Real Estate Riches by Robert Kiyosaki and Dolf de Roos
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Commentary provided by Leo Schreven

I decided this month to do a book on real estate because this is the best market I have seen in many years to pick up real estate at a good price. The book I have chosen is another of Robert Kiyosaki's, although it was authored by Dolf de Roos. It is a good book to get you started.

The book begins by Dolf telling his life story. It is a fascinating beginning that can't help but inspire you, so I encourage you to read it. He begins by asking four magic questions.

Question number one. How many dollars worth of stock can you buy with $100,000 cash? The answer is pretty obvious; you can buy $100,000 worth of stock. Let's compare that to investing in real estate. With real estate you could buy a $200,000 piece of property or even a $1 million property with a 90% mortgage. The point here is that when you buy stocks, you generally have to put up the entire purchase price in cash. When you buy property, you generally have banks and other lending institutions falling over themselves to give you the money! If you went to a bank manager and asked for a loan to buy stocks he would laugh at you. But the same banker will bend over backward to give you money for a piece of real estate!
The bank considers property a safe and secure investment. So the leverage on property is truly amazing for you.

Question number two. The minute you buy your $100,000 worth of stock using your cash, how much is your stock worth? The answer is that at any point of time a stock is worth the price that buyers are willing to purchase it for. The same rule obviously applies to real estate. However, there is a major difference. In real estate, there are many situations that can drive the price of the real estate down with a guaranteed upside. Phenomenal deals do exist. And, yes, you can find properties worth a million selling for $500,000.

The most common reason why properties are sold way below their value is divorce. Most couples want instant results. So if it is agreed to sell a jointly owned home, the partners generally want each other out of their hair as soon as possible. Therefore they want their money out fast—split the proceeds, and never talk to each other again. Sometimes the owners are too stingy to pay for an appraiser so you can pick up the house way under market value. Sometimes the owners have lived in the house since the 1950s when they bought the property for $3,500 and they feel like they are ripping you off for accepting $275,000, when in fact the property is actually worth $400,000. Often property has been given to children as an inheritance. There is disharmony, so they just sell and split the proceeds. In most cases, foreclosure situations mean that people don't care. Only the bank is interested in getting its mortgage back. There are many reasons why people will sell a property well under the market value.

Question number three. When you buy $100,000 worth of stock, what can you do to increase the value of your stock portfolio? Most people say, “I pray!” And there is not much besides that. But with property the options are endless. How about something as simple as a paint job? Most people would drive by a house with the paint chipping and write it off. But with three days work and $500 worth of paint you can increase the property value by $20,000. Now people will see the property as a cute cottage in the country where they would love to spend weekends. All kinds of things like replacing the gutters, putting in a new heating or cooling system, changing the curtains and drapes, modernizing the bathrooms, putting in a new kitchen, replacing a faucet, adding a swimming pool, removing an old shed, cleaning the carpets, and a million other ideas can increase the value of property quickly.

Question number four. If you bought $100,000 worth of stock with $100,000 cash and it doubled in value it would be worth $200,000. But if you bought real estate at $1.5 million and it doubled in value it would be worth $3 million. It's the same principle. But now you can go to the bank and ask for a new mortgage. At 90% you would get $2.7 million in your hands. You pay off the original $900,000 mortgage, and you still have $1.8 million left over cash in your hands. There is also no tax because you didn't sell the home. You could use this $1.8 million as a 10% deposit on $18 million worth of property and do the same thing all over again.

This is following the same principal Robert Kawasaki teaches. The poor earn their money and pay tax on it and spend what is left on the things they want. On the other hand, the rich earn money, spend it on things they want, and then pay tax on what is left. This is why property is better than any other investment.

Chapter 2 is called Conspiracy Theory. He brings out how the media often misrepresents how good real estate investing is. The main reason for this is because the media tends to compare apples with apples. In other words, they look at a $100,000 CD as being the same as purchasing a $100,000 house. They are not the same. Because if your $100,000 was used as a 10% deposit on a $1 million property, then a 7% increase in property value would translate to an increase of $70,000 which is actually a 70% increase on your $100,000 investment in real estate. However in the CD, it would only be $7,000.

