A NEW SPECIAL REPORT

ACCELERATED WEALTH

THE FORMULA FOR ACCELERATED WEALTH

The Formula for Accelerated Wealth

Have you ever studied the annual Forbes List of the richest people in the world? This annual list includes the names of the Sam Walton family, Warren Buffett, Bill Gates, Jeff Bezos, and Mark Zuckerberg.

If you do invest the time into studying this annual list, you might find each person followed a similar formula for wealth. This formula they all follow is an accelerated formula allowing them to build wealth in short periods of time. The accelerated wealth formula followed by the richest people in the world is:

1. Buy, or create, an asset
2. Increase the income of the asset
3. Sell the asset at the highest market value

It is helpful to understand the richest people in the world didn't invest their way to the top of the Forbes list. Sure, they do invest for income and appreciation, but they didn't accumulate their significant wealth through their investments.

Instead, they started with an asset and made this asset more valuable. In other words, their wealth was created through the process of making their assets more profitable. As the value of their assets increase, their wealth escalates.

Consider Sam Walton who started Walmart many years ago. Mr. Walton wasn't wealthy when he started Walmart. He built his wealth by building the Walmart business into one of the largest businesses in the world. Every Walmart he opened increased his wealth further, as more income flowed into the business's bank accounts.

The value of his asset (Walmart) increased as the profits of his asset (Walmart) increased. He eventually took Walmart public and sold off a portion of his ownership and became one of the richest men in the world. His family remains on the top of the Forbes list today.

It is important to "see" he didn't create his wealth investing in Walmart stock. He also didn't create his wealth by saving a portion of his paycheck each month. It is impossible to save your way to accelerated wealth.

His wealth came from building a very valuable asset and then selling a portion of his ownership.

Google the Forbes annual list and see if each person didn't follow a similar approach for his or her wealth accumulation.

In Walton's case, his asset was a business. By improving the income of the business, he increased the value of the business. In other words, by manipulating the income of the business, he could manipulate his wealth.

A business's value is determined by many factors. One of the most important factors is the net income of the business. A business buyer will pay more for a business with higher net income and less for a business with lower net income.

If you own a business with $50,000 of annual net income, your business may be worth $200,000 to $400,000.

If you own a business with $200,000 of annual net income, your business may be worth $800,000 to $1,600,000.

A business owner can become a multi-millionaire without saving, or investing, one dollar – simply by building a business with significant income. If you have a goal to build wealth, you should consider copying the formula used by the richest people in the world.

The good news is you don't have to start your own Walmart to accelerate your wealth accumulation. **You do; however, have to own asset that is valued based upon its income**. There are two primary assets valued based on their income.

These two assets are:

1. A business you own and control
2. Multi-family residential and commercial real estate

Starting your own business is extremely challenging and risky. Over 80% of small businesses go out of business within the first five years and the owners lose every penny they invested.

Commercial real estate can also be extremely risky, as vacancies may require years to fill. During these times of vacancy, the owners may have a significant negative cashflow as they have to pay all of the expenses of the property without any corresponding rental income.

The best option for accelerated wealth accumulation tends to be larger multi-family real estate opportunities. These multi-family properties, or apartment complexes, typically have 20, or more units. For accelerated wealth, these properties are acquired for the opportunity to improve the net income of the property. As the net income of the property improves, so does the value of the property.

In general, there are two types of apartment building investment opportunities to consider:

1. **Turn-key Property**: A turn-key property is a profitable apartment building with excellent management. The units are rented at market value rents with qualified tenants. The expenses of the property have already been minimized. The maintenance and repairs are handled in a timely manner. The net income of the property offers an attractive return on investment.

   Investors looking for turn-key properties are typically investing for attractive monthly income and will pay more for a turn-key property. A turn-key property is similar to a buying a franchise. You buy the property and simply keep the same management systems in place while you enjoy attractive income from your investment.

   However, because the net income of the property has already been maximized, the opportunities for the investor to increase the value of the property are minimized. Investors do benefit long-term through the monthly income generated by the property and through the mortgage pay down on the property.

2. **Turn-around Property**: A turn-around property is the exact opposite of a turn-key property. The property typically has been mismanaged for a period of time. The rents are low and there may be several vacancies. The tenants living in the apartments

aren't qualified and do not abide by the lease agreements. The expenses are high and the net income of the property is low. Because the income of the property is low, there may also be deferred maintenance issues.

A turn-around property is similar to buying a fixer upper home. You have to roll up your sleeves and put some sweat equity into the property. You may even have to cover a negative cashflow for a period of time as you improve the property. A turn-around property is typically offered for sale by a motivated seller. The seller is struggling with the property and simply wants to get rid of it.

Improving a turn-around property may not sound exciting until you see how your efforts can dramatically improve the value of the property.

