

“Special Report”

The 9 Most Expensive Real Estate Mistakes We’ve Made

By Rick Wheat & Jeff Kaller

You know, Jeff and I have been around the Real Estate block a few times. We have over 30 years of investing experience between us, and have bought several hundred single-family homes and hundreds of millions of dollars of Commercial Real Estate. While we were doing that, we were also training tens of thousands of students to do the same.

In that period of time and with that amount of volume, it’s impossible to have done it without making a mistake or two. We have to admit we’ve had our share, and probably, since we’re both Type “A” personality males full of testosterone, we’ve made enough mistakes for an entire group of investors. Many of them were insignificant, others were so incredibly expensive it’s hard for most people to imagine.

Jeff and I were sharing old Real Estate war stories over a couple of cold drinks recently, and the topic of mistakes came up. As we described our various battle scars to each other and the pain each of them caused us, we realized we had learned quite a bit from our mistakes as well as from the mistakes of others.

That’s when we decided to make a few notes and ultimately to write this Special Report with the expectation we would produce it to allow others to learn from our mistakes, saving them the blood, sweat, tears, and pain (emotional and financial) that we had endured. If just one of our students benefits from this it will be well worth the effort.

We’re going to start off by simply listing what we determined were our 9 most expensive Real Estate mistakes. We’ll then follow up with a more detailed explanation each one, discussing what happened, how much it cost us, and what could we have done to prevent it. We suggest you pay very close attention to that “Prevent it” part.

Here's our list...

1. Not getting started earlier in Commercial Real Estate
2. Choosing the wrong JV partners
3. Focusing on properties with no cash flow
4. Failing to delegate
5. Spending too much on properties
6. Not treating property management like a business
7. Not constantly working on raising capital
8. Listening to the wrong people
9. Thinking about giving up

#1 Not Getting Started Earlier in Commercial Real Estate

Jeff and I both started our own Real Estate careers back in the early 90s. As is the case with most investors, we did our first couple of hundred deals concentrating strictly on residential properties. We never even gave much thought about looking into Commercial deals.

We always thought of Commercial Real Estate as the big shopping malls, skyscraper office buildings, huge land developments, and the fancy hotels like those we stayed in while we were touring the country teaching. The fact is we never considered looking into Commercial properties because they petrified us. Fear was keeping us from taking a look.

We had our own comfort zone that was very profitable for us, and the seemingly complicated transactions, and the sheer number of zeros kept us away. Little did we know, (because no one was there to lay it out for us), that investing in Commercial Real Estate didn't have to be complicated or scary.

When boiled down to their simplest components, Commercial deals were not much different than Residential deals, they just had a couple of additional zeros added to the end of the checks. Many of the same strategies and techniques were exactly the same. In most cases, we were dealing with people, and people tend to act and react in the same manner regardless of the situation.

Now it feels like we have pulled back the curtain and found the mighty Wizard of Oz was really a little old man, and definitely nothing to be afraid of. We're certainly not afraid jumping into Commercial deals anymore and our only regret is not having done it sooner. Had we done so, there's a very strong probability our personal financial statements would also have two or three more zeros added to the backend of our net worth figure.

The good news for us is that we have "Seen the Light", and are rapidly pursuing the once-in-a-lifetime opportunities Commercial Real Estate presents right here, right now. We can't think of a better place to be, knowing what we now know.

Here's the good news for you... you have someone willing to sit down and explain the concepts to you. You have someone to act as a guide and help navigate you through unknown and uncharted waters. Jeff and I are there for you, to answer your questions, to offer suggestions you may not have thought of, to keep you from stepping on the land mines (real or imagined) you will encounter when dealing with Commercial Real Estate investing.

As a matter of fact, there are even opportunities where we can work directly with you on your deal, teaching you as we go, and help you bring it to a successful conclusion. We'll talk more about that later.

#2 Choosing The Wrong Joint Venture Partners

Because most Real Estate investors are humans, they enjoy the social aspect and the interaction of working closely with others. That's the reason a sizable number of investors who are just getting started decide to jump into a partnership with someone else. Many times that partnership can be very successful. Most of the time it isn't.

