CHAPTER 1

My Amazing Discovery: A No-Nonsense Plan for Getting Rich in Real Estate

In my town in Kentucky, house values do not go up in double digits the way they do in Florida, California, New York, or Las Vegas. A good solid rental house averages 7.25 percent appreciation annually in my area. I like to be conservative in my real estate investment planning, so let's say that a property I am considering investing in would only appreciate 5 percent a year over time. With an average annual appreciation of 5 percent:

$100,000 in property value = $5,000 increase in market value *each year*
$1,000,000 in property value = $50,000 increase in market value *each year*
$10,000,000 in property = $500,000 increase in market value *each year*

I'll be the first to admit and agree that this is only on paper. You won't find it in any bank account and you cannot buy groceries with it. But, if you can hang on to your investments, just like the beer cans on the rear bumper of the limousine at a wedding, you can crank some phenomenal numbers and grow your wealth unbelievably fast.

Let me immediately remove the "Pie in the Sky" aspects here, and start with the end in mind. Ask yourself, "Where do I want to land?" What is your objective of investing? I never thought about this when I got started, and it caused me a lot of grief. I was buying properties left and right because I believed they were good deals. But I neglected being clear about my goals.

Here's what you need to know: "$___________ in my pocket monthly would make me a happy camper!" Go ahead, fill in the blank. What is your answer? After working with investors all over the country, I can tell you that most investors are not like me. They are not greedy and have absolutely no desire to compete with Donald Trump. To my amazement, the number one answer here is $10,000. That's right, over 90 percent of investors say, "$10,000 in my pocket monthly would make me a happy camper."

The next part is a bit more challenging. How many of these properties would it take to dump your dollar amount into your pocket monthly? You also have to consider what kind of properties you would like to hold long term. Do you want a low-income area with high management and low appreciation, but excellent cash flow; or do you want nicer neighborhoods, less management, and less cash flow with wonderful appreciation and depreciation? This is your choice, not mine.

Let's keep this idea going. Assume that you filled in the blank with $10,000 and you want the nicer properties in a nice neighborhood. Using the market in my town would mean that about 20 solid $100,000 rental houses paid for would dump $10,000 into your pocket monthly. Using "real world cash flow" and not the dangerous definition used by many real estate agents, each one of these properties will give you about $500 monthly.

Real world cash flow on a $100,000 rental house in my town:

Monthly rent income =	+$800.00
Minus Property tax =	($91.66)
Minus Insurance =	($25.00)
Minus Management fee =	($80.00)
Minus Repairs =	($50.00)
Total =	$553.34

These are the numbers used for single-family houses in my town. Your town might have a different property tax rate or insurance rate and may have homeowner association dues. You must factor in all these ongoing expenses associated with owning the property. If you are investing in multifamily housing, apartment complexes, or commercial properties, you should include a vacancy factor for your market. With single-family houses, I don't include a vacancy factor because I want my tenants to stay forever. Many of my single-family properties still have the original tenants today, years later. I'm not in the hotel business, and you shouldn't be either.

Using the preceding example, you can see that 20 of these rental houses (if paid for) would put $10,000 in your pocket every month from now on. Plus, there is a built-in hedge against inflation because you can raise the rent as the market value and market rents increase. This means you can always give yourself a raise. There is still another extra bonus behind the scene: You will have 20 houses paid for, resulting in your ownership of $2 million in real estate. At 5 percent annual appreciation, this results in an additional $100,000 increase in market value each year that you own the properties. Later in this book, I explain some tax benefits including depreciation.

So this fairly simple example of having a goal of 20 houses paid for will bring in $10,000 monthly into your pocket and your real estate will increase $100,000 in value every year.

Now, the hard part. How do you get there? How long will it take? Here is how I did it. I realized the preceding magic early on. I discovered that *time* was my biggest and scarcest resource. The sooner I got X number of properties under my belt, the sooner and faster and bigger the wealth would grow. I didn't want my real estate investing to be a painful hobby. Just like you, I wanted true financial independence for my family. I wanted to do it safely and efficiently. My wife and I were sticking our necks out, taking all the risk, with no one to turn to should our investing go belly up.

Here is my answer and battle plan. If I captured 100 of these houses *now,* I could "ride the bull" (dealing with tenants and rental property) for four years cranking over $500,000 each year. After four years, I would have picked up another $2 million in market value. If I had the discipline to sell off 80 of the houses and keep the best 20 for rentals, I could end up with 20 free-and-clear houses on this aggressive four-year plan. It was my original battle plan.

If it ain't broke, don't fix it might be an appropriate description of where I'm at today. With our investments cranking some phenomenal numbers in appreciation, even with just 5 percent annually, the big picture results are overwhelming and it's all on autopilot!

There is a common denominator for all the preceding results. Every single bit of it involves owning real estate. That means dealing with tenants as well as with the ugly word and world of being a *landlord*. The word sounds bad, doesn't it? It sounds evil—something ugly, not fun, not good. In fact, I prefer the word *investor.*

Definition of Investor

An investor is "[a] person who purchases income-producing assets . . . considers safety of principal to be of primary importance. In addition, investors frequently purchase assets with the expectation of holding them for a longer period of time." (David L. Scott, *Wall Street Words: An A to Z Guide to Investment Terms for Today's Investor,* Boston, MA: Houghton Mifflin, 2003).

What about those folks who buy, fix up, and sell? Are they really investors? I don't think so. They are in the same category as a builder, plumber, or electrician. They are getting paid for what they do, not what they own. When these people stop buying, fixing up, and selling, their income stops, too.

What about those who *wholesale* or quick-turn properties. These people also try to label their activity as investing. Far from the truth! Once again, when they stop wholesaling, it's over. Stick a fork in them, they're done!

I'm not against these two activities. It just burns me when some people try to say these two methods are the safest and easiest methods of investing. These activities by themselves are not investing; however, they can be an integral part of your investment battle plan. When I got started, I wanted to have a handyperson whose hours I could control so I wouldn't have to wait for a part-time worker to take care of my problem on one of his off-days from a regular job. I learned I could buy an ugly house, fix it up, sell it at retail, and make about $35,000 in a couple of months. This would pay a whole year's salary for a full-time handyperson and part of the wages for his helper.

I used the wholesaling and the buy, fix up, and sell activities to "feed the machine." By this, I mean that owning real estate is like owning a cash-eating monster business—especially when you are getting started with next to no cash and your investments are pretty much 100 percent financed with no money out of your pocket. These two noninvesting activities definitely kept me afloat while I was building my business.

I came to realize that the true path to financial independence involves *ownership* of real estate. This meant that it looked like I was going to be a landlord. Nobody seems to be happy about this line of investing. There are so many negative attitudes about it, toward it, and all around it. But I knew one thing. The successful investors I admired all owned real estate.

A good landlording system is the secret cornerstone of my wealth-building program. Putting my landlording on auto-pilot became my ultimate objective in achieving financial independence.