

# **Why Real Estate Is a Great Way to Build Wealth**

**R**eal estate is one of the most time-tested and effective ways to acquire and maintain wealth. Unlike the value of stocks, which are keenly sensitive to the ebbs and flows of the market, real estate values have shown they exhibit a more stable investment proposition. Through our real estate school, The Center for Real Estate Education, more than 15,000 people have acquired the tools to chart their own path to wealth through real estate investing.

## **Why You Need a Wealth Plan**

Everyone needs to develop a wealth plan. Without one there is no clear path to achieving financial success for you or your family. When we talk about a *wealth plan*, we're talking about a guide to attaining your financial freedom—one you can revisit and revamp as you proceed along your journey. These plans encompass multiple layers, including choosing the type of real estate you want to pursue, setting both short- and long-term goals, and evaluating tangible and intangible assets.

It's not merely about crunching numbers, though your current finances are a critical component. A wealth plan serves as the blueprint for your financial aspirations—a road map guiding you toward achieving them through real estate investing. As you develop a wealth plan, you'll examine your financial situation, needs, and the path to realizing your goals.

We understand that the day-to-day demands of life are constantly competing for your time and attention. Our most productive hours are consumed by family, work, and personal commitments. Starting today, carve out time to develop a wealth plan. Without one it will be difficult to develop financial independence, security, and peace of mind. A well-thought-out plan involves more than accumulating assets; it's composed of specific, measurable, and achievable financial goals while navigating through the constantly shifting market dynamics of the times.

When thinking about your wealth plan, you need to consider what type of cash flow you need to maintain your current lifestyle and the cash flow you will need to create the lifestyle you envision. This is the time to assess the steps, people, and resources you have and need to make your dreams a reality. A wealth plan will serve as a guide to help you break down your needs and tasks to set and achieve financial goals. It will also serve as a barometer to let you know if you are reaching your goals and getting closer to your objectives.

Well-thought-out plans consider potential risks to your financial health and provide strategies to lessen their impact. Risks are determined by your age and the number of financial responsibilities you have. The younger you are, the more time you have to recoup any failures; the older you are, the more likely you'll need direct access to your cash. This means using your wealth plan to note what the risks are and creating contingencies as a crucial part of your planning strategy.

This is why we can't overstate the importance of starting an emergency fund. There are always competing interests pulling cash away from your wallet, but you will never regret starting an emergency fund. Begin with a modest amount, such as \$40 to \$50 each pay period, and in time it will build up.

This is also the time to evaluate the kinds of insurance you may want to add to your portfolio. Different types of insurance policies, such as life, health, and property insurance, can provide financial security by covering surprise losses or expenses. Acquiring the right policies now will prevent unforeseen events from derailing your financial goals.

# Why Real Estate Should Be Part of Your Wealth Plan

Real estate should be a central part of a wealth plan due to its potential for escalation in value, rental income, and tax benefits. Houses, office buildings, and parking lots are examples of tangible assets that offer a sense of security and control. Additionally, because you can literally kick the foundation to check its condition, you have more control over your investment.

An additional benefit to investing in and acquiring real estate is that it creates the opportunity to build generational wealth for your family. *Generational wealth* refers to assets that are passed down from one generation to the next. As for real estate, once you own it, the property can last for generations and continue to provide passive income.

For instance, a family could decide to acquire a two-family home and use the top-floor apartment as a rental property to service the mortgage. Once there's a positive cash flow, the additional income could help to fund several priorities such as saving for more properties, retirement, college tuition, or debt resolution.

We have witnessed the financial flexibility that real estate offers. Let's say you become a real estate flipper. In this role, you might notice an old house or building that's boarded up and for sale, and decide to buy it and renovate it. If you don't want to wear a hard hat and goggles, you could just invest money, hire contractors, and not put any hard labor or "sweat equity" into the project.

There are many paths to wealth building within real estate. Take the time to figure out the type of real estate you want to leverage to achieve your financial goals. To ensure that you're on track, create a list of core action items with achievable deadlines to help you stay focused. Having a plan ensures that you have structure and helps you achieve a goal. If you just went in without a plan, you might feel as if you are winning the battle, but you might not win the financial freedom war.

Part of this process is figuring out how you want to define success. Is it a couple of bucks of additional income to pad your retirement? Or do you want to get enough passive income so you don't have to do whatever you're doing now? We think that's probably what success looks like to most people.

## **Case Study: Here's What Can Happen When a Wealth Plan Is a Priority**

We had a student named Sarah who joined Alexander Anderson Real Estate Group. She was a college student and knew that she wanted to go into real estate; however, after attending the Center for Real Estate Education and taking some of the investment classes on top of her mandatory pre-licensing course, she set her sights on a career in real estate investment. The most important lesson she took from the investment classes was that to make her dream a reality, she needed a solid plan—a wealth plan that she could revisit from time to time, revamp, and fall back on when she felt that she was gearing off course.

