The Four Pillars of Building Tremendous Wealth in Real Estate

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You won't need to go any further than your local newspaper, 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 (across ALL asset classes that you invest in)- 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 risk BEFORE you buy, during your hold period, and BEFORE 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 at a time. For example:

- bank accounts, CD's, money market accounts only build wealth through low level interest accumulation
- stocks can build wealth through dividends and increases in per share value (yield spread)
- collectables, futures, and options build wealth on increase in value (yield spread)
- real estate provides the investor the opportunity to build wealth through four financial functions or "pillars" at the same time: 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 under even the worst of market conditions. It is also the only investment asset that can achieve "infinite returns"- a situation where you have received all of your investment dollars back, but still retain the asset. In EVERY other asset class, you must "cash in" the investment to secure the equity benefit- thus you no longer have the asset.

Investing in income producing real estate is also the only investment venue where:

- you have most, if not total control, over returns
- someone else (tenants) pays for your investment
- you can leverage your investment (get 100% of the benefits by investing only 20% of its value)
- you can quickly reach an *infinite return on investment level* (return of all out of pocket funds to purchase)
- you don't have to "sell off" the investment to take advantage of the benefits of the investment

So let's take a closer look at the four pillars for building wealth through the purchase of income producing real estate.

The Four Pillars for Building Tremendous Wealth in Real Estate

1. **Cash flows-** The amount of income generated from rents and other non-rental activities for a property. Note: One can have great cash flows and go bankrupt. What is most important here is Cash Flow After Taxes (CFAT) which is the amount of cash left in your pocket at the end of the year. To find the total wealth building potential of the property, add CFAT figure to Appreciation and Principle Reduction values.

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

2. **Appreciation-** The increase in value of a property over a given period of time. Usually reported in a %. This increase can come from any one or all three types of appreciation: Market Appreciation (the increase in value as market prices escalate; Forced Appreciation (physical updates to the property); or Performance Appreciation (value of property goes up as profits go up). To find the total wealth building potential of the property, add total Appreciation figures to CFAT and Principle Reduction values.

Taxes are a significant factor in an investment's 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 a 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

3. **Principle Reduction-** The amount of principal that has been paid down due to making timely monthly payments on the debt. This "principal" reduction creates increasing equity in the property (difference between its value and the remaining debt balance) month to month. To find the total wealth building potential of the property, add Principle Reduction figure to CFAT and Appreciation values.

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- forced 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

4. **Tax Benefits-** The estimate of tax benefits a property may provide its owner at a given time. A negative number suggests a profit while a positive number suggests an income loss. Note: this loss may be a function of depreciation. To find the total wealth building potential of the property, add Tax Benefits to Cash Flow Before Tax figure to calculate CFAT. Add CFAT, Appreciation, and Principle Reduction values together to calculate total wealth building benefit.

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 exists.*** 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

To find out more about building your net worth by investing in high return-low risk income producing real estate, please contact me, **Max Wilson,** *Real Estate Investment Strategist* at 724-816-4999, email me at MaxWilson@MaxbusinessGroup.com, or visit our website at www.MaxBusinessGroup.com.