provide advice, says Green, whose company operates in 30 states and specializes in commercial real estate investment sales.

At some point, individual real estate investors may place the same value on objectivity. Another driver, just as in residential real estate, is that so much more property data is now available on the Internet, the true value commercial practitioners often provide is interpreting that data, a more consultative role that warrants compensation, says Green.

But for the most part, the idea of paying for advice just hasn’t caught hold in the residential sector — at least not yet.

“I know it’s a cliché, but I feel that I’m in this for the long term, and my business is based on relationships. If I provide service now, it sets me apart and will come back to me in referrals,” says Cynthia Leggitt of RE/MAX Elite in Chandler, Ariz. Still, she says, she’s had clients — many of whom are sitting on the sidelines in the slowing Arizona market — offer to pay her for the services she provides.

Another option is to charge an upfront consulting fee that’s rolled into the commission when a client makes a purchase. That’s how Chad Dixon of Hearth and Haven in Gilbert, Ariz., has structured his work with investors, to the tune of a \$1,000 retainer fee. “It’s a way to eliminate the casual investor from the serious one, more than a revenue source,” he says.

Perhaps the ultimate manifestation of the real estate practitioner as investment advisor for a client’s total real estate holdings is embodied by a new business model launched by Helen Pastorino, president of Pertria, a start-up real estate investment firm in Los Gatos, Calif.

Although she spent some 30 years in real estate, including a stint as a cofounder of Alain Pinel, REALTORS®, Pastorino and her 20-person group are convinced that real estate buyers want a one-stop source of advice on real estate investing. “We see ourselves as the mirror image of the money manager or financial advisor, only in real estate,” says Pastorino. To be sure its all-broker staff is up to the challenge, the company provides 29 weeks of training on everything from taxes to forming legal entities for investing.

She’s also mirroring the financial sector in basing compensation on gains in asset value. For example, she says, “If I show a client how to have a property reevaluated and save him \$20,000 a year in property taxes, I’ve increased the property’s cash flow and value. I base my fees on a percentage of that added value.” These days in real estate, “the advice is the value, and the execution of the transaction is the sidebar,” says Pastorino.



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