Make Money
By Investing In
Rental Properties

By M. *Mort* Gaugez R.I.P.

Contents

Introduction (Read First)

Introduction

My first rental!

Hardly, but looking back, it does seem like that's how far I've come since that first rental property I sunk the last few bucks I had, into. Come to think of it, I could do wonders with that old ranch, above.

If you've been thinking of making money in real estate, you've no doubt come across those early A.M. infomercials that claim, "You too can earn unlimited income in your spare time, while creating a personal fortune in real estate, and all this with no money down!"

These infomercials make buying and managing rental properties seem ever so easy. They illustrate people just like you and me enjoying boats, luxury cars, and maintaining huge homes, while enjoying all the leisure time in the world.

You wonder, can this all be possibly true? A straight forward answer would be, Well, yes and no.

First, can you make a lot of money with rental properties and retire rich? Absolutely!

Many people have done so, although is it not often, instantaneous and easy money?

Real estate, like any other honest business, requires you to work hard, while being well disciplined, determined, and above all well informed. If you apply those qualities, then you'll experience the fruit of your effort, and to that degree of effort.

In reality, the practice of acquiring a rental house, especially your first one, isn't as trouble-free as it may appear on those commercials. Yet it can be a lot of fun, very profitable, and personally fulfilling. But only, where you possess the right outlook, have the desire to work hard, and the self-confidence to succeed at it!

Of course, in order to increase your chance of success you need to be educated. Which brings us to what this book is about.

It's designed to show you how to make buying your first rental house a success, by following the same proven principals I followed.

This book will show you how to:

- Select a house and negotiate the best price and terms.
- Pre-qualify for low-cost loans.
- Link up with the *right* loan broker, realtor, and subcontractors.
- Find the *right* house at the *right* price and make a great deal.
- Pocket money on the needed renovations that produce higher rents.
- Uncover and qualify top-quality tenants.
- and, protect your investment with the right lease, so as to always get paid on time.

These strategies I learned the hard way, that's no reason you should. That's the purpose of this book.

The best of good fortune;

M. *Mort* Gaugez R.I.P.

About The Market

Without a doubt, the business of purchasing, managing, and selling real estate has proven to be one of the most profitable and rewarding investment activities you can take part in.

You can invest in real estate in as many ways as there are people. Yet, most all investment strategies focus on *different* time horizons.

That is, whereas some investors, for example, prefer to adopt a short-term approach by "flipping" or "rehabbing" houses, other investors prefer to adopt a longer-term approach that includes buying, managing, and holding rental houses for a certain number of years.

The one significant factor that affects both strategies is *volume*. For example, increasing the <u>volume</u> of units *bought and sold*, or *flipped*, increases the investor's opportunity to produce profits.

On the other hand, by increasing the volume of units bought, managed, and held, also amplifies the investor's opportunity to produce income.

<u>The R. E. Market, in Perspective</u>

Historically, the housing market has performed quite well. When weighed against other assets, such as stocks or commodities, it has proven more predictable and not nearly as fickle.

While there have been some flat years, home values on the whole have risen year after year. According to the U.S. Census Bureau, new home prices have risen from an average sales price of around $19,500 in 1965 to well over $300,000 today.

Thus, if you were fortunate enough to possess even a small portfolio of only five or six rental houses back in 1965, their amassed value today would be, on average, estimated at well over $1.2 million.

<u>There Are Four Basic Routes To R.E. Wealth</u>

The tried and true performance of real estate as an asset is only one portion of the gains open to investors, and results from an increase in value that can be ascribed to price appreciation.

Still, there are three additional ways inherent in real estate on which investors can capitalize, as well. Benefits accrue through reductions in the principal of a loan, through tax savings, and through net positive income generated from rents.

Changes in real estate values that come about through appreciation, or increases in price, primarily are due to *two* market factors; increases in the money supply, and increases in demand.

The Federal Reserve Board (Fed) is responsible for changes in the nation's supply of money.

Increases in the money supply result in devaluation of the dollar and, equally, cause prices to increase, or inflate.

As more dollars flood the market and become available to purchase goods, they begin to diminish in value. For example, without dating myself too much, I can remember as a child when it only cost 10 cents for a scoop of ice cream, now the going rate ranges anywhere from $2.00 to $5 depending on where you live.

Naturally, the cost of food, gasoline, and housing, as well as all other goods, also were much less then. The subsequent rise in prices is a result of increases in the supply of money, otherwise known as inflation.

The second element of price appreciation mirrors the changes in the overall demand for housing. Positive changes in economic conditions for many families over the past decades have made the possibility of home ownership a reality, thereby resulting in an increase in demand.

Also, other noteworthy factors that have added to the demand for housing are the growth in the nation's population from two primary sources.

The first occurs quite naturally through the birth of children, whereas the second results from a steady flow of immigrants into the country.

A major benefit to owners of investment rental property develops through reductions in loan principal. Each month as the mortgage payment is made, a portion of the payment is applied to both the interest and the principal.

As reducing the principal naturally means reducing the loan balance. Thus, as the payments are made month after month and year after year, the balance eventually will be paid in full.