This is the power of leverage and it is one of the secrets the wealthy know that the average person doesn't. Consider all the properties you have ever owned. And then consider all the properties that your friends and family had. Over a period of time have you ever known any of them to drop in value by 60 to 90%? The obvious answer is no. Over the last 60 years real estate has always increased. Sure there are dips and valleys along the way and there are housing market corrections, but they tend to last only three to four years and continue up.

A similar situation takes place with rental property. If you invest $100,000 in the bank and get 6% interest, you receive $6,000. And if you buy a property for $100,000 and receive $6,000 in rent your gain is also 6%. And that's as far as most people think. Good real estate investors realize the power of leverage again here. The $100,000 deposit in the bank required $100,000 in cash. But the property only required $10,000 in cash to purchase, with 90% still available. We'll discuss this later, but for now you just need to understand the power of leverage.

Consider also the tax advantages. This is probably the greatest reason to invest in real estate. The laws from state to state and country to country vary, but as a general rule there are consistent principles. In a nutshell, real estate is the only vehicle where you can easily and consistently receive money back from the government rather than being taxed, even when you make a profit.

You see one of the best-kept secrets is the principle of depreciation. All of you that are business owners know that you can depreciate items such as computers, cars, office furniture, etc. These items all go down in value. But you can also depreciate property. Yet the amazing thing is that property almost always goes up in value. Yet you can claim the same depreciation! For example, let's say you have a property that is generating $20,000 a year in rent. Let's say your expenses on your mortgage, interest, maintenance, and property taxes amount to $15,000. That leaves you a pre-tax profit of $5,000. Now normally you would pay tax on that $5,000. But let's say that you have $9,000 in depreciation allowances. Then your net income after deducting the depreciation would be minus $4,000. Do you see the power of this? In reality you're making a profit of $5,000. But as far as the tax man is concerned you are making a loss on paper of $4,000. That's a very good deal. So never under estimate the benefits of depreciation on property. Real estate is the only investment where you can make a profit, and still get money back from the tax man.

When you buy a property, the chance of that property going up in value in the long term is almost 100%. In particular, if you buy at times when the market is going through a brief correction such as right now, it is virtually guaranteed. Another amazing thought is that you can insure real estate against fire, earthquake, flooding, or any other thing that could destroy it. You can also insure the contents. Therefore no matter what happens, you can always get you money out of it. You can't do that with a stock in the stock market. So, with real estate you can never lose the whole investment.

Another advantage is that you can beat the average through geography. In other words, there are always geographic areas of the country that are going to continue to grow faster than other areas. Take for example right now Las Vegas, Nevada. This has been the second fastest growing city in the United States for several years. Currently the housing market is down about 38%. However, the projection for the next 30 years is that Las Vegas will double in population. If you've ever been to Las Vegas, you will see that they have a problem. They have just about reached the limits of how far they can expand. To the north is the military base. To the east is Lake Mead. To the west are the mountains, and to the south is the Indian Reservation. Therefore the city cannot expand beyond these limits. I believe that if you buy a house in Las Vegas for $250,000 right now it will double in value in the next 10 years. These kinds of trends are very predictable. In the area where I live, there is only so much land available because everything else is National Forest. I think it's the most beautiful and undiscovered place in the United States. We have a lake that goes for over 400 miles, beautiful rivers, beautiful mountains, excellent hunting and fishing, untouched wilderness for thousands of square miles, great weather, and the place is just becoming discovered. Property values here have held strong even through the last market correction. And it will continue to go up. In fact, property values here have doubled five times in the last eight years. So do some homework and study the geographic areas of potential growth and you basically can't go wrong.

Another example is looking at the baby boomers born between 1946 and 1964. Many of them will need retirement homes, and assisted living facilities. The proportion of elderly people will go up dramatically in the next few years.

A hundred years ago the Western world was an agriculture-based society. Most people worked the land. But today less than 4% of the population works the land. So obviously in the last 100 years there has been a mass exodus from the country to the cities. Now, a hundred years later, we are seeing our world change again. Industries that require armies of workers have become automated. Assembly plants now are run by robots. And with global communications you can be anywhere at anytime. So a new shift is taking place. People no longer want to go to the cities which are overcrowded, polluted, crime infested, and dangerous. They want to have a nice place in the country where they can get away from it all and still run their business. This will definitely be the trend for the years ahead.

