Notes
Millionaire Real Estate Investor
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Compiled August 2015 by Kris Freeberg

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Part One: Charting the Course

Preface

- Little money comes easy; big money doesn't
- Small plans at best yield small results. Big plans at worst beat small plans.

Introduction

- Anyone can do it
- When the student is ready, the teacher arrives
- Money lives on the other side of fear

Chapter 1: Overview

- Champions take luck out of the game; it's about strategy, models
- Every success story has three fundamental parts:
  1. Think
  2. Plan
  3. Produce
- Successful investors clearly follow proven models.
- The $100,000 that got away (undervalued condo)
  - A true investor asks, “Is this the deal?” not “Should I invest?”
  - He began having breakfast with his investment adviser Michael.
  - Michael encouraged him to compile his Net Worth.
  - Michael taught him about income-producing assets . . . passive or UnEarned Income.
  - They met for breakfast biweekly for ten years.
  - When you understand timeless truths about wealth building, you're in a position to act promptly and decisively. You have a grid.
- Three Areas of Focus – CTN – Criteria, Terms, Network
  - Pareto Principle – CTN are the Millionaire Investor's “Critical Few.”
  - Terms – you make your money going in by negotiating the right terms, then letting the market work for you, instead of buying on unfavorable terms, then hoping the market will save you.
  - Network – you can accomplish more with the right help than you can working alone.
- Four Stages of Growth
  1. Think a Million
  2. Buy a Million (assets)

3. Own a Million (equity) – balance cash flow with equity accumulation
4. Receive a Million (annual income)

Chapter 2: Mythunderstandings

- The Devil's Wedge: doubt, discouragement.
- 8 Myths:
  1. I don't need to be an investor
  2. I don't need to be wealthy
  3. I can't
  4. Investing is complicated
  5. The best investments require esoteric knowledge
  6. Investing is risky
  7. Successful investors are able to time the market.
  8. All the good investments are taken.
- The first three are about how we see ourselves. The other five are about how we see the world.
- Any myths you have about yourself tend to also be the lens through which you view the world, and magnify misunderstandings about it.
- All the high-achieving investors involved in the making of the book had, at one time or another, to confront a persistent fear or doubt that proved later to be unfounded.

Myths about one's self:

1. I don't need to be an investor
   - It's highly unlikely your job provides enough income for you to set aside a manageable percentage of it to become wealthy.
   - "The Myth of the Modest Saver" - people who save from their earned income. The truth is that less than 1% of people have adequate income to do this, and even when they do, they don't. (Not sure I buy this . . . no facts to back up his opinions . . . .)
     - Examples: profligate pro athletes
     - Exceptions: Sir John Templeton, James Sorenson.

2. I don't need to be wealthy
   - How can you protect yourself and your loved ones against unexpected events that insurance doesn't cover? Answer = personal wealth.
   - There's this idea that having more money will corrupt you; however, he found that having more money doesn't change you it all; it *amplifies* who you already are.
   - There are two types of people in the world: limited, and expansive.
   - Most people are taught to live within their means. Try pursuing the means to live your dreams.

3. I can't
   - "I don't understand why people want to place judgment ahead of effort, and unproven opinions before a willingness to try."
   - Because your true financial potential is unknown, it makes no sense to place limits on it.
   - "I can't" becomes a rationale for not trying.
   - Unfortunate irony: people who'd rather not set themselves up for disappointment are the very ones destined for disappointment. (Self-fulfilling prophecy.)
   - The moment you believe you can't, you put yourself on the path to complacency, compromise, and ultimately regret.
   - Two ways people view their potential: probable, & possible.
   - Examples: Trammel Crow, Barbara Mattson
   - In the end, what you **actually** need to become a successful investor is **a lot less** than what you **think** you need.
   - Three factors to investing: Ability, Time, Money (ATM). They're multipliers of each other. If you have a lot of time but little money or ability, you can still get it done.

Myths about the market: “The Phantom Five”

4. Investing is Complicated
    - Learn in the correct order, take it little by little.
    - Follow proven models.

5. The best investments require esoteric knowledge
    - Invest in what you understand, that greatly interests you.
    - Real estate is easier to understand because it's mostly tangible.

6. Investing is risky
    - Great investors don't think of investing as risky. By following sound principles & models, they neutralize risk.
    - In investing you make money going in. Favorable terms.
    - You gotta be able to pull the trigger immediately.
    - Real estate is forgiving if you keep it.
7. Successful investors are able to time the market.
    - Timing is about being active, involved.
    - Timing finds you.
    - It's about being in the right place all the time.

8. All the good investments are taken.
    - Good opportunities arise from a combination of market & personal forces.
    - Personal forces are often overlooked:
        - Relocation
        - Marriage
        - Family Growth
        - Divorce
        - Death
        - Debt
    - “When markets go down, opportunities go up for smart real estate investors – if you know what you're doing. I would rather play the downturn than the upturn.” - Harry Dent

Compounding: think long-term.

Part Two: The Four Stages

Stage One: Think a Million

The Spiritual Journey of Wealth Building
- Millionaires interviewed took care to square their financial goals with spiritual values.
- What you do with your money shows your values.
- The Bible refers a lot to money.
- Bob Kiyosaki: “I always hear people say, 'God will provide.' I say, 'God has already provided. Go out and do something with it.'”
- They have no hang-ups about money or wealth. They were experiencing the power of money and realizing all the good it could do.
- You're wealthy when you can stop working for a living and start living for your life's work.

Seven Ways Millionaire Real Estate Investors Think

- Thinking is thinking. I takes just as much time and energy to think small as it does to think big.

1. Big Why
   - Napoleon Hill, “What a different story men would have to tell if only they would adopt a definite purpose, and stand by that purpose until it had time to become an all-consuming obsession.”
   - Study biographies of successful people.
   - Motivation is the common denominator, and its source or reason don't matter.
   - Reported motives:
     - Freedom from jobs
     - More choices in their lives
     - Self-actualization
     - Security
     - Adventure, discover possibilities.
   - Think of success as something you MUST achieve.
   - Once the Big Why is put on paper and written in your heart, it will become a powerful guiding force in your life.
   - Helps prioritize.
   - All great achievements are the results of sustained focus over time.

2. Big Goals, Models, & Habits

3. Money Matters
   - Earned vs. UnEarned Income
   - Most people have not taken their financial education seriously.
   - Millionaire Real Estate Investors take their financial education seriously.
   - The Money Matrix:
     - Capital
     - Cash Flow
     - Cash
     - Consumption
     - (Surplus/Deficit)

4. Net Worth
   - He learned what it was, then meet weekly with his financial adviser to answer the question, “What's the best way to make that number grow this week?”
   - The greatest clarity comes from tracking it over time: you begin to notice consequences of decisions, causes & effects, appreciating vs. depreciating assets, productive assets vs. wasting assets.

5. Real Estate
   - Chilean real estate ownership study – effect on net worth, business.
   - The oldest fortunes in America have come from the land.
   - Unlike Europe where land is held and passed down by nobility, American real estate has been open to virtually anybody with the daring & ingenuity to possess it.

   - Advantages:

     1. Accessible - easy to finance. When loans are secured by real estate, lenders feel secure.

     2. Appreciable

     3. Leverageable:
        - Trammel Crow, “The way to wealth is debt.”
        - Almost everyone finances with a mortgage (ignoring Dave Ramsey).
        - Harry Helmsley, one of the country's largest landlords, bought his first property for $1,000 down, $100K mortgage.