Jeff and I have both had very painful, very, VERY EXPENSIVE partnerships throughout our Real Estate life. I know Jeff has been involved with others who have not followed through like they said they would. People who expected much more than their "Fair Share" or what was agreed upon, and who didn't complete the tasks they were given.

I can personally think of one situation where a single bad partner cost me over \$250,000 and nearly cost me my wife and family. The emotional scars from that single situation still haunt me today. Another example that comes to mind is a joint venture where the parties didn't agree upon what their part of the bargain was, or kept changing the deal. There was never a clear concise determination of who was supposed to do what, in return for what compensation or percentage of the profit. I ended up leaving the partnership, along with my sizeable portion of equity in (13) multi-million dollar properties.

Except in cases where the partner is immoral, deceitful, unscrupulous, and for lack of a better word just crook (and we've both had a couple of those, too), most of our partnership problems could have been prevented with simple written agreements. A meeting of the minds as to what was expected between the parties, in writing, covering as many aspects as possible, as well as any "What ifs", would have done wonders to prevent misunderstandings.

Since we both had our expensive and painful experiences, we've made it a point to be very careful who we get involved with. If your partners don't contribute something substantial to the project, there's no reason to have them involved. If they give you any reason to question them, beware. Our "Sixth Sense" or intuition has become like our early warning radar, alerting us to potential dangers and we've learned to listen to it much better nowadays.

We've also become much better in making sure we have written agreements in place to document our expectations. While it doesn't solve all the problems, it really does alleviate many of them. Each time a new problem arises, we analyze it and figure out what we could have done to prevent it. We then incorporate a preventative measure into our agreements, thereby learning from our mistakes and minimize the chances we'll repeat them.

We recommend you be very careful when getting involved with Partners, and use the proper documentation when you do. Bottom Line – Joint Ventures and Partnerships can be a GREAT opportunity where EVERYBODY profits. Just be sure you're connecting with the right ones who are looking out for your best interest as well as theirs.

#3 Focusing On Properties With Little Or No Cash Flow

It certainly isn't by accident that the "Sweet Spot" Commercial Deals Jeff and I promote these days have a couple of very important components that separate them from other investment vehicles. This lesson was learned from personal experience having been personally involved with a major acquisition Company that did not include those components in their business model.

The company focused almost exclusively on Raw Land acquisitions, believing they provided the greatest potential profit, (which, in fact, it did). The problem was that during the entire time leading up to the sale or lease of completed lots or parcels, it was all outgo and no income. That company is now suffering major financial difficulty in the two years since I left, and if it does manage to survive I'll be stunned.

Unless you have incredibly deep pockets and don't mind that it could be years before you start realizing a return on your investment, land development is a place you may want to avoid. That's why Jeff and I have focused our efforts in Commercial property on deals that have at least these two things in common – a) They are IMPROVED properties, (better known as buildings); and b) they are currently generating some amount of revenue, or at least they could be within a matter of weeks not years.

Without cash flow, without income of some sort, it quickly becomes very expensive to maintain operations. It is absolutely, positively critical that your projects either generate enough revenue to cover their total operating expenses and debt service, or that you have planned accordingly for the negative cash flow.

Maybe you've set aside some cash reserves to cover the shortage, or maybe you have an equity partner providing the carrying cost until the project becomes stabilized. One way or the other, it's a very important consideration keep in mind.

Jeff and I are constantly looking at defaulted or distressed Commercial properties that are totally vacant and need extensive rehab before they can be occupied. If we were to buy them without an exit strategy on how to get them generating revenue fast, we could quickly find ourselves in serious financial straits.

There are ways to make those properties profitable, to turn them around and get them stabilized. In fact, those can often be some of the best deals out there because they're just too challenging for most investors to undertake. The trick is to be very careful when getting involved with properties like these unless you've got a bulletproof plan in place for covering the revenue shortfall before you close on the acquisition.

#4 Failing To Delegate

We don't know about your particular personality, but based on the tens of thousands of students Jeff and I have taught all over North America, we've got a pretty good idea about who you are and how you think. In fact, you're probably quite a bit like us. See if the following description sounds a bit familiar.