The key in what we're sharing with you in these illustrations is this. If you invest in real estate in geographic areas where the growth is higher than average, in the demographic sectors where the baby boomers will retire, and combine all these things, your chances of success are much higher. People have the freedom to live where they want. Whether it's the Gold Coast of Australia, or the beaches of Florida, or Cancun, Mexico people are free to do as they please. In the past 15 years, states with ocean and beach access have a 50% higher rate of growth than other states.

In the next chapter the author deals with some of the common questions. Questions like where do I get a 90% mortgage? The key here is to check more banks than your own. The banking industry is going through many revolutions right now. So check at least 20 or 30 different banks. Especially look online as many online banks are becoming popular and can often offer more than your local bank in a building. You will find if you look, many banks will loan 90% or higher.

You may say, what if I don't own a home, how can I begin investing in real estate? This is where it starts to get fun, because you have to think outside the traditional box. There are many ways to negotiate real estate deals. You just have to educate yourself. For example, let's say the bank will only loan you 70%. You can ask the seller to float the other 30% on a five-year note at 6%. In other words, don't always settle for the gloomy answer. Look beyond what most people traditionally think. Instead of saying, "that won't work", say, "how can I make that work for me?"

Let's review at this point some of the main advantages of real estate investing.

1. You do not need the total purchase price in cash to purchase property.
2. You can buy many more dollars worth of property than you are paying for.
3. You can dramatically increase the value of a property without spending much more money.
4. Real estate does not require you to monitor it day by day as you do stocks or other investments.
5. Property prices always increase smoothly and consistently over the years.
6. Property is very forgiving when you make mistakes.
7. Property has incredible tax advantages.

Investing in property is a numbers game, and often the numbers are big. This tends to scare people. So let me give you a little advice to consider. Buying one dollar, or $1 million, is really the same process. It's just that one of the numbers has more zeros after it. Keep this in mind as you begin real estate investing. Become pragmatic and you’ll overcome this fear.

There is another rule called 100-10-3-1. This rule means that you will look at 100 properties, put offers on 10, try to arrange financing for three, and you may end up buying one. Experts in real estate have found this to be a very consistent rule. In other words, good deals are not just there for the picking. You have to spend some time sorting the wheat from the chaff.

The concept of looking at a hundred properties in order to buy one is a daunting challenge for many people. But real estate investing is truly a numbers game. If you are willing to play the numbers, you will find some real gems.

Another reason why it's so important to look at a lot of properties is that during the process of looking at what is out there, you begin to develop a clear sense of what is the norm. This kind of education is invaluable. You can begin by simply determining your purchase limits. Let's say it is $400,000. You can then begin your process of elimination by going to the real estate magazines for properties that are under $400,000. Next you can eliminate further those properties that are not in the geographic area that is most desirable. This can all be done from the comfort of your home. But once you have that list you have to go out and physically see the properties.

Another great tool is classified advertisements in your local newspaper. I'm not talking about the big display ads given by real estate companies, but rather the small four or five sentence ads. Often these are by owner-sellers who are not using a real estate agent. There are many advantages to this. For instance an owner-seller does not have as much publicity for their property, so there is less competition looking for it. Second, many of them have not taken the time to understand the real value of the property. Third, most owner-sellers have not had as many offers on the property and will welcome an offer more readily.

Understand also the power of questions. Why are the sellers quitting or selling? What are the rental levels in that area? How have property values shifted in this area in the last five years? What is the population growth here? Making friends with a good real estate agent can also be very valuable. Try to work with agents who are also investors. That sounds counterproductive because if they find a real bargain you think they will keep it and not offer it to you. This is true, but you also have to remember most agents are limited in the amount of property they can buy. A quick commission on the sale is often a much bigger incentive for them. So go out and interview a few agents. Ask them, what are the best investment properties that you have on your books at present? When they show you, ask them why? If he shows you hard numbers rather than talking about how pretty the property is, then you found yourself a good agent.

