

WHY MOST REAL ESTATE INVESTORS FAIL

by *Don H Konipol*

A. TO REACH THEIR GOALS.

B. TO PRODUCE ADEQUATE RETURNS FOR THE AMOUNT OF TIME AND MONEY INVESTED

1. Concentration on technique (lease option, subject to, foreclosure, etc.) rather than on property

Most investors new to real estate get mesmerized by a technique for acquiring control of real property and or a technique for turning a quick profit. These “techniques”, often taught by “gurus” at \$5,000 - \$10,000 for training, workshops and tapes, emphasize no need for extended time and financial commitment (lease option, subject to) or emphasize quick turn profitability (foreclosures, flips, over financing). These are analogous to the technical or chart reading aspect of stock market investing; it doesn’t matter what property you find, just apply the technique.

The truth is that any of these techniques can be successfully utilized given the right set of circumstances. However, they are applicable in only a very small percentage of cases, and usually after an extended negotiation or as an afterthought to the property acquisition process. Successful real estate investors concentrate on the **property** itself rather than on a specific technique. This not only allows the investor to concentrate directly on where most profitability resides, but also opens a much wider array of potential “deals” for the investor to consider. Further, the investor can concentrate on the much more reliable profitability formula of “adding value”, rather than on the more suspect and ethically questionable formula of finding a naïve individual to work the other side of the real property transaction.

2. Plan on doing many deals each with a small amount of profit rather than a few deals each with substantial profit

Many investors both experienced as well as new are thrilled with a small (under \$10,000) profit on each deal. Since unexpected expenses always seem to creep up when least expected in real estate investing, the actual profitability of these transactions range from half the expected profit to no profit. In order for the investor to earn enough income to warrant the time commitment, monetary commitment and risk involved, he would have to participate in a large number of deals annually. And since it always takes many negotiations to produce a single deal, and many property inspections to find a single property worth negotiating on, real estate *investment* will become a full time real estate *business*. To be sure, there are people who successfully play the low profit high numbers game; most Homevestor franchisees come to mind. But if working 70 plus hour weeks and buying, rehabbing and selling 50 plus properties per year sounds like a worse life than the corporate world you’re trying to leave, you probably want to find a different approach.

In my many years investing in real estate, financing real estate ventures, and observing successful real estate investors, I have come to the conclusion that participating in a small number of highly profitable transactions not only produces more monetary success but also leads to a much more leisurely, less stressful and more satisfying experience. I personally don't believe any serious investor need look at any transaction with less than a \$50,000 profit, with the goal of eventually only considering deals with a \$100,000 plus profitability. If you don't think these kind of deals are available, then read 3. Below.

3. Working in a crowded arena (single family homes) rather than an area with less competition and more opportunity (commercial)

From real estate investment seminars to real estate investment clubs to the proliferation of how to real estate books for sale, one would think that the single family home is the only property type available. And with the tens of thousands of new real estate investors as well as the invent and expansion of the franchised rehab businesses, the single family home as a real estate investment has become a very competitive and crowded field. Whereas just five years ago a homeowner needing to sell his home had very few and limited options if the home needed major repair, he now has a much larger market demand to sell into. The homeowner can sell to a much larger choice of investors interested in purchasing his home, he can obtain refinancing money to repair his home even with credit scores so low they would not have even been considered five years ago, or he can auction his property and probably receive a cash offer at fair market value. All this has made finding a below market priced single family home investment like finding the proverbial needle in a haystack.

Rather than competing in the crowded and overly competitive single family home residential market, with its limited profit potential and heavy time commitment, real estate investors would have geometrically increased chances for success if they spent the same time and energy learning about the various areas of commercial real estate. Not only is this field significantly less crowded and significantly less competitive, but the real estate investor is able to earn significant returns on far fewer transactions. To be sure, there are tens if not hundreds of types of commercial properties and transactions; the successful real estate investor will educate himself with a good overview and then decide on an area of concentration. Rather than waste time fighting for the left over scraps in the single family residential market, the investor can be breathing the rarefied of the commercial real estate market.

4. Having no sustainable plan

"I want to make a lot of money" is not a sustainable business plan. "I want to specialize in foreclosures, lease options, and subject to" is not a sustainable business plan. "I buy property for cash or terms" is not a sustainable business plan. Enough said. If you don't know how to develop a workable plan for real estate investing buy a book on business plans, take a small business administration course, or better yet attend my seminars and workshops.

5. Trying to do deals with no equity contribution

Yes it's possible to purchase real estate with no money. Yes it's possible to flip properties for large profit with no investment. Yes it's possible to option property for \$100. That being said, it's infinitely easier to successfully participate in real estate transactions when you as a real estate investor have an equity contribution in the deal. When you put some money in a deal three great things begin to happen. Conventional lenders become interested in financing your transaction and 20 % hard money or 30 % equity share becomes 6 % conventional financing. Sellers, especially institutional sellers, take you seriously and are willing to sell their property at large discounts. And outside investors become attracted to your deal syndication and limited partnerships. Life becomes easier and much more profitable.

Don H Konipol is General Partner of Managed Mortgage Investment Fund LP, a private investment fund that provides short term, high interest, asset based financing for commercial and residential real estate investments. These loans are used when conventional financing is inappropriate or unavailable. Don can be reached at dkonipol@yahoo.com or 832-577-8838.