

Five Things You Need To Know To Get Rich in Real Estate

By Vena Jones-Cox

For more than 5 years now, I've been teaching a class called Real Estate 101. Most of the students in this class are brand new investors, and they come from a variety of backgrounds. But they all come with one thing in common---the desire to "get rich."

But when I ask the class the question, "What is rich?" they are always surprised that THEIR idea of rich is not everyone else's idea of rich. And I don't just mean that one person might think having a million dollars is rich, while another doesn't think he's rich until he's got \$10 million. I mean that, when it comes right down to what each individual defines as rich, it's usually not about money at all.

Typical responses to the question, "How will you know when you're rich?" include:

"I won't have to have a job."

"I'll stop worrying about how I'll live after I'm retired."

"My passive income will exceed my expenses."

"I'll be able to do all the things I've always wanted to, but never had the time or money."

"I'll be able to stay home and raise my kids."

See, most people---very rightly---define rich as the freedom to decide how they're going to spend their time, NOT as a function of how much money or income they have.

Why is this important? Because until you've thought about---and I mean really defined---what it is you want from your real estate career, it's impossible to take the first step of choosing the right strategy on which to focus. After all, there are literally endless ways to find, finance, and make money from properties---but each strategy gets you different KINDS of money (cash, cash flow, wealth, tax savings) and pays off over a different period of time (now, in a year or two, in 30 years).

If your goal was to have lots of income 15 years from now (because that's when you'll retire) but no additional income now (because you're a doctor in the highest possible tax bracket), the smart thing to do would be to buy rental properties with 15 year loans---you'd get tax savings today and income tomorrow. On the other hand, if you're just out of college and trying to pay off \$25,000 in credit card and student loan debt, wholesaling might be the right way to go.

The point is, until you've put aside all the hoopla and excitement of "getting rich in real estate" and really decided what that means to you, you have no way of going forward. If you don't know what kind of rich you want, how can you know what strategy to focus on learning and doing? And if you don't know what strategy to pursue, how will you know what kinds of property to look at? And if you don't know what kinds of property to look at, how will you learn to find motivated sellers of that kind of property, or how to evaluate it, or anything else?

Answer: you won't, you'll be stuck in an endless fog of questions and uncertainty---it's what real estate educators call paralysis of analysis. You'll buy every home study course that comes along, hoping for the magic bullet that will tell you what to do next. And you'll never take that next step of actually doing a deal.

So, the first thing you need to know to get rich in real estate is: **What "Rich" Means to You.**

The second thing that every investor needs is great deals. It's said that all the money that's made in real estate is made the day the property is purchased---and in my experience, that's absolutely true. Get a great deal, and everything else from finding the money to buy it to ultimately turning a profit on it is easy. Buy a bad deal---one where you've overpaid, or gotten awful terms, or just bitten off more than you can chew---and it will be a money loser and a thorn in your side for a long, long time.

There are 2 keys to finding great deals: one is knowing what a great deal is to YOU based on your particular strategy (see #1); the other is knowing how to find motivated sellers of that kind of deal.

If your goal is to wholesale properties, for instance, you're looking for sellers who want to get rid of ugly properties in decent areas so badly that they're willing to give up a lot of equity in return for a quick, as-is sale. You might find these folks on your city's list of condemned properties, or by driving around and looking for obvious "don't wanters" or by running an ad in the paper that says, "I buy ugly houses." If, on the other hand, you want long-term cash flow and tax breaks, you might

search your tax rolls for owners of apartment buildings that have owned them for 20 years or more---in other words, landlords who might be close to retiring and ready to sell on terms.

There are lots of ways to find good deals, and the more you find, the richer you'll be. So, the second thing you need to get rich in real estate is: **The Ability to Find Great Deals on the Kinds of Properties that Fit Your Strategy.**

The third thing you need to know to get rich in real estate is that most of the successful investors around you have a secret: they don't borrow money from banks.

