When Gina Brock Cardwell, CRS, learned in the fall of 2003 that the CRS 204 Course, *Creating Wealth Through Real Estate Investments*, would be offered just 15 minutes from her home, she signed up immediately. It was perfect timing. After 30 years in the real estate business, Cardwell was looking for a new challenge that would also improve her bottom line. “I wanted to increase my income, so I didn’t have to depend on selling houses,” says Cardwell of RE/MAX Advantage in Avon, Conn., “but I needed knowledge to increase my income.”

Cardwell acquired that knowledge during the two-day course and walked out a changed woman. “I was on fire,” she says, “I was going to buy everything in the world.”

Less than two months later, she applied what she learned to buy a two-bedroom condominium in West Palm Beach, Fla., for $115,000, which she rented out immediately. She has also sold two multi-family units to clients in her area, and is working with a woman who plans to buy 10 multi-family buildings from her.

Cardwell says the course gave her the

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**Put Your Money Where Your Mouth Is**

**Learn how to create wealth by investing in what you know best.**

By Daniel Rome Levine
there are more factors that contribute to estate,” he says, “the simple one being number of advantages to investing in real estate. “There are a number of ways to determine value and to invest in what they know best — residential real estate. They are also helping their clients create wealth by advising them on real estate investment opportunities. With residential real estate prices skyrocketing over the past several years and interest rates plummeting, buying investment properties has been hot.

Doug Richards, CRS, CCIM, is a CRS Senior Instructor for the real estate investment course (CRS 204) and a long-time residential and commercial real estate investor. Richards, of Coldwell Banker Commercial NRT in Salt Lake City, is a strong proponent of real estate investments, but advises potential buyers to proceed with caution and to conduct thorough research before acting. He points out that many media outlets are warning of an impending burst in the real estate bubble and that the threat of rising interest rates also looms. In this uncertain economic climate, Richards says, REALTORS® are especially qualified to invest in real estate because they “have the skills to determine value and identify whether [a property] is priced fairly or not.”

Richards says real estate is a good investment for REALTORS® not just because of their intimate knowledge of the field but because of the tax savings it offers over other investments, such as stocks and bonds. “There are a number of advantages to investing in real estate,” he says, “the simple one being there are more factors that contribute to the bottom line.”

Richards uses the acronym IDEAL to sum up these factors: I is for the income that flows to a rental property owner; D is for depreciation, which is the ability to take a deductible expense on your tax return during a nearly 30-year period for the depreciating value of your investment property and its contents; E is for equity buildup; A stands for appreciation; and L is for leverage. These factors, says Richards, make real estate a powerful investment vehicle. “A lot of people have made lots of dollars in commissions, but those people who truly have become wealthy have learned to create wealth, there is a huge difference.”

One of the best ways to create wealth is by protecting as much of your income from taxes as possible. Those working in the real estate field who invest in rental property can take advantage of a generous tax benefit. If you meet the Internal Revenue Service’s definition of a “real estate professional,” you are allowed almost unlimited tax deductions within a given year on investment properties.

Patsy Shull Oertli, CRS, of Prudential Carruthers REALTORS® in Annapolis, Md., owns four rental properties and says being able to fully deduct items such as mortgage interest, advertising costs and expenses related to maintenance and repairs is a “beautiful reason why a REALTOR® wants to own rental property. You can take this huge deduction.”

Oertli is careful to review all her deductions with an accountant to make sure they are legitimate, and advises those thinking of owning rental property to “keep perfect records and document everything you do in case of a tax audit.” Oertli has been the target of an IRS audit and says she emerged unscathed because she saved all the bills, checks and credit card statements related to her properties. “If someone is not good at record-keeping, they never should consider becoming a landlord,” Oertli says.

Oertli had amassed quite a collection of bills because two of the four properties she owns were dilapidated and required significant rehabilitation. Her most recent purchase was an “old, beat-up farmhouse” on one acre of land which she bought in 2003. It was on the market for six months until she finally approached the owner one day, negotiated and closed the transaction.

Edward Arentzen, CRS, of Eichler & Moffly Realtors in Philadelphia, has also had success buying distressed properties, such as those that are in foreclosure. “The risks are definitely there,” he says. “But you can score a better bargain.”

In 1998, Arentzen bought a four-unit residential building that was in foreclosure from the bank that owned the property. Arentzen says you can usually get a lower price buying a foreclosed property directly from a bank, but he advises investors to perform rigorous due diligence and to be prepared to pay closing costs and any number of fees and taxes. Foreclosed properties can also be found on the Multiple Listing Service and in newspaper classified ads under foreclosure notices or sheriff’s sales.

