

RICH DAD'S TOP **REAL ESTATE** WEALTH STRATEGIES



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“When the supermarket has a sale, say on toilet paper, the consumer runs in and stocks up. But when the housing or stock market has a sale, most often called a crash or correction, the same consumer often runs away from it. When the supermarket raises its prices, the consumer shops somewhere else. But when housing or the stock market raise their prices, the same consumer often rushes in and starts buying. Always remember: Profits are made in the buying, not in the selling.”

-Robert Kiyosaki, Rich Dad, Poor Dad pg. 170

Introduction

For years, real estate has been one of the most popular vehicles for the rich to build, maintain, and grow their wealth. As such, many people who desire to become rich begin their journey with real estate, but do so without a financial education. As a result, decisions are made that are ill-informed and ill-advised. In other words, they buy real estate like the consumer mentioned above as opposed to an investor.

So how does one go about investing in real estate like the rich? The key is the right strategy at the right time.

When it comes to buying real estate, almost everyone has heard the saying that the three most important factors are “location, location, and location.” And while location matters a great deal, a more accurate variation on this saying might be “location, location, and timing.”

When you invest should influence your decisions just as much as *where* you invest does. While investing for cash flow should always be your primary objective, when you invest often determines how much appreciation or depreciation you will experience—especially in the short term—and whether your rental rates will likely increase or decrease which affect, you guessed it...cash flow.

So, how do you know when is the right time to invest?

Truth be told, anytime is the right time to invest. An educated investor can always find good deals. But as Robert stated above, “profits are made in the buying...” or in other words, offering the right price with an insight as to what the market is poised to do next. The rich are able to do this because of an understanding of the real estate cycle and applying that knowledge to the markets in which they invest.

The uneducated real estate consumer doesn't do this because they mistakenly believe that whatever is happening now will continue to happen forever.

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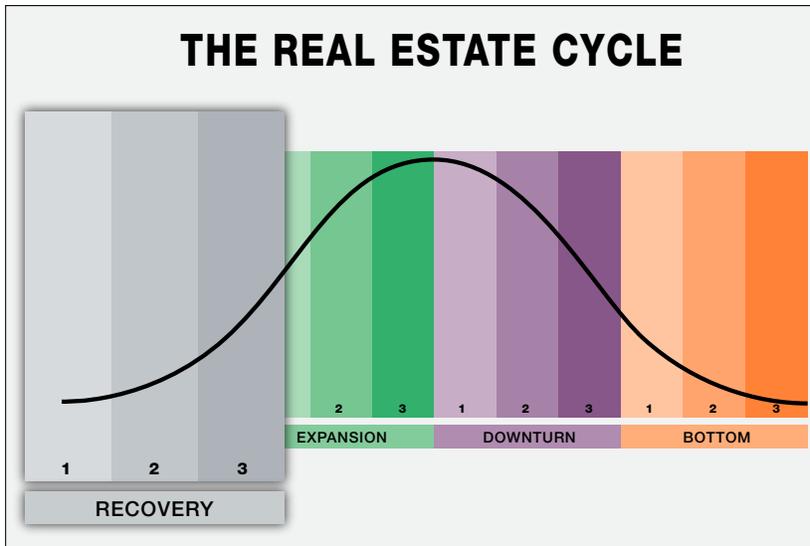
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As you read through this special report, take time to reflect on your own real estate market. What signs are you seeing? Consider other markets as well. How do these markets match up? Also, consider your real estate goals and what appropriate strategies would be for each phase of the real estate cycle. Doing so will help you exercise emotional intelligence and do the right thing, while the poor and middle-class are going in the opposite direction.

Recovery

Early Recovery

As real estate markets cycle, the Recovery phase starts at the point that most people call the “bottoming of the market.” It’s when the market stops declining and slowly starts to level off or grow slightly again. During a recovery, you will see vacancy rates stabilize and actually start to decrease a little.



One of the main reasons that vacancy rates decline in this phase is because there is virtually no new construction. Because there is very little new supply coming on the market, occupancy rates start to stabilize. Of course, the good thing about this phase is that it signals the end of the decline.

This is a great time to buy properties for cash flow. If they cash flow now, then when the market really improves you will see bigger jumps in rental rates, occupancy rates, and values.

By the time the market has moved into this stage, everyone generally knows that the market has passed the bottom, and while people might still be a little nervous about the strength of the recovery, investors are entering the market again.

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Early Stable

At this later stage of recovery, real estate prices are slowly rising along with demand. The media becomes more and more optimistic about real estate. Investors on the sidelines start jumping in. The market starts to feed upon itself, causing prices and demand to continue to rise. You often get double-digit rates of appreciation for a time.