You have a strong desire to succeed. You realize there's something better than what you may be doing at this moment, and aren't satisfied with the status quo. You're driven to find something that will allow you to accomplish your goals and fulfill dreams. You're willing to explore options and alternatives some people would hesitate to consider.

You often feel like if you want a job done right you simply must do it yourself. Since no one can do the job as well as you can, you have a difficult time relinquishing tasks and giving people authority to act on your behalf. You may even be guilty of giving people responsibility for things without giving them the authority to act. You know what? You just need to get over it!

Only in very rare circumstances will you find someone who is truly successful who hasn't also relied on the efforts of others. Even though you hear quite a bit about it, there are really very few "Self-made" men or women. Virtually every successful individual has learned the valuable skill of proper delegation. Using the Highest and Best use of their time.

Trying to be a "One Man/Woman Show" can be very costly. In Real Estate investing, even if you could do it all yourself (finding, fixing, maintaining or selling your properties), you'd actually be paying yourself the going rate for those particular trades. For instance, if you're cleaning out or rehabbing a house, you're working for the wages a cleaning person, laborer, or handyman would receive. We strongly hope you're not satisfied with that compensation plan.

When you learn to leverage your time, energy, efforts, and possibly most importantly your knowledge, you'll accelerate your success for more rapidly than you could possibly imagine. The day you learn how to get others to provide you with what you need so that you can concentrate on other more important tasks could conceivably be the day you set yourself free from the limitations you've imposed upon yourself.

Jeff and I have both learned that valuable lesson called delegation, and we currently have many people working with us, doing things we could do (but shouldn't), so that we can focus on the things that only we can do well. Creating a Team and delegating the prospecting, data collecting, managing, maintenance, marketing, and most of the other duties involved in Commercial Real Estate allows us to concentrate on the two things for which we're best suited... structuring offers and raising capital. Period. You should structure your business the same way.

#5 Spending Too Much On Properties

Believe it or not, Jeff and I can show you how you can find an absolutely endless supply of Commercial investment properties just waiting for you to make offers on them. In fact, the entire seminar on this topic would take no more than a couple of minutes. Although we probably could charge you for that information, because we love you we'll give it to you **FREE!**

You might want to get something to write on and to write with so that you can take down this important concept. We'll give you a moment... okay, are you ready to find out how to get an unlimited supply of Commercial deals? Here you go...

Pay Too Much For Them.

There you go, end of seminar. You can get all the deals you want by paying anywhere close to full market value. By spending too much on the property, you reduce or remove a high probability of generating a good profit. We've both seen examples of investors wanting a deal so badly they could taste it, and they wound up paying for too much to buy the property for the numbers to make sense.

You are living in the absolute best opportunity to buy Real Estate in our lifetime. In today's market, there are more deals, really GREAT DEALS than you can shake a stick at. You certainly do not have to take a deal just because it's there. You need to be very careful about becoming emotionally attached to a property and proceed with it because of the time invested.

That's the main reason Jeff and I are focusing our efforts on defaulted and distressed Commercial deals. We don't have to worry about making sure the property appreciates with the market, because we're buying it at well below market value from the beginning. The properties we look at are great deals if the market doesn't go up at all, or even if it goes down a bit further.

When we buy a property at a strong discount, and then we add value to it in the form of substantially improving the condition or the operations, we've created an incredible "1-2 Punch" that virtually assures the project's success. If the market goes up, that's icing on the cake, but we certainly don't base our acquisition on that happening.

An important part of the process is learning how to sift and sort through the various "Suspects" to get to the "Prospects", then concentrating your time on those. It isn't really hard to do once you understand some of the guidelines. It's took us quite a while to create them, but it won't take you nearly as long to learn them now that we've done the work for you. If you follow our guidelines and have others do much of the legwork for you, you'll quickly find yourself with several great opportunities to act upon.

