

The Real Estate Millionaire

Find
Your Niche
and
Make It Big!

HOW TO INVEST IN
RENTAL MARKETS
and
Make a Fortune



Boaz Gilad and Suzanne Gilad

The Real Estate Millionaire

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Introduction

Real Estate and Why We Love It

There are two kinds of people, separated by a chasm: Those who have real estate, and those who don't.

—Anonymous

Lucy: I never get what I really want for Christmas.

Charlie Brown: What's that?

Lucy: Real estate.

—*The Charlie Brown Christmas Special*

Let's not dance around. I know why you're here. You want to make some money. If possible, a lot of money. Everyone is looking for a route to financial independence and freedom from the daily grind.

Real estate is, and always has been, the cornerstone of wealth. Did you know that the word *real* in real estate doesn't come from its material nature, but instead from the French and Spanish word for "royal"? In ancient times, kings raised armies, nations fell, and new ones were born, all in the name of real estate. It still happens today. And why? Fundamentally, land is *the* basic human need: We need food, water, and shelter. All three of these things come from the land we live on. Our territory, if you will.

Makes it all sound very grand, doesn't it? Not anymore. For centuries, real estate belonged only to the affluent and powerful, but today every Tom, Dick, and Harriet can get rich thanks to real estate investment.

Maybe you've only begun to think about real estate investment. Maybe you've already read a few books on the subject and are wondering why you still need help understanding what *escrow* is. Or maybe you're looking for

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that special book that will show how to become the property mogul you always thought you could be! In any case, you've come to the right place. *The Real Estate Millionaire* lets everyone in on the ancient secret of property ownership as the foundation of extreme wealth.

So Who Am I?

If three years ago anyone told me that I would be a real estate mogul, I probably would have laughed. Loudly. I grew up in a household that did not place importance on making megabucks. Quite the opposite; we equated wealth with corruption.

I fell into real estate investment by pure chance. This livelihood grew out of a desire to be financially independent and pursue whatever I wanted to—that is, I wanted enough money to fund my dreams. My first career choice was acting. My love for the arts was so strong that in my teens I moved away from home to attend acting school. Then, as a young adult, I moved to New York City to study philosophy and acting. Two big money-makers, right? (*Not!*) Like anyone else, of course, I needed to pay the bills. True to the stereotype, I worked as a waiter for a while, but I knew I wanted to find a way to make more money.

I investigated alternative sources of income, and real estate investment caught my eye. But how could I make that work? I didn't have any money. I didn't have any experience or connections. What *did* I have? Well, my time and my commitment. With these on my side, then, I was able to convince several investors to take a risk on me and supply me with the money to purchase my first property. (This, amazingly, was easy. You'll find out how to do it in Chapter 5.) So, with just my instincts to guide me, I shopped around awhile—quite awhile—and finally found a two-family house I wanted.

And thus my career began.

How surprised I was when I discovered that I loved the process. I found it challenging and exciting. So I figured out how to use that first property to get my next property, and the next, and the next, and so on. After my first few properties, I elected to make real estate a full-time endeavor.

Within two years—though I had no experience, contacts, or training—I turned what was in effect a zero-dollar real estate investment into well over

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a million. That led me to found ORE International, a multinational real estate investment company. If all this sounds like a whirlwind of growth and activity—well, it was. These days, in addition to running my own business, I enjoy leading others to wealth as a private consultant to real estate investors at all levels and as a presenter to international corporations and high-net-worth individuals. I have also discovered different and imaginative ways to give back to my community. For example, some of my properties are used to provide homes for people living with HIV, and they are some of the tenants I am most proud to have.

Not bad for someone who was not exactly typical real estate investor material. But then, who is? Well, actually, *everyone*. In truth, there is no “typical” real estate investor. I see this just by looking at the people who attend my seminars all over the world. Everyone has the potential to make money from property investment.

What's So Magical About Real Estate?

Real estate has never been hotter. And at no time in the history of real estate investment has the market been better positioned for the average Joe to take advantage of it. The facts are delicious . . . and staggering:

- More than 76 percent of American millionaires earned their wealth through real estate.
- Real estate has a 50-year history of appreciation. *Every 10.2 years, real estate values have doubled.*
- Real estate has been returning a profit of better than 10 percent. Combine this figure with the tax benefits of owning real estate and the return can jump to 35, 100, even 300 percent. (Just remember that—as the commercials say—past performance does not guarantee future returns.)
- You get more for your dollar: You can buy a million dollars' worth of real estate for \$100,000. If your investment goes up by 10 percent, you haven't made 10 percent profit—you've made 100 percent profit. *Yes, 100 percent profit.*
- Real estate gives investors the power of leverage: You can use the equity of one property to buy another . . . and another, and another.

