

Real estate investment strategies that work in any economic climate.

The information in this book is particularly astounding given the fact that its initial release was prior to the country being in recession.

Though the original book was nothing short of amazing, the author has graciously provided us with this revised second edition which contains a plethora of invaluable information. For the new investor, these foundational investment techniques will eliminate the fear of diving in.

Of equal value for the seasoned investor, this book will serve as an outstanding refresher course and a resource tool for reference. The author methodically refutes the belief that profitable real estate investing is now a thing of the past.



How to Build Wealth for a Lifetime in an Uncertain Economy

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Why Invest in Real Estate?

If asked their opinion about investing in real estate, the average person would probably say it's risky and requires too much money to start. However, as the author so articulately points out - this is only true for the uninformed. Historically, the most reliable investment medium has been real estate.

It's not a stretch to say that practically every millionaire in existence has invested a portion of their money in some form of real estate. The author has broken down in plain language some of the distinctions of real estate that may not hold true with other investment vehicles:

- Real estate is worldwide; someone 'somewhere' is always selling or buying real estate regardless of the time of year or the economic condition.
- It doesn't require college degrees, licenses, certifications or years of professional training to be a successful real estate investor.
- Real estate is one of, if not, the best investment method for generating huge profits.
- You can get started with little or no money. If you know your market and apply proper strategy you can realize financial freedom in a short period of time.

Contrary to popular opinion among some, it's not difficult to realize huge profits and, ultimately, financial freedom as a full time real estate investor. For the new investors who may experience a fear of venturing into uncharted territory, this author's strategy can greatly lessen those fears.

Beginning the Journey:

Before you quit your day job to invest full time, there are a few basic steps to follow that will establish a firm foundation for your success:

- 1 Maintain good credit. Good credit is one of the best assets an investor can have. If your credit isn't that good, take steps toward improving it.
- 2 Avoid frivolous spending. You may earn \$500,000 a year compared to someone else who earns only \$20,000 a year - but if both of you spend more than you earn you're equally broke.

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- 3 Commit yourself to good record keeping. Record every expense no matter how small.
- 4 Eliminate the fear of failure. "There are no failures, just experiences and your reactions to them." Tom Krause-
- 5 Set goals it's okay if they're outrageous, but at least make them realistic.
- 6 Visualize where you want to be and when you'd like to be there.
- 7 Develop a specific plan

Don't be Dissuaded by the Economy:

Worthy of inclusion in this section is a profound and utterly appropriate excerpt from Gary Ryan Blair " *Opportunities are easily lost while waiting for perfect conditions.*"

At the height of the real estate market the author purchased a house for \$525,000, did a few cosmetic updates, and sold it thirteen months later for \$710,000. Skeptics may say profits like this can only be realized when the market is hot. However, with the know-how, similar profits can be made even when the market is cold.

Case in Point:

An investor purchased a multi-family foreclosure for just under \$60,000. He did minimal improvements and was then able to take out \$192,000 mortgage on the property. He elected to rent out each unit which means the tenants' rents are covering his monthly mortgage payment in addition to providing him with positive cash flow each month. Plus, he can use the capital from the loan to invest in another property. When the market recovers (as it has in the past and will again) the investor can sell this property for a considerable profit.

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Don't be Dissuaded by the Economy:

Keep four basic terms in mind:

- Upward market (Also known as a seller's market because prices are up and there are more buyers looking for properties than there are properties available. Sellers can easily cash in during this market condition).

- Downward market (This is often considered a buyer's market because there are countless properties for sale, but only a few people buying. This works to a buyer's advantage when it comes to negotiating a lower purchase price).

- Peak market (This is when the market and prices are somewhat stabilized, and there are an equal number of both buyers and sellers).

- Bottom market (This is when real estate prices are at their lowest point, yet there are still as many buyers as there are sellers).

Real Estate is Cyclical:

- Know the current real estate cycle you're in, and invest accordingly.

- Have a specific strategy for each market trend.

The Four Main Types of Residential

- ✓ Houses
- ✓ Condos
- ✓ Multi-family dwellings (apartment buildings, etc.)
- ✓ Vacant land

Financing Options:

You can start investing in real estate whether you have money to start or not. Buying real estate can be just like buying anything else you can pay for it in cash or you can buy it on credit.