You can also take advantage of poor agents. When I say poor I don't mean financially poor, but rather poor in their performance. Many agents are not prepared, or they are too lazy to deal with properties they don't especially like or have time for. If there is a lot of red tape, or the property has complications, you can often know more than the agent does and make a ridiculous offer and they might accept it, especially if you do some of the work on contracts and red tape. I have done this multiple times and believe me it works.

Another strategy that is also effective is to look for property that does not have a for sale sign. This is far more effective than you might think. If you can find a property that you think has great potential for development, or could be subdivided, or meet a need that happens to be strong in that community, you can often knock on the door and talk to the people and find that they are willing to sell. In other words, you have to help them see the value of their property, because most people don't know it.

You can also write your own advertisements. Often in life we sit waiting for good things to come our way. Those who go looking often come out ahead. So run an ad offering to buy properties. It can be a small simple ad that says, "Serious investor wants to buy properties. Maintenance or repairs no problem. Quick decisions. Phone 123-4567." Remember we live in a world of instantaneous gratification. People want quick results. If you can get them to think, "If I call this person I won’t need to deal with the bother, hassle, and expense of going to a real estate agent, signing all kinds of documents—what have I got to lose?" You can think creatively about this as well—why not make your vehicle your advertisement? Create a magnetic sign that says. “I buy houses! Phone 123-4567.” Remember, the more properties you look at or consider, through whatever method available, the greater likelihood you will find your great deal that sounds too good to be true. Go for it!

In the next section, we are going to learn how to analyze properties. The first question is about the yield. As we have already discussed, the yield is simply the rental income divided by the purchase price. If this is in your favor you are safe in this area. Let's get more detail. Imagine a property that costs $100,000, and the rental income is $10,000 per year. The yield is then 10%. But this is only if you pay $100,000 cash for the house. But if you pay 30% or $30,000, and get a loan for the remaining $70,000 at 7% then your mortgage payment would amount to $4,900 a year. Your return then would be $5,100 of the $30,000 creating a 17% yield. Notice, that the property is the same, the purchase price is the same, the rental income is the same and yet the return has gone from 10% to 17%. But then we haven't taken account of property taxes, maintenance, property management fees, the vacancy rate, repairs, landscaping, mortgage application fees, appraisal fees, or bug control, just to name a few expenses. So let’s get more accurate.

A more accurate picture of this is called the internal rate of return, or IRR. Today there are some very good computer programs that can do this for you. You only need to have the important financial factors ready to punch in. This would include the purchase price, renovation costs, true market value, closing costs, rental income, vacancy rates, expected capital growth rates, expected inflation of rents and expenses, mortgage interest rates, mortgage structure, (principal and interest, or interest only) property management fees, property taxes, maintenance, repairs, mortgage application fees, your income level, prevailing tax rates. When all these factors are put into the software the results will give you an insight that would be impossible to get any other way. Some properties that look great will suddenly become lemons. Other properties that you are not sure about can turn out to be great performers. You can also do what is called a sensitivity analysis with the software that can project the future both positive and negative. For example you can punch in to see what would happen if property values decreased by 10%, or rental income dropped by 5% or what would happen if your interest rate went up. The author has a very good software package if you want to purchase it from him at www.dolfderoos.com.

The next chapter deals with negotiations and submitting offers. This is another advantage of real estate over other kinds of investments. Other investments have very strict rules, whether it is the stock market or an auction, the rules are set and you cannot break them. But in real estate there are no rules to negotiations or offers that you submit. You can include just about anything you want in the negotiations. You can put into a contract anything you like. The ability to write just about anything into a real estate contract is one of the most overlooked and underrated advantages of real estate investing. Here are some ideas.

Don't always write the contract in your own name. You can do the contract in your company name, a family trust, a partnership, and joint ownership. I often sign a contract, "as nominee." This gives me the legal leeway to buy it in my own name or to assign the contract to anyone else of my choosing.

Since you want to acquire properties with as little cash as possible, I also put in the following clause:

"This contract is expressly subject to and conditional upon the purchaser arranging financing suitable to himself, such financing to be

confirmed within 21 working days from the date of signing of this contract."