        - You can also borrow against the appreciation.
        - (Interestingly he ignores interest expense and cumulative mortgage payments when computing ROI = appreciation / down payment. S/B apprecation/(all payments).

    4. Rentable
        - “It continually amazes me that I can purchase a property then turn around and rent it to a person who will pay down my debt in exchange for living there.”
        - Rentals are a “triple play:
            - Appreciation
            - Debt paydown
            - Positive cash flow

    5. Improvable
        - Sweat equity
        - Zoning
        - Game: find hidden value

    6. Deductible, depreciable, deferrable
        - Government wants you to own real estate.
        - Two kinds of taxpayers:
            - Avoid planning for taxes
            - Plan on avoiding taxes.
        - Three D's are about reducing taxable income.

    7. Stable
        - Low standard deviation

    8. Liveable
    - Real estate investing is under-represented in financial investment press . . . it's either stocks or bonds, equity or debt.

6. Value, Opportunity, Deals
    - Process: you must know value to notice opportunities, & you must find opportunities before you can make deals.
    - “Curiously, none of the investors we interviewed articulated these three important concepts as a detailed process. But as they described the way they went about their business and made their decisions, the process became apparent, and we began to see the simple wisdom and brilliance of it. We came to understand how it saved them time, reduced their risk, and kept them focused.”
    - Value - **KNOW**:
        - They look carefully at a lot of real estate. They do their homework. (Use a database?)
        - There is no shortcut.
        - Study asking prices & what people are willing to pay; get a sense of market value.
    - Opportunity - **FIND**: when your sense of value becomes accurate & internalized, you'll be able to notice opportunities.
    - Deals - **MAKE**: Opportunities are found; deals are made. What turn an Opportunity into a Deal are **favorable terms**.

7. Action
    - Story: his dad's failed drive-in → parking lot investment. Impatience. Disaster. Knocked him out of the real estate investment game for life.
    - Most people don't realize they're too impatient and confused.
    - Successful investors are not confused and they are patient.
    - Real estate investing is a game of knowledge acquired over time.
    - “I know enough to know I'm headed in the right direction. I need to get started and then keep

learning as I go."

- Four basic ways people approach investing:
  1. Observers – most – inaction.
  2. Speculators – some – impetuous, adrenaline addicts.
     - Dutch tulip bulb bubble of 1636
     - Florida land boom & bust of 1920s
     - Internet boom of late 1990s
  3. Collectors – some – sentimental value
  4. Investors – few :
     - Take action
     - Minimize risk
     - Buy on the basis of investment value.
     - Don't count on appreciation to bail them out; make their money going in.
     - Find as much joy in the search for a bargain as in the transaction itself.
     - They're not the kind to get lost on the sidelines. They watch the game unfold, and as soon as they feel they understand what's going on, they act.

Nina's Rule: Watch Your Posture

- Conscious & seemingly inconsequential daily spending decisions
- Notice habits.
- Ask, "Am I using money like a consumer or an investor?"

Stage Two: Buy a Million (Assets)

John Jacob Astor: America's first millionaire & real estate investor. Immigrant butcher's son. Both an art and a science.

With proven models, you get the benefit of learning from others' mistakes. They replace the need for years of experience; they're experience replacing experience.

Five models in the science of real estate investing:

1. Net Worth Model: Learn the path of money. Budget for investments. Make investments & track net worth.
   - Learn the path of money.
   - Manage a personal budget.
   - Track personal net worth.
   - See "Path of Money" diagram, page 129. Excellent.
   - "Through intentional budgeting, they make sure they always have ample money to invest" (130).
   - Investing choices: loan (debt) or own (equity).
   - ". . . most people . . . have an undisciplined approach to spending, they usually have more month left at the end of their money" (131).
   - "Personal budgeting works. I do it, the Millionaire Real Estate Investors we interviewed do it, and *you must do it. It is the only way* wealth building gets launched and maintained" (133).
   - "Consumers often complain that they never have enough income to cover their needs when really it's their spending, not their income, that's the problem. In our experience the number one barrier to investing in real estate is a perceived lack of investment capital rather than a real one" (134).
   - In the end, investors see investment spending as required spending. That's why they always have money to invest" (134).
   - Three accounts:
     1. Invest/save/tithe account
     2. Needs account – for budgeted needs
     3. Wants account – for budgeted wants

- "The personal balance sheet is probably the greatest gift Michael (his financial adviser) gave me in our financial wealth-building breakfasts" (141).
- "I keep a copy of my personal balance sheet with me at all times and update it every week" (143).

2. Financial Model: Understand the triple benefits of real estate: cash flow, appreciation, & debt pay-down.
   - Two ways to build wealth by investing in real estate:
     1. Accumulate equity
        - Market appreciation
        - Debt paydown
     2. Grow cash flow (increase rents)
   - Financial journey – model (see page 154):
     - 20% down
     - 20% discount on median price
     - 30 year mortgage
     - Rents increase 5% / year
     - Hold expenses at 40% of rents
     - Motto: "Buy it right – pay it down – pay it off."

3. Network Model: Network for knowledge, leverage, & leads. Build your investment Dream Team. Your "Work Network", not your "Leads Network."
   - No one is self-made. Everybody who succeeds has and needs a network.
   - ***Relationship + Reputation = Deals***
   - Three things in common:
     1. They play an active professional role in real estate investments;
     2. They're the best at what they do; and
     3. They're willing to help you when you need help.
   - Develop it in advance. Better to be on the front end of good decisions instead of the back end of desperate ones.
   - Three circles:
     - Inner circle – leadership & advocacy. Informal board of directors. Your own personal Millionaire Mastermind group. What separates them from everyone else is what they do for you PERSONALLY. They CARE about you. You will touch them at least monthly.
       - Partners
       - Mentors
       - Consultants
     - Support Circle – advice & management. Key fiduciaries, your "transactioneers." They're like investment company executives who aren't on the payroll.
       - Property Managers
       - Attorneys
       - Lenders
       - Real Estate Agents
       - Investors
       - Accountants
       - Contractors
     - Service Circle – work & results. What they do, how well they do it, how fast they do it, & what they charge can make or break any deal.
       - Courthouse clerks
       - Subcontractors (masons, plumbers, electricians, roofers, landscapers, etc.)
       - Insurance agents
       - Title companies
       - Appraisers
       - Inspectors
       - Leasing agents

        - Appliance rentals
        - Cleaning services
        - Lawn services
        - Maintenance technician

- Working your Work Network
    - You must know when to ask for help. Millionaires don't wait; they anticipate.
    - Development model:
        1. Build it "before you need it"
            - Seek: "Whom do you know whom I should know?" (Support circle question)
            - Qualify: "What would you do if you were me?" (Inner circle question)
        2. Maintain it "so you have it"
            - Call them monthly
            - Mail them something interesting monthly
            - Inner circle – meet with them monthly.
                - Share plans & goals
                - Review your net worth
            - It boils down to this:
                - "Whom am I calling today?"
                - "Whom am I seeing this week?"
                - "To whom am I mailing this month?"

        3. Engage it "when you need it"
            - Five rules of engagement:
                1. Do deals
                2. Keep your word
                3. Don't talk badly about anyone. No one trusts a gossip.
                4. Don't shortchange anyone
                5. Refer business
            - Terms of engagement:
                1. Inner circle – monthly
                2. Support circle – each transaction
                3. Service circle – as needed
    - Finding the right people is not so easy. It takes time.