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The most common methods of financing are:

- Institutional lenders (banks, credit unions, savings & loans).
- Mortgage lenders (these lenders specialize in mortgage loans and typically don't offer any other banking services).
- Government agencies (city, state and federal agencies who offer assistance in order to promote homeownership).
- Private lenders (individuals or groups of individuals who will lend money when they believe the investment will be profitable).
- Seller financing. (By far the fastest and easiest way to finance your purchase).

A Lease Option can benefit both the seller and buyer.

As the Buyer:

- You can purchase the property with little or no money down.
- A portion of your rent goes toward the down payment and purchase of the property.
- Your purchase price is locked in, therefore, your equity increases.
- You can simultaneously sell the property when you consummate your option agreement.
- You have possession of the home.
- You're not required to pay property taxes during the option term.

Benefits of a Lease Option for the Seller:

As the seller, you're helping a potential buyer who may otherwise not have been able to realize home ownership.

As a result of your assistance you're able to:

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- Slightly increase the purchase price and monthly rent.
- Require the buyer/tenant to maintain the property.
- Collect a nonrefundable option fee.
- Retain legal ownership of the property.
- Continue renting the property to the buyer/tenant if they elect not to complete the option agreement.

How to Find Discounted Properties:

For the most part, when investors looked for discounted properties they turned to traditional sources like - classified ads, realtors, bank REO depts., yard signs, etc. Now, rarely utilized sources like the IRS and Treasury Department have broadened the scope of available avenues for finding good investment properties.

When the IRS seizes property it's as a result of unpaid taxes. You can get information on these properties at www.irs.gov.

When the Treasury Department seizes property, it's usually due to illegal activity which has caused a forfeiture of the owner's rights to the property. You can get information on these properties at www.ustreas.gov.

Developing an Investment Strategy:

There are certain rules of investing that the inexperienced investor should follow until investing becomes second nature.

When starting out:

- Focus on residential investing during a downward market (regardless of market conditions, people will always need a place to live. Even in a shaky economy, you can still generate positive cash flow by renting out your investment property. Another benefit in leaning toward residential investments is that it takes less time to understand the fundamentals it's not quite as complex as commercial real estate investing).
- Invest locally if you're familiar with an area you'll be able to make a determination as to whether it would be desirable for buyers.

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- If possible, select an area where new shopping malls, retail stores, maybe even new road construction is taking place. This generally brings an influx of new residents.
- If you're buying multiple properties, try to stick to the same general area it's much easier to keep an eye on properties in the same neighborhood than to travel to several different areas.
- Know the area do your homework. Just because it looks decent enough during the day, doesn't mean there isn't a high rate of crime during the night. Another factor in determining the desirability of an area is whether it has suffered massive job losses. The closure of a factory or plant can signal the decline of a neighborhood, and subsequently eliminate potential buyers and tenants.
- Buy the worst house in a great neighborhood instead of the best house in a bad neighborhood.

As you progress and become more comfortable in your real estate investment ventures, you'll discover and establish the criterion that works best in your geographic location.

The author tells an interesting story about the benefit of knowing the market trend, learning strategic negotiation skills and knowing when and how to put those skills to work.

In 2001, shortly after the 9/11 tragedy, property sales in many areas such as Hawaii dramatically declined even though values were steady. Vacationers, people with timeshares and even potential buyers for that area became almost nonexistent.

During that time an overly motivated seller dropped the price of his condo from \$640,000 to \$440,000. However, it was conditioned upon the seller spending three weeks there the following summer. During negotiations, the sales price was further reduced by \$25,000 in exchange for the investor agreeing to the seller's three-week stay. Ultimately, the investor purchased a \$640,000 condo in Hawaii for \$415,000.

After confidence in air travel and safety resumed, the investor was able to sell the condo for \$660,000 a gross profit of \$245,000.

The key is recognizing a golden opportunity when it presents itself. Whether you buy the best house or the worst house, there's profit potential regardless.

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National and Regional Influences:

There are always national factors that will impact the real estate market as a whole. Specifically:

- ✓ Interest rates
- ✓ Inflation
- ✓ Investment funds
- ✓ Business trends
- ✓ Catastrophic events

Interest Rates:

Many believe the best time to invest is when interest rates are low. This isn't necessarily true. An investor can do quite well whether interest rates are up or down as long as they employ the appropriate strategy.