There are a lot of reasons for this---banks are slow to close, require an unbelievable amount of paperwork, charge a lot of fees to borrow money, and have per-borrower lending limits that an investor who buys more than a few properties a year runs up against very quickly. Furthermore, banks are generally unable to negotiate terms; if you want a longer amortization period, or a more favorable interest rate or a higher loan to value than their existing programs allow, too bad.

On the other hand, there are lots and lots of ways to finance properties without ever setting foot inside a bank. For instance, most sellers of real estate already have financing in place---they borrowed money from the bank to buy the property to begin with. They've already taken the time, filled out the paperwork, and paid the fees. So if you know how to take over those payments via a subject to, land contract, or lease/option, you can step into the seller's shoes and get their financing with very little hassle to you.

And if the seller is unable or unwilling to let you do this, there are other sources of money than traditional lenders. Millions of people have pulled billions of dollars out of the stock market, and would love the opportunity to be the "money partner" in your real estate deals. Or better yet, to act as the lender on your deals and get 8% interest on their funds---with no points, no closing cost, no application or "junk fees", and, most importantly, no hassle or paperwork. So the 3rd thing you need to get rich in real estate is:

How to Use Other People's Money to Buy Properties.

The fourth thing you need to know to get rich in real estate is that, no matter what your primary strategy is, there will be times when you need to generate cash quickly.

One of the tried-and-true methods of becoming wealthy in this country is by owning rental properties. The strategy is so simple it's almost brainless: buy a building, rent it out, maintain it, and let the tenants pay off the loan while it grows in value. In 20 years, the property will be paid off and will have doubled in value. Do this 4 or 5 times and, viola---you're a millionaire.

There are just 2 problems with this concept---first, while the property is subject to the mortgage, the actual cash flow is pretty small relative to the value of the property itself. A \$75,000 home might produce \$1,800 per year in income after all of the expenses plus the debt service; a 40-unit building that appraises for a million dollars can reasonably be expected to produce \$4,000 a month in income. Sure, after they're paid off, they'll be gold mines, but how many of us want to wait 15 or 20 years for our rentals to support us?

The second problem is that rental properties require the occasional infusion to large amounts of cash. Roof goes bad on the single family? Expect to pay \$4,000 for a new one. Heating system dies on your 40-unit? \$11,000 to replace it.

If all you know is how to buy more rentals, you'll have 3 choices in terms of how to come up with this cash when you need it: dip into your personal savings; sell a property; or refinance one to pull out some of the equity. If you're a good saver---which most of us aren't---option 1 is probably the best. If you exercise option 2, you lose the income from that property forever and option 3 results in lower cash flow from the property you refinance.

But, if, in addition to your long term hold strategies, you know how to generate cash in the short and medium term, you'll always be able to get the money you need to take care of your rentals and any emergency trips to the Caribbean that come up. Strategies that generate cash include wholesaling, retailing, selling on lease/option and learning. Using one or more of these is crucial to successfully keeping and maintaining rentals. So, the fourth thing you need to know is **How to Generate CASH When You Need it.**

The final secret to becoming rich in real estate is understanding that you have to invest money to make money. And I don't mean sinking gazillions of dollars into real estate; in fact, I think that the LESS of your own money you have in your properties, the MORE you actually make. I mean other kinds of investments -- in yourself, in your business, and in the world.

The more disciplined you are in budgeting for these investments, the faster you'll reach your wealth and income goals. Sure, you have the choice of spending your money instead of investing it, but before you do, think about how much it's really costing you. The \$15,000 extra you spend to buy the new car you want instead of the 4 year-old model that would get you around? That's 5 bootcamps that could each teach you how to earn an extra \$50,000 a year. Big-screen TV for 3 grand? How about \$3,000 in extra marketing, which would bring in 10 deals for a net cash profit of \$70,000. A nice dinner out instead of hamburgers at home? \$200 that might have bought a Peruvian family a Llama that would literally change their lives. My studied opinion? For every dollar you earn; spend **10% on education, 10% on your business, save 10% and ...** if you really want to be "rich"... **give 10% to someone who needs it more than you do.**

Invest in yourself and others, and you'll be rich even before you're rich.

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