#6 Not Treating Property Management Like A Business

When Jeff and I got to this topic, we were both a bit embarrassed. We each had to admit that we had been far less than professional or businesslike when dealing with tenants and managing our properties. The main reason was that especially early on, we were managing the properties ourselves and allowing our emotions and personalities interfere.

If you've been involved in Real Estate investing for any appreciable amount of time, and if you've had any rentals or lease option properties under your control, you probably made some of these same mistakes as well. You let your better judgment take a back seat to gullibility, anger or sympathy, and let people do things that cost you dearly, or let them get away with *NOT* doing something they were supposed to do.

When you only have a few properties you're controlling, it might actually be manageable for you. But when the number of units gets into the 2, 3 or 4-digit figures, it can spiral out of control very quickly. That's where professional management comes in.

A lot of new or untrained investors think they can't afford professional property management. What they don't realize is that in most cases professional management actually provides for greater profitability than when you do it on your own. Think of it this way if you have a medium-to-large Real Estate portfolio... do you want to take the time and spend the money to learn all the rules, regulations, and techniques to effectively manage your properties, or should you let the trained professional do it for you?

We draw the analogy of performing your own brain surgery. It may be possible to have a successful outcome from the operation, but it's much more likely the patient (you) will have less than stellar results. The point is that professional property management is as much an operating expense as utilities, accounting, marketing and all the others.

When we were creating the guidelines for our "Sweet Spot" Commercial Deals, we knew we had to include that the property must allow for professional management. As we mentioned in a previous section, by delegating this component of the deal you allow yourself the time and energy to focus on other things you can't delegate, namely structuring offers and raising capital.

Take our word for it and give professional property management a try. You can thank us later.

#7 Not Constantly Working On Raising Capital

We've been trying to pound home our message about focusing on the things only you can do and delegating everything else. One of the most important things Jeff and I work on in our respective businesses is raising capital. After all, the more capital you have available, the lower your standards can be on what qualifies as a "Real Deal".

Just think of it, if you had unlimited funds, if the well from which you are drawing your capital was bottomless, you could buy every piece of property on the market regardless of price. Because there is rarely a time when there is no end to the capital, you must then establish priorities, focusing on those properties at the top of the list and working your way down.

We are constantly on the search for capital and available resources. We "Get it". We realize that many times it isn't the cost of the capital but the availability of it that means the difference between participating in a successful transaction and watching a great deal go by the wayside. That's why we're very good to our lenders and equity partners, for we know without them we would not be nearly as successful as we are.

We also understand that although it may appear to be expensive at face value, it really may not be. Here's an example – a project we can acquire for \$1 million that with a little time, expertise, and additional capital outlay could be turned into a \$2 million deal within six months. If we need \$1.2 million to complete the project and we can fund that without spending a single red cent of our money by using private lenders, hard money lenders, or equity partners, what would that be worth to us?

Should we consider paying those funding sources a much better return than an institutional lender would charge in order for us to do the deal? Let's say in this instance we borrowed \$1.2 million and we agreed to pay our funding source a 20% annual return for the use of their money. At the end of six months when the project was stabilized, we refinanced it using cheap institutional money, and paid off our original source.

What we're looking at is the opportunity to potentially generate \$800,000 equity. Our cost to do so was \$120,000, which equates to \$1.2 million borrowed, times 20% annually for one half of the year. How many of you would spend \$120 to make \$800? Hopefully most of you.

Not only that, but you're not even really talking about our type of funding sources being that much more expensive. Institutional lenders (if you can find them that will originate an acquisition loan) are going to charge you something (maybe in the range of 8% - 10% annually). Yes, we can afford to pay our lenders double that, because it's only for a short period of time. We're always looking for people interested in making good money with minimal involvement.

#8 Listening To The Wrong People

One of the things Jeff and I struggled with early on, along with many of our thousands of students, is the mistake of listening to the wrong people. It doesn't really matter how well meaning or well intentioned their advice might be, if you choose to follow it you could suffer tremendously by not following your instincts or giving up on your dreams.

Many of those well-intentioned but just "Flat wrong" individuals share your last name. It makes perfect sense that people who have never been successful are simply not qualified to teach you what to do or not to do to become successful in your own right. A wise old Real Estate guru taught both Jeff and me "Be careful to whom you listen". He was absolutely dead on with that bit of sage advice.

