

The Power of Leverage³

**How to Create Unlimited Wealth
Using Little Bits of
Money, Cash Flow, and Time**



By Anesia Springborn

Defining Your Goal

One of the reasons real estate is the fastest road to wealth is the power of leverage that it provides. There's no other investment vehicle like it on the planet! Wow! I've already made some pretty bold statements. Let me explain by first giving you a definition of wealth that may be different than how you've traditionally thought about it:

“Wealth is measured in time, not money.”

I first learned this definition of wealth from Robert Kiyosaki. After it sunk in, I completely agreed with it and now I live by it whole-heartedly. We need to think in terms of time, and how long we could survive if we stopped working.

In order to calculate how wealthy we are, we first need to know how much money we need to live on per month. Add up all of your living expenses and come up with your monthly total:

- Rent

- Mortgage payment (principle and interest)
- Property taxes
- Hazard (homeowners) insurance
- Homeowners association dues
- Tithe/charity
- Health/dental/vision insurance
- Car payments
- Car insurance
- Boat payment
- Boat insurance
- Financed furniture payment
- Financed appliances payment
- Credit card payments
- Electric/gas bill
- Phone bill
- Cell phone bill
- Cable bill
- Internet bill
- Pest control bill
- Security system bill

- Water/trash bill
- Groceries
- Eating out
- Entertainment
- Gas
- Clothing
- Household/personal supplies
- Other

Total Monthly Expenses: \$_____

Next, we need to add up all the money we have in liquid savings vehicles.

This is money that is accessible, and that we can withdraw monthly to pay for all of the above expenses.

Total Savings: \$_____

Now, divide your total savings by your monthly expenses:

Savings: \$200,000

÷ Expenses: \$6,000

Wealth = 33.3 months, or 2.8 years

In our example, this exercise has told us that if we stopped working today, we could live another 2.8 years before we're broke! That is a frightening proposition! At this rate, we would need to keep working for a very long time, and financial freedom doesn't sound possible.

Before we continue, let's consider another alternate definition to a common phrase we hear: Financial freedom.

“Financial freedom is not about how much money we have,
but how much money we require.”

Take a look at your monthly living expenses. Is all of that necessary? Is there any category that could be reduced or eliminated? If you're struggling to find a way out of the rat race, or if your goal is unlimited wealth, sacrifices will be necessary. If you keep doing what you're doing, you'll get what you're getting. If you want to reach new heights, some things will need to change.

You'll need to reduce expenses, or increase your income, or both. For many people, increasing their income is tougher than reducing expenses.

This may be true, at least until you learn how to create more income. One way to speed this process up is to reduce your expenses so that you can invest in your education and accumulate some extra money to invest with.

So how do we reach unlimited wealth? How do we get to the point to where we really can stop working without worrying about money? The answer to that lies within two realms:

1. Your monthly “nut” (which is your total living expenses)
2. Your passive income

In order to be able to stop working, you need passive income. Passive income is income that you are not directly involved in, or income that you don't personally work to create. The most common source of passive income is real estate – rental properties specifically.

There are many ways to invest in real estate. Many methods are available and can result in earning lots of money. Many methods, however, also involve working very hard for every dollar. Investing methods that require you to be knocking on doors, negotiating with banks, finding motivated

sellers and wholesale buyers, rehabbing – these methods all work and can result in huge profits, but they also require work. These methods generate earned income. If you want passive income, and if you want to be done working, you need to invest in a passive income stream, such as rental properties.

Once your monthly passive income exceeds your monthly living expenses – voila! You’ve crossed the threshold into unlimited wealth and you’ve reached true financial freedom. You can continue to grow your passive income stream in your spare time if you want to, but not because you have to. You have enough money coming in to support your current lifestyle without having to continue to work!

There you have it. You’ve set your goal. The amount of your total monthly living expenses becomes your passive income goal. Once you build up a monthly cash flow stream that exceeds your monthly “nut” you’ve reached your goal of financial freedom! How do you do this? The secret is in exploiting the use of *leverage*.

The Leverage of Money

If you've ever heard Dolf De Roos speak, you've heard him compare real estate to stocks. He explains that with \$10,000, you can either buy exactly \$10,000 worth of stock, or you could use leverage to buy \$100,000 or more of real estate. You control ten times the asset base when you invest in real estate! When the value of your stock increases by 5%, you make \$500. When the value of your real estate increases by 5%, you make \$5,000! Which would you rather have?



Leveraging money means you are using someone else's money to control an asset. In the simplest form, this means using the bank's money. You buy a \$100,000 property by giving \$10,000 of your own money to the seller, and the bank gives the other \$90,000 to the seller. You now owe the bank \$90,000 but you have full control over the asset!

One way you can further leverage money is to use someone else's money instead of your own for the \$10,000 down payment. This might come from the seller, a money partner, your tenants, or the market.

Seller. You can strike a deal with the seller to provide part or all of the down payment. The seller may loan you part of the down payment, or he may defer the collection of it until a future date, allowing you to use the cash flow that the property creates to pay him for the down payment.

Meanwhile, the bank gives him 80% to 90% of the sales price up front.

Perhaps the seller will finance the entire property for you, preventing you from having to get a bank involved at all. In this case, perhaps the seller will finance 100% of the sales price for a certain period of time. You may negotiate staged payment sums, where specified amounts of money are

due by certain dates. This may buy you some time to generate cash flow from the property to make these payments, or some time to arrange another form of permanent financing.

Money partner or partners: You can team up with people who have money and they can provide the down payment or the entire purchase amount for the property. You'll negotiate a rate of return or an ownership percentage in the property in exchange for providing the money. Your contribution is that you located the deal, you negotiated the sales price, perhaps you will manage the property, or will manage someone else who manages the property.

