CHAPTER 1

Act as if it were impossible to fail.
—DOROTHEA BRANDE

Real Estate: The Best Wealth Builder in the Universe

Why is real estate investing the best wealth builder in the universe? The answer is simple: Everyone needs a place to live, and real estate values usually go up over time. I can assure you that, in the next 20 years, your real estate property will probably double, triple, perhaps even quadruple in value. If you are in a hot market, it might even go up 10 to 20 times.

When is the time to get into real estate investing? Yesterday. Real estate increases its value to build wealth, but there are other reasons why real estate investing, compared with any other investing, is the best.

Income, Wealth, and Advantages

Here are five advantages of investing in real estate, the best wealth builder in the universe, as it leads to wealth for you.

1. *Real estate increases your net worth.* One of real estate's biggest advantages is how it can increase your net worth instantly because you can buy property *below* market value. For example, if you find a property that is worth $500,000 and a motivated seller who is willing to let it go for $300,000, you put it under contract for $300,000 (about 60 percent of its worth), then borrow all $300,000, close the deal, and become the owner of this property. You borrowed all of the money to make this happen; you did not use your own. The minute you own this property, your bank and your financial statement say you have an asset worth $500,000 and a $300,000 loan against it. Congratulations. Your net worth just went up $200,000.

   Here is a more conservative example. In my first real estate deal, I bought a duplex that was worth $60,000 for $40,000—not a home-run deal, certainly not a grand slam—but as soon as I bought the duplex, my net worth went up $20,000. Property value ($60,000) minus property cost ($40,000) equals gain in net worth ($20,000).

   This concept is hard for most Americans to understand because usually when they buy something big (e.g., a new car, television, jewelry, stereo), their net worth goes down instantly. The $30,000 car I bought goes down in value to $20,000; therefore, my net worth decreases by $10,000. However, if you buy real estate correctly, your net worth goes up because it appreciates over time, unlike most items that depreciate.

2. *Real estate generates income from holding properties.* Rental property (a house, commercial property, or an apartment building) is unique because your tenants pay off your debt on that real estate. If you own rental property with $500 monthly mortgage payments and $800 monthly rental income, you

end up with a cash flow of $300, which is extra money in your pocket. The cash will likely be tax-free because of depreciation and write-offs. Your tenants actually pay off your mortgage debt and, in 10 to 30 years (depending on the length of your loan), that debt will disappear and your net worth will go up again.

Residual income creates happiness (RICH) is the concept in which you, your family, and your estate (after you die) will benefit from residual income because the rent keeps coming in.

3. *With real estate, you can pay less than what the property is worth.* By looking for deals, you can buy real estate that is priced at 20 to 50 percent of what it it is worth. This means you seek $100,000 properties that you can buy for, say, $70,000. Compare that with the stock market. Can you find stock that is worth $100 and pay $70 for it? No. You pay $70, the market value, then pray it goes up to $100. It could hold at $70 for a year, then go up, or it could go down because that's the nature of the stock market. You cannot buy stocks below market value like you can real estate.
4. *Real estate offers tax advantages.* The third big advantage of real estate investing is how it affects your tax obligations. If you have a traditional job with a traditional paycheck, you are entitled to very few tax write-offs or deductions. However, in real estate or any business you own, you can write off a wide array of expenses, including phone calls and a portion of your business meals. Owning real estate provides the opportunity to write off most of your mortgage interest and property depreciation.
5. *You do not need cash or credit to get into real estate.* In the stock market, you require most or all of your cash up front to purchase stocks. If you want to buy a $100 stock, you have to pay $100 cash. Some banks or brokerage houses will lend you half of the money to buy stock, but you will still have to come up with the other half.

   In real estate investing, if you find a property selling for

$70,000 that is worth $100,000, you can borrow the entire $70,000. If you have good credit, almost any bank or mortgage company will lend you 70 percent ($70,000) to buy the $100,000 property. If you do not have cash or good credit, you can find hard moneylenders who will lend money—in return for charging a high interest rate. They will lend you $70,000 for a property worth $100,000 without caring if you pay them back, because if you do not pay them, they take your property.