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- The tax benefits are tremendous. One small example: An individual can sell his or her primary residence after having lived there for two years, profit up to \$250,000, and pay no capital gains tax. For a married couple, that exemption jumps to \$500,000. That's half a million dollars—tax-free—*every two years*.
- Mortgage rates are at an all-time low, and banks are competing fiercely for borrowers.

Real estate is open to anyone, no matter what your experience or how small your starting budget may be. And unlike stocks, the value of your property isn't affected by corporate or investment house corruption. Real estate gives you, the investor, greater control over your investment: A lick of paint, some flower boxes, or feng shui-ing the furniture could potentially increase the value of your property to a prospective buyer. That's the magic of real estate.

But How Do You Do It?

I can't tell you how many times people have told me that some book they read on real estate investment left them inspired but confused about how to start investing. This is because most books on this subject—which are often written by people who studied real estate investment at school before becoming practitioners—are filled with amazing facts and theory, but very little practical guidance.

I did not learn about the real estate industry in the classroom, but rather hands-on: in the field, playing the game, talking to real estate industry professionals, and making lots of mistakes. This book is the condensed product of all my professional experience and success.

I travel extensively, leading seminars across the United States as well as in Europe and the Middle East. The response from people who attend my public seminars and follow my advice has been so positive that I know my program gets results. Because I started out in this industry with no insider info, I know what kind of inspiration and knowledge you've been searching for but have been unable to find. While reading *The Real Estate Millionaire*, you will come out in the field with me. You will join me as I scout potential properties to buy. You will see how I conduct negotiations. Through my ex-

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ample, you will gain the skill to work out your own unique approach to real estate investment. The lessons are written to help real estate investors of all levels: from the first-time home buyer to the professional eager to find ways to earn seven or eight figures.

The Real Estate Millionaire motivates you to take immediate action. We'll begin with a basic, ground-level explanation of the benefits of real estate investment, and then walk together through every aspect of the enterprise. At the end of each chapter, you'll find exercises that show you how to practically apply the principles introduced and further focus your goals. The last chapters of the book deal with how to maintain your success and expand your horizons beyond your wildest dreams.

Most importantly, through completing the activity sections at the end of every chapter, you will gain the confidence to put into practice what I have taught you. Even before you've finished the book, you'll be ready to take your first step.

So Let's Get Started!

I recommend that you read *The Real Estate Millionaire* in its entirety first. You can then refer to the individual chapters and the chapter activities to help you identify solid investments as you go out in the field on your own.

Ultimately, don't hesitate to use this book at any point while investing in your properties—or to e-mail me at Boaz@OREinternational.com should you need more detailed advice on a specific property-investment-related issue. To find out more about ORE International's property ownership and management services, log on to www.OREinternational.com.

I wish you the best as you make your dreams come true. Please share them with me at www.realestatemillionaire.com.

Good luck!

—Boaz Gilad

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1

The Power of Real Estate

Passive Income, Passionate Life

We all love the idea of *having* money, but how many of us love the idea of *making* money? How many people actually wake up in the morning with the thought, *By the end of the day today, I'm going to have a thousand dollars cash in my hand?* If you're one of those rare people who is driven purely by the idea of making money, starting up in real estate investment may be easier for you than for others. But if you're not, let's look for the pathway that will connect your passions to real estate.

Perhaps it's difficult to believe that there could be a connection between making a lot of money and doing something you love. But know this: You aren't going to be successful at something if you're not passionate about it. Look at the people you admire—your favorite athletes, politicians, or artists. Inevitably these people are fixed on a goal, immerse themselves wholly in what they do, and pursue their passions with an amazing single-mindedness.

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So what does that have to do with real estate? Ask yourself, *What am I passionate about?* You may not be a person who can get deeply excited about buildings—and that's fine. But what does turn you on? Perhaps it's your family, your pastimes or creative outlets, your house of worship, or your community—your friends or colleagues. When I started in real estate investment, acting was what turned me on. Like most of my peers, I was a *poor* actor—financially poor, that is. But my passion for the arts made me want to find a way to be able to pursue performing without having to constantly worry about how to make ends meet. That was what pushed me to take control of my financial destiny.

And I have. It's completely incidental that along the way I discovered an authentic passion for real estate. At first, I created that passion because I could see the long-term benefits. Namely, I could see the freedom that real estate ownership could supply by creating passive income.

What is **passive income**? It's money that you don't have to work for; rather, it works for you. A quick example: Say you have a real estate investment—a two-family house—whose expenses total \$1,000 a month. From the rental income, you receive \$3,000 a month. The difference is your passive income: \$2,000 per month, or \$24,000 a year. If you have five properties like this, the passive income is \$120,000 a year. That's money that you *didn't have to spend time working for*. Imagine the hours you would have to put in working for someone else to earn that much—if you even had the opportunity to do so.

passive income: Money you don't have to work for.