4. **Lead Generation Model**: Establish your investment criteria. Prospect & market for real estate investment opportunities.
    - To an investor, Leads are prospective properties that look like great opportunities.
    - Millionaire investors take lead generation seriously, and they take it big. The quality is in the quantity.
    - Often, investors aren't clear enough about what they want to find, & therefore aren't sure how to find it.
    - A lot of people confuse doing the wrong thing with bad luck.
    - A lead generation model removes luck from the equation.
    - It's built around **four core questions**:
        1. What property do I want? - Criteria
            - Location
            - Type
            - Economic
            - Condition
            - Construction
            - Features
            - Amenities
            - "It will pay great dividends to build your criteria carefully in the beginning and revise them

over time as experience dictates."
- Millionaire investors have two sets of criteria:
  - What they'll consider (general), and
  - What they'll buy (specific).
- Millionaire Investors tend to specialize in a niche that they can learn well and identify quickly. They master a specific set of criteria and work them relentlessly.

2. Who can help me find it?
   - Owners
   - Intermediaries
   - Network
     - Resources – might send leads.
     - Allied Resources – can & will send leads.
     - Advocates – absolutely will send leads.
     - Core advocates – people who are well-placed & absolutely will send leads.
   - See diagram, page 192.

3. How will I find it & the people who are connected to it?
   - Prospecting (seeking)
   - Marketing (attracting) – it's a leveraged activity. You don't have to be there or do it.
     - Most millionaire investors stuck to three or four methods that they felt worked best for them.
     - The key is to get started.
     - Examples:
       - Business cards
       - Direct mail
       - Internet/Email
       - Flyers
       - Targeted letters
       - Newspaper ads
       - Magazine ads
       - Signs
       - Billboards
     - Marketing success story: Homevestors of America Inc. real estate investing franchise
       - Ken D'Angelo of Dallas, TX
       - In 1995 he flipped 170 properties.
       - Took his model nationwide.
       - "We buy ugly homes"
     - Marketing is a game of problems & solutions. It's all about attracting motivated sellers. Examples:
       - Property was inherited & needs more repairs than owner can handle.
       - Change in job or family situation, good or bad.
       - Quit claim deed on properties on verge of foreclosure to save owner's credit; turn around and sell at a profit, share proceeds with original owner. He avoids foreclosure and gets some cash because of your marketing acumen.
       - Not a predator/prey situation. It's problem solving.
       - Out-of-town owners struggling with management issues who'd be relieved to unload the property.
       - Keep the message straightforward & simple: Pay cash for properties. Quick close.
       - Paying cash means, investors have set up lines of credit in advance & quick private financing so that in a matter of days or hours they can have a cashier's check ready for closing.

- See diagram, page 195.
- Use same Met / Haven't Met distinction as in Millionaire Real Estate Agent.
- Top ways of finding opportunities – see diagram, page 198.
- Networking and working with real estate agents account for as much as 60 percent of lead generation results.
- BUILD A DATABASE AND WORK IT.
  - The quality of results depends more on quality of fuel (contacts) than of driving ability (prospecting & marketing).
  - Thought: crmpro could work quite well for a lot of this because it supports Deals & Tasks & is highly customizable, cloud-hosted, & multi-user.
  - Vast majority used Microsoft Outlook, then Top Producer, then Act!.
  - Categorize.
- Show gratitude: cards, gifts, finders' fees.
- When you are handed an opportunity, that matches your Criteria, you need to be mentally and financially prepared to leap into action.
- In the beginning your lead generation program will be mainly prospecting-driven; later it'll be marketing-enhanced.
- Nothing replaces calling and meeting people, looking at properties, and doing the required research.
- Three basic ways to Prospect:
  - Telephone
    - Pick a certain number of people to call each week.
    - Set aside some time and start dialing.
    - Seven steps:
      1. Introduce yourself
      2. Share your criteria
      3. Ask for help
      4. Update your database
      5. Ask for referrals
      6. Express your gratitude
      7. Follow up with a note.
  - Face to face
    - Same seven steps.
    - Have business cards ready - "Real Estate Investor." "I buy real estate."
    - It's a numbers game. Majority of conversations may be inconsequential; but one thing leads to another and over time, golden opportunities arise.
  - Research
    - Local newspaper real estate listings
    - Internet sites
    - Public property records in local courthouse
    - MLS search with help of real estate agent
    - Get automated email alerts
    - Distressed property announcements:
      - Foreclosures
      - Tax liens
- Prospecting's greatest benefit (it involves you) is also its Achilles' Heel:
  - Prospecting is something you do
  - Marketing is something you unleash.
- Most big business happens as a result of big lead generation.

4. Which properties are the real opportunities?
   - The #1 cause of disillusionment & lost momentum is chasing too many leads that look like opportunities, but aren't.

- Qualify your leads: separate suspects from prospects.
- Write down the broad criteria that are the most important to you, and make sure the property meets them.
- Your Work Network might help qualify. If they do, reward them by involving them professionally in the deal.
- Bear in mind your Strict Criteria and never violate them.
- Building great lead generation criteria requires focus over time.
- The more suspects you investigate, the better your sense will be of which ones represent true prospects.
- You'll start to understand which criteria matter the most.
- Millionaire real estate investors are always refining their criteria. They want the tremendous advantages that come from truly understanding their market.
- The Five Laws of Lead Generation:

  1. Never compromise: properties that meet your criteria, & motivated sellers who will meet your terms.
     - It can take weeks, months, or longer to find a deal that is right for you.
     - For an investor, the answer to the question “Is this a great deal?” is ***a black-and-white, yes or no answer***. For investors there is no “maybe.” “Maybe” is for speculators.
     - A strong desire to do a deal or get in the game can lead to trouble.

  2. Be a shopper, not a buyer – better to miss a good deal than to buy a bad one.
     - Investors love the process, the thrill of the hunt.
     - Buying is not investing, any more than buying groceries makes you a chef.
     - Making decisions on the basis of sound criteria and terms makes you an investor.
     - Great investors celebrate the process first and the outcome second.
     - They love to shop and decide.

  3. Timing matters.
     - Be first or last to make an offer.
     - Look for the advantage of an uncompetitive environment.
     - Design lead generation program to identify the opportunity to be first or last.
     - Market and prospect for sellers who don't yet know that they're sellers. Own the initiative.
     - Ask, “Have you ever considered selling that property?”
     - What investors buy is an Option to buy the property subject to inspection, IF it meets their criteria.

  4. It's a numbers game – the quality is in the quantity.
     - Great lead generation in any business is about overkill over time.
     - Cast a wide net for opportunity.
     - Typical ratios:
       - suspects : prospects = 30 : 10
       - prospects : qualifieds = 10 : 3
       - qualifieds : closed = 3 : 1
     - My observation: it's just like any other sales funnel.

  5. Be organized and systematic. Protect your time and your money.
     - What's at risk is your time.
     - The best sales professionals are systematic.
     - They block their time.
     - With real estate investing, it takes the same kind of focus.
     - Being organized is about tracking and sourcing leads.

        - "Have checklists for everything that you do."
        - Many people don't make the connection between the time & money they spend looking for opportunity, and results. If you make a commitment to being very systematic & organized, the connections will become clear and exciting: you're actually engaged in a fundamental wealth-building activity that is changing your life.