When interest rates are high there are fewer homebuyers, which means your tenant pool is greatly increased. Therefore, when rates are high it's more advantageous for the investor to invest in rental property. To further educate yourself, do a search of historical interest rates to see how the different fluctuations in rates impacted the market over the years.

Inflation:

In simple terms, inflation is the reason prices increase. The higher inflation is at any given time, the less your money is worth. For instance, if your monthly expenses are \$1000, in ten years with 3% annual inflation, you'll need to earn at least \$1300 a month to meet those same monthly expenses.

Because real estate prices tend to rise right along with inflation, your investment properties will increase in value. If you happen to have fixed-rate mortgage(s), your monthly payment(s) will remain the same while the property values continue to increase. Therefore, when it comes to real estate, inflation can actually work in the investor's favor as long as it's only moderate fluctuation.

However, if inflation rises extremely fast (known as hyperinflation), as it did in the mid-70s, your monthly expenses to maintain rental properties can exceed the amount of rent you're collecting on them.

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Investment Funds:

The best time to invest in real estate can sometimes be determined by following the stream of funds. When money is being funneled into real estate, this means more people are buying and selling. Likewise, when money is being funneled out of real estate, this means fewer people are buying and selling.

An ideal time to buy investment property would be when people are pulling their money out of real estate and investing in some other vehicle like stocks. This would be the perfect time for you to pick up some drastically discounted properties. Countless real estate investors have become extremely successful by not following the crowd.

Business Trends:

When the economy is stable, unemployment is low, and incomes are high it's good for the country but not necessarily ideal for the investor looking to make the most of their investment dollars. However, in this current economic climate, unemployment is high, incomes are low, and companies are laying off or shutting down completely; this has resulted in a tremendous amount of foreclosures at bargain-basement prices. These conditions make it an opportune time for investors to add to their real estate portfolio.

Catastrophic Events:

This is an area of complete unpredictability from 9/11 to Hurricane Katrina. There's no way to know how these disastrous events will impact the real estate market in any given area. It behooves investors to be mindful of the possible effects such disasters (natural or otherwise) could have on their property values.

Migration

To be ahead of the game, do research to determine what areas people are moving from as well as what areas people are moving to. There are many ways to track this trend. One that most people probably never think of is contacting U-Haul or another major truck rental company and asking which part of the country most of their one-way trucks go to. If they

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should ask why you want the information, simply tell them you're researching migration trends. More often than not, they'll tell you.

Remember that even though the country may be in a state of real estate decline, there are always pockets where real estate is still stable and, in some cases, rising.

The author shares another real-life story about the benefits of research.

Enrollment had been down at a small town private university and, consequently, so was real estate. Then the school hired a new basketball coach who lead the team to the NCAA tournament- which garnered the university national recognition. It wasn't long before enrollment was up and student housing was in short supply.

The investors recognized this opportunity, so they purchased a large home and modified it into a five-bedroom student housing facility. Prior to renovating the house it would have rented for \$695 per month, but after transforming it into student housing, that \$695 figure was nearly doubled.

By staying informed, following social and economic trends and realizing the effects of certain intervening factors, shrewd investors can still make substantial profits even in an otherwise depressed area. Base your strategies upon the market cycle you happen to be in.

It's important to decide 'early' which investment route you'd like to take.

- Will you invest in properties for rental purposes?
- Will you buy properties to resell?
- Will you invest only in residential?
- Will you try your hand at commercial investing?
- Or, will you broaden your horizons and do a little bit of everything?

One thing that holds true in any investing scenario is location, location, location. If you choose to be a landlord and hope to get top rent dollars, keep in mind that you won't attract the kind of tenants who will pay the higher rents if the property is in an undesirable neighborhood.

If you decide to buy and resell, location also comes into play. You can have a beautifully restored home, but if the neighborhood is crime-ridden and drug-infested, you won't attract quality buyers willing to live there. Sadly, the neighborhood will diminish the beauty of the home.

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Throughout this book, the author cites many philosophical, yet reflective, quotes from various leaders and scholars. One being:

"Change is the law of life, and those who look only to the past or present are certain to miss the future." John F. Kennedy

The premise behind this quote is the author's desire to ease the fears and apprehension that new investors may be experiencing given the current economy. He encourages every investor to move forward with strategies that can very well bring about a lifetime of wealth and financial freedom.