Multi-unit apartment buildings are typically valued based on the income of the property. **If you increase the income of the property, you also increase the value of the property**. This is where your opportunity for accelerated wealth can be found. In the remaining pages of this special report, we'll walk through a hypothetical example. We'll purchase a turn-around property and we'll work to increase the income of the property.

Let's assume an investor looking for accelerated wealth finds a 50 unit turn-around apartment building for sale for $800,000. The net income of this particular turn-around property is only $50,000. There are several vacancies and many of the apartments are rented below market value rental rates.

An investor paying cash for this property would receive $50,000 annually. This represents a 6.250% return on investment for their $800,000 investment. If this same property were to provide $100,000 of annual income, the same investor looking for a 6.250% annual return, would have to pay $1,600,000, eight hundred thousand dollars more, for the exact same property.

Please understand the extra $800,000 of value can be created simply by improving the net income of the property from $50,000 a year to $100,000 a year. This is THE key to accelerated wealth accumulation.

If an investor were to buy this hypothetical property for $800,000 and work to improve the income, they would actually get paid twice from their efforts. The reason why is every dollar improvement to income of the property increases the value of the property. They'll get the benefit of the improved income each year, and their investment will increase in value accordingly.

The basic idea is to acquire a poorly performing apartment complex and turn it into a very profitable apartment complex. In other words, buy a turn-around property and transform it into a turn-key property. Once you've transformed this property into a turn-key property, you'll have two choices.

1. Keep the property and enjoy the excellent annual income you've created.

2. Sell the property to a turn-key investor and extract the equity you've created.

A successful turn-around is engineered by increasing the net income of a property. This process revolves around two basic steps. The first step is to increase the monthly income of the property. The second step is to reduce the ongoing expenses for the property. Both steps drive net income and this creates value for turn-key real estate investors.

Let's walk through this turnaround process together on our hypothetical 50-unit apartment building.

Step One: **Increase the income from the property**

1. Rent vacant units: One of the easiest ways to increase the income of an apartment complex is to move towards 100% occupancy where all units are rented to qualified tenants. This may seem like a no brainer, but some apartment complexes consistently operate with several vacancies. These vacancies are extremely expensive when it comes to the property's valuation. As an example, if an apartment building averages 3 vacancies each month and the average monthly rental rate is $700 for each apartment, they're losing $2,100 per month or $25,200 per year in rental income. This apartment owner, or an investor who acquires an apartment with similar vacancies, can increase the value of their apartment complex simply be improving their

leasing system. Improve the number of calls from prospective tenants, create a waiting list for future vacancies, and reduce the number of vacancies and the value of the property can be easily be increased by $150,000 to $250,000.

2. Raise the rents on existing units: Many apartment complexes operate with below market value rental rates. This is because the previous owners didn't want to lose tenants by raising their rental rates each year. This creates an opportunity for a new owner to begin to systematically increase rental rates. The good news is a $15 per month rent increase per unit has a very big impact on the overall valuation of a property. Most tenants won't move due to a $15 per month rental rate increase. A $15 monthly increase in rents from 50 apartments turns into an extra $750 per month, or $9,000 per year. This $15 increase in monthly rent adds between $54,000 and $90,000 to the value of the property. Even better, you can systematically increase the rents EACH year as annual leases renew. By increasing the rents $15 per month each year for three years, the property's value increases by another $160,000 to $270,000.

3. Generate new monthly income: Is there an opportunity at the complex to rent extra storage space? Are there garages that can be rented out separately from the apartments? Is there a basement, which can be converted to locked storage areas for the tenants? If so, these spaces may be rented separately from the apartments. One apartment complex was built with garages for each apartment. The owner decided to stop including garages with each apartment and rented them separately. Each garage was rented for $100 per month and this increased the apartment complexes income and value dramatically.

Another option is to look for opportunities to sell services, or products to the tenants living in the various apartments. Some ideas might be coin operated laundry equipment, laundry detergent, and possibly installing vending machines.

By increasing the income from the property by just $500 per month using these ideas, the investor can increase the value of the property by $36,000 to $60,000.

Step Two: **Decrease the expenses of the property**

As you work to increase the income from the property, you'll also be working to reduce the expenses of the property. Just as with income, every dollar of expense you eliminate increases the property's value. This is because every dollar of expense eliminated increases the net income of the property, which improves the property's value accordingly.

You've probably heard the old saying, "A penny saved is a penny earned!" Well, with apartment complexes, it's even better.

The best approach is to simply go through EACH and EVERY expense of the property. Your goal is to minimize, or eliminate, every expense. You'll be surprised at what you find as you go through this process. In most cases, you'll easily be able to increase the value of the property by $50,000 or more, simply by minimizing current expenses.