5. Acquisition Model: Master terms for making offers & closing deals – buy & sell, buy & hold.
    - Millionaires make their money going in. By buying right, they virtually guarantee success.
    - Start out by learning one way to buy, and getting good at it. Once you've mastered one, then move on to another.
    - "Persistent effort, patient money"
    - Review:
        - Understand path of money (surplus/deficit)
        - Budget
        - Track net worth
        - Develop Work Network
        - Develop Criteria
        - Generate leads
        - Identify prospects
        - Acquire.
    - Two fundamental strategies:
        1. Buy for cash, or
        2. Buy for cash flow & equity buildup.
    - "What we came to understand was that millionaires do have a method of analysis that they follow without fail. It's based on their experience, and they apply it intuitively." (See Figure 52, page 222.)
    - Cash
        - Find & refer (scout) – collect "finder's fee." Drawback: lowest income per transaction.
        - Control & assign – gain an option or an assignable contract, then find someone else to acquire it.
        - Buy & sell – strictly retail properties. Drawback: have to spend more time, & volume will be less.
            - Terms: see worksheet, page 228.
            - Two important safety margins:
                - Quick Sale price, to minimize carrying cost. FARV or Fast After Repair Value. Difference between ARV and FARV is "Fast Sell Factor."
                - Discount/Profit Margin – breathing room. Recommend: 30%.
            - Every house has a surprise.
            - Budget 3-4 months carrying costs for properties needing minor repairs.
        - Buy, Improve, & Sell – most profit per transaction, but also most time consuming.
            - Sweet spot – see diagram page 232.
            - "Beginners often make the mistake of fixing a property as though they were going to move into it. That's the wrong way to do it."
    - Cash Flow & Equity Buildup
        - Lease Option: In, Out, or Both.
            - Lease Option In – you're renting from the seller with an option to buy in 2-5 years.
            - Lease Option Out – you're renting to a tenant with an option to sell in 2-5 years.
            - You can wrap a Lease Option In inside a Lease Option Out; the difference is positive cash flow (if you do it right).
            -
        - Buy & Hold (rentals - true wealth-building) – see Buy & Hold Quadrant, page 234. Millionaires buy Quadrant 2 properties and avoid Quadrant 3.
            - Terms: see worksheet, page 236.
                - Rule of thumb for monthly rents: .8% of the price.

        - Allow for vacancies: 6-8%.
        - It's possible to pay off mortgages quickly through great budgeting & frugality. Then once that's done, all rent is positive cash flow that can be used to buy more properties.
    - Buy, Improve, & Hold. Improve means:
        - Physical
        - Zoning
        - Tax reduction
    - The opportunity in real estate to generate cash is great, but it's also a job.
    - This is a great way to channel your OCD Control Freak impulses constructively. Manage the process tightly.

- Real-world examples: see pp. 241-246.
- Take action:
    1. Understand value.
        - Study your marketplace.
        - Are values going up or down? At what rate?
        - What makes you think trends will continue – or not?
        - What are the economic and demographic drivers?
        - What are expected rental rates, how are they changing, and why?
        - What do renters want that might justify higher rents?
        - Keep doing this and you'll eventually become a "value expert" in your area.

    2. Get perspective on where you are on your path as an investor.
        - Three choices for primary short-term strategy:
            1. Buy & Live
            2. Buy & Sell (Flipping)
            3. Buy & Hold (Get into the Landlord business)
        - "In the end, all roads lead to Buy & Hold." – Landlording.

Stage Three: Own a Million (Equity)

- The Labyrinth at Chartres
    - The Question: "How much of the complexity must I know to get what I want from it?"
    - The difference between Buying a Million and Owning a Million is a shift in focus from "buying it right" to "growing it right."
    - Veteran investors love to dive into complexity like little kids in a mud puddle. They can spend hours on a porch "spitting and whittling" about the nuances of landlording & property management. They love to tell stories & share details, using insider language & shortcut phrases.
    - Creativity & complexity can be as dangerous as it is compelling.
    - "I wish I had stayed with what was working. I wish I'd bought more of those basic good deals and not sold the good ones I had."

- **17 Issues of Own a Million**
    - **Criteria**: Always the Guiding Light. Refine them continually from experience and insight. (Note to self: use report settings in QuickBase.) "You will be able to sort prospects from suspects much more quickly and ever more precisely let your Lead Generation Network know what you're (seeking)."
    1. Stick or Switch (a maxed niche, or market saturation)
        - Greed, speed, & novelty are not your friends. Don't let boredom let you bend your criteria.
        - The power is in repetition, practice (just like in music).
        - Pick a niche to get rich.
        - Once you have a niche and you're getting good results, ride it for all it's worth.
        - Stick with criteria & switch market, or stick with market & switch criteria?

        - If so, don't do it impulsively.
        - Keep a beginner's mind.
        - “Persistent effort & patient money”
  2. Become an Expert. Three ways:
     - Study & observe. Causes of local trends:
        - Business growth
        - New construction
        - Zoning changes
        - Highway/infrastructure changes
        - Recreation development
        - Population
        - Employment
        - Many millionaire investors keep their own databases of real estate activities, listings, rents, & recent closings.
     - Experience & do. Learning has four stages:
        - Understanding = aware
        - Knowledge = studied enough to see how you could do it.
        - Wisdom = experienced, know how it works.
        - Power = it has become a part of you; you've grokked it; and you habitually, intuitively win. Unconsciously competent. Reflexive mastery; acting without thinking; You make it look simple.
     - Ask & listen
        - Locals at the cafe, retirees shooting the breeze.
        - Spittin', whittlin', neighborhood gossip
        - You want access to that kind of unpublished, insider information.
        - What these people know can make you wealthy.
        - Great way to scratch your gossip itch!!!
        - They know who needs to sell & why.
        - They know who needs a job helping maintain your property
        - Principles are universal but conditions are always local.
  3. Think in Units (see chart, page 262)
     - Rental units
     - Management units
        - Each management unit entails entity protection, insurance policies, a tax return, separate property management person (separate QuickBooks file?)
        - Large apartments tend not to appreciate as much and are harder to sell, and the buyers are not emotional.
- **Terms**: Hold Them Dear. Acquisition, Operating, & Disposition.
  - Acquisition is 4 & 5; Operating is 6; Disposition is 7.
  - *Master the Terms Worksheet: Buy & Hold (page 236). Each area on the worksheet represents a place where you can improve the way your money works for you*.
  - The first step in getting clarity is to have a standard model to use for comparison. (See diagram, page 266.) Note: this is the purpose of spreadsheets.
  - If you want increased cash flow, do these three things:
    1. Higher rents
    2. Lower expenses
    3. Higher annual rent appreciation
  - If you want to increase ROI, do these three things:
    1. Invest where values are appreciating
    2. Get higher rents
    3. Lower expenses

  4. Control the Property & Negotiate Everything

- Gain control by securing an early contract containing escape clauses:
    - Condition at Inspection
    - Results of Feasability Study
    - Financing
    - Repairs
    - Other party approval
- Negotiate:
    - Price
    - Financing costs
    - Closing costs
    - Possession date
    - Conveyances (appliances, furniture, etc.)
    - Ability to rent prior to closing
    - Ability to start repairs prior to closing
    - Ability to assign contract
    - Key: learn what's important to the sellers.
    - Offer them what they want, then ask for what you want.
    - Great negotiators are great investigators.
    - Always be curious.
    - The longer you can tie up the property for little or no money before you actually have to buy it, the more flexibility you'll have.

5. Finance Creatively
    - Owner financing – the seller carries the mortgage for you.
    - Assumptions – taking responsibility for the seller's mortgage when this is allowed by the seller's lender.
    - Wraps – the owner offers you a new loan while keeping and paying down the original loan (the new loan “wraps” the original)
    - Lease Options– Leasing the property from the seller until you have the equity or cash to buy it.
    - Private seconds – where you obtain a second loan to cover your down payment on a primary mortgage loan.
    - Syndications – where you involve other investors and partners in your acquisitions.
    - Success of any deal depends on your credit worthiness, equity, and cash flow.

