

Local investors partner up to take real estate plunge — and turn a profit

The Chicago Area Real Estate Investors Association, a west suburban investment network that meets monthly, works with emerging local investors. (Lou Foglia / Chicago Tribune)

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After years of saving, insurance agent Jim Beran bought his Westchester house in 2012. He then spent two years living in and rehabbing the home to build enough equity to get a loan to buy what he really wanted: a raccoon-infested starter ranch in [La Grange Park](#).

Beran, 31, still owns that little ranch house — now renovated and throwing off monthly rental revenue — plus his first house and four more properties too. As he waded into real estate investment, he received advice and referrals from other investors along the way.

Meanwhile, Ben Walhood, 35, of Glen Ellyn, learned how to turn a profit the hard way, having lost money on his first investment, a rundown two-flat in a hardscrabble neighborhood whose cash flow was barely a

trickle.

By apprenticing himself to more experienced local investors and getting smarter about estimating return from higher-quality properties, Walhood got the hang of it. He now manages a portfolio of 47 rental units and two house flips, on his own behalf and for private investors.

Beran's and Walhood's experiences reflect the emerging strategies of local investors who are scrambling to get in on rising residential property values. Across the country, a new generation of investors is forming partnerships — formal and informal — to assemble the resources to get in on the appreciating market at a time when the sweet spot of an undervalued, ripe-for-renovation property is increasingly more difficult to find.

Home sales declined 4 percent statewide this September, compared with September 2016, according to the trade association Illinois Realtors. The median sale price rose 6.9 percent over the same period. The same trend is playing out in the Chicago metro area, with sales down 4.6 percent in September and prices up 5.7 percent.

Meanwhile, a healthy home rental market has complicated avenues for return on real estate investments. Buying, renovating and renting is just as acceptable to investors as buying, renovating and immediately selling — often known as flipping. Investors need to decide before they buy how they'll make money from the property, because that dictates the kind of financing, timeline and personal risk they undertake.

“It's difficult to find a house worth flipping right now,” said Scot Howat, 35, a Buffalo Grove realty agent who manages his own growing portfolio of properties.

According to the National Association of Realtors, individual investors bought 13 percent of houses in June, compared with 16 percent of sales in May.

Meanwhile, the number of houses going into foreclosure — a pool from which investors often draw properties — dropped 20 percent in the first half of 2017 compared with the first half of 2016, according to Attom Data Solutions, a real estate data analysis firm. The few bargains that can be found are largely in the Midwest, which saw an increase in sales in early summer of 3.1 percent, according to the NAR. It was the only region to post an increase.

Eager investors also must estimate the availability of remodeling contractors. The Joint Center for Housing Studies of Harvard University reported in July that remodeling activity is running about 6 percent ahead of last year, and a shortage of skilled workers can throw a monkey wrench into optimistic plans to renovate and flip.

Investors can find a toehold in the local market through organizations like the Chicago Area Real Estate

Investors Association, of which Howat, Beran and Walhood are members. Through CAREIA, members with money to invest can find those with promising properties, and vice versa.

The group, a nonprofit affiliate of the National Real Estate Investors Association, based in Cincinnati, also provides camaraderie and an alternative to high-pressure, expensive real estate “investment seminars” that often provide eager newcomers with little more than basic investment advice readily found in books, blogs and free resources online. “We’re the ones who help people become investors instead of just dreaming about it,” said Walhood, now president of CAREIA. Beran is vice president and Howat is the library chair.

Out East, it took a gang of eight to propel Ruben Guerrero into real estate investing.

Back in 2008, then working in the finance sector in New York City, he and seven friends watched in dismay as the financial meltdown torched their individual net worths.

They each threw \$10,000 to \$15,000 into their newly created pot and promptly bought a sure-fire investment that backfired — a Yonkers duplex that they assumed they could convert to four units for a fast flip.

The city disagreed, so they pivoted to a cash flow strategy. Finally, this year the partners sold the building — to one of the original eight investors.

“There were a lot of things we should have done differently in hindsight,” said Guerrero, 37, who has since formalized the partnership as New York-based Momentum Realty Acquisitions, which he now runs full time.

“We were curious about real estate, but nobody knew how to do it. We figured that if we lost our original investment, it wasn’t enough to really affect any of us financially,” Guerrero said. “Real estate investing isn’t for everyone. What has made me successful was the ability to nurture relationships — and my greatest strength is not management, but the ability to match the right deals with the right investors.”

The complicated investing landscape can be a harsh reality check.

“It’s not just about finding deals,” said Ellis San Jose, 53, founder of Real Estate Group 360, a Westlake Village, Calif., investment and property management firm. “People like to talk about how they’ll share the profits. But I like to talk about how we’ll share the losses. That shakes up the conversation.”

Experienced real estate investing mentors find themselves sorting the clueless from the clued-in, said San Jose, who started a nonprofit networking group — called For Investors By Investors — that meets the old-fashioned way: in person.

“Finding a mentor is tough,” said Howat. Since he got into property investing in late 2014, he has flipped two

houses and bought three more to rent out. Successful investors don't have time or patience for newcomers with inflated expectations. The peer coaching model of CAREIA has given him a way to build relationships that work both ways: He is now buying on behalf of private investors and building his own portfolio.

Beran is wading into partnerships too, based on accelerated networking through professional groups. "It happens all the time — you don't have the money, but you have a potential deal, or you have the money, but not a deal," he said of the constant matchmaking that builds deals. "Just because there are fewer deals doesn't mean you shouldn't be investing."

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