In any business or investment, especially real estate, you can use either your own money (YOM) or other people's money (OPM). *Owner's terms* is an example of OPM. If you buy a house and the owner lends you money to purchase instead of your having to go a bank, you are using the owner's money.

What if you do not have enough money or credit to invest, but have enough knowledge to be a successful real estate investor? Then look for investors (i.e., people with money or good credit) who can borrow at great rates. These investors may have a lot of cash or retirement accounts that they are tired of putting into stocks and are seeking other ways to invest. You might convince them to invest with you if you have a good business plan and have already had some business success. Investors put in the money while you put in the knowledge and time.

An Overview of the Road to Unlimited Riches in Real Estate

During my first several years of real estate investing, I knew of only one way to make money in real estate—buying and holding; that is, buying and renting property, and collecting rents. Then I learned about flipping, lease optioning, referring contractors and legal services, and so on. I started getting little checks, then medium-sized checks, and finally big checks.

You can do the same. All you have to decide is how many checks you want from how many sources. Open your mind to not only

Examples of OPM Financing

Mr. R. in Florida says his entire family works in real estate. He himself owns hundreds of beautiful properties. However, Mr. R.'s name is not on any deeds, and he does not have any liability, because he has partners and investors (e.g., doctors, lawyers, accountants, bankers) whose names are on the deeds. He discloses every agreement in writing. He does not owe a cent to anyone. When he sells his houses, he earns from $20,000 up to $100,000, and the investors get their money back plus one-half of the profits.

I know a full-time student who makes between $80,000 and $120,000 a year as a part-time real estate investor. He digs up a good deal, puts a property under contract, finds investors, buys the property with their money, fixes it up, then sells it for a profit anywhere in the range of $5,000 to $12,000.

one, two, or three avenues of income, but to multiple avenues of real estate income. Start with one way and, as your career progresses, you will want to add more.

Being a Real Estate Agent

What source of income first comes to mind when *real estate* is mentioned? Making money as a real estate agent or broker, the people who put buyers and sellers together and carry offers between them. The average real estate commission in the United States is generally between 5 and 8 percent of the sale. For example, if a sales price is $100,000 with a 6 percent commission, the agent or broker earns $6,000. Often, however, there are two agent/brokers, one representing the buyer and the other representing the seller, so the commission gets split, dispersing $3,000 to each.

The disadvantages of being a real estate agent/broker include a requirement to be licensed, meet educational standards, pay fees, and carry liability insurance coverage.

Of course, being an agent/broker has an advantage. You have access to the multiple listing service (MLS), which lists all houses for sale in the retail real estate market. You might have access to a real estate office and its up-to-date technology, and also have contact with other agents and resources who can lead you to sales.

Buying and Holding

Most people associate real estate investing with buying and holding property—a great wealth builder. If you buy wisely, your net worth will go up, and you will have monthly cash flow, property appreciation, and some tax advantages.

Certainly, a disadvantage to the buying-and-holding strategy is dealing with a lot of tenants, many of whom cause problems. I always say that if you do not have problems being a landlord, you do not have enough tenants.

Holding property is a management headache. You have to deal with contractors, constant repairs, liability, insurance, taxes, ongoing costs, and overhead. Still, it is one of the best wealth builders in the world. Because of all these variables, I advise against buying and holding property for your first 6 to 12 months of real estate investing, but buy and hold it as time goes by. Most people should start by flipping property so they don't put their capital or credit at risk.

Buying, Fixing, and Selling

A lot of people start in real estate investing by buying, improving, and selling property. Often, beginning investors make the improvements themselves. They work for six months—what I call hang and bang, drywall, paint, and clean—then they sell it. You can make anywhere from $12,000 to $30,000 on a property, especially if you fix up three or four homes a year. It can be a great business, but understand that it takes a lot of time and work.

Quick Turning, Flipping, or Wholesaling

With quick turning, flipping, or wholesaling, an investor finds a good deal, such as a house worth $100,000 that an owner will sell for less than that amount. Suppose an investor puts this $100,000 home under contract for $70,000. If he or she writes the contract properly and puts in a disclosure and contingency clause, he or she will have little or no risk of losing money over this transaction. Shortly after buying the house for $70,000, the investor sells it for $80,000. He or she makes $10,000—a basic wholesale, flip, or quick-turn deal.