6. Maximize your NOI (Net Operating Income) – see page 236
    - Increase rent
        - Millionaire real estate investors achieve higher rents than others.
        - 1 percent rule (Monthly rent = 1% of property value).
        - To get higher-than-average rents:
            - Contractual rent escalators - “I put automatic 10% rent increases in the contract. Then at the first of the year, when I say the increase won't actually be that high, the tenants are ecstatic because they think I've saved them some money.”
            - Strategic improvements (people will pay more if they believe they're getting more)
            - Government subsidies
            - Targeted tenants
            - Other income
                - Non-refundable deposits & fees
                - Charges for parking & storage
                - Lawn service
                - Cleaning services
                - Coin-operated laundry
                - Nickel & dime 'em any way you can

- Control expenses
    - It's a matter of record keeping & attention to details.
    - Well-organized systems of bookkeeping & cost accounting
    - Set aside a regular time slot each month to do your reviews
    - Improvement costs – 3 moments of Truth:
      - After you buy but before you rent
      - While you own & operate
      - Before you sell
    - 4 kinds of improvements:
      1. Necessary & add value
      2. Unnecessary & add value
      3. Necessary & don't add value
      4. Unnecessary & don't add value – expensive fixtures & amenities
    - Minimize vacancies
      - The key is to look ahead. Anticipate vacancies and have a game plan to market the properties to new tenants.
      - Get ahead of your vacancies, not behind them.
      - Keeping tenants for a long time reduces vacancies and is a good thing.
      - Many landlords are so eager to raise rents that they may alienate good tenants. "It may take you a very long time, even at a higher rent, to make up for the lost income from a vacancy."

7. Know Your Options for Property Disposition
    - Determine why you're selling.
      - Get immediate cash?
    - There are other ways to get cash out of a property than selling it, like a short term line of credit:
      1. Lease Option Out
         - Offer to apply some of the rent toward the purchase price, agree on higher than market rent, & negotiate terms of future sale.
         - Result: higher NOI, and higher price.
         - If the tenant does not exercise his option, do it again with the next tenant.
         - Lease option tenants take better care of the property.
      2. Refinance
      3. 1031 Exchange

- **Network**: Together Everyone Achieves More. Your network will reflect your net worth.

8. Make Associating with Talent Your Number One Priority
    - Talent is:
      - Intelligence
      - Behavior
      - Motivation
      - Attitude
      - Abilities
      - Experience
      - People who do what they do well, and love doing it.
      - Fiduciary, not functionary.
      - See notes, Millionaire Real Estate Agent. Search for "Talent."
    - Process for finding talent:
      - Behavior
        - DISC test
        - Assertive?
        - Work well with people?

                - Systematic?
                - Follow rules & procedures?
                - Observational skills
                    - Handyman incident: "I could tell after five sentences that he was not the man for the job. He was like a telemarketer. Good detail workers on physical projects don't behave that way. I wanted a craftsman, not a salesman pretending to be a craftsman."
            - References
                - Do 2nd & 3rd level reference checks. Triangulate.
            - Track record
                - Attitude
                - Work ethic
                - Integrity
                - Quality
                - Get to know people. Make it your business.
                - Success leaves clues.

9. Top-Grade for Ever-Increasing Leverage
    - Do not be afraid to replace people.
    - You have the right and the obligation to care about results.
    - People are afraid to say "no" and "no more."
        - Shoddy work
        - Bad relationships
    - When people don't do what they say they'll do or don't care about doing it well, move on to those who do care.
    - Mantra for professional relationships:
        - Work first
        - Friends second
        - Social, maybe.

10. Always Work from Written Proposals & Contracts
    - Contracts provide for misunderstanding and disagreement.
    - Good written contracts cover contingencies so that if worse comes to worse, all parties know in advance what will happen.
    - They're agreements for disagreement.
    - When everyone is in agreement, no one looks at the contract.
    - Write agreements to resolve any possible disagreements as agreeably as possible.
    - It's a "Pay me now or pay me later" deal. Be tough up front & you'll save money down the road.

11. Protect Your Reputation and Operate with Confidence
    - Most important asset.
    - Those with the most success and money are usually the most cooperative and responsible.
    - Develop your reputation wisely and protect it fiercely.
    - Follow Five Rules of Engagement (page 169).
    - A good reputation is preventive.
    - Always make offers and do deals with respect for the other person and an understanding of his or her needs.
    - You're looking for deals, not steals.
    - "Win – win" or "Move on – Move on." Either is OK.

- **Money**: Give It a Work Ethic

12. Hold Your Money Accountable to Work for You

- Money can be dead, safe, healthy, or wealthy.
    - Dead: earning interest below inflation. 0-4%
    - Safe: earning interest at or just above inflation. 5-8%
    - Healthy: earns interest well above inflation. 9-12%
    - Wealthy: interest > Healthy. 13-20%
- Money in the bank is dead.
- You need to track your ROI for each property and for your entire portfolio.
- See ROI / ROE chart, page 294, Figure 19.
- ROE decreases over time. Millionaire Real Estate Investors re-leverage their equity into new investments, maintaining an Equity ratio of about 40% in their holdings.
- Re: 15 vs. 30 year mortgages: once they had a solid equity position, most MREIs tended to favor shorter-term debt. But they continued to refinance, take out equity, and grow their holdings.

13. Minimize Your Tax Exposure
    - The government says, "We will charge you less if you do these things."
    - Or, "We will invest in you if you do what we want."
    - The government wants you to invest in real estate, hold those investments, or move onto bigger ones. In a sense it's your co-investor.
    - Keep a detailed, comprehensive accounting of all your expenses.
    - Reduce or delay cap gains through IRAs and 1031 exchanges.
    - You can put real estate holdings inside an IRA.
    - Hire a 1031 qualified intermediary. They'll act as your guide and Escrow agent.
    - 1031 Exchange does not mean trading property. It means reinvesting proceeds within a reasonable time period, like rolling over a retirement account.

- **You**: Your Primary Asset. In the end, others will benefit from what you do for yourself.

14. Protect Your Time
    - The most valuable asset anyone has is their time so it pays to value it, protect it, and invest it wisely. In real estate investing, this becomes vital. (My observation: ironic, since supposedly real estate investing helps dissociate income from time.)
    - Best use of time:
        - Generate leads
        - Look at real estate
        - Do deals
        - At the Own a Million Stage:
            - Watch finances with an eye toward maximizing returns
            - Holding others accountable, to keep your time free.
    - Hire property managers. Typical fee is 10% of gross rents.
    - If your portfolio is large enough, it may make sense to hire one full-time property manager to handle the whole thing.
    - You can also cut deals with responsible tenants.
    - Buy warranties for common repairs with a small deductible, then leave repairs to tenants to initiate & manage.

15. Protect Your Assets
    - Do entity & estate planning as early as possible. Do it right and do it right away.

16. Be Learning Based
    - The key to getting good at real estate investing is to stay with it long enough to surmount the learning curve and attain mastery.
    - Once you're at the top of the curve learning slows but doesn't stop, and because of where you are on the curve, each marginal lesson yields a huge marginal benefit.

    - Each time you undertake a new area of knowledge, you become a novice all over again.
    - This is why you need to keep your strategy consistent.
    - Become a master of one approach, not a jack of all or even of some.
    - Master your niche before you consider a switch.

