

Part One: Real Estate Advantages

Do you want to know a secret? Do you want to know the loopholes that allow successful real estate investors to do it so well?

You don't have to be a genius to understand and apply these loopholes. You just have to be willing to follow a proven path toward success. Basically, you need to be smart about following what others have used to their advantage before you.

The truth is that there are two types of real estate loopholes.

From a tax standpoint, there are real estate loopholes to be opened. The Tax Code, as put forth by Congress and the IRS, encourages certain real estate activities. Smart investors know how to open these loopholes to their maximum advantage.

From the legal side, there are real estate loopholes to be closed. There is liability and risk associated with owning real estate, leading to loopholes of increased personal liability and responsibility for the claims of others. These legal loopholes must be closed in order to gain asset protection and best protect yourself and your family.

How can I learn these secrets, you ask? And how can I apply them?

The secrets of real estate loopholes are not handwritten on aged parchment, locked in a dark and inaccessible vault in the depths of a well-fortified castle, and guarded by huge rabid dogs, fed by the rich and powerful as a way to exclude all newcomers. On the contrary, although not set out everywhere, the important loophole strategies—the ones you must know—are found in the pages of this book.

Loopholes of Real Estate

In using these loopholes, you have to be willing to combine the experience of others with the specifics of your own situation. This is not hard to do. In all aspects of our lives we synthesize and apply information. But unlike most other activities, by learning when to open loopholes and when to close them, you are going to significantly improve your results as a real estate investor.

And in applying these loopholes, you will become smart about selecting real estate, as we will review in the final section of this book.

Let's begin by answering several interesting questions...

Introduction

What are the Advantages of Real Estate?

Does the government care if you own real estate?
Not really.

Does the government offer significant advantages if you do own real estate?

Absolutely.

But aren't there risks that limit the benefits of owning real estate?

Perhaps.

Have the rich figured out ways to minimize that risk to their advantage?

Of course.

And so can you.

Real estate offers huge financial advantages to those who will learn the system. And, as this book will illustrate, any risks can efficiently be managed through insurance, legal structures, and other common strategies that are neither difficult nor expensive. There are great advantages to investing in real estate, both as a cash flow business and as a wealth builder. And the financial benefits flow from several sources, including the appreciation of your land and property values and the monthly cash flow you can earn by renting out residential, office, or commercial space in a structure on your land. In addition, you stand to benefit greatly through tax reduction from depreciation on those structures and through options to roll over profits, as allowed in the tax code. You can even benefit from writing off

business expenses associated with your investment. And because of these advantages, it is easier to raise capital for real estate ventures.

Real estate investors can accelerate their wealth building much faster than with other assets, such as stocks, bonds, and tax-deferred retirement funds. Our financial, tax, and legal systems are set up to reward property owners who are educated enough to seize the available advantages. And best of all for starting investors, they don't need enormous cash reserves to buy real estate. They can start small.

Like first-time home buyers, real estate investors can secure bank loans and make monthly payments as owners of rental property. And as they watch their equity grow, they can parlay their initial investment property's increased value into garnering a new loan to purchase a second property. Pulling this cash out has a second benefit, in that they do not have to pay taxes on the money they receive because it is from their equity. And so on. They can learn as they go, perhaps making some mistakes and increasing their knowledge through experience, as their holdings expand.

The financial, tax, and legal advantages—as spelled out in this book—of owning real estate are enormous. And the question you, the reader, may ask is, “Why don't more investors follow this route to success?”

The answer is twofold and simple: Lack of knowledge and fear.

Begin Your Education Now

Many investors who avoid real estate are afraid of the anticipated difficulties of being landlords. They hear horror stories. They think to themselves, “I don't want to fix toilets,” and “I don't want to get calls from tenants in the middle of the night.” But know that there are strategies for intelligently managing a property that any capable person can implement. As well, many people fear the threat of a lawsuit. And rightly so. We are a litigious society. Attorneys are rewarded for bringing claims against wealthy individuals. But know that there are asset protection strategies we'll discuss that can reduce your exposure and limit your liability. In all,

Introduction

the rewards of owning real estate far outweigh the drawbacks for most prudent investors.

In recent years, many have come to fear the entire market. With the meltdown in 2008, thousands of real estate investors were caught with properties worth less than the mortgage on the parcel. These underwater properties have caused a great deal of turmoil for many investors. Some will never re-enter the real estate market. But others, who do not fear but rather appreciate the market, will do well. For in any environment there is room to make money in real estate.