The words, "suitable to himself" are critical as it protects you in the deal. Another clause you can add can give you a legal out in case you identify something that is wrong with the property. It should state;

"This contract is expressly subject to and conditional upon the purchaser's attorney's approval as to title, encumbrances, liens, easements, and any other regulatory impositions that may relate to the subject property, such approval to be given in writing by the purchaser's attorney to the seller's attorney by no later than 5:00 p.m. on the 20th working day after the signing of this contract."

This ensures that you are covered. A secrecy clause can also be very helpful if there are things that are secrets in your negotiations that you need to protect.

Once you have completed the contract there are a few things that can also turn the tables in your favor so your offer gets accepted. One of the simplest tools is to staple a check for the deposit required onto the contract. The psychological power of this check stapled to the contract is phenomenal. The seller knows you are serious. He knows that if he signs he can deposit the check immediately. No matter what anybody tells you, money speaks. I have closed some amazing deals this way and it always fascinates me how human nature works.

In the next chapter the author talks about OPM (other people's money) and brings out the point again that banks want to give you money, so let them give it to you. When you buy property using other people's money you create leverage. You use other people's money to make money for yourself. Remember today things have dramatically changed. It's not the old days of being fearful to ask your banker for mortgage. Today mortgage finance companies are fighting for your business. Remember that money is just a commodity. There is nothing special about money you get from your bank. It doesn't matter where the money comes from. All that matters is what the terms are and the conditions associated with the loan.

There are different types of mortgages available to you today. The most common kind of mortgage is a principal and interest mortgage. Every time you make a mortgage payment you pay interest on the amount outstanding and some of the principal back. At the beginning of the term of the mortgage nearly all of your payment is interest, and only a small amount is principal. Toward the end of the term most of the payment is principal. Often the mortgage is very streamlined with standard forms to fill out. So I recommend drawing up a “proposal for finance” for each investment property you want to buy. This is a simple document that will spell out exactly what it is that you are offering the bank and will describe the investment property in sufficient detail for them to know it is a safe and sound investment both for you as an investor and them as the one giving you the mortgage. You can make 10 copies and then give them to different banks and lending institutions and see who gives you the best offer.

One pattern I want to bring to your attention on this is that in the last 10 years many banks have been bought out by major banks. This has removed the personal touch. For example, I had a bank in Washington called Seafirst. I knew the manager, Max, by name and we were good friends. I could go in and apply for anything and it was done in 24 hours. Then his bank was bought out by Bank of America. Everything became more complicated, took more time, and Max had less control. About two years ago I applied for a loan for a property and it took two weeks for the main office in California to even respond to me. Max was as frustrated as I was. After two months of paperwork, and hassle with no answer, I told Max I would have to end our long standing relationship. I went to another small bank and had the loan approved in 3 days. The lesson here is to find a small bank with a personal owner and build a relationship. It will save you a lot of time and pain.

One of the biggest questions is, should I pay off my mortgage? My question back is, why would you want to pay it off? Let's say you get a $50,000 inheritance. Why would you apply that $50,000 to paying down your mortgage when you could use that $50,000 as a deposit on a $500,000 property? In other words, why use tax-free money to pay down principal when it only reduces your tax deductibility?

Let me give a practical example. Let's go back to 1960 when I was born. Imagine you have two investors each with $4,000 cash. Investor number one used his $4,000 to buy one property for $4,000. Let's say today it is worth $250,000 and investor one has no debt. But now let's go to investor number two who used his $4,000 cash to buy four properties worth $4,000 each using a deposit of $1,000 on each of the four properties. He has four mortgages of $3,000 each now. Today his four properties would be worth $1 million. If he never paid off the mortgages, he would still have a debt of $12,000. But who cares about $12,000? Do you see how powerfully simple this is? Let's go deeper. Suppose now it is 1970 and both investors get a $12,000 inheritance. Investor number one buys another property with the cash so now he has two properties with a total value of $500,000. Investor number two has a choice. Either pay his existing debt of $12,000 on his four properties, or buy more property. If he used the $12,000 cash to buy more property he could buy four more which would add $36,000 of mortgage debt to his existing $12,000. But by today, he would have $2 million in property, and only $48,000 of debt.