Your tenants: If you have other properties that are generating monthly cash flow, you can allow this cash flow to accumulate to a size that is enough for a down payment on another property. Via their rent payments, your tenants will provide the money you need to purchase property. This is a fantastic no money down strategy!

The market: If you own other properties, time and your improvements can increase the value of these properties. The property may appreciate over

time, resulting in an increased equity position for you. If a property was worth \$100,000 when you bought it, five years later it may be worth \$128,000 if the market appreciated by 5% annually.

You can make improvements to the property itself, how it's managed, and its cash flow stream – all resulting in a higher appraised value on the property. Once your property appraises for a high enough value that allows you to refinance and pull out some equity, you could generate enough funds for the down payment on another property. You will generally need to leave 10% to 20% equity in a property when you re-finance it.

Let's use your \$100,000 property again as an example:

Let's say you bought a property for \$100,000 five years ago and it's now worth \$128,000. Right now you could re-finance the property using a lender that will loan you 90% of the appraised value. In other words, the lender will loan you \$115,000. Let's say over the course of the past five years, your tenants' rent payments have been covering your mortgage payment and you've been able to pay your principle down by \$5,000.

The Power of Leverage³

Original purchase price:	\$100,000
Current mortgage balance:	\$95,000
Amount of new loan:	\$115,000
Difference between new loan	\$115,000
And old loan	(\$95,000)
	= \$20,000

When you refinance this property, you could walk away from the closing table with a check for \$20,000 (minus closing costs). You can use this money as the down payment on your next property. The market's money will effectively pay for your new building!

The Leverage of Cash Flow

Rental properties are valued by appraisers and lenders using a very specific mathematical formula. The formula is very simple:

1. Figure out the annual income on your rental property.
2. Subtract your annual expenses, not counting your mortgage payment.
3. Divide by the *cap rate used in your market. For our example let's use a 10% cap rate.
4. The answer to this math formula is the value of your property.

* *Cap Rate (Capitalization Rate)*: This is how commercial property and multi-unit apartment buildings are typically valued. The cap rate represents the yield, or the return the investor will receive. The higher the cap rate percentage, the better the deal for the buyer. Cap rates are often used as a negotiating tool between buyers and sellers, and there is often a general “going rate,” or a range of cap rates, that are currently being used in transactions in any given market.

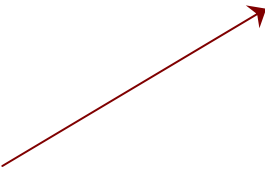
Because of the way the above formula works, you can influence the value of your property a great deal by adjusting your income or expenses by just a little bit. This is just like dropping an extra grain of sand onto one side of a perfectly balanced scale. One little bitty grain of sand will cause the scale to tip!



Let's apply some real numbers to an example and see what happens:

1. The annual income on your property is \$60,000
2. The annual expenses, not including the mortgage payment, are \$20,000

3. The cap rate we'll use is 10%

<i>Step #1:</i>		<i>Step #2:</i>
\$60,000		\$40,000
<u>- \$20,000</u>		<u>÷ .10</u>
= \$40,000		= \$400,000

Our property's value is \$400,000!

Now let's look for our grain of sand that we can drop onto the scale. We need to increase our monthly cash flow by just a little bit. We could enforce our late fee policy, bill our tenants for some of the utilities, increase our rents by a very small amount, charge extra for parking or a storage garage, put a lockbox around the thermostat - there are all kinds of ways. By getting creative with our income, and by shaving off some unnecessary expenses, let's say we can create an extra \$200 per month in cash flow, or \$2,400 annually.

Now let's quickly rework the formula using our new numbers:

Step #1:

\$62,400

- \$20,000

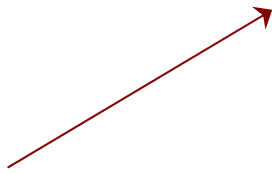
= \$42,400

Step #2:

\$42,400

÷ .10

= \$424,000



Our property's value is now \$424,000!

You've just created \$24,000 in equity that you can pull out of the property to use to buy another property. You can buy another cash flowing property without using any of your own cash!

Using incremental bits of cash flow to grow an exponential passive income stream is one of the best uses of leverage in the world!

Leverage of Time

Undoubtedly your most precious commodity is time. One of the key incentives behind unlimited wealth and financial freedom is to free up your time and to be able to choose how to spend it. There are two ways to leverage time:

1. Systems
2. Team

If you're investing in rental property as a means to create passive income, you have an incredible



opportunity to create systems. You can create systems to avoid effort, prevent problems, and to increase your cash flow. Systems can become the training medium for your tenants and your property management. Building a team can be part of a system, and then further, your team can carry out the systems you've created.

So how exactly do you leverage your time? By creating your own personal landlord system, you can use just a small amount of your time on a monthly basis to control a huge asset base. I've created a 7-step process for doing this:

1. Set up your team
2. Know your landlord-tenant law
3. Establish your policies
4. Gather your forms
5. Automate your finances
6. Maintain your buildings
7. Hire a manager

As you work through each of these steps, you create systems along the way. These systems may include:

- Procedural documents that you give to a manager to follow
- “House rules” that you give your tenants in order to avoid questions, discrepancies, and behavioral problems

- New fee structures to cover rents, parking, utilities, paying late, and calling you in for maintenance items that the tenant is responsible for
- Automatic methods of receiving money from tenants and paying bills
- Maintenance schedules in which each item has a date and a delegation

You can put in some one-time effort to create a landlord system for your rental properties, and then leverage this effort