1. Utilities: What utilities expenses are paid by the owner of the property? Consider all utilities including: telephone, gas, electric, water, and sewer. Look to minimize each expense.

Is there a way to pass any of these utility expenses on to the tenants? For example, let's assume a property is setup so the owners pay the for the natural gas expense. Can each unit be separately metered so the tenants pay for their own natural gas usage? Can you charge an extra $30 a month above the market value rent for the gas usage?

Can you install low-flow showerheads, low-flow sink faucets, and low-flow toilets to minimize water usage? Can you shut off exterior water faucets to prevent tenant misuse? In addition, do routine inspections of each apartment looking for water leaks and running toilets.

Can you install more efficient light bulbs through the common areas to bring your electric usage down?

Can you install thermostats that allow you to program maximum and minimum temperature settings? One investor had an apartment complex where they had to pay for all of the natural gas usage at the property. They installed new thermostats in each apartment, which set the maximum heat at 75 degrees. This change was made to each and every apartment. They estimate that they reduced their annual gas expense by 10%.

The same thermostat could also set a minimum temperature during the summer months for the air conditioning usage if the owner is paying for the cost of electric usage.

Can you shop competing utility service provides for more attractive rates?

2. Insurance: Definitely shop various insurance options with several different insurance agents. Consider raising your deductibles, changing your coverage, or using a different insurance provider. Your goal should be to reduce your annual insurance expense by 10%.

3. Property Taxes: Is the property valued properly for tax purposes? In most cases, it will not be and this will present an opportunity for you. You can go through process to adjust your property valuation and this may dramatically reduce your annual real estate taxes. One apartment investor reduced the taxes of a property he owned by 30%. This 30% reduction increased the property's net income by $6,000 annually.

4. Trash: Removing trash from an apartment complex can be expensive and you may be able to cut your trash removal expense in half by shopping different waste hauling companies, reducing the dumpster size, and/or changing the frequency of pick-up at the property. In most cases, you'll be able to reduce your trash removal expense by $200 to $300 per month by shopping different options.

5. Cleaning: Most apartment complexes have common areas that require cleaning. Most investors utilize a professional cleaning company for this routine cleaning. Other less expensive options would be to hire someone directly, or to work out an arrangement with an existing tenant. In most areas, you'll be able to reduce the hourly cost of this cleaning from $40 per hour to $15 per hour.

In addition, in northern states, most common areas have carpeting, or mats on the floor to during the winter months so the floors aren't as slippery. If your apartment complex hires a flooring company to rent and clean these mats on a weekly basis, you have another opportunity for cost savings. Simply purchase these commercial grade mats directly and you'll

eliminate the $200 monthly mat rental and cleaning fee saving $2,400 annually.

6. Accounting: The accounting and tax requirements for an apartment complex aren't very complicated. This means you'll be able to operate with lower cost CPAs and bookkeepers. One apartment investor was paying $1,200 annually to have the tax return for the property completed. They decided to have other firms quote this same service and found another firm to do the tax return for $150 annually. This provided a $1,050 annual savings. In addition, you won't need an expensive bookkeeper for the routine bill payments, bank reconciliations, and monthly financial statement preparation. In most cases, you can hire someone for $20 to $40 an hour on a part-time basis.

7. Landscaping & Snow Removal: These services are also not very complicated and can be performed by almost any landscaping or snow removal company. This obviously means you may be able to reduce your cost by shopping around and getting quotes from different companies. Little savings may not sound like much until you compound them over the course of a year. As an example, if you can get your landscaping costs down $20 per week, you'll reduce your annual expense by $1,040.

8. Repairs & Maintenance: Depending on the size of the apartment complex, you may not need a full time maintenance person at the property. Properties with 75 or fewer apartments probably can operate efficiently with a part-time maintenance person. One way to reduce your maintenance and repairs expense is to hire your maintenance person on an hourly, or daily basis. As an example, arrange for your maintenance person to be at the property on Monday and Thursday of each week. As repair calls come in, let the tenant know the maintenance person will take care of them on the next service day.

This little system reduces travel time and sets your maintenance expense in a fixed pattern vs. variable. If there are no repair requests on a specific day, you can have the maintenance person work on general property improvements, or you can eliminate the day for service from their schedule. The basic idea is to create a system for handling all maintenance and repair issues to reduce your expenses and streamline the process.

9. Professional Property Management: Management companies typically charge between 7 and 10% of gross rental income for full property management services. As with any service, there are great property managers and there are also terrible property management companies. **Effective property management is the key to success with real estate investment and this is one expense you shouldn't try to minimize**.

With management it is best to either manage the property yourself, or hire the best property management company. A great property manager can increase the net income of the property by keeping your units rented at higher rental rates. They'll also reduce your vacancies and tenant turnover. In other words, a good property management company is an investment that yields attractive returns on your investment. On the other hand, a bad property management company is an expense that will eat away the income of the property and ultimately destroy the value of the property.