While getting her real estate license, Sarah meticulously put together her wealth plan. She diligently researched the local market in which she wanted to work, studied investment strategies, and always sought advice from instructors and other seasoned professionals. Throughout her studies, Sarah absorbed every piece of information like a sponge. The pre-licensing course provided her with a strong foundation of the legalities within real estate. But the extra investment courses really opened her eyes to what more could be done within the real estate industry, specifically, buying and holding real estate.

On obtaining her real estate license, Sarah dove headfirst into the industry. She worked in both commercial and residential real estate to start. She worked with mentors in both divisions of Alexander Anderson Real Estate Group, getting to know the differences between working with people seeking the perfect home and business-minded professionals looking for space that would fit their bottom-line numbers.

Sarah excelled at networking. She loved talking to people, but even more she loved listening to people, learning their stories, and figuring out how she could help them even if at that very

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moment they could not help her. For over a year, she networked tirelessly, attending seminars and workshops, and connecting with potential clients. Her knowledge and passion for the market were evident, and soon, she started closing deals.

She gravitated to commercial real estate, learning quickly that as she listened to various entrepreneurs and professionals she not only could help them find the perfect office space or retail space but also she could help them find a location that would fit their business models as well. As the commissions began to flow in and Sarah saved money, Sarah got an opportunity, through contacts she had gained, to invest in a building in an up-and-coming area of a New Jersey. It was a big investment for such a young and new professional. But because she knew that it fit into her wealth plan—which also took into consideration that she was in her twenties with very few responsibilities—she decided to take the plunge. She invested \$30,000 into the building with several other partners. Though it wasn't as much as some of the partners were investing, it gave her an opportunity to start her portfolio. Sarah received monthly distributions from this property, and though it wasn't enough for her to retire, she recognized the potential for growth. Sarah expanded her horizons.

It's been three years and Sarah now has a small but solid portfolio of real estate investments. She is now looking to flip individual single-family homes with some of the construction contacts she has made over the years. She's still working in commercial real estate sales, but she is well on her way to financial freedom, using her earnings as an agent to build her real estate portfolio.

She would have never taken her first investment opportunity seriously if it had not been for her wealth plan. It was in writing—it reminded her that even though the opportunity was scary and a big leap for her, it was what she had envisioned for herself before she even became a real estate agent.

# **How to Get Your Head in the Real Estate Game**

Knowledge is power. Read as many books as you can and start reading about what it's like to own and manage real estate. Your book list must include a glossary of real estate terms. In the real estate industry, you will hear words that you have never heard before. Becoming familiar with real estate terms helps you identify opportunities when you hear them.

Focus on the content that interests you most—residential, commercial, house flipping, value-add investments, or sales. If you are inspired after soaking up all this knowledge, and you want to begin a career in real estate, then consider taking steps to get your license.

## ***Get a Real Estate License***

Getting a real estate license isn't a must if you want to be a real estate investor, but it's a smart move for a few good reasons. First off, the process of acquiring a license will give you a greater understanding of how the real estate sector operates. You will become well versed on the rules, the laws, and how the market works. This knowledge gives you the power to make smart choices, analyze deals, and handle tricky situations with confidence. Having a license will give you an edge over other investors. You'll be privy to insider information and first opportunities to see properties that non-licensed investors won't have access to.

Plus, having a license lets you join a bigger group of real estate professionals—like agents, brokers, and experts. This group can be helpful in finding good investment opportunities, getting advice, and teaming up for successful deals. Last, if you are a licensed agent, you can handle your own transactions. This means you don't have to pay a big chunk of your profits in commissions. It gives you more freedom and control over your investments, which can lead to making more money in the long run. So, although it's not a must-do, getting a real estate license is a smart move if you want to be a successful real estate investor.

## ***Find Like-Minded People***

Whether you get your real estate license or not, it is also important to network. Go out there and find people who are doing what you want to do. Find people who are investing in real estate and talking about real estate. There are numerous social media groups or networking groups that you can join to immerse yourself in the language and culture of buying and selling property. Find someone and offer to buy them a cup of coffee; ask to hang out with them for a day to see how they operate when buying or selling. Also, don't limit yourself to one person.

Go out there and find multiple people to network with who are doing different types of real estate and find people in different age groups. Seek out seasoned real estate professionals, people who have been doing this their whole life. They are going to give you amazing insight on what it is like to own real estate. They can tell you how to navigate in good and bad market conditions, and what to look out for. But don't stop there. Also, reach out to younger professionals who have 5 or 10 years of experience to discover what you can learn. Perhaps they have been effective with using social media to acquire and sell properties or using alerts when new properties become available in your market.

