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Tomorrow's Real Estate Today

REAL ESTATE WEALTH COMES (ONLY) FROM LEVERAGE & APPRECIATION

This Is Part #6 of a Multi-Part Educational Video Series.

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Let's look at Leverage…

Just about <u>anyone</u> can control a property with a relatively small amount of cash… or sometimes no cash at all… THAT's WHY real estate investing makes such good late night infomercials… because any fool can sign on the dotted line and take control.

…that's called Leverage.

That's what got me into this business decades ago… and why real estate is still such a sweet way to build wealth. <u>Nowhere else can someone with no cash and no credit get legal control of a valuable asset so easily.</u>

Now Remember…

Just because it's *possible*, doesn't mean it's smart – that's where knowing the local market cycle comes in.

The most common way to get leverage is by simply getting a mortgage loan.

More 'creative' examples of leverage include tying-up or controlling a property with an "option to purchase" or buying it via an installment contract, or buying subject-to the existing mortgage. There are dozens of other ways to achieve leverage… that's what all the get-rich-quick programs focus on – how to get control of a property with little or no money down.

Property Value	$100,000
Mortgage Loan	<$90,000>
Cash Invested	**$10,000**

Leverage Ratio = 10:1

Here's a simple example…

Let's say you bought a $100,000 house by putting $10,000 down.

You have what's called a 10:1 Leverage Ratio – meaning for every $10 of value, you invested only $1 of your own cash… you're leveraged 10 to 1.

B.O.Y. Property Value	$100,000
Appreciation %	7 %
E.O.Y Property Value	**$107,000**

1 Yr. Appreciation = $7,000

If the value of that $100,000 property increased 7% the first year – you've got a $7,000 gain… (7% of 100,000 is 7,000)

Here's where leverage gets interesting.

Because you only put up 1/10th of the total value…

Increase in Value	$7,000
Original Investment	$10,000
1 Yr. R.O.I. (7,000/10,000)	**70%**

That 7% gain – that $7,000 1st year appreciation - produces a **<u>70%</u>** return on your original out of pocket investment.

You with me?

The $7,000 gain divided by your $10,000 investment = **<u>70% ROI</u>**, for the first year.

But wait – it gets much better…or I should say…

Increase in Value		$60,578
Original Investment		$10,000
7 Yr. R.O.I.	(60,578/10,000)	**606%**

It **<u>CAN</u>** get much better… let's say the market continues to appreciate 7% a year for the <u>next</u> 6 years. That $100,000 property is now worth $160,578. That's a $60,578 profit on your original $10,000 investment… **<u>A 606% return</u>** for just one house.

See why real estate – leverage and appreciation - CAN be so profitable?

If you're in a rising market, you get wealthier with each passing day.

Where else can you get that kind of return?

In *appreciating* markets, where a rising tide lifts ALL boats, you can leverage *multiple* properties and use more aggressive no-money-down strategies.

Let's take it a step further and look at an aggressive leveraging strategy… one you'd only use in *appreciating* markets…

This time, instead of putting $10,000 down and buying the property outright, you do a lease option. Let's say you pay the seller a $1,000 option fee on a three year deal. The market appreciates 7 % per year.

Beg. Property Value	$100,000
Total 3 Yr. Appreciation	**$22,504**
Initial Investment	$1,000

3 Yr R.O.I. = 2,250 %

Total Profit from 1 Deal
= $22,504

After three years the house is now worth over $122,504… there was $22,504 in appreciation.

Because your $1,000 upfront investment was so small, the ROI goes through the roof… a 2,250% return on your cash in just three years.

Now, let's get really aggressive, let's use that same $10,000 down payment in the first example, but do TEN lease options at $1,000 a pop.

Do 10 Lease-Options

Total 3 Yr. Appreciation	**$225,040**
Initial Investment	$10,000

3 Yr R.O.I. = 2,250 %

Total Profit from 10 Deals = $225,040

Three years later that $10k has grown to $225k… almost a quarter million dollars.

See how it works?

See how you can turn $10,000 into $225,000?

All you need is leverage **and an appreciating market**.

But remember … only a flaming idiot, or a green newbie would get this aggressive without first knowing exactly where the local cycle is… **just because you CAN do deals like this doesn't mean you should.**

It's the APPRECIATION that made you money – not the lease-option strategy.

…because when you boil it all down… big-time

Real estate success is nothing more than a *market cycle* play.

Get the *cycle* right, you win.

Get it wrong, you lose.

Compounding appreciation coupled with leverage

is how *Generational Wealth* is created.

It's not any more complex than that.

When you've got both leverage **AND** Appreciation working for you, it doesn't take long to be set for life.

But here's the fine print they don't tell you about…

Leverage cuts both ways.

Let's go back to that that first example where you actually bought a house putting $10,000 down… *this* time, let's say the property **declined** 7% the first year.

Beg. Property Value	$100,000
1st Yr. Depreciation (7%)	**<$7,000>**
Value of Property	**$93,000**
Less: Mortgage Loan	<$90,000>
Equity Remaining	**$3,000**

1 Yr <negative> R.O.I. = <70 %>

You've already lost $7,000 of your original $10,000 Investment

Now it's worth only $93,000 – <u>you've lost almost your entire $10,000 in 12 short months</u>.

If it declines 7% again the next year, it gets real ugly…

Beg. Property Value	$100,000
2 Yrs. Depreciation (7%/yr)	**<$13,510>**
Value of Property -	**$86,490**
Less: Mortgage Loan	<$90,000>
Negative Equity – 2nd Yr.	**$3,510**

2 Yr <negative> R.O.I. = <135 %>

You lost your entire $10,000 Investment and *owe* another $3,510

… because now, you're underwater. You owe $90,000 on a property worth only $86,490.