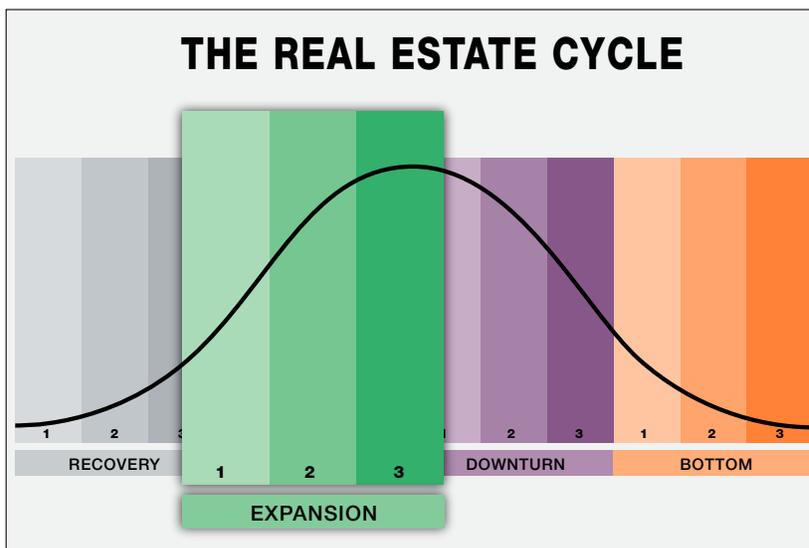
Obviously, the earlier in this phase you invest the more money you will make. If you wait until the middle of this phase, you've missed out on much of the potential profit. And if you wait until late in this phase, when everyone is talking about real estate, and even the skeptics have joined the party, you're investing at a very dangerous time.

This stage comes closest to equilibrium in the real estate market. Because it takes time for builders to gear up and bring new supply to the market, there will still be some pent-up demand and forward momentum in the marketplace. Prices are increasing and are close to matching or exceeding replacement costs. Most developers continue to start new projects during this phase.

Expansion

The next phase is called Late Stable, or Expansion. Expansion is a very exciting phase because it's where the economy really starts to get rolling again.

During expansion, you will see vacancy rates decreasing. You'll start to see more construction that is new. Absorption rates pick up. Rents rise. Property values keep increasing until the end of the cycle where they hit their peak. In the late portion of this cycle, leading up to the peak, prices that uneducated investors seem to be willing to pay for assets usually exceed reasonable values.



The U.S. market experienced this in about 2006 and 2007 when property values hit their peak. Those who bought at the peak are still waiting for their properties to get

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back to the value at which they bought them. And for those who bought solely on the hopes of appreciation and not cash flow have more than likely found themselves with a huge problem on their hands.

For the educated investors with their cash flowing properties, this is the time to refinance their portfolio with low-cost debt, and prepare for the next downturn.

Most investors' actions in this phase are driven by greed. Selling at this point would be the ideal time to maximize profits, but usually emotions are telling people to do the opposite. There is a total euphoria in the market.

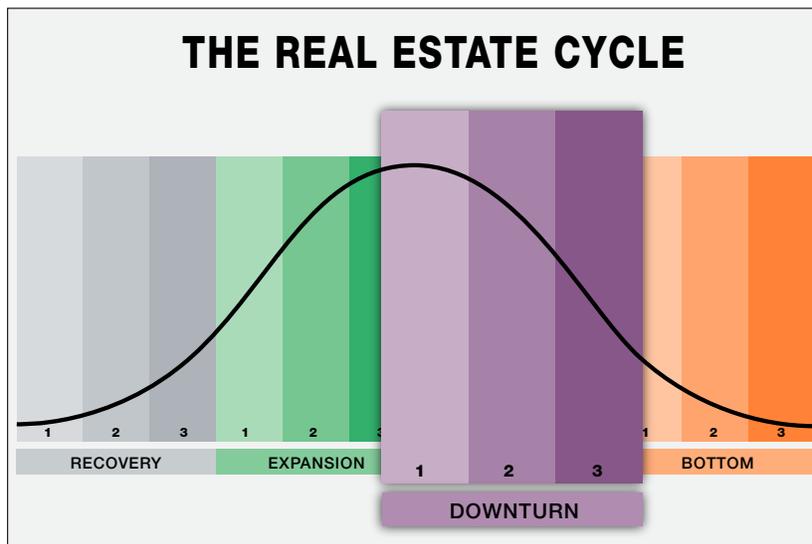
Psychologically, it can be hard to sell into what might feel like a market that is still rising. And you might leave some money on the table between the time you sell and the actual peak. But by pulling the trigger sooner than later, on assets you want to sell, you can avoid not being able to sell them after the peak. At the peak, the market can turn quickly, and it may be very difficult to sell any asset at a decent price.

