

miniature-golf course before it could be demolished, plus the other investor turned out to be more trouble than he was worth. In 2004, Bone gave up and sold at a loss. The misadventure taught her to think twice before her next purchase. "I fell in love with an idea," she says ruefully.

## KNOW WHO'S PAYING

**Y**OU COULD SNAG a property at what appears to be a give-away price and still fail to make money because you can't keep tenants, or you have tenants who aren't worth keeping. Pamela Candler learned this lesson from her own nightmare of an investment.

Early last year, Candler, 36, of Springdale, Ark., bought a two-bedroom house at a foreclosure auction in a low-income section of Kansas City, Mo., where she had once lived. She paid \$18,000 cash and spent \$3,000 on repairs. Although she subsequently cut the rent, the house has been empty the entire time Candler has owned it, and she has hired a property manager to find a tenant who is interested in renting with an option to buy. On top of that, Candler says, she's had frequent vacancies in another of her Kansas City houses. Much of the problem may stem from being an out-of-town investor, says Candler, who is ready to sell her properties and swear off being an absentee landlord.

As Candler's experience shows, you need a system for finding reliable renters. At the very least, pay for credit checks on potential tenants and see if they have any outstanding judgments in the local courts for unpaid rent. If you just put up a sign expecting the perfect tenant to walk through the door, you're dreaming.

## HAVE AN EXIT STRATEGY

**F**LIPPING is yesterday's news. If you fantasize about buying something—anything—and quickly unloading for a fortune, keep in mind that the pros predict that val-

ues may be peaking. Better to think long term. How long? Some experts say a minimum of three to five years, which should be long enough to ride out a possible downturn.

The ideal exit strategy is to be free to wait for as long as it takes to get the price you want. In 1976, Jim Scott of Mojave, Cal., and his father paid \$30,000 cash for ten acres of almond trees and desert at a Los Angeles County crossroads called Quartz Hill, in the Antelope Valley about 75 miles north of L.A. Over the years, Scott rejected several offers that he considered paltry before finally accepting one last winter for \$750,000.

Scott, now 54, regrets that it took 29 years to sell the property and that his father, who died in 1988, wasn't around for the payoff. "I envisioned selling it a lot sooner," he says. Moreover, the 12% annualized return, although satisfactory, is slightly less than he could have earned, and with fewer headaches, in an S&P 500 index fund. Still, Scott is content because he, not the short-term fluctuations of the markets (real estate or stock), determined the ultimate outcome of the investment.

## MAKE SURE IT'S FOR YOU

**E**VEN IF YOU'RE new to real estate investing, you probably sense the financial issues involved—property-value trends, the interest-rate picture and whether you can make a deal work so that your income exceeds outlays. But a direct investment in real estate also requires specialized business skills. If you plan to stay personally involved—and many investors want to because they like to fix up and show off their places—you'll have regular dealings with tenants, contractors and local officials. That may end up costing more money and requiring more time than you anticipated. You could hire a property manager, but that could clip

8% to 10% of your income, and you're still not assured full occupancy, satisfied tenants and an absence of structural problems.

Derrick Dyka, who has invested in real estate for eight years, admits that he's still learning. Because his specialty is rehabs, he hires a lot of contractors. He found himself getting steamed this past winter, even in icy Minneapolis, because one contractor demanded a 20% price increase. Dyka remembers another time when a bill for plumbing work came in \$20,000 above the quote. Price shocks of this sort aren't unusual because older buildings can hide big problems. Still, a contractor may sense that you have more money than savvy and try to take advantage of you—especially now, when most contractors have plenty of work. Dyka's advice: Negotiate contracts to lock in as much of the cost as possible in advance.

Rob Hill, a Nashville real estate lawyer and investor, says the best property investors master both the finances and the nuts and bolts. To get a feel for what it's like to be a hands-on real estate investor, we recommend Hill's book, *What No One Ever Tells You About Investing in Real Estate: Real Life Advice From 101 Successful Investors* (Dearborn

Trade Publishing, \$18.95). It isn't about getting rich quickly by leveraging yourself to the hilt or turning yourself into a slumlord. Rather, the book is a collection of practical real-life occurrences. After reading it, you may conclude that investing

directly in property is not for you, at least not now when the margin of error is so slim. Don't sweat it. You can always turn to real estate stocks and mutual funds. **K** —Research: **JOAN GOLDWASSER**

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