Similarly, when it comes to lack of knowledge, most people are unaware of the advantages to be gained from investing in real estate. This is understandable. Most of us in our society aren't raised to consider investing in real estate. It's certainly not taught in schools. The standard pattern is to go to school, get a job, climb up the corporate ladder of a career, put earnings in a bank, maybe buy stocks, mutual funds, and bonds, and save for a rainy day, including retirement. Most of us don't realize that real estate investments allow our money to accelerate at a greater pace than typical paper investments. In fact, real estate has historically over the long term trended up in value and yielded higher returns than the securities markets.

There are really three types of income:

Earned Income: This is what you bring home from work in the form of a paycheck. You go to the office from eight to five. If you stopped going to work, your earned income would end.

Passive Income: This is what comes to you from an investment such as real estate. If you get sick and can't earn a paycheck from your job, your real estate is still working for you. (Even better, most of this income may not be subject to Social Security and Medicare withholdings, and in some cases incurs no tax at all because of your ability to depreciate a property's value, or to defer claimed gains by rolling over a sale to another property.)

Portfolio Income: This is what comes from the dividends and increases in value of paper assets such as stocks, bonds, and mutual funds. It's the most popular form of investment income for the masses, because it's easier to manage than real estate and other investments.

The point of this book isn't to encourage you to invest only in real estate. The Rich Dad philosophy is to diversify (although in a different sense than the word as used by financial planners), and to put your savings and earnings into three different areas: businesses, real estate, and paper assets. This is because each sector is subject to market fluctuations and corrections, and your investment risk must be spread out. The point of this book is to explain the financial, tax and legal advantages of investing in real estate as a passive-income earner and to educate you on how to utilize these investment advantages.

If this is the first Rich Dad book you're reading, please know that Rich Dad's philosophy is that your primary residence should not be considered an asset, because it is not generating regular income for you. (Rich Dad has a simple definition for "asset": something that puts money in your pocket. A "liability," conversely, is something that takes money *from* your pocket.) With your primary residence, you're paying the mortgage, and therefore the cash flow is going *from* you (to the bank), not *toward* you. Your home mortgage is an example of "bad debt." Still, the tax code offers some advantages for homeowners, which we'll discuss in later chapters.

Real estate becomes an asset when it brings you cash flow. By following the advice in this book, as a real estate investor, you will be putting other people's money—the lender bank's and your tenants'—to work for you. If your monthly mortgage on a rental property is \$5,000, but your tenants are paying you \$6,000, then you're earning \$1,000 in cash. Your bank loan is "good debt."

Loophole #1

Good debt is debt that is used to purchase an asset that puts money *in* your pocket. Bad debt is debt that is used to purchase something that takes money *out* of your pocket. A real estate investment (which does not include your house) makes use of good debt.

How This Book Will Help You

This book is divided into five parts:

“Real Estate Advantages” explains the theories and facts behind the benefits of real estate investing.

“Get in the Game” instructs how to create an investment plan, assemble a team of advisors, and choose investments.

“Tax Strategies” teaches how to crunch the numbers of potential investments, make full use of tax advantages, and manage your investments.

“Legal Strategies” covers methods for protecting your investments and yourself.

“Selection Strategies” reveals the legal and other issues for choosing profitable properties.

This book is not intended to make you a tax expert or legal expert on real estate. Nor is this book offering a get-rich-quick scheme. (There are enough of those pipe dreams being sold all the time in books and brochures, seminars and infomercials.) *Loopholes of Real Estate* is for readers who are serious about educating themselves about investing in real estate. It’s for readers who want to learn about these advantages that the rich already know about. And because the law applies to everyone—rich or poor—these advantages are available to all of us.

This book will help you know what questions to ask the advisors who will constitute your investment team. In *Rich Dad Poor Dad*, Robert Kiyosaki has famously cited the advice his “rich dad” gave him: “Business and investing are team sports.” While most successful real estate investors learn by doing, as you forge ahead in real estate, you won’t be on your own. You will assemble a team of advisors—as discussed in Chapter 6. You’ll know whom you need and when.

Also know that you need not absorb the contents of this book like a sponge. As you progress in your real estate investing career, you can return time and again to the book. And since your education will be ongoing, we strongly urge you to explore the other titles listed in our resource section found in Appendix A.

Your Opportunity Awaits

Becoming a successful real estate investor is within most investors' reach. I am a living example of this. I am building my personal wealth through real estate. I am an attorney, Rich Dad Advisor, and author. I never enjoyed a previous career as a real estate professional. But I've practiced the principles in this book and reaped the rewards. So can you.

As with other investment options, the world of real estate is vast, and no one can become an expert in every area. Nor should anyone try. You are wise to specialize in one type of market—such as small single-family homes, or apartment complexes with a certain number of units, and in a geographic area familiar to you.

If you're a small investor, successfully investing in real estate will allow you to move out of the great mass of fellow investors who put their paycheck savings into modest paper investments. Real estate investing will power up your earning potential and put you into a different class of investor entirely.