While in the early years, most of the payment is applied to the interest, over time, however, the respective proportions begin to reverse gradually as the interest portion decreases and the principal portion increases.

For instance, a loan with a 30-year amortization period will be paid completely in exactly 360 months if equal payments are made over the duration of the loan. The beauty of this benefit is that it is the tenants are making the monthly payments and subsequently reducing the loan balance for you.

A third benefit to owners of investment rental property stems from a reduction in tax liability. The Internal Revenue Service (IRS) mandates that rental property be *depreciated* over a specific time horizon.

While 'depreciation' can be a little confusing to new investors, the important thing to understand is that - it is a calculation made primarily for tax purposes and has <u>no</u> bearing on the cash flow.

The calculation is made for income tax reporting purposes and should not be taken into account when estimating the cash flow from a rental property as this is an annual event.

Yet, make no mistake, a reduction in one's tax liability is a *very real* benefit, and taken into account, relating to how many properties are owned and the profitability of each, an investor's tax liability *can be reduced to zero*.

A fourth benefit to owners of investment rental property occurs from the *net positive* cash flow produced from the monthly payments made. This is the portion remaining after all expenses.

Primarily, an investor of rental houses should strive to purchase only those properties that meet these two tests.

The first test is to locate a rental property that is priced at or below fair market value,

And the second test is to make sure that the property, cash flows properly.

For a rental property's cash to flow properly, it should be adequate to produce a positive balance on a continuing basis. A net positive cash flow from the property is just one more way investors can benefit by owning rental properties.

The Rental Investors Outlook

There has been a great deal of speculation about the so-called "real estate bubble." I am more convinced than ever that there is *no* real estate bubble.

Hold on, by no means am I saying that the pace of growth in the real estate market will not slow down, for most assuredly it will. There may even be some periods of softness with flat to declining home values, just as there have always been.

The past 40 years of growth stands at an average annual rate of just about 6.38 percent, and should prove to be a trustworthy indicator of what we can expect in the future.

Different factors present an exceptionally positive outlook for real estate investors, and you should be able to enjoy many opportunities over the next decade, allowing you to participate successfully in one of the most exciting industries of all, the real estate industry.

The techniques outlined in this book will provide you with the tools needed to capture a generous portion of the many profits that will be generated over the coming years in the rental house industry.

However, it will be up to you to put into operation the techniques I outline, so as to maximize your opportunities for success.

The Right Stuff

Ask yourself, do I have the *right stuff*? Well do you, p---? Sorry, that old movie line crept in!

In other words, you must discover if you possess what it takes to succeed in investing in rental properties. And, by this, I don't mean financial assets like cash and credit!

While these are, of course, important, what's absolutely indispensable is having the right *psychological* composition, the intangible assets required to make it. The right stuff.

As with any great business opportunity, real estate investing is not for everyone. This because, contrary to get-rich-quick infomercials saturating TV, real estate investing requires a lot of hard work and personal sacrifice.

<u>10 intangible qualities you'll need to succeed in real estate?</u>

Ask yourself these questions.

1. Can I take the risks? You must overcome your fears of failure when negative thoughts cloud your thinking.

Such as;

- What if I buy this house, work hard to fix it up, and nobody wants to rents it?
- How will I keep from losing my shirt?
- What if my tenants make a couple of payments and leave, after trashing my property?
- What if an eyesore is built next door and devalues my property?
- What if my house burns down?

When these thoughts crop up, you have to have the self-confidence to answer them logically in your mind. Your biggest obstacle to success will always be you!

Think about it, it's realistic to worry about the rent, and you may need to adjust your thinking a little, but the chances of nobody renting it are more then slim. About negative cash flow, simply don't go into a deal that appears to be negative from the beginning.

As to your renters trashing the place, yes, this is possible, therefore always get credit applications on soon-to-be tenants. The possibility of fire is always present, and why you must see to it there's insurance, maintained on your rentals.

You can do your part to reduce the risk of blight near you rental by first doing your homework. Check to make sure there are no rezoning plans for the immediate location around your prospective property. If you buy a house in a subdivision you have drastically reduced that risk.

If you can face these risks, you'll do fine. Just make sure you go into any deal with your eyes wide open.

2. Do you have the desire to keep learning and growing? Remember, knowledge is power, and the more you learn about the business the more profit you'll make, and the less money you'll lose.

For instance, Do you;

> Like dealing with people?
> Understand mortgages?
> Enjoy working with your hands?
> Know how to paint, fix a toilet, or a leaky faucet?
> Have the ability to research problems and find a solution?

First, recognize what you need to learn and then focus your time and resources on gaining the knowledge and skills you need. This book, along with others that I will recommend you read, and your local home improvement store, will get you well on your way to knowing what you need to know.

3. Do you have the time to devote yourself to this? Figure your cost, in time, before you take the plunge.

Doing this will mean you're committed to spending whatever time it takes to succeed. If you feel guilty about the time you spend on this endeavor, you will not really enjoy the work..

4. Do you possess an *opportunity mindset*? That is, where others may see a dump - a quick thinking and knowledgeable real estate investor sees as a potential *cash cow*.