Always Do Your Homework:

"A successful man continues to look for work after he has found a job."

-Author Unknown-

Never reach a point where you stop thoroughly analyzing each potential investment. Base your decision upon these important factors:

- Location consider curb appeal and desirability of the surrounding area.

 - Property condition how much will you spend on repairs?

 - Value get comps to find out what similar properties are selling for in the area. This is helpful when deciding how much to offer.

 - Amenities are there any features that increase the value?

 - Income potential are there tenants in the property? What is the income potential?

 - Functionality will the property work for your investment purposes?

 - Extras sometimes sellers will sweeten the pot by adding additional acreage as part of the sale of a house. If it's a buildable lot, this can make way for huge future profits.

 - Financing can you assume an existing mortgage? Or will you need to obtain new financing?

 - Liens are there any outstanding liens (other than mortgages) against the property?
- Environmental concerns is the property near a landfill or waste facility? Is there heavy traffic noise?

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Analyzing all of the above, you must determine whether a property will be profitable for you in the current real estate cycle.

The Real Estate Roller Coaster:

Investors, sometimes, make the mistake of sticking to an investment technique no matter what the real estate market is doing. They found a strategy that works and they continue to follow the same investing procedure. But when market conditions change, investment strategies must change also.

Follow each real estate cycle:

- UP cycle (Hot market) an increased demand for homes. Prices are high. Seller's market.

- PEAK cycle Supply is basically equal to demand. You can often find motivated sellers willing to consider any reasonable offer.

- DOWN cycle Prices and values fall. Properties stay on the market longer. This is not only a great time for investors to pick up discounted foreclosures, it's also a great time to cash in on unsold newly-constructed homes. In a Down Market, Developers factor in unsold homes as an expense and will often be open to selling them at unbelievable discounts.

- BOTTOM cycle When real estate bottoms out, investors can buy multiple properties dirt cheap and keep them as rentals until the market rises again.

The Three Basic Property Types:

Although each property will be different in some way, there are three main categories that investment properties fall into:

- A keeper - Properties in nice neighborhoods that aren't likely to suffer in a down market. It'll be easy to find long-term tenants and even if the positive cash flow isn't substantial, you'll still be able to profit from the sale when the market goes up again.

- A temporary hold - These properties are typically purchased during a down market and held until an up cycle.

- A flip - Properties can be flipped during any market condition if it's a good deal, and in the right neighborhood and price range.

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Hold on to the “keepers” as long as possible. If you have a property worth \$100,000, in a year it could be worth \$150,000. During the next peak it could be worth \$250,000 and continue to increase in value as the years go by. If it's rented, your tenants are paying the monthly expenses, so why not hold on to it and reap a huge financial benefit later.

How to Effectively Manage Rental Property:

When the market is in a slump, the most advantageous real estate tactic is to buy properties, hold on to them for several years while renting them out, and then sell them when the market surges again.

First you must decide whether you'll manage your rental property yourself or hire a property management company.

If you decide to manage your own property:

- Keep good records even if you only have one property it's important to keep all receipts and records for tax purposes.
- A good accountant is a must.
- Have a rent roll so you'll know the amount of each tenant's rent and security deposit.
- Maintain a log showing all repairs and the costs for those repairs.
- Open a bank account solely for the rental property.
- Screen potential tenants thoroughly.
- Do your best to minimize vacancies by being proactive. Contact your good tenants whose leases are about to expire and ask what their plans are. Try offering them an incentive to renew their lease. If they plan to move, it's advisable to start advertising their apartment at least a month prior to their moving out.
- Know the landlord/tenant laws in your state and municipality.
- Maintain adequate insurance on every property you own (business, liability, fire, etc.).
- Budget at least 10% of your annual gross income for maintenance and repairs.

Once you've laid the groundwork, success is just around the corner.

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IN CONCLUSION

The author has, without a doubt, succeeded at opening up a whole new perspective on investing in a declining market. Even the most fearful investor will feel at ease using the strategies this author employs. With his keen insight and personal achievements, he drives home the fact that successful real estate investing begins with knowledge. Know the market, know the economic climate, know the real estate cycle, and you'll know what strategy to apply.

*"You block your dream when you allow your fear to grow bigger than your faith."
Mary Manin Morrissey-*

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