17. Be Accountable
    - The greatest successes and the highest achievements almost always are due to accountability. Having a goal = 10%, Having an action plan = 10%, Having accountability = 80%.
    - Accountability means having someone else with whom you review what you've done, evaluate results you've gotten, & commit to the next thing you're going to do.
    - You can not hold yourself accountable over the long haul. There must be another person.
    - They do not need to be better than you at what you are doing.
    - Their purpose is to help you stay on track.
    - Feedback is the breakfast of champions.
    - Find the best accountability partner you can.

- It All Comes Down to This:
  1. Getting in for less (little or no down payment)
  2. Maximizing cash flow (increasing rents & reducing debt service & expenses)
  3. Avoiding taxes (reducing or delaying)
  4. Increasing return on investment & equity
  - Summary: diagram, page 308.

Stage Four: Receive a Million

- Reaching for the Light – tree metaphor – up or across, vertical or horizontal. It's about building an organization that ensures that your money will continue to work for you even when you are no longer working for your money – the Ultimate Destination.

- The Challenge of UnEarned Income
  - Most people do not know what it takes to generate meaningful amounts of unearned income.
  - At a ROI of 2.5% - 15% and a 35% effective tax rate, total income necessary to invest enough to generate $1M in passive annual income ranges $10.2M - $61.5M.

- Achieve $1 Million in Annual Cash Flow through Investing in Real Estate. Assumptions: $170K home price, $1,360 monthly rent, 40% expenses & vacancy, mortgages 15 year/6.97% and 30/7.43%, 20% discount and 20% down payment.
  1. Acquire Today to Receive $1M in Annual Cash Flow Now:
     - 102 single-family rentals owned free & clear. Buying all of these in cash with a 20% discount would require $13.9M. Annual ROI = 7.2%.
  2. Acquire Today to Receive $1M in Annual Cash 10, 20, or 30 years in the Future
     - 25-288 houses. See figure 4, page 317.
  3. Acquire Over Time to Receive $1M in Annual Cash Flow 10, 20, or 30 years in the Future
     - 28-398 houses. What's interesting here is that in 10 years with a 30 year mortgage $1M/annually can be realized on 171 homes, versus 399 homes on a 15 year.
  4. Acquire Over Time to Receive $1M in Annual Cash Flow and Equity Pullout in the Future
     - Equity pullout isn't income; it's a liability. Therefore it's not taxed.
     - Houses owned 12-73
     - Illustration doesn't specify how much of the $1M in annual income is "equity pullout."
     - My thoughts: this book was written in 2005. The mortgage bubble burst 2007-2009. I wonder whether interest in this book precipitated the crisis.

- $1M a month: The Inspirational Story of Investor 34

- Started on savings & credit cards.
- He & his wife worked from their kitchen table.
- $12M in annual profits.
- Niche: limited partnership interests in real estate.
- They sought 50% discount; won 5% of the time.
- “We'd rather do a lot of small profitable transactions than larger less profitable ones.”
- Limit: how much time they could spend doing mailings.
- Breakthrough: got a printer to do it for them.
- Grew from 1,000 mailings a month to 30,000.
- Reinvested profits into rentals.
- Today owns 4,000 apartment units and >1M square feet in storage rentals.
- Nets $12M profit on $45M in gross revenues (26.7%)
- 60 employees divided across 5 investment companies + 100 independent contractors.
- “It really wasn't about the money. I wanted to set my own schedule and mostly wanted to spend more time with my family.”
- Works 20 hours a week; doesn't carry a cell phone or pager because “I want to be connected when I want to be connected.”

- The 7th Level: The Path to People Leverage (see Millionaire Real Estate Agent notes, bottom of page 8.) Also see diagram, Figure 7 page 325.
  - Acquisition & Disposition
    - The last department you'll give up. It's the heart, where the leads are.
  - Administration
    - Relinquish this first.
      - Legal
      - Financial
      - Organization of contracts & closings
      - Database & files
  - Operations
    - Having strong knowledge in maintenance & construction can save you a lot of time & money.
    - A property manager is the first non-admin employee MREIs hire.
  - You reach the 7th level when you hire a CEO to replace yourself. At this point your job becomes spending a few hours a week managing key leaders.

  - Moving from Managing Your Time to Managing Others
    - New skill set: business & management.
    - I do it = Disciplines – Models – Habits
    - We do it = Communication – Systems – Synergy
    - They do it = Standards – Accountability – Feedback
    - The gift of the 7th level: owning an investment business asset that pays you unearned income while demanding a comparatively small amount of your time.

- 'Tis Better to Give Than to Receive: Moving from Wealth Accumulation to Wealth Distribution
  - Business Week annual list of top 50 philanthropists
  - To give a million, you must first receive it.
  - Wealth is never truly owned; the most one can achieve is to be a good steward for a time, and then to pass it on.
  - Never put caps on your financial potential.

Part Three: Staying on Top

PUTTING IT ALL TOGETHER

- Never take your eye off the ball. Focus. (See The One Thing.)
- Anyone can do it – not everyone will. Pareto's Law shows how wealth and income will be unequally distributed. You have a choice: to focus, or not.
- A Financial Track to Run On
  - Stage 1: Establish Your Base Camp
    - Key: Incorporate the Net Worth Model into your life.
    - First step: create a personal budget and stick to it.
    - Second step: keep an ongoing net worth worksheet. Each week ask, “What can I do to increase this?”
    - Third step: avoid (consumer) debt.
    - When something breaks, always think “repair” first “used” second, and “new” last.
    - If you must incur debt, make sure that debt term and asset longevity match up.

  - Stage 2: Protect Your Future
    - Emergency Fund: 3-6 months.
    - Purchase a home
      - Buy what you think you can afford, not what a lender will lend you.
      - Pay it off early if you can.
    - Get adequate insurance
      - Disability Income
      - Life
      - Health
      - Property & Liability
    - Create an estate plan
      - When Sam Walton was a young man just starting out in business & could least afford it, he set up his estate plan.
      - Result: at the end of his life one of the greatest personal fortunes ever amassed was transferred to his heirs with little or no taxes paid.

  - Stage 3: Fund Your Future
    1. Get Motivated
       - Big Goals
       - Big Whys
       - Visualize your life
    2. Acquire Knowledge & Focus
       - Learn to earn before you niche to get rich.
       - School is never out for the successful.
       - Put together a reading list each year, and read those books.
       - Seminars
       - Audio tapes
       - DVDs
       - Network.
       - “I'm an investor. Today could be the day I find an opportunity and make a deal.”
    3. Generate Leads
       - Set Criteria
       - Memorize Criteria
       - Prospect & market for leads that match your Criteria.
       - Time-block your calendar for lead generation time, and protect that time.
       - Set the goal of generating one lead daily, put those leads in your database, and then work them.

4. Convert Suspects to Prospects
    - The most critical work investors do: figuring out quickly which is which.
    - Property that meets your Criteria and is owned by a seller who will meet your Terms.
5. Buy Real Estate Investments
    - Move quickly to control the property.
    - Make an offer.
    - Make it win-win.
6. Gain Insight
    - Success is the result of good judgment
    - Good judgment is the result of experience
    - Experience is the result of bad judgment
    - You want better experience, and steadily improving deals.

- Stage 4: Stay the Course
    - Devote about 10 hours weekly:
        - Daily:
            1. Generate leads
                - Sellers & Real Estate
                - Work & Leads Networks
            2. Review:
                - Personal budget
                - Net Worth
        - Weekly:
            - See real estate
            - Update your database
        - Monthly:
            - Meet with Inner Circle
            - Evaluate Holdings for cash flow, value, equity
            - Update financial statements
        - Ongoing
            - Make offers
            - Do deals
            - Do the work
                - Improve & Sell
                - Improve & Hold
                    - Rent
                    - Manage
                    - Maintain
            - Engage Work Network
            - Study & Learn
    - Burnout lurks behind every property & seller.
    - Guard against weariness & distractions. Need an energy plan.