The advantage of this income source is that you do not use any of your own money or credit—you get paid for finding deals. The disadvantage is an uncertain future, so you cannot rely on the residual income you would have with the buying-and-holding strategy, and you will have to keep buying and selling property. (See Chapter 7 for more about this strategy.)

Lease Optioning

One of the best ways to control or rent property is through lease optioning. Consider leasing commercial property, houses, vacation property, duplexes, land. Instead of borrowing money to buy a property, thereby getting your name (and all the liability that comes with it) on the deed, consider leasing it for 1 year, 5 years, possibly 50 years.

Think of it this way: If 10 years ago you had locked into 10-year leases on every house in your neighborhood, what leases for $1,000 a month now probably leased for $200 a month a decade ago. Therefore, if you originally leased property for $200 and rented it today for $1,000, you would be making $800 a month.

When you lease with the option to buy, you are locking in the lease for a set number of years as well as having the choice to buy it. Remember, you are not obligated to buy the property, but you do have the right to. When you lease-option property, you control it. You can re-lease it, buy it, option to buy it, or sell it for more than what your option price was. The sky is the limit.

Mortgage Brokering

A long time ago, I was told real estate is not real estate; rather, it is actually finance. This is because with proper financing, a bad real estate deal can become a good real estate deal. Likewise, a great real estate deal with bad financing can become a horrible real estate deal. So anyone in real estate is forced to get into finance—loans, money, debt, mortgages. (Chapter 7 shows ways to make money with mortgages.)

Consulting

After you have been investing in real estate for a few years, you become an expert and can actually earn money from others (e.g., bankers, other investors, newcomers) for your consulting. People will ask you questions all the time anyway, so consider developing a stream of income that helps you profit from sharing your advice.

Partnering

Partnering (people with different skills and assets working together to form successful real estate ventures) is another path for making money in real estate. You can partner in almost limitless ways: with money, capital, credit, expertise, repairs, and management. Decide what your skills are and stick to them, but also find partners to fill in areas where you lack expertise.

One of the biggest mistakes people make in any business, especially real estate investing, is trying to do everything themselves. Are you prepared to be a finance expert, a real estate acquisition expert, a contractor, a property manager, an accountant, a bookkeeper, and an eviction agent? Are you an attorney or an appraiser? You are wise to get to know those who can help.

Managing Real Estate

You can make money in real estate as a manager mainly by managing tenants. In residential or commercial management, managers generally earn a percentage of rents collected and sometimes a percentage of repairs. Alternatively, they can get commissions (anywhere from 3 to 15 percent) for locating tenants, signing leases, negotiating new leases, and signing and leasing property.

Robert's Business Philosophy

Ask yourself why you want to get into real estate investing. Sure, you want to make a lot of money, but real estate investing is more about freedom.

I urge you to follow my business philosophy, which is to do nothing. That is right—nothing. If I have other professionals doing their jobs properly, I can do next to nothing and profit from it.

For instance, you may have money or credit but little time. Why not locate partners to find deals for you; use *their* time and energy and *your* money or credit. What if you do not have money or credit but have lots of time to look for deals? Partner with people who have money or credit. In the same manner, you can partner with a contractor for your rehabilitation projects or with a management company that manages the rental properties it finds for you.

I must warn you, managing properties requires a tremendous amount of detailed work and can be stressful. Unless you do a lot of it, it's not even very profitable. If you enjoy managing people, then do it, by all means. If not, you can always hire a manager, then manage the manager. Use this approach as another source of real estate income.

Tax Liens

Tax liens usually have to be paid off first when a piece of real estate is sold or foreclosed on. The government has the first claim on the property, even above banks or lenders who have financed a mortgage. Tax liens pay good rates of return, so you might want to familiarize yourself with this concept. (See Chapter 4.)

Judgments and Liens

Investors who are active in real estate or landlords who have a lot of tenants will experience times when people owe them money and they have to collect judgments and liens.

