8 hard-learned money lessons from housing-crash survivors

Here are financial lessons from real estate agents who made it through the 2008 real estate market crash to help guide you

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The difference between making money and having wealth is often viewed as slight, but in truth, it’s a canyon of learning to really be good at it.

Information on finance and the proper flow of money through one’s business can be easily found, but for most of us, it’s hard enough to correlate why my financial adviser won’t let me buy a snazzy car, sighting it as a “depreciating asset,” let alone the important difference between gross and net income.

However, the reason you need to become utterly obsessed with the topic right now is that as markets change, your balance sheets in your business will be tested no matter if you are a solo real estate entrepreneur, part of a team or run a brokerage.

David Bach, author of *Smart Women Finish Rich*, says, "What determines your wealth is not how much you make but how much you keep of what you make." Sure, you may be putting up a lot of points and deals on the scoreboard, but if you're running your business' operating budget to just break even, you're not going to be prepared for a market downturn.

I've learned a lot from successful agents over the years, and any time they spoke about dealing with money in volatile selling markets, I took notes in pen, double-spaced, highlighted in green. There are many agents who have walked this path already. Let's not reinvent the wheel. Take a cue from some experts.

Here are the top lessons I heard and learned from real estate agents who survived the 2008 real estate crash.

Save more

Next, to actually creating a budget for our business, you also need to follow it. The thrill of being a real estate agent does not live in the details of a balance sheet, but if you really are telling yourself you're an entrepreneur and business leader, then pull up your socks in this area *stat*! Get some support and learn the 50-30-20 rule (think: 50 percent needs, 30 percent wants, 20 percent savings).

Don't live off of your credit cards

If you find you are continuously outspending your earnings, there is no time like the present to end the relationship with you and your credit card. An agent told me a story about how this practice tore her business apart.

Running your business operating expenses higher than your achievable net profits is not a lesson Warren Buffett teaches. Start weaning yourself off this habit today. There will be nothing worse than to win a listing only to find out you can't afford photos and proper marketing. Cutting corners only hurts your business, the brokerage and our industry.

Hot tip: Separate your listing marketing budget from your operating account.

Don't become over-leveraged

Purchasing an investment property is a great way to build passive income, but it can also be risky. Well, until a market shift and the vacancy rate becomes higher than my third-grade math test. (I got a C). Right now is the time to look at the assets you are holding.

If you don't have property investments that are breaking even or with positive monthly cash flow, you may consider clearing them off your balance sheet. Chances are, if the market goes to bear, your rental income will as well. It's time to look at the profit and loss on each investment.

Reduce your overhead

For those who are new to operating their real estate career like a business, overhead is the amount of expense you have that is not directly related to your business — for example, expensive office rents or pricey artwork.

Overhead is not the expense of putting in a for-sale sign, creating a floor plan or listing photography.

Hot tip: Review your expenses this month. It's time to batten down the hatches.

Secure a credit line

“But you just said cut my cards and reduce my expenses?” When we are talking credit in this form, we are talking about possible low-interest opportunities as safety nets. If you can, secure HELOCs on well-funded investment properties when you don’t need them, and never spend them. I have two of these, and they are only there in the case of a “quick, break the glass, and pull the alarm” kind of emergency issue.

Do not ever use your lines of credit to purchase a depreciating asset. A depreciating asset would be an extra car, TV, etc. Do the paperwork to secure these backup plans now while your income is stable and you look good on paper. Lenders and banks are less likely to help when you actually need money.

Pay your taxes on time

If you owe taxes right now, develop a plan to pay them off as soon as possible. Think about it: $60,000 of unpaid taxes, compounded daily on an annual of 4 percent, is another $7,649.37 you would have never had to pay if you had just paid Uncle Sam on time.

For some of us, that’s an entire commission check. The last thing I want to do is work this hard in a transaction just to hand over the entire amount in back taxes.

Track and assess your marketing expenses

Prospecting and building a pipeline are critical to your success, but you must make sure the math works by tracking the source of every deal you do. Ask yourself how many closings you need to do to break even.

If a marketing program hasn’t generated sufficient business, cut it now.

Hot tip: Incubation on a cold lead is a year, with a 4 percent to 10 percent conversion rate.

Joseph Magsaysay and Katie Clancy are both excellent teachers of how to attract new business through relationships, which can generate new business more quickly than cold leads and cost a lot less. Check out their videos.

Make changes now

Listen, you wouldn't be the first to feel overwhelmed by all of this and say, "I'll deal with that tomorrow." The problem with this strategy is markets change so quickly that tomorrow might be too late. Even small changes can help — in the words of my finance teacher, "There's no time like the present, Shel."

As in all things related to money, make sure you and your agents have a licensed tax professional and financial adviser to consult with.

If you're a broker, talk to your agents about being responsible CFOs in their business during times of change. One thing is for certain: In times of turbulence, the best leaders make tough decisions and course corrections.

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