

Start building your real estate portfolio

By Dr. Paul Hanks

Many clinicians use real estate investments for future financial security and to create long-term wealth. While the cooling down of housing markets across the country may indicate to some investors that good real estate opportunities are over, that is not the case.

As the market shifts, sellers are becoming more realistic and motivated. A motivated seller can lead to an attractive buying opportunity and the chance for you to begin or grow your real estate portfolio.

Achieving financial independence

Accumulating wealth, as distinct from just making a big income, is the key to financial independence. It gives you control over assets as well as ensuring a prosperous future for your children and your children's children.

For most clinicians, reaching financial independence won't just happen on its own. You need an investment strategy, one which includes a carefully managed real estate portfolio that tempers today's rapidly changing environment. Real estate has time-and-time again shown itself to deliver wealth to the well-informed, hard-working investor. Smart real estate portfolios seek healthy returns that contribute to long-term security.

Building a portfolio – getting started

Reluctance to take advantage of real estate investments is usually fueled by several reasons. Professionals often perceive the process as too complex, time-consuming, expensive and risky.

While doing it on your own is frightening, trusting someone else can be equally daunting. Trying to evaluate and analyze the services of investment advisers – and there's no shortage of them willing to help – can feel like a full-time job. But with a bit of information you can easily discover which company is right for you to partner with to launch or improve your portfolio. Here's what to expect from a real estate investment adviser:

Commitment and knowledge: When you locate your practice, you have a strategic plan for the next 10-15 years. You research the area, look at demographics, geography and socio-economic data. As time passes, your clinical practice changes as new products emerge. You constantly consider expanding your practice to deal with new products, population changes and employ more staff and doctors.

Real estate investing is the same.

It takes a lot of hard work to develop a cash-flowing real estate portfolio. You need time to manage it on a day-to-day basis and also to modify

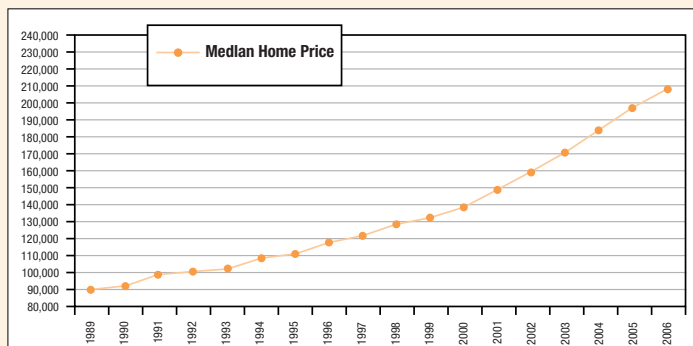
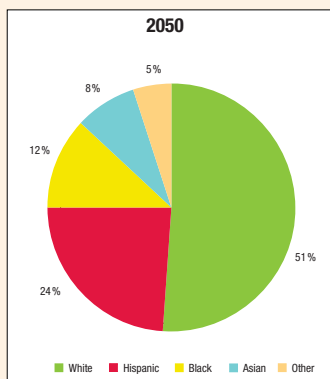
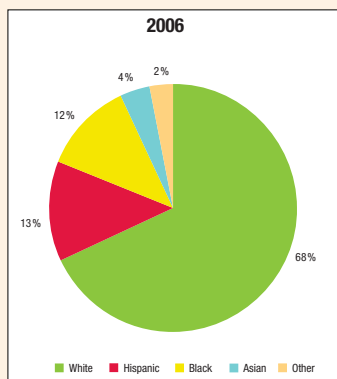


Figure 1. Increase in median home price 1989-2006
 Despite localized and periodic realignments, the trend has always been up.



Figures 2 and 3. Predicted changes in population demographics 2006-2050
 Population increase and demographic changes need to be understood when determining a strategic plan for real estate investment.

the portfolio as economic data changes both locally and nationally.

If you want to enjoy your clinical work, you will never be able to be a serious real estate investor on your own. There just are not enough hours in a day to accomplish both. But collaborating with an adviser allows you to achieve your financial goals and increase your security without forgoing the work and leisure activities that you enjoy.

Insider advantage: Being successful in real estate is about identifying the local markets and the assets down to the zip code level. Success begins with the sourcing of the real estate and obtaining loans. It is essential to reduce out-of-pocket expenses and minimize liabilities to achieve meaningful returns.

Companies focused on building real estate portfolios should help you negotiate better deals and protect your interests. Just like the success of your practice depends on your network of colleagues and affiliated professionals, so should you benefit from your adviser's network of professionals and long-term relationships. Real estate advisers should be able to pass this insider advantage on to you as you build your relationship with them.

Questions to ask the investment company

Is the investment company...

1. Exclusive - Does the company understand the needs of your profession?

2. Focused - Are they dedicated to the needs of clinicians?
3. Trusted - Does the company have an advisory panel of clinicians and experienced professionals?
4. Personalized - Will they deliver highly personalized services, tailored to each individual investor?
5. Comprehensive - Does the company provide a complete service?

Selecting investment properties

Maximizing your purchase dollar but minimizing your risk are the main principles of well-established and knowledgeable real estate investment companies. When deciding between potential properties, here are some points to remember:

• **Residential real estate:** While still a great investment, you have to do your homework to find the right areas. Leverage allows you to buy a lot more real estate 'for your buck' but you have the problem of management and finding tenants. It is all too easy to become asset-rich but cash-flow poor!

Add to that the need to manage the asset – using benefits such as IRC tax-deferred exchanges to move low appreciating assets into those that show higher returns. To do it well, and correctly, this kind of investment requires experience and time.

• **Commercial properties:** These are terrific investments but you cannot count on short-term appreciation and a quick sale. A good income stream is likely and you should focus on properties with long-term

value like medical office buildings. A major disadvantage for commercial real estate is the large down payments needed.

Just as you have a plan for developing your clinical practice, you also need a plan for investing. Start with investments that require minimal down payments but appreciate well. Then use the appreciation and profit to buy a commercial building that maybe houses your office.

You should discuss your plan with your adviser and you should also be able to fully comprehend their strategies for your investments.

Future trends

Will real estate continue its price growth? There will still be a demand driving up prices but not at the levels we have seen over the past few years.

However, we have an increasing population which is forecasted to reach over 450 million people within 30 years. This will drive the need for housing. But you have to take into account the demographics and how this will affect the type of housing required, and its impact on demand, which in turn drives up value.

Baby boomers will begin to retire and look to diversify their assets and downsize. Changes will occur with infill and condos becoming more important in metro areas. Immigrant workers will need housing as will the younger generation now leaving their parents' homes.

Real estate continues to be a dynamic and wise investment. If you do it well. As you research and begin to prepare your next steps towards achieving financial independence and security, remember it's not investing in real estate that costs you money. It is how you invest. **DT**

About the author



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