To save on expenses, you could learn how to collect your own judgments and liens. To create another avenue of income, you could take it a step further. Here's how it works. If someone owes $50,000 on his or her property, a judge has put a lien on it, and it hasn't been collected on for five years, you could possibly negotiate the option or the contract to buy that property for $5,000, which is the amount of the judgment. You would approach the owner and say, "Look, you owe $50,000 on this house, but if you pay us $15,000 next week, we'll wipe out the remaining debt. We'll forgive it, forget it, extinguish it." If you did that, you could earn more than $10,000.

Foreclosures

One of the most popular sources of income in real estate is foreclosures. When a house is foreclosed on, it means that a homeowner has borrowed money that he or she cannot repay. The lender takes possession of the property, but in most cases the lender is really interested in recouping the loan's principal balance and expenses incurred.

If a property is worth $100,000 and the principal balance plus expenses due the lender is $100,000, stay away from that deal! However, if that property is worth $162,000 and the lender only wants $100,000 to cover costs, I suggest that you get control of that foreclosure and find out how to profit from it.

You can go to a number of places to find out about foreclosure deals: banks, mortgage companies, government agencies, private lenders, and tax agencies. Remember, though, real estate investors are not out to take advantage of anyone. If you cannot help the person being foreclosed, you do not want to get involved. You are not in the business to get people to sign over houses they do not want to sign over. That would be a bad deal—you never want to get involved in one.

Title and Escrow Closing Fees

Some savvy real estate investors and Realtors have started generating income from title and escrow closing fees. When they get involved in numerous closings, they can make legal and ethical agreements to get marketing or consulting fees for their efforts. Investors might even be able to use another company's computers or office space in exchange for bringing customers on board. This often-overlooked source of income can add significantly to your fountain of wealth.

Buying and Selling Discounted Notes

When you buy (or broker at a discount) a note, you give those people holding notes on properties the opportunity to get their money without waiting the full term of the loan. You might know someone who made arrangements to sell his or her house for $100,000 and took back an $80,000 mortgage. At 30 years at 10 percent interest, he or she may be making $700 a month on that note, with 25 years left to pay. Here is what you say: "Instead of waiting another 25 years to get the rest of your $80,000, how would you like $60,000 in cash in the next few weeks?" Someone needing funds might go for that offer immediately.

A number of people make money by buying notes, so why not make some sales commissions by bringing together buyers and sellers of those notes?

Maintenance and Repair

Owning real estate inevitably involves repairing and maintaining property. If you regularly contract for lawn care, roofing, new appliances, and carpet cleaning and installers, you know which companies provide good prices and service. You are probably willing to recommend those companies to your associates, but it makes sense to make money by setting up a system of referral fees first.

Generally, before I refer a good contractor or maintenance person, I make a contractual agreement that guarantees me from 10 to 20 percent of the bid for a job. Because I am providing work that person would not have had without me, I should earn a commission for that service.

Word to the Wise

Get everything in writing! Disclose *everything* to *everyone* in writing. Be sure that all of your business arrangements are legal and ethical in your state or wherever you are investing. I suggest you always consult with your attorney and accountant to avoid costly lawsuits down the road.

Legal Services

If you are in any business in the United States, especially real estate, you are going to need attorneys. Using prepaid legal services, you can profit from other people needing attorneys by participating in a national legal referral system. By selling prepaid legal expense plans, you can develop another source of income.

Appraisals

Generally, any time a property purchase is being financed by a loan, it needs to be appraised. You could become a professional appraiser—provided you are careful about conflict of interest. Also, you might refer appraisers and, when it is legal and ethical, earn commissions from those referrals.

Insurance

Never buy property without proper insurance, which may include title insurance, liability insurance, fire insurance, and insurance plans specific to commercial property. Someone has to broker and make commissions from all that insurance. Perhaps you could get an insurance license or develop a marketing and referral system with certain trusted agents. That will lead to still another avenue of real estate–related income.

Ancillary Services and Profit Centers

Ancillary services are part of buying, fixing up, and renting property. They can include furniture rental, cable TV rental, Internet service, tenant services, even restaurants. You could generate different forms of income from all of these services by charging referral fees for anything your tenants or clients could possibly need.

For example, if your tenants and clients need a satellite or computer hookup, a moving service, a rental truck, or whatever, you would likely refer them to service providers you know; you might as well get paid for it. You will learn more about these various sources of real estate income in the chapters that follow.