The point of all of this is to acquire debts, but to make sure the asset against which that debt is secured goes up in value. The debt on depreciating assets such as cars and jet skis is bad. But debt on appreciating assets is good. Most people associate the mortgage with a problem. You have to change your thinking on this. When you owe the bank $5,000 you have a problem. But when you owe the bank $5 million, they have a problem! Remember banks want to give you money. Let them give it to you!

The next chapter deals with different ways to increase the value of your property without spending a lot of money. Something as simple as a carport which costs you $2,000 to build can increase a typical property by $20,000. Simple ideas like an extra piece of land behind your shop warehouse can be made into storage units. If you see a vacant piece of land, ask the question, "What can I put up here that will generate income? Could you add a swimming pool? Could you install an electric garage door opener, replace the carpets, knock out a wall, subdivide a large room, install a fence, put in a skylight, seal the driveway, paint the outside, add double glazed windows, replace the wallpaper, install a new stove? Again, what are the needs? A small building on a large piece of land may not be worth much to anyone. But when you put a high security fence around the property, then suddenly the property is appealing to a trucking company that needs a secure place to park his trucks at night.

One must also deal with the reality of managing properties. It is kind of like the puppy dog you first dreamed about, then suddenly realize it needs cleaning, care, and attention. The best solution to this is to find a good property manager. The other way is to be extremely selective in your choice of tenants. You don't want to deal with the trauma of late rental payments, untidy properties, high tenant turnover, excessive wear and tear, complaints from neighbors, and evictions. But there are many things you can do to keep these problems to a minimum. Just as you have to look at a hundred properties in order to end up buying a good one, you sometimes have to interview many tenants to find one that is suitable. Use references and check the references carefully. Find out how long the tenants were in their previous home, what their plans are, where they are from, where their family lives, and what they do for a living. Just do it as part of the conversation. If they have difficulty answering these questions don't use them.

Another aspect of managing your properties is finding the proper tradesman to do some of the work on the properties. The most effective tool I have used in securing a good tradesman who will do anything for you at any time is to develop a reputation of paying the same day they finish the work. The biggest issue for a tradesman is not whether he gets the promise of a bigger job down the road it is whether or not he has to chase a bad debtor. I personally have several good contractors like this where I live in Washington. On numerous occasions I have had to make a phone call from out of state or out of the country for their help. No matter what they are doing, they immediately drop it and do what I ask them to do knowing that my wife will be handing them a paycheck the minute they are done. That kind of service is priceless.

It is also important to enforce the property rules. A good landlord has to be firm but fair, friendly but not familiar. The biggest mistake I see property investors making is being too friendly with their tenets. Yes, it is important to be polite and pleasant, but there is also a fine line between those qualities and being a bit of a sucker and taken for a ride. This is why it is important to be firm from day one. If tenants know that you are fair, but also that you take swift action on any breaches of the agreement you have with them, they will respect that, and your relationship will be much better. It is also very important to keep strict accounting that is up to date. There are many good software programs specifically for this that you will find helpful.

What about evictions? One of the toughest things you'll ever need to do is to evict a tenant. Most states and countries have numerous rules regarding evictions so make sure you are aware of any and all of these laws. The key to eviction is to have done your homework before and using very clear contracts. You should also have very large security deposits on properties.

When your tenet knows the clear rules, and has a lot invested, they know better than to try to give you trouble. Again this is where you want to consider a good property manager. A typical manager will charge between 4% and 15% of the income to manage your properties. Or they will often exchange free rent in a unit to manage properties. Having a good property manager enables you to work on your business not in it. In this way you benefit from other people's time.

Another question that frequently comes up is the question of residential versus commercial property. **Residential property** is property that people primarily use for residential accommodation. It includes homes, duplexes, condominiums, apartments, townhouses and apartment buildings. **Commercial property** includes offices, shopping malls, retail shops, strip mall shops, big buildings, medical offices, funeral parlors, restaurants, real estate outlets, coffee shops, parking lots, bakeries, and convenience stores, to name just a few. **Industrial properties** include warehouses, bulk storage facilities, fuel depots, bus depots, sawmills, factories, distribution facilities, and so forth. **Hospitality properties** are things like hotels, motels, YMCA hostel's, resorts, and spa's. Generally, when you talk about commercial property in a broad sense, people understand it includes all of these categories except for residential.