Hopefully at this point, you're starting to see how it is possible to dramatically increase your wealth in a short period of time. The idea is to buy a turn-around apartment complex and transform the property into a turn-key apartment complex. This transformation forces an increase the value of the property.

In general, apartment turnarounds may take between 3 and 5 years, or longer, to successfully complete. This is because the improvements made to the property take time to flow to the net income of the property.

Unfortunately, all of these improvements cannot be made at once and are typically structured methodically over time. As an example, to raise the rental rate of each apartment, you'll have to do this one unit at a time as the leases renew.

In addition, some of the services at the property may be under long-term contracts. The trash removal for the property may be on a 3-year contract and you'll have to wait unit this contract expires to shop for a lower service cost.

And to be clear, this process isn't as easy as it sounds on paper. Turning around an apartment complex requires a great deal of effort. You'll have unexpected vacancies, evictions, and costly repairs to deal

with as you work through your turnaround. Things will go wrong from time to time, as they tend to do with just about everything.

However, the effort may be worth it. You'll have an opportunity to accelerate your wealth dramatically within just 3 to 5 years as you improve the net income of the property.

With this hypothetical 50-unit apartment building, we've dramatically increased the value through the improvements we've made to net income. Here's the summary of our improvements:

Net income of property at time of purchase:	$50,000
Increase in rental income filling vacancies:	+$25,000
Increase in rental rates:	+$9,000
New income streams (storage/laundry)	+$6,000
Reduction in utilities (15% savings)	+$11,000
Reduction in repairs & maintenance	+$5,000
Reduction in insurance	+$3,000
Reduction in landscaping & trash removal	+$4,000
Reduction in legal & accounting	+$1,000
Increase in net income of the property	$114,000

In this hypothetical example, the net income of the property more than doubled. Guess what happens when the net income of an apartment complex doubles?

Double Income = Double Value

This is because turn-key investors are looking to buy income with their investing dollars. The more income you create, the more they'll pay for the property.

An investor looking to acquire $114,000 of annual net income, would pay the following amounts at the various returns on investments:

5% annual return = $2,280,000 purchase price
7% annual return = $1,628,000 purchase price
10% annual return = $1,140,000 purchase price

Even if you sold this turn-around apartment complex to an investor looking for a 10% annual return on investment, you would create

$340,000 of wealth. ($1,140,000 sale price - $800,000 purchase price)

How long would it take you to save this same $340,000 in your retirement plan based upon your current contributions?

Manipulating the income of assets you own accelerates wealth accumulation. The same wealth creation isn't possible through savings and this is why the richest people in the world don't save their way to the Forbes list. They all follow the *same* accelerated wealth formula highlighted in this special report.

It is important to remember there is no guarantee you'll be able to sell the property once you've turned it around. The real estate market is impacted by interest rates, lending guidelines, the overall economy, and the supply and demand of similar properties.

The good news is you may ultimately decide not to sell your transformed turn-key property and this is because you've dramatically improved your annual return on investment through the improvements to net income.

In this hypothetical example, you would enjoy $114,000 of annual income from your $800,000 investment. This would be an annual return of 14.25%.

You've put yourself into the position of not needing to sell and this is an excellent position to live from. You can simply keep your turn-key apartment complex on auto-pilot and wait for the opportunity to sell at the value you've created. Each year, you'll collect more income from this property.

The purposed of this special report is to highlight the opportunity to create wealth at an accelerated rate. There is obviously a great deal more to consider when evaluating apartment investment opportunities.

In fact, there are several due diligence steps you should take before you buy any real estate investment. If you would like to learn more about evaluating apartment complexes and receive a list of apartment investment opportunities, we can setup a phone appointment to discuss your personal situation and your goals. I'll develop a plan specifically for you and highlight a few great

investment opportunities.

I'm a licensed real estate professional who specializes in helping investors acquire income producing real estate. I can help you find, evaluate and acquire turn-around, or turn-key real estate investments. I have a large network of contractors, lenders, and property managers that you'll find helpful with your investing.

If you would like to receive a list of apartment investment opportunities, or discuss real estate investing, send an email to me at: rob@dividendrealestate.com or give me a call at 440-721-7541.

Sincerely,

Robert Minton
Platinum Real Estate
440-721-7541

P.S. The property highlighted in this report was hypothetical and used for informational purposes only. There are several actual real estate investment opportunities currently available. If you would like a list of these properties, contact me at rob@dividendrealestate.com or via phone at 440-721-7541.

Also, it is important to remember real estate investing is not risk-free. You can lose money with real estate, or any other investment opportunity depending on your own personal skills as an investor. Please discuss this strategy with your professional advisors, including your attorney and your Certified Public Accountant.