## ***Cast a Wide Net***

When you are in the early stages of your real estate path, cast a wide net and gather all the information you can about the city or town and the neighborhoods you plan to do business in. Pay attention to real estate articles in your local paper and community websites that feature property listings. Remember, these steps are only the beginning of how you can get up to speed on what's happening in your market. It's a good practice to read all you can and consume a healthy dose of YouTube instructional videos. Most likely you won't hit your stride until you develop a network of people that includes real estate agents, contractors, and financial professionals.

Also, as a novice player in the real estate market, it is best to focus on one property type until you have developed a high level of competency in either residential or commercial properties. Each category has its own risks and rewards. But no matter what area you choose—you can't sit on the sidelines forever. You've got to jump in and start. As the saying goes, "you've gotta be in it to win it."

## **So Many Choices: Start with One Property Type**

Real estate investment offers a wide array of property types to choose from—commercial, multifamily, single-family, warehouses, and even land. It can be overwhelming, and you might be tempted to dive into multiple types at once. However, for new investors, here's the scoop: it's a smart move to start with just one property type. This approach will help you gradually navigate the world of real estate investing and find your comfort zone. Let's explore a variety of property types and the potential risks and rewards associated with each.

### **Top Five Rewards of Investing Mid-Size to Large Commercial Properties**

- 1. Bigger payouts.** Due to the higher value of these buildings brokers and agents routinely get larger commissions as a real estate agent and larger payouts as an investor compared to smaller commercial properties or residential sales.
- 2. Longer leases.** When you're buying and holding commercial property, occupants in commercial properties typically have longer term leases that provide steady income for the new owner.
- 3. Diversification.** For investors, creating a mix of mid-size to large commercial properties in their portfolio can foster diversification and reduce the risk linked to a particular type of property.

- 4. Advantage of size.** Owning larger properties often allows for economies of scale for services like maintenance, security, and management.
- 5. Potential for appreciation.** Due to their prominence and potential for redevelopment or repositioning, large commercial properties might have higher appreciation potential, especially in growing markets.

### **Top Five Risks of Investing in Mid-Size to Large Commercial Properties**

- 1. Higher seed capital.** Large commercial properties usually require a substantial capital commitment compared to smaller properties or residential investments.
- 2. Sophisticated management team.** Larger properties might require a complex management team, including more staff, rigorous maintenance schedules, and specialized systems.
- 3. Greater risk exposure.** If a prominent tenant moves, it can lead to substantial income loss until a comparable replacement is found.
- 4. Liquidity issues.** It is often harder to execute a quick sale of a large commercial property because they have a smaller pool of buyers, which incurs a prolonged sale process.
- 5. High maintenance costs.** Larger buildings with a significant amount of people generally mean greater wear and tear and likely higher repair bills.

### **Top Five Rewards of Investing in Single-Family Homes**

- 1. High demand.** For decades single-family homes have been in steady demand among buyers. They are part of the fabric of the American Dream.
- 2. Easy to finance.** In addition to conventional financing, there are plenty of assistance programs that can be accessed by the

general public and specific groups such as first-time home buyers, veterans, teachers, nurses, and members of police and fire departments.

- 3. Quicker sales process.** There is a swift sales process for single-family homes, which is usually faster than larger commercial properties or multiunit residences.
- 4. Large audience.** Single-family homes attract a wide range of buyers that include first-time homebuyers, downsizers, and investors.
- 5. It's the American Dream.** Buyers often have an emotional attachment to buying their first home. This can often lead to a faster than usual sale process where cost takes a backseat to desire.

### **Top Five Risks of Investing in Single-Family Homes**

- 1. Unstable market.** Volatility in the real estate market can spur a decrease in home prices that, if you choose to sell in a down market, could lead to a loss for sellers who purchased their dwelling at a higher price.
- 2. High transaction costs.** When flipping a single-family home, you will incur several transaction costs, which include agent commissions, closing costs, staging expenses, and, if needed, repair and renovation costs to increase the property's marketability or have the sale go through.
- 3. Liquidity issues.** Houses, unlike stocks or bonds, are not suited for a quick sale. Depending on market conditions it can take weeks and sometimes months to find a buyer.
- 4. Time-consuming.** Flipping a home doesn't always happen overnight. It can often feel more like a journey than a destination point. It must be prepped for sale, shown to potential buyers, then tested by inspectors. This phase can carry on for months if unexpected property conditions surface.

**5. Emotions can run high.** A family home is more than four walls and a roof. It is the keeper of our best memories and our most ambitious dreams. The personal attachment may make it difficult for the buyer or seller to acquire a new address.

In the chapters ahead, we'll guide you through the process of leveraging real estate investing to build wealth and achieve financial freedom. Yet, it's important to understand that it's not merely about amassing wealth. It involves introspection, identifying strengths and weaknesses, pinpointing your niche within real estate, and cultivating meaningful connections. Your wealth plan serves as the road map for this transformative journey.

