

How to make money using Real Estate

An example from my portfolio

I think we all would agree making \$ is good. Making it via a passive means is even better. Making enough to do what you want vice what someone else would have you do is even better. Let me tell you right up front retirement is not what is cracked up to be. Sleeping in, watching TV, going to the gym, and farting around is not fun to me.

If that does sound attractive then let me tell you how to invest so you can get there sooner. The stuff I am writing is only things I have done. I only advocate for something I have done and know others could do if trained.

The key word / phrase that'll put \$ in your pocket is—LEVERAGE. If you are someone with assets then the second keyword phrase is CROSS-COLLATERALIZATION. It is generating leverage of working assets to maximize Return on Investment (ROI).

If you are going to buy real estate would you choose to pay cash for it or finance it all if you could? Our depression era parents / grandparents would say pay for it—debt is bad! They are right and they are wrong. Debt tied to non-appreciating assets or assets that do not pay for themselves is probably bad. Debt you take on to buy an asset that'll pay for itself if you diligently manage it is a totally different story.

What is the secret to building wealth through real estate?

Answer: You build wealth using the power of OPM—Other People's Money. When you are building wealth you finance it all if you can, but not to the point of a long term negative cash flow that'll drain your earned income each month, jeopardize your credit, negatively impact your overall financial condition, or marriage because you and your spouse can't tolerate the uncertainties of dealing with rental properties. In this example you are leveraging your credit (it is an asset—why not mobilize it and your mind for maximum effect!). As a matter of fact leverage your creativity, credit, and connections before you leverage your cash. Cash is usually the scarcest resource so keep that in mind as you develop your wealth building game plan.

A little more on how money makes money....

What do you get if you put money in the bank, as compared to a stock or real estate?

Answer:

Money in the bank generally earns interest ~ 5% (one virtue and not very much of one).

Money in stocks could earn you dividends, capital gains, and appreciation ~ 8-15% historically (three virtues).



Money in real estate could provide you with appreciation, an opportunity to buy it undervalued, positive cash flows (that only grow over time if you bought right), tax benefits (e.g. tax shelter) because of depreciation, paid in equity each month (thank you Mr. Renter), and enhanced credit worthiness (over time). If you were counting that is six values.

These virtues combined with a well structured cross collateralized financing arrangement can generate disproportionate Return on Investment (ROI) of 50% per year. If you cookie cutter it and repeat this process a few times you will end up well off. There are all kinds of ways to make money in real estate this is just the formula I prefer to use to grow my balance sheet. I've done the same them basically with stocks / mutual funds. The key thing is a willingness to set aside the asset and not need to use those monies while it serves as collateral for the loan.

In 2004, I pledged (2) \$60,000 assets. One, a note receivable (owed to me on a property I owned free and clear and opted to sell and finance for the buyer @8%), as well as the title to a townhouse that I own free and clear as collateral for an 8-plex apartment building for \$330,000. Buying investment properties generally requires 20% down (or equivalent collateral) before the bank will fund you the 80%. Each unit was rented for \$495 per month. When I closed I was happily surprised to notice the appraisal showed that I walked into a \$360,000 (not \$330,000) 8-plex because the seller was in a hurry. When I moved the rents up to \$620 a month over the next few months the value spiked to \$426,000 (because the income approach to property valuation dominates for units above 4-plex's). In addition, California investors realized what a good market Clarksville, TN was. Soon they were buying up properties left and right causing values to skew upward further. That plus another rent increase has driven the value to close to \$500,000 just 2.5 years later. In that same period the renters have been kind enough to pay the mortgage down to about \$300,000. The \$200,000 equity has been developed because I collateralized other working assets and kept rents in line with the market. The bank has returned my collateral and I am off to my next deal...with the same collateral☺

The monthly picture is \$2482.19 a month (principal / interest) + \$600 for property taxes + \$150 for insurance. Let's call that \$3250 for ease of the #s compared to \$4800 in rents. Of course you have to factor in repairs, vacancies, property management but I still clear a nice chunk of change. Keep in mind that in 17 years it'll be mine free and clear (if not sooner). Keep in mind that rents are ever increasing. Keep in mind that if I wanted to create cash flow now I could refinance and stretch the debt out to 30 years to lower my payments.

I don't tell you this to brag. I'll tell you this to earn your business. I want your referral to someone else who may be interested in what I can do with your assets to squeeze more return out of them so you can retire sooner. Fortune magazine rates San Antonio the #1 big city market to invest in. Coincidentally, I am an agent at ground zero. I am willing to consider any reasonable offer that results in advancing me towards my goals



My Education: Bachelor of Science in General Business (3.54 GPA), MA in Business Security Mgt (4.0 GPA), MBA and MA in Mgt/Organizational Leadership (in progress 40% complete—4.0 GPA). As well as, H&R Block Tax Preparer's Course so I well versed in the tax implications of real estate investment.

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