



How to Create and Execute A Purposeful Real Estate Investment Plan

It's been my practice to ask new clients about their residential property investment plan, and what strategy they've used to execute that plan so far. It's at this point that the conversation pauses somewhat. The fact is most investors have more of an idea than a plan. They know that investing is better than not investing. They expect their retirement will be better as a result of investing in real estate. Everyone 'knows' that, right? However, it's crucially important that every investment step is taken on purpose. Let's examine the *Purposeful Plan* idea a little more closely.

If an investor is currently looking for equity growth, and not cash flow, my actions on his behalf change radically. Consider for instance, a real estate investment axiom: When an investor chooses growth, she AUTOMATICALLY hinders cash flow. The opposite is also true. The way I structure a transaction for growth will squash the chance for immediate high cash flow. On the other side of the coin, structuring for higher cash flow will slow the annual equity growth rate by at least half, and often much more than that.

Purposeful Investing

Purposeful investing results in being more selective in picking properties, choosing different areas or neighborhoods, loan terms, and timing of trades or sales and purchases. When all actions are taken with a well-defined purpose, the results are almost guaranteed to be superior, especially when compared to the herd. Over the years I've had so many clients tell me they experienced more growth with me in 2-3

years than they'd managed in the previous ten! The bottom line difference? A clearly defined *Plan*, executed with a laser-like and purposeful focus, will outperform a 'general idea' every time. Now, let's agree on what a *Purposeful* real estate investment *Plan* really is, and what it requires:

- Determine exactly where you are now
- Decide if there is any preemptive action, or damage control necessary
- After solid and objective analysis, decide on your ultimate long term goal(s)
- Create a specific strategy to reach that goal
- Execute the *Plan* with single-minded sense of purpose and a spirit of flexibility

Knowing exactly where you are sounds silly to most folks, (we've all heard it a hundred times) but when asked to define their present investment/financial status, the second conversational pause often ensues. I'll use an experience we've all had to illustrate.

Remember the last time you had to drive to a far off destination. You know where you are and where you're headed. A few days before leaving, you discover your car badly needs a front-end alignment plus an overdue oil change. The front-end is re-aligned (damage control) and the oil/filter is changed (preemptive action). So it follows that, before implementing your *Purposeful Plan*, you must attend to items such as, deferred maintenance, installing a much needed new roof, or dealing with current and unfavorable loan terms. Taking these corrective and preemptive actions contributes to a smooth start on your path to your destination (goals).

What Are Your Goals, Exactly?

Here's the fun part. When asked what their investment goal is, some investors become a fount of unending clichés. "We want a solid retirement" or, "We just want enough cash flow to live comfortably." Although those are fine sentiments, what do they really mean? Not much. After effective analysis though, we arrive at a specific and definitive goal, which can be quantified and understood. Let's use a current client I'll call 'Sam' who came to me not too long ago.

Sam's Story

Sam works for a utility company and makes a base annual salary of \$70,000. He's set to retire in 11 years and has a pension, social security, and whatever cash flow his investments might yield. He saves money regularly and lives well within his means. He owns his home, and has an investment triplex; both have very small loans. I analyzed his current position and concluded the following: Since his income was stable (would actually rise annually until retirement), and he was saving money, cash flow wasn't a pre-retirement need.

- He needed to turbo-charge his growth engine. He'd been stagnating for years.
- We decided growth would be his investment focus until just before retirement.
- About a year before retirement he would convert his equities to properties in high cash flow-friendly regions.

Now that we had a *Plan*, we needed a specific strategy to reach his retirement goals. Sam had heavy equities in both his home and his triplex. We decided to make use of the combined equity to free some investment capital.

Note: Sam had inherited the triplex from his father, with whom he'd been exceptionally close. Because of that, he couldn't make himself part with it. And although he knew exchanging would produce superior results in both the long and short run, he decided to refinance his units instead, to get started.

Since cash flow wasn't an issue now, I found Sam three properties, all of which allowed him to use very low down payments and secondary financing. All three properties paid for themselves, of course. (No negative cash flow on my watch!) The strategy called for him to allow the property values to appreciate enough to make it possible to 'trade up' to even more growth property. Notice I didn't say he was to trade up in five years, or any other set holding period. The market always tells us when it is time to make a move.

Sam's Results

It's now been a little over two years, and his original \$100,000 has grown to roughly \$400,000 net! Meanwhile his rents have risen, and he's actually banking a relatively healthy monthly cash flow. Let's look at what Sam's *Plan* has accomplished so far:

- Starting with \$100,000 in equities, he acquired three properties with a combined value of about \$920,000
- Those properties are now worth a combined \$1.5 million with an approximate net equity of \$500,000
- He can now trade for more units, increasing his growth rate tremendously

Once this trade is accomplished, Sam will sit back again, and wait for the market to let him know when to make his next move. If it's soon enough he'll get another shot at a growth spurt. If not, it'll be time to change focus towards retirement cash flow. In any case, in about 10-11 years he'll have gone from one triplex with a couple hundred thousand in equity, to roughly \$1.5-2 million. Taking the lower amount, and assuming a modest 'cash on cash' return, he'll be retiring with about \$10-15,000 a month *over and above his pension and Social Security benefits.*

And one footnote; his plan included retiring with both his home and original triplex free and clear. His combined monthly retirement income including social security, his pension, and investment cash flow will be at least \$13,000 and could be, with any luck, as much as \$18,000. This doesn't take into account the loan payments he *won't* be paying on his home and the original triplex, which amount to roughly \$2,500 combined.

His plan has been executed with maximum focus and flexibility. He's had to adjust in terms of tactics as it relates to secondary financing. We were unable to secure owner financing, and went to Plan B. It worked fine, and as a matter of fact, he ended up with payments less than half of what owner financing would have been. His ability to '*flex on the go*' made a huge, positive difference in his outcome.

Although my crystal ball is as cracked as yours, I have one prediction that you can take to the bank: if you determine exactly where you are now, with a truly objective analysis of your current situation, and use that information to create a specific and *Purposeful Plan*. *If you add* a fact-based strategy for execution, stabilized by relentless focus and flexibility – you're in good shape for a Happy Ending.

I have 36 years of experience helping investors create and execute *Purposeful Investment Plans* that get them to their dreams and goals. Contact me, at 619.298.8100 or via email at jeff@jeffbrowninc.com and let's see how we can make your retirement dreams a reality.