    - **Energy Plan**:
        - Energy comes to us when we're doing the right things, and leaves us when we're not.
        - Focus on what matters most
        - Slow down enough to refuel with energy that matters
        - Simple formula:
            1. Spiritual
            2. Physical
            3. Emotional
            4. Mental
            5. Investment

6. Wealth building

- The world doesn't care if you're a millionaire, and neither does money. You're the only one who cares because it's your life. Put money in its proper place.
- It has its own rules. If you break its rules, it will break you.

Profiles of 21 Real-Life Millionaire Real Estate Investors

1. Joe Arlt
    - Virginia
    - Former CPA
    - Watched late-night infomercial by John Burley. Took a 5-day boot camp course.
    - Many repossessed houses in Virginia Beach.
    - He bought & resold repossessed houses on wraps.
    - Long-term lease option agreements

2. Don Beck
    - Philadelphia
    - Owns 100 20-40 unit complexes.
    - Started by living in a duplex.

3. Dwan Bent-Twyford & Sharon Restrepo
    - Florida & Colorado
    - Widow & divorcee
    - Rehabbing houses was the widow's husband's idea. Divorcee took classes at Home Depot.
    - Any time you make an emotional decision, you'll lose money.

4. Dyches Boddiford
    - Marietta, GA
    - He lost his job at a computer company in 1991.
    - Started from his little home office.
    - Diversified. “Having a toolbox of strategies allows me to pick the one that is right for the deal, rather than trying to make every opportunity fit into the same mold.”
    - “Time in the market is more important than timing in the market.”
    - Regardless what cycle the market is in, you need to buy right on price & terms.
    - Invest in your education first. You're going to pay one way or another. It's always less expensive and time-consuming to learn from somebody else.
    - After an intensive six-month search, he bought his first three properties.
    - Avoid analysis paralysis

5. Renata Circeo
    - Atlanta
    - 5 houses, 2 duplexes, 6 condos, one 18-unit apartment building
    - Firm believer in “worst house – best neighborhood” approach
    - She likes to use interest-only loans.

6. Jerry Clevenger
    - Kansas City
    - 53 houses & 2 commercial buildings
    - Got full custody of his two children, time became more important to him.
    - Quit his job, got into full time real estate investing.
    - Mastered foreclosures.
    - Worked with real estate agents who combed the market for him.

- Bought a REO property for $42K & sold it for $54K without ever seeing it.

7. Don DeRosa
   - Atlanta
   - “There's a million ways to make a million dollars in real estate. Start by picking one.”
   - Lost his job
   - First rehab was a disaster, lost $40K, but saved a million by mistakes never repeated.
   - His business is so systematized that he can just about walk away & let it run on autopilot.

8. Elmer Diaz
   - Houston
   - > 200 fix & flip wholesale, > 200 fix & flip retail, >600 apartments, >200 houses. Owned 56 houses & 42 apartments when the book was written.
   - No real estate license, but co-owns three real estate offices.
   - Lost his first house during the 1980 oil bust.
   - Constable: “There's nothing wrong. You're just one of the 250,000 people who are losing houses in Texas.”
   - He jumped straight from fixing & flipping houses to working with large complexes.
   - By 1994 he was a millionaire in his early 30s. By 1996 he owned 600 units & 100 houses. But he was failing to acquire the skills that would help him manage them properly.
   - “I did everything backward. I should have had the systems in place before growing to this next level. You have to start by learning the building blocks of the business.”
   - The haphazard way he had built his empire caught up with him. Without effective systems in place to hold contractors & managers accountable, his properties deteriorated & he had high vacancies. Employees began stealing from him. One contractor stole enough materials to build himself a house. $50K negative cash flow for 6 months. $4M in debt.
   - He sold off most of his holdings & spent 3 years repaying debts.
   - In 1997 his father-in-law had a car accident & needed $3,000 for another car so he could get to work. Diaz didn't have it. Then a $3,000 settlement check from an old lawsuit arrived in his mailbox.
   - “When you're on the right path, money will show up; and it's a spiritual path, of helping people.”
   - He recommends that instead of landlording, noobs begin by wholesaling properties to more experienced investors.
   - Learn to spot a good deal.
   - Learn to evaluate a house's condition.
   - “A lot of people get good at buying, but not at understanding the mechanics of a house.”
   - His “one thing” is buying right. “The hardest part of this business is finding the deals. They're out there, but you have to spend a lot of time looking for them.”

9. David Fairweather
   - Bethesda, MD
   - Owns >700 units
   - As a young man from a lower-income background, he ended the family tradition of lifelong renting, faced his fears, and bought his own home for $42K in 1991. He sold it a few years later for $109K.
   - People kid him about buying properties like other people buy shoes.
   - He recommends a 3-6 month emergency fund on hand per property to afford evictions, maintenance emergencies, and market shifts (keeping rents low to minimize vacancies, tolerating negative cash flow for a while). “Reserves are the most important thing in real estate. You can't get hurt if you keep a lot of money as reserves.”
   - “Fairweather's approach extends into an aspect of the business he says many investors ignore: maintaining the properties.” “What you spend on roof repairs, HVAC servicing, and lawn maintenance will make all the difference in the long term.”
   - The trick is to own it for a very long time, and take very good care of it.
   - Keeping tenants happy isn't just good for business. For Fairweather it's simply the right thing to do.
   - “I'm very grateful to my tenants because they're paying off my building.”

- “You can make a tremendous amount of money as a real estate investor if you treat it like a business. It's not a hobby.”

10. Tamara Fuller
    - Columbia, MD
    - Owns 75 units
    - Flips distressed properties in emerging neighborhoods.
    - Finds ways to do deals that others have tried & failed.
    - Built her own brand, “Symphony Homes” - nice comfortable homes for people who appreciate & can take care of them.
    - Establish relationships with lenders before you need them.

11. Ron Garber
    - Orange County, CA
    - Foreclosures, fix & hold.
    - Owns only 20 houses, 5 at a time, four times.
    - He had a mentor who espoused the “bucket theory.” Three financial buckets:
        - Family obligations
        - Long term investments. That bucket isn't full until it generates enough passive income to keep the first bucket full (Critical Mass).
        - Toys
    - His problem was not thinking past Bucket 1.
    - He & his wife do an annual retreat cruise when they clear their minds & focus on their futures.
    - They decided five paid-off single family homes in the $110K range would generate about $5,500 in monthly cash flow, filling their first bucket.
    - In 3 ½ years they did it.
    - Went on another cruise: “Let's do it again” wife said.
    - “Once we had a model, it was easy to just say, 'Let's do it again.'” They did it four times, and stopped.
    - Now he buys businesses.
    - “When I was a broker, I didn't trust that there was a duplicable model for my success. That was a terrible feeling. Now I tell everyone that it's the models and systems that make all the difference.”