Arentzen says that simply being a keen observer of your surroundings can also yield bargain investment properties. In 2000, while on a routine listing appointment, Arentzen happened to spot a run-down townhouse that had mail piling up at the front door and a yard that resembled a jungle. He took a chance and tracked down the owner through a property search. It turned out

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the owner lived out of town and that his renters had vacated the townhouse in the middle of the night and left a pile of unpaid utility bills. In addition, Arentzen learned the owner was behind on his property taxes. Arentzen made a cash offer and said he would pay all the back taxes and outstanding bills.

Once the sale was complete, Arentzen fixed up the property and was able to rent it out immediately. The townhouse has since quadrupled in value.

As a trainer of new agents and sales manager at his firm, Arentzen advises agents to “Take off your blinders and keep your eyes peeled for opportunities outside of commission income.”

“I hate to see a real estate agent just live commission to commission,” Arentzen says. “They should have several sources of income. I like to see them purchase investment properties so they can become experts themselves and share their expertise with their clients. How can you offer advice if you have never done it yourself?”

Nick Grotjahn, CRS, of Premiere Realty in Novato, Calif., has been investing in residential real estate since the 1980s and has owned homes in northern California and Phoenix, Ariz. He agrees with Arentzen that a REALTOR® who is also an investor is more credible to potential clients looking to buy investment property. “My clients know that I have personally invested in real estate in good markets and bad, and they feel more comfortable and inclined to purchase because they can see the results in my portfolio. More important, I can give them advice from personal experience.”

Norma J. Sizemore, CRS, of RE/MAX Austin Skyline in Austin, Texas, used her experience and skills as a real estate investor as a springboard to a successful career as a REALTOR®.

For nearly 21 years, Sizemore traveled the globe, from Azores, Portugal, to Naples, Italy, with her husband, an officer in the U.S. Air Force. She worked as a recreation specialist and a quality management trainer for the armed forces. Several of their stops along the way were in less exotic places, such as Wichita, Kan. But that was the city in which Sizemore and her husband bought their first investment property in 1980 — a 900-square-foot home which they purchased for $58,000 and lived in for six months before putting it on the rental market. They sold it three years later for a profit of $10,000.

During the times they were stationed in the United States, Sizemore watched the market carefully and made well-timed, shrewd investments, taking the proceeds from each property she sold and transferring the money into another property using a 1031 tax-deferred exchange.

In 1990, Sizemore and her husband moved to Austin and started thinking about retirement. But she was not done investing quite yet. They were in the process of selling three properties they owned in Wichita and California, and were looking to reinvest the money. At the time, Texas real estate was depressed. A native Texan, Sizemore thought it was a good time to buy. She remembered from her childhood that the town of Wimberley had a reputation of being “a playground for the rich,” and she ended up purchasing two fourplexes there for $207,000.

About this time, Sizemore started thinking about changing careers. It did not take her long to pick a new path. She knew she had a natural talent for buying and selling homes, and asked herself, “Why don’t I just try real estate and help other people realize their dreams?” That is exactly what she has been doing for the past 14 years. In 2001, Sizemore and her husband sold the two four-plexes for $561,000, a gain of 171 percent, and used the proceeds to buy three homes they had long dreamed of owning for their personal use: a 200-acre ranch, a beach house and a loft apartment in Austin.

Sizemore does not hesitate when asked what advice she would offer REALTORS® who are considering becoming real estate investors. “I hate when people buy run-down properties and then try to put people in there. Don’t rent out something that you wouldn’t want to live in yourself. This is your investment.”

Daniel Rome Levine is a writer based in Wilmette, Ill.

The 1031 in a Nutshell

One of the most valuable tools available to real estate investors is a law that allows you to delay paying capital gains taxes on the sale of an investment property. It is called a 1031 tax-deferred exchange, or 1031 like-kind exchange. Here is how it works: When an investment property that has appreciated in value is sold, the proceeds are turned over at closing to an independent facilitator or Qualified Intermediary (QI) to be held in a trust account. (Without the use of a QI, the IRS may not allow the transaction to qualify for tax-deferent status.) The seller then has 45 days to locate another real estate investment of equal or greater value to the one sold, and must close on the new property within 180 days. The funds are then wired from the QI to the closing agent and applied to the purchase of the new property. This process can be repeated indefinitely, and capital gains taxes are deferred until an investment property is cashed out.

For more information or to find a QI in your area, visit www.1031.org.