

The Four Pillars of Building Tremendous Wealth in Real Estate

You won't need to go any further than your local news paper, monthly magazine, local book store, or searching the web to realize there are many ways, processes, tools, and techniques to helping you build wealth. You may be successful with any one of them if you do two things:

1. *Take a business approach to your investment business.* This means having developed a business model and plan to help you make better investment decisions- those that will accelerate your time to your reaching your financial and life goals; and
2. *Continuously look for and measure investment opportunities that provide the highest of returns with the lowest of risk BEFORE you buy or sell.* Many times investors miss opportunities throughout the holding life of an investment to build wealth (see examples below for additional insights).

Many investment strategies can help build wealth but only from one or two directions. For example bank accounts and CD's only build wealth through interest accumulation while stocks can build wealth through dividends and increases in per share value (yield spread). Real estate provides the investor the opportunity to build wealth through four financial functions or "pillars": Cash Flow, Tax Benefits, Appreciation, and Principal Reduction. When you factor in the biggest secret to building wealth- "leveraging" your investment dollars (ability to use someone else's money to build your wealth) while paying attention to all four pillars, you will be engaging in an investment process that can help reduce your risk while providing well above average returns.

The four pillars of building wealth through real estate are:



Three basic cash flow functions involved in a typical investment

- *At acquisition- money out at purchase.* Leveraging your investment is critical here
- *From operations- money received from rents.* Looking for properties with highest Cash Flow Before Taxes
- *At disposition- net proceeds from sale of investment.* How to maximize net proceed returns?

The goal: To maximize cash flows at all three points in the investment process



Taxes are a significant factor in an investments rate of return

- *At acquisition- which buying strategy is best?* Development of an Exit Strategy is critical here
- *From operations- minimizing taxes paid.* Create a yearly tax reduction action plan with high quality expert
- *At disposition- minimizing taxes paid.* Set by Exit Strategy and modified by current market conditions

The goal: To maximize returns through the management of cost recovery



An increase in value of a property is a unique & major benefit of investing in real estate

- *At acquisition- which areas provide highest returns?* Where are you looking to invest in real estate?
- *From operations- force appreciation.* Which improvements to property will provide highest return?
- *At disposition- maximizing returns.* Set by Exit Strategy but sold based on changing market conditions

The goal: To maximize net proceeds throughout the holding life of property



NO OTHER INVESTMENT STRATEGY has someone else paying for your investment!

- *At acquisition- which properties have lowest vacancy rate?* Need to balance this with Cash Flows
- *From operations- monthly rents pay for your investment.* Use amortization schedules to maximize returns
- *At disposition- no longer exits.* Hold paid off property for cash flow or re-invest equity in multiple properties

The goal: To get as many people as you can to pay off your investment debt

Taking Action

If you have any questions about anything you have read about in this article or to find out more about how I help my clients maximize returns when buying, selling, or investing in real estate in Western PA, give me a call or email me to set up a convenient time to talk.

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