Downturn

Early Downturn

Everything that goes up must come down. And real estate is no different.

The next phase begins with the early part of a downturn in the market.



Early downturn is when prices have reached a peak and begin to flatten out. Of course, not everyone is going to understand that it's the peak, but this is about the point where everyone that is going to get in the market is already in, so there are fewer and fewer buyers. Usually, because of the amount of new construction, the supply is starting to

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outweigh demand. You start to see vacancy rates increase. Credit will get harder to come by. Buyers will try to defer purchasing and, in many cases, walk out on deposits. This is the time when educated investors start to line up capital for opportunities in the downturn.

Psychologically, sellers will still try to hold out without reducing prices until some, who really need to sell, are forced to lower their prices a little bit. The buyers at this point might feel like they are getting a “good deal” – especially when they find a motivated seller, but this is a dangerous time. You don’t want to buy during this phase unless you buy for major cash flow that can withstand prices going down.

Full Downturn

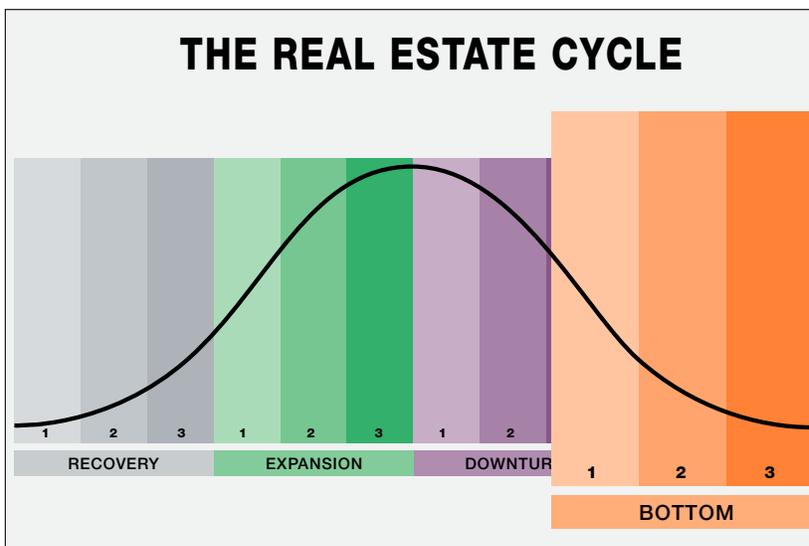
The next phase is when things really start to unravel.

In this phase, even though prices are starting to fall, a lot of sellers are still in denial. They hold out and think things will turn around soon. Eventually, reality sets in and more and more sellers are forced to lower prices. Homebuilders and sellers start to offer lots of incentives, but it’s usually not enough to create sufficient demand, and prices continue to fall even further. At this stage, most new construction projects will be abandoned.

Real estate investors that have capital to invest begin to take advantage of distress and the attractive pricing now offered by those that didn’t plan well. At this point, prices are often below replacement cost. This is really the time to start buying assets.

Bottom

During this stage, vacancy rates increase. New construction comes to a halt. Fewer apartments or houses are absorbed and you’ll start to see many more specials offered, and rental rates will actually go down.



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Sellers become desperate. Foreclosures increase dramatically. Property is cheap and bargains are everywhere. Usually fear has taken over, and the media is extremely negative at this point.

Other signs that the market is at, or near, the bottom is when you see homebuilders going out of business, real estate agents leaving the business. Typically, prices are still well below replacement cost.

In this phase, your emotions are screaming at you not to buy, regardless of the great deals that are available. As difficult as it may be to buy in this phase, this is when you can make the greatest profit. Unfortunately, there's no one ringing the bell to tell us it's the bottom. Your friends will think you are nuts. A lot of so-called "experts" will think you're crazy. It will take some courage to buy at this point.

It typically takes three to six months before most investors will "know" that the bottom of the cycle has been reached. And it's probably okay to miss the bottom by a quarter or two—nobody guesses these things perfectly. Sometimes it's a gutsy call to make, and you have to have the capital, but this is absolutely the best time to buy.

The Bottom Line

Knowing the right thing to do at the right time is the difference between *buying* real estate and successfully *investing* in real estate. By studying markets and determining what phase of the real estate cycle the markets are in, you can develop a real estate wealth strategy that will help you achieve your financial goals.

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