

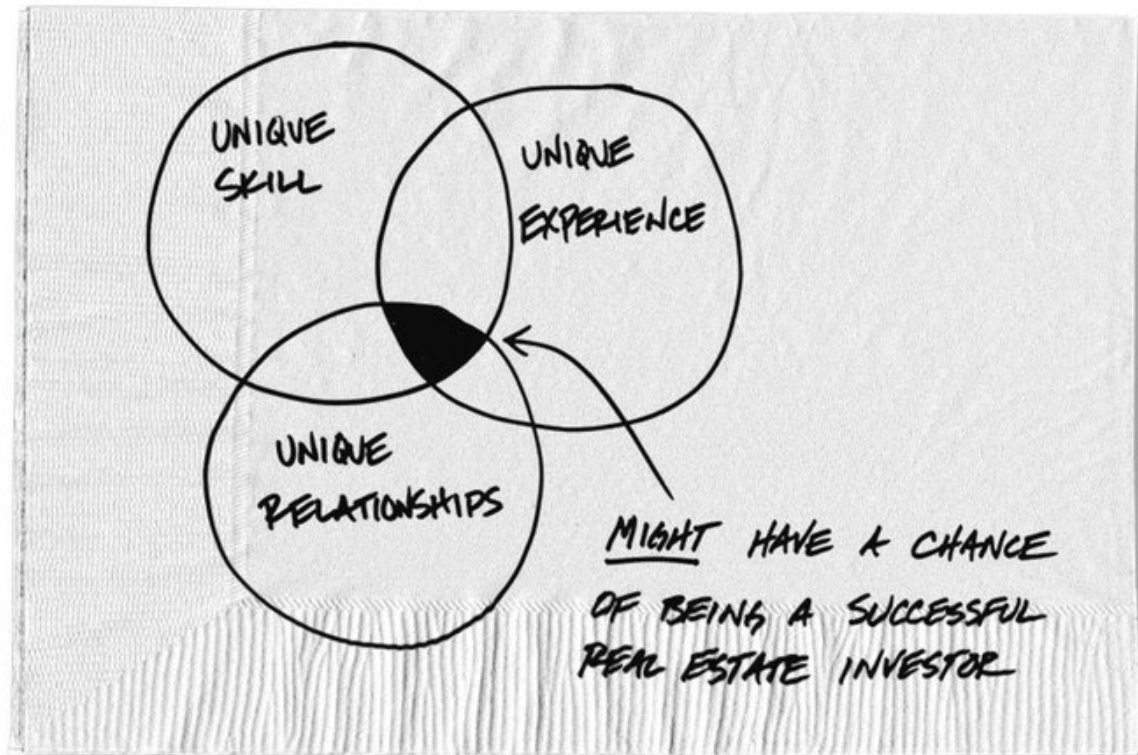
# Real Estate Investing Offers Only One Likely Outcome: a Low Return

[nytimes.com /2014/10/06/your-money/real-estate-investing-offers-only-one-likely-outcome-a-low-return.html](https://www.nytimes.com/2014/10/06/your-money/real-estate-investing-offers-only-one-likely-outcome-a-low-return.html)

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Photo

Six



years ago, Ireland’s real estate market crashed. Office buildings sat empty, housing developments were left unfinished and \$15.7 billion in residential investment loans defaulted or were modified.

Fast-forward to today. As I learned on a recent trip to Dublin, real estate is once again hot.

Ireland isn’t the only place experiencing a boom in real estate. A recent stay in Australia gave me a taste of what home buyers there are facing. Even with the Reserve Bank of Australia warning that there is an imbalance in the system, many buyers are paying above market price for a home. And in London, the value of homes has risen so sharply that some homeowners are [excavating their basements](#) for added square footage to increase property values.

Since I’ve heard more than one person talk about the investment “opportunities” in real estate, it might be time for a reminder. Gambling on — sorry — investing in residential real estate is generally not a good idea.

Robert Shiller, a winner of the Nobel in economic science, has studied this topic. His research shows that from 1890-2014, after accounting for inflation, home prices have risen 0.3 percent. And no, that’s not a typo. The data is clear. So while you may love living in your home, it doesn’t make a very good investment.

Even though the data and the evidence show us one thing, we can have a hard time accepting that we're average. We may even believe the data while also believing that we are the exception to whatever rule the data proves.

As a result, it becomes very easy to convince ourselves that we'll find the perfect real estate deal *and* time both our entry and exit into the investment perfectly. If you ever find yourself having this mental conversation, I strongly suggest you hit the pause button for at least a minute. Then, before you can make the investment, pretend you have to state your case to a panel of judges, sort of a mix of "Shark Tank" and a therapy session. Yes, the deal sounds good, but can you prove it in an oral argument?

**We know successful real estate investors exist.** You may even know one. And between who you know and what you hear on the news, it may be tempting to believe you can experience the same success. But as with most things, there's a difference between professionals who've paid their dues and people who are just pretending.

The few, very **successful real estate investors** I know **share three things that make them exceptions.** **First, they've developed the unique skill of identifying undervalued properties.** It requires many years of painful trial and error. A three-day course on "How to Become a Successful Real Estate Investor" won't cut it.

**Second, they've invested the time to understand the category.** Their experience includes connecting and often working with other established real estate investors. And again, the **time required to develop that knowledge and translate it into positive returns is measured in terms of years, not days or months.**

Finally, they have **relationships.** With stocks, bonds and other investments, it's mainly a matter of hitting the buy button. **With real estate, it can come down to connections. Who you know matters a lot in real estate, and it can be the difference between getting the deal or leaving empty-handed.**

Despite recent headlines, I hope it's clear at this point that **real estate investing isn't easy.** It's a category that **relies heavily on skills that take time and money to build.** But that's a reality frequently skipped over by speculators promising a quick return. Don't let the noise confuse you.

For most of us, a house will be just that. A house. If you want it to be something else, like the source of your retirement income, be prepared for an experience that may not meet your expectations.