You'll need to spot opportunities where others do not. The smell of opportunity is when you walk into a house that literally stinks and you can immediately take $10,000 to $15,000 <u>off</u> the asking price.

The bottom line is, new carpets and paint, along with a little elbow grease, might do the trick and still cost less then $3,500.

At the same time cosmetic problems will turn off most people looking at that house. You must see this house through rose-colored glasses. <u>See the house as it will be once renovated</u>, *not* as it is now.

5. Are you self-motivated?

> Remember;
>
> You are the boss on every project.
> No one is going to watch over your shoulder and encourage you.
> You <u>must</u> supply your own motivation.

6. Do you have access to financial reserves, a savings account, an equity line of credit on your current home, or credit cards for repairs, advertising expenses, and so forth?

And, don't forget to look beyond your own finances to other people's money. What if you do the work but someone supplies the money? You just need the access!

7. Do you have availability to partners? Contemplate who, if anyone, can you call on for help? Realize, that two people going in together on their first deal might have a calming effect on each.

8. Can you adapt? Are you willing to learn, change your habits, and forgive yourself for mistakes? To get the first deal behind you is a wonderful feeling. The second rental property will seem so much easier.

9. Can you withstand criticism? What if your family and friends think you've lost your mind will you be able to stand up to their ridicule?

A suggestion here. If you already know family members or friends will not be supportive, then don't tell them.

10. Are you sophisticated and cautious? Are you willing to see at least a dozen houses before you put an offer on the table, for you'll have a strong temptation to bid on the first house you look at. Can you resist the temptation to buy something you really don't feel comfortable with?

Over time you'll learn to understand the difference between, nerves and that *old gut feeling*.

The Magic of OPM

Why do you suppose the smart investor uses *other people money* (OPM,) when buying rental properties. It's all about 'leverage.' And, what is leverage about? I thought you'd never ask!

Simply put, a concept in physics is that one can control just about anything, regardless of size and weight, with a long enough object (lever) and by applying minimal force.

In physics a *fulcrum* is defined as the support on which a lever turns. In the case of real estate, the *fulcrum* represents the use of other people's money.

On one end of the lever is your initial investment, however small it may be, and on the other end of the lever is the real estate you are *levering* up. It is the *OPM* that enables you to apply the law of leverage.

In real estate the very same principle relates. If you have an adequate lever, you can lift or buy properties that you never even dreamed of purchasing, otherwise. In plain English, the OPM formula, 'Other People's Money' is the formula for using leverage.

Leverage is an enormously powerful tool that, when used properly, can enable you to quickly amplify your return on investment (ROI.) Your goal is to control as much real estate as possible while using as *little* of your own money as you can.

All this means is, that to be a smart investor you have to maximize the use of other people's money. The more access you have to other people's money, the greater the degree of leverage your able to achieve, and the greater the *degree of leverage*, the higher is the impending return on your investment.

For example, you buy a $100,000 house (lots of luck today) with your own cash and have it free and clear of any mortgage. You have enticed a tenant to rent your house for $1,000 per month. Out of that $1,000, you may have to pay around $200 a month in taxes, insurance, vacancy reserves, maintenance reserves, and advertising expenses.

In this scenario your positive cash flow is $800 per month. So, what's your return on investment? Figure $800 a month times 12 months, and your positive cash flow for the year is $9,600. You have a 9.6 percent rate of return, not too bad when compared to current CD rates.

Although consider what your rate of return *(roi)* would be when you *leverage* with other people's money.

Let's say you bought that very same $100,000 home but put down only $5,000 and borrowed the remaining $95,000. Also, suppose your positive cash flow is $100 per month.

While this number may seem small compared to the $800 per month in the example above, the goal here is *return on investment.*

Multiply $100 per month by 12 months, which is $1,200 for the year. Now, here's the magic of OPM. Divide the $1,200 annual cash flow by your $5,000 cash down payment, and you've generated a 24 percent rate of return. And since you put only $5,000 down instead of $100,000, you gain the leverage to buy 20 more houses with the same $100,000.

And when you look at the long-term annual appreciation on these two investments. Say the value of our example goes up an average of just 3 percent annually and we compound the return, then in 10 years it will have gone from $100,000 to $130,000 in value, a long-term capital gain of $30,000.

If you had 20 houses just like that, then we would have 20 times that capital gain or $600,000. Of course you'd have added management problems, but we're just talking about the benefits of using other people's money.

The point is, when you *leverage* other people's money, you spectacularly improve your rate of return on your rental properties and build a much larger, <u>potentially</u> more lucrative portfolio.

Next, where do you locate OPM!

Thanks for reading these brief few pages, of one of the most successful and original career course manuals available on building your own home-based ***R.E. Renal Business.*** Learning from an established professional is the best way to starting your own profitable home business.

If you'd like to consider the complete course, **click here...**

For information on our other career courses go to either anezbizz.com or ahow2.com

Note: To read another *sample edition* of our famous home study courses follow this link... **Learn**

Whatever, your decision may I talk this opportunity to wish you the best of good fortune, and remember, don't leave your future to *the whim of others*.

Your friend;

Joe Myna