Let's begin with one important distinction. When you invest in residential property you are essentially dealing with people. When the rent is not paid on time, you have to deal with a person. However, when you deal with commercial property, you are essentially dealing with contracts. If the rent is not paid on time, then the contract stipulates a series of steps that the landlord can take. Rental property often has a lot of bureaucratic restrictions that protect the tenants, even if they don't pay. California for example is absolutely the worst in their laws in this way. But in commercial property it is different. With commercial property you have the right to everything and it is much easier to enforce. One of the most helpful tools in rental properties whether commercial or residential is to write the contract in this way. Let's say the rent is $2,000 a month. Instead of saying the rent is $2,000 a month, make it $2,200 a month but subject to a discount of 10% if the rent is paid on time. This creates a tremendous incentive to pay the rent on time.

Another advantage of commercial property is that the tenants get their income from your premises. Therefore they have a vested interest in keeping the property looking good and in many cases even improving it. It is very rare that a residential tenant will improve your residential property. But in nine out of 10 cases they will improve your commercial property. Another advantage to commercial properties is that the length of the lease is often much longer. Leases up to 20 years are not uncommon. You can't get that with residential property. The one disadvantage of commercial property is that it is much more specialized. Sometimes it is difficult to match your building with the right business owner. You can find a great deal on a tomato factory, but who's going to rent a tomato factory? So doing your homework here is also very important.

Another thing I like about commercial property over residential is the simplicity. If I want to own $10 million of residential real estate, I will often have to manage 20 or more properties. But you can own $10 million of commercial property in one single building, with one lease, and one manager. The effort involved in buying a $1 million building is the same effort that's involved in buying a $100 million building. So you have to ask yourself the question, would you rather do a $100 million deal once, or a $1 million deal a hundred times? Commercial properties also are not nearly as demanding of your time. Tenants tend to look after minor repairs themselves. Your tenant turnover is not nearly as high.

So when you put the two side-by-side, residential versus commercial property, it is my opinion that the commercial property has many advantages. For example residential property rental is monthly, commercial is yearly. Residential tenants have little interest in maintaining or improving the property. Commercial tenants have a strong vested interest in keeping the property looking good and functional, and often even improving it. Residential leases are nonexistent, commercial leases tend to be many years giving you security—residential tenants call you for minor problems, commercial tenants tend to fix minor problems themselves. In residential real estate the bureaucrats tend to involve themselves in protecting the rights of the tenants, whereas in commercial property the bureaucrats tend to leave you alone. In residential property the management overhead can be high, in a commercial property management overhead is usually low. With residential property you have to deal with people, with commercial you deal with contracts which is much easier.

The book concludes with what is known as the 8 Golden Rules of Property.

1. You make your money when you buy. When you buy a $300,000 property for $200,000 then you just made $100,000. Look for those good deals because it would take you a long time to make that $100,000 working a job.

2. Always buy from a motivated seller. The more desperate the seller is, the better it will be for you.

3. Fall in love with the deal, not the property. One of the biggest mistakes of real estate investors is that they just love a property. You have to leave your emotions behind and deal strictly with numbers.

4. Never be the first to name a figure, because that person always loses.

5. Be countercyclical. This simply means to buy when everyone else is selling and to wait when everyone else is buying.

6. Always try to buy with zero or little down. Remember that putting a lot of cash down does not make good investment sense. The less money you put up the bigger the advantage for you. Remember the difference between good and bad debt.

7. Seldom sell. When you talk with people who owned properties in the past, they will visibly cringe when you ask them what those properties would be worth today.

8. The deal of the decade comes along about once a week. It is important to have the mindset that good deals do exist. It takes a certain amount of courage to look for something, risking the chance that you may not find it. But when you find it, then you begin to see there are other good deals also.

O.K. that is all we are going to cover this month. You now have the basic tools to get started.

Blessings and best wishes,
Leo Schreven