This is where your life transforms. You're no longer working for money. It's working for you. Passive income is what will allow you to spend your time as you choose—pursuing whatever your passions dictate. And because the need for housing is a constant, having a sturdy property in place will ensure that you have a steady stream of **revenue** coming in. What will you do with the time and resources you've created for yourself?

revenue: Cash flowing in to you.

The Magic Word That Turns One Property into Five

So how do you create passive income quickly? Welcome to the wonderful world of leverage. Leverage is the single most powerful concept in real estate investing. It will increase your potential and lead to your success faster than any other vehicle in the world.

leverage: Increased power through the use of borrowed money.

It's as simple as this: You can buy \$250,000 worth of real estate for \$25,000. In other words, you can take advantage of a great deal of someone else's money using only a little bit of your own. And even more amazingly, you immediately get to benefit from a real estate investment's total cash value, even though you haven't invested anywhere near the full purchase price. (Even with that rare property where you make a zero **down payment**, you can still capitalize on the value as if you owned it outright.)

down payment: The portion of the full purchase price that is not part of the mortgage.

equity: The money value of a property.

refinance: To reorganize the financing of a property by taking out a new loan.

home equity line of credit (HELOC): A mortgage on your home that operates like revolving credit. You may borrow none, a portion, or all of the available credit based on your needs.

asset: Something of value that is owned.

collateral: Something of value given as security for a loan.

default: Failing to fulfill a legal agreement.

Leverage is the magic word that turns that property into five. Because you can capitalize on the value of the entire investment, you can use the equity in your first property to purchase your next one. Banks are happy to give you money through refinancing or a home equity line of credit. (There's

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a lot more about this in Chapter 5, “Cold Hard Cash.”) Banks know that real estate is one of the most stable and dependable assets that exists in the world. If they loan money to a homeowner, they have a great source of collateral in the event that the homeowner defaults on the loan. In contrast, try getting a loan against stocks or bonds.

You use the cash that the bank hands you from your first property to buy a second one. Then guess what? The banks will be thrilled to give you a loan on property number two. What do you do with that money? You buy another property. And so on, and so on, and so on. I like to imagine an ancient pharaoh building a pyramid. Your first property is your first stone. You dig it up and place it in the desert. Then you fit your next stone—or next property—right against the first. Each stone matches up exactly with the previous one. Pretty soon you step back and take a look at the big picture—and find you’re halfway to building your own monument.

Appreciating Appreciation

Now this is where investment gets really good. Unlike other investments whose value can fluctuate tremendously, real estate has a 50-year history of appreciation. Its pattern has been to go up in value for six to seven years, level off, dip a bit, and then start its trend of increasing again. History shows that every 10.2 years, real estate values have doubled.

This great track record makes the bank very comfortable and works to the real estate investor’s advantage in several ways. Let’s say you purchased a \$250,000 property, using \$225,000 of the bank’s money. After a year, the property is worth \$280,000—it has increased in value by \$30,000. You originally put 10 percent down on the property, so does this mean your investment has increased over 10 percent? Nope. It means that your \$25,000 investment has returned *better than 100 percent*—in one year!

appreciation: An increase in value over time.

mortgage: A written agreement that creates a **lien** against property as security for a debt.

lien: A claim against a property. A lien gives a creditor the right to take a property if you don’t pay a debt. Liens can

be consensual (including mortgages and home equity loans) and nonconsensual (including liens for unpaid taxes and contractors).

So now you go back to the bank, politely point out that the value of your property has increased by \$30,000, and tell them you'd like to refinance the mortgage. The bank will hand over \$27,000. (Why wouldn't the bank give you the full \$30,000? Because it will always require that you leave at least 10 percent of the value in the property—in this case, \$28,000, or your initial \$25,000 plus \$3,000 from the increase.) Still, you own a \$280,000 property with essentially none of your own money left in it. In short, we appreciate appreciation!

Did You Know about All These Tax Benefits?

Tax benefits. Sounds like an oxymoron, right? You may hate taxes now, but in Real Estate Land, they are beautiful and kind. Tax benefits are what can transform your 10 percent profit into 35, 100, even 300 percent.

Why would the government extend any tax benefits for homeownership? Simple. Uncle Sam *likes* it when the American people buy homes. Homeownership is good for the stability of the economy, so the fine folks in Congress and the IRS have created some beautiful perks—some real, some they dreamed up—to encourage home buying. And since the real estate lobby in Washington, D.C., is extremely powerful, chances are these tax benefits won't be going away anytime soon.

The Half-Million-Dollar Handout

Here's a simple tax benefit available to every homeowner who pays taxes: In 1997, Congress passed the Exclusion Act, which applies to property sales after May 6, 1997. This law states that in the United States, you can live for a minimum of two years in a primary residence, sell the residence for a profit, and keep up to \$250,000 of that profit *tax-free*. That amount jumps to \$500,000 for a married couple. (Hey, if you're single and are looking at a \$500,000 profit, you might want to find a spouse fast.) You can then go buy another home, live there for two years, and do the