



REAL ESTATE PAYS 5 WAYS

INCOME PROPERTY PAYS UP TO FIVE WAYS SIMULTANEOUSLY

PRESENTED BY:



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Example: Make a \$50K down payment on a \$200K property. Rent income exceeds expenses.



1 APPRECIATION

It appreciates from \$200,000 to \$210,000, commensurate with real estate's historic rate of 5%. You achieved a 5% return on both your \$50K and the \$150K borrowed from the bank. Your \$10,000 gain is based on your \$50,000 down payment. This magic of financial leverage means your return is **20%**.

Your rent income minus expenses (mortgage, vacancy, insurance, maintenance, taxes, utilities, management) should leave \$3,000 of residual cash flow annually. But a freak plumbing problem cost another \$1,000. Divide \$2,000 by your \$50,000 down payment. This portion is known as the Cash-On-Cash Return. That's another **4%**.

2 CASH FLOW



3 ROA

Return on Amortization. Unlike your home where you must pay this, the tenant pays the monthly principal portion of your \$150,000 loan! A 7% interest rate on a 30-year mortgage is \$1,500+ annual paydown, divided by your \$50,000 of "skin-in-the-game" is **3%**.

You have an entire basket of generous tax benefits. We'll only cover one—tax depreciation. Building value (not land) is \$150K. Divide by 27.5 per the IRS schedule. \$5,400 of your rent income is sheltered from taxes. At the 24% tax bracket, that's a \$1,296 savings. Divide by your \$50K invested. **2%**.

4 TAX BENEFITS



5 INFLATION-PROFITING

Few understand this. Like inflation erodes savings, it debases your mortgage debt. How? Today's \$150,000 loan gets easier to "pay back" over time as wages and prices escalate. Your bank only gets repaid in nominal dollars (while your tenant pays the interest), not inflation-adjusted dollars. 3% inflation on your \$150,000 loan is \$4,500. Divide this by your \$50,000 equity. **9%**.

Your first-year Total Return On Investment is 38%.

Notes: 1) Risk exists. If you buy property in a losing job market, hire the wrong property manager, and more, your return can erode. 2) Management cost is considered, meaning your income is passive. 3) This is a rough example. Your exact return will vary.

Now you finally understand how real estate makes ordinary people wealthy!



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