The only ones truly qualified to teach you the path toward true success, whether it's in Real Estate investing or any other aspect of your life, are those who've already been down that path before you. They've made the mistakes and have the battle scars to prove themselves worthy of offering the advice, and you should seek out the ones who will share it with you at every opportunity possible.

Both of us have spent incredible amounts of time and money to acquire the knowledge and experience we possess. We are both "Education Junkies", and search for additional insight about our chosen fields at every available opportunity. Rarely does a three or four month period go by when we're been involved in an advanced learning opportunity of one form or another.

We understand that if we just walk away with one or two nuggets of insight we didn't have prior to the training, we can pay for that training many times over. One new concept, one new tool added to your toolbox or a new weapon added to your arsenal could produce incredible results that would be hard to quantify but it would never be realized had you not been taught the technique.

We realize that the best way for us to become incredibly successful is to help as many people as we can become successful themselves. Whether you consider it to be "Karma", "The Universe", "the Law of Reciprocity", or whatever you want to call it, it's absolutely the fact.

What really keeps us "Pumped Up" are the success stories of our students. Yeah, the money's not too bad as a side benefit, but knowing we changed and improved the lives of others is really what drives us relentlessly. We would love to include you in that group of people whose lives were touching and who also enhancing ours.

#9 Thinking About Giving Up

Don't know about you, but I've got inspirational plaques, posters, photos, postcards, and anything else I can get my hands on scattered all around my office, and I know Jeff does as well. Some of those talk about teamwork, maintaining high quality standards, or several other viable qualities to have, but the ones that I really gravitate toward what those that talk about "Determination". About never giving up.

I'll remember as long as I live the day my mom picked me up from 7th-grade football practice. It had been a very long, hard afternoon, especially for a little scrawny guy going up against much larger, faster, skilled players trying to make the team. As I was getting in the car, the coach approached us. He mentioned to my mom that he wasn't sure if I was going to make the final cut or not, but in all his days of coaching he had rarely seen someone as determined as I was to play. He recognized I was going "All Out" then, and I still do that to this day.

If you stay in this business any length of time you be faced with difficulties. Trials and tribulations. Frustrations that will cause you to want to pull your hair out. Sometimes they may get so bad you want to throw in the towel and give up this business.

Please allow us to give you one bit of advice..."Don't Do It". Don't give up. Don't let circumstances get the best of you. You'll find that true success rarely comes without some failure along the way, but in our mind and those of the truly successful you're not judged to be a failure by the number of times you get knocked down, but by the number of times you get back up.

We're going to leave you with a few inspirational quotes that we really take to heart. We hope they guide you to be determined and to persevere when times get tough, so that you can celebrate when the rewards come your way... and they will!

"I do not think there is any other quality so essential to success of any kind as the quality of perseverance. It overcomes almost everything, even nature." – John D. Rockefeller

"Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful people with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan "Press on" has solved and always will solve the problems of the human race" – Calvin Coolidge

"If you set goals and go after them with all the determination you can muster, your gifts will take you places that will amaze you." – Les Brown

"Failure will never overtake me if my determination to succeed is strong enough." – Og Mandino

"The difference between the impossible and the possible lies in a man's determination." – Tommy Lasorda

"A man can be as great as he wants to be. If you believe in yourself and have the courage, the determination, the dedication, the competitive drive and if you are willing to sacrifice the little things in life and pay the price for the things that are worthwhile, it can be done." – Vince Lombardi

And Finally, one of our very favorites...

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly; who errs and comes short again and again; because there is not effort without error and shortcomings; but who does actually strive to do the deed; who knows the great enthusiasm, the great devotion, who spends himself in a worthy cause, who at the best knows in the end the triumph of high achievement and who at the worst, if he fails, at least he fails while daring greatly. So that his place shall never be with those cold and timid souls who know neither victory nor defeat." – Theodore Roosevelt

We hope you are among the daring souls who give it your best, and never let defeat have the final word!