You've lost your **entire** investment.

Unless you've got spare cash to cover your shortfall, and your closing costs – you're totally up the creek without a paddle… you're stuck and out of exit options because you couldn't sell it even if you did have a buyer.

All you can do now is 'HOPE' and 'PRAY' the market bounces back quickly – but it rarely does; that's not how local cycles work. Everyone and their brother are in the same boat… and no one's got a paddle. Some markets take decades to rebound. Houston Texas is a great example. Thirty years after its big crash and real home values are still way below their peak… they've not even kept up with inflation.

The only good solution is to **avoid getting into that mess in the first place** because real estate is just too illiquid. Once **market psychology** takes over, everyone starts running for the exit doors and you can't get out even if you wanted too.

The bottom line is this…

Leverage multiplies the effects of appreciation (or decline)… it does not, by itself, create *any* wealth.

Let me say that again…

Leverage does *not* create wealth.

If the property value ***declines*** – leverage multiplies that pain the same way it multiplies wealth on the upside.

Most real estate education products out there teach you a particular spin on how to get properties with little or no money – leverage. That's just a small part of the equation, and it's NOT the important part.

What you ***should*** be focusing on is the second part of that equation… the part that actually **creates** the wealth – **APPRECIATION.**

The key to leverage is making sure **your** use of it matches where your local market is in its cycle. Otherwise, leverage is just another form of Russian Roulette… it's irresponsible to use leverage – or for that matter – even doing a deal – unless you know where you're at in the local cycle.

Appreciation, **not leverage, is what makes you money.**

It's a simple concept, but as a real estate investor, nothing's more important to you.

If you get nothing else from this webinar, then please lock this into your permanent memory:

Appreciation, not leverage, is what makes you money.

OK - there are two types of appreciation:

Forced and Automatic.

Forced appreciation is what we, as "traditional" real estate investors were taught to focus on. Buy low and (hopefully) sell higher. Forced Appreciation investors only make money on the "spread" – the difference between what you've got in it, and what you get out of it – after ALL expenses are paid.

With **Forced Appreciation** your upside profit is limited. It's transactional INCOME – not wealth.

Automatic Appreciation on the other hand is **un**limited. It applies to any man, woman or child who owns or controls real estate.

It's really important you understand the difference…

Forced appreciation is where you build an acquisitions funnel to find motivated or un-informed sellers. You cast a wide net, filter potential deals and try to buy properties below market. Once you have them tied up or purchased, you try to add value through things like rehabbing and marketing.

You "Force" the appreciation and profits through your hard work and special skills. It's what most real estate investing books and guru home study course have been teaching for the last 30 years… tactics like pre-foreclosures, wholesaling, sub-2's, probate, tax deeds, rehabbing, etc. etc.

There's nothing wrong – or hard - about buying properties below market; it just takes time and money. It's a job. You stop doing it, your income stops. It's Transactional **Income**, **not** wealth building.

I'm going to go a step further, and say GENERALLY these forced appreciation strategies aren't even profitable unless you're tactics are in synch with your local market cycle.

Remember that big, successful Tampa FL wholesaler who lost just about everything when the market tanked? He did great when the market was appreciating, but got clobbered when the market went downhill.

Remember those other forced appreciation strategies mentioned in the beginning? Subject-to's, Pre Construction and Lease options… they only work in appreciating markets too… and they can drive you to bankruptcy in falling markets.

Do you see where I'm going?

If all these transactional income strategies only work in rising markets and do poorly in falling markets…

…then what's ***really*** the main driver of your success or failure?

It's the *Market* !!

…isn't it?

Forced appreciation strategies can't be done in a vacuum, they still need a vibrant market to succeed… you've got to know the local market cycles even if all you're after is transactional income.

Thinking that Forced Appreciation **strategies** are the **source** of your success is no different than that Bantam Rooster thinking his crowing is what makes the sun come up.

<u>**Automatic**</u> Appreciation is different…

…it occurs when the value of your property goes up naturally or 'automatically' – Just because of where and when you OWN or control it, not from anything you did.

Unlike Forced appreciation where you're limited to the <u>spread</u> between your purchase and sale price, Automatic appreciation has massive, <u>unlimited</u> upside potential.

Remember the 15 <u>Trillion</u> dollars of wealth creation in the last up cycle? 99.9999% of that was AUTOMATIC appreciation.

Think of that $15 Trillion in new wealth in terms of all the surface sand on Miami Beach. Now, go pick up *one* single grain of that sand – you're looking at forced appreciations contribution to that $15 trillion of wealth.

All the money made from forced appreciation strategies, would be like a **single** grain of sand. It's insignificant and barely worth discussing… yet it gets all the attention. Ever since the advent of late night infomercials, investor have been taught to focus on the wrong thing… forced appreciation. It's NOT where the money is.

I was too for the first 10 or 15 years of my career because that's all there was… so we all focused on that tiny grain of sand we could have control over… our tactics.

Until I came along and invented the only system that works at the local level, buying for appreciation was considered "speculation."

Well, it's not speculation any more – there's real, proven science behind it, and an uncontested track record I'll show you in a minute.

But that's not even the best part about Automatic Appreciation, this is:

Automatic Appreciation requires **NO special real estate skills.**

It has **UNLIMITED acquisition candidates**. You don't have to deal with motivated, desperate or uneducated sellers.

…every property qualifies!

It’s lower risk and it’s easy.

You only have to do *one* thing right…

…Know the local cycle.

It can be *combined* with any ‘forced appreciation’ or transactional income strategies you want to use… to exponentially explode your results.

But if you don’t have time or interest for all that specialized stuff, you can still capture the lion’s share of the wealth while avoiding most of the risk and effort. I call it the…

FAR-GAP-HAM System