12. Bill Goacher
    - Asheville, NC
    - Owns 108 units.
    - Rehabs old commercial buildings & single family homes.
    - Disaster is in the eye of the beholder: rehab job gone wrong, house rolled off the jacks, ended up as a pile of rubble at the bottom of a hill; investors still made $5,000 selling a cleared lot in a desirable location.
    - Look at 50-100 houses before making an offer on a single one.
    - That way when the right property comes along, it'll be obvious to you and you can write an offer immediately. “You can't steal in slow motion.”
    - Ignore the asking price. Offer only what the house is worth based on capitalized rent.
    - Think creatively; see a deal where someone else might see an eyesore.
    - Lenders laughed at him when he applied for a loan to buy an old brick building in a mostly abandoned industrial section of Asheville. “That area is full of vandals, and the building is terrible: it's got no windows!” “Yes it does, there are 82. There's just not very much glass in them.”
    - He owner-financed it. His bold purchased marked the beginning of the neighborhood's revitalization.
    - He bought it for $130K & sold it for $535K.
    - He has moved on from residential, but says residential is the way to start.
    - Do a flip-keep dance.

13. Rob Harrington, Jr.

- Framingham, MA
- Converts problem properties
- Improves property management
- Owns hundreds of units.
- Tax Act of 1986: as apartment complexes became favored tax shelters, he noticed a bubble: prices were being artificially exaggerated by people who didn't care about cash flow. So he sold all 35 of his units during the peak, then bought more after the market crashed.
- Careful attention to details – maintenance, vacancies, taxes – is what makes him successful today.
- "The key in real estate is to watch your nickels and dimes. If you do, the dollars will follow."

14. Carlos Herbon
    - Ogden, UT
    - Owns 261 units.
    - Immigrated from Argentina with $120 in his pocket.
    - "You can do anything you want as long as you have a big desire to do it. It has to be an obsession."
    - "You have to have a big plan first, then have the obsession to execute it. You have to dream big."
    - "When we left Argentina, you had to pay cash for properties. There were no loans. But here it's easy. You can control a lot of money by leveraging into properties."
    - "We never sell properties. There's no reason to sell. If you need money, you go to the properties and take out equity, and the renters pay for that."
    - They have $30K monthly rent income on a $3M real estate portfolio.
    - They work on acquiring one property monthly.
    - "Failure is just an experience. Anything that goes wrong is just another thing that you know for the future."

15. Vena Jones-Cox
    - Cincinnati, OH
    - Owns 35-50 units
    - Daughter of one of Cincinnati's best-known real estate investors.
    - Did not want to go into real estate. "I was pressed into service all the time to answer phones, clean stoves, and paint."
    - Learned she could wholesale. She sold most of her deals to daddy.
    - Dislikes rehabbing: easy for costs to run over, & for contractors to rip you off. They can lie and steal, covering over problems with drywall instead of fixing them, disappearing with deposits.
    - She prefers long term lease options. Tenant buyers assume responsibility for repairs & maintenance.
    - Pull out equity every 2-5 years, then use that money to buy more property.
    - Even those who've been steeped in real estate for a long time can get into a bad deal.
        - Flooded basement
        - Black mold
        - Cracked heating exchange
        - "I wrote a poem about that house."
    - Systems are key:
        - Screening potential buyers
        - Marketing deals
        - Managing rehabs
    - "The more you're able to say, 'This isn't something I need to be doing, and therefore I can give it up' the opportunities there are for growth."

16. Cathy Manchester
    - Norway, ME
    - Owns 22 units & 2 raw land
    - Her favorite deal: oceanfront house with boarded up windows that the owners didn't want inspected.

Bought for $499K, $20K rehab; appraised at $750K; used it as collateral for a line of credit that she now uses to flip other properties instead of mortgages – no paperwork or closing costs.
- Creative moves:
    - Charging rent for an underutilized parking lot instead of raising rent on elderly apartment tenants.
    - Buying an ugly house for $270K, gifting it to the fire department for practice, then selling the lot for $360K.
- “I just find properties where the numbers aren't great and figure out ways to make them great.”
- She has a real estate license, so by using herself as the agent, she can make deals work that wouldn't work if a commission had to be paid.
- She used to be a chief of police.
- “I was totally blown away with what a difference we can make in people's lives. That's what hooked me.”

17. Barbara Mattson
    - Rockford, IL
    - Owns 100 units
    - Foreclosures, auctions, helping other investors.
    - Got into real estate to survive. She had been a home care nurse when her husband was disabled in a construction accident. She bought him real estate investing tapes to listen to while bedridden. He ignored them but she listened to them.
    - “My life went from total negative to total positive. It was amazing.”
    - She really enjoys helping people who are in financial distress:
        - Takes over mortgages of people in foreclosure, lets them lease-option for 3 years while they get back on their feet, stay in the house.
        - Offers rent-to-own program for potential buyers with poor credit.
        - Elderly woman's house was trashed by vandals:
            - Assumed her $20K mortgage in a quick-claim.
            - Put $15K into rehab
            - House reappraised for $70K
            - Took $56K out of the home's equity, gave the owner $20K, kept $36K.
            - She offers sponsorships for single moms and members of minority groups to earn real estate licenses.

18. Jimmy & Linda McKissack
    - Denton TX
    - Own 95 units
    - Foreclosures, buy & hold
    - Got involved in real estate as a forced savings account for themselves.
    - Had a successful restaurant in Denton; tried to expand into Dallas & failed.
    - Their model:
        - 80% loan-to-value
        - Min. monthly cash flow $200
        - At least 10% discount
        - 15 year mortgage
    - Snags:
        - A partner bought a house on courthouse steps after drive-by inspection, not realizing that the whole back of the house was missing, & the previous owner took everything in the house: sink, water heater, doors, windows, etc.
        - Didn't start sooner.
        - How to exchange smaller properties for eightplexes
    - “If you're going to do this, you might as well do it big.”

19. Bill O'Kane
    - Chicago, IL
    - Owns 2,800 residential units, >200,000 sq feet of commercial space.
    - Roman Catholic altar boy, knew the importance of ritual, routine, preparation to defeat fear.
    - Likewise doing your research, learning your market, knowing exactly what to do when you notice an opportunity conquers new-investor jitters & leads to success.
    - Finding a good deal is a matter of negotiation & figuring out where everyone is willing to sacrifice.
    - “I've always enjoyed the art of the deal.” Learn the other person's priorities, compare them to yours. If there's not a conflict, a deal is possible.
    - He started in 1978; half the $7K down payment was borrowed. Bought his first “trophy building” 8 years later, 1986: 31-unit apartments with six store fronts, worth $1.2M. Seller wanted $1.4M. Negotiation was breaking down; then sellers offered to loan him $400K. He bought it for nothing down and collected a $400K check at closing. The building was worth $8M in 2005.
    - Another way preparation is key is finding deals in the first place. He says he knows his market inside & out, almost down to the per-foot level, & knows where to go for financing. Doing research to find investor-friendly lenders also helped him find investor-friendly properties.
    - “Buy on the fringe and wait.”

20. Wendy Patton
    - Detroit, MI
    - Owned 39 units
    - She started at age 21 with 50 feet of credit cards.
    - She doesn't recommend the credit cards, but she does recommend buying & selling houses on lease option.
    - Lease option is control without ownership. No credit checks.
    - Big on education.

21. Don & Ryan Zeleznaks
    - Phoenix, AZ
    - Formed a syndicate
    - Started a management company that eventually handled 5,000 units.
    - He sold everything in MN & moved to AZ, relaxed for a year & a half.
    - Started a new business wrapping loans for nonqualified buyers & putting together wrap deals for other investors.
    - Investors make a profit, & people whose poor credit would shut them out from traditional financing can buy homes of their own.
    - They have a 4.5% default rate.
    - “I was involved in rentals in a very big way & I know the headaches. But how do you think people treat the property if they plan to own it?” (Reminds me of Wade Cook, <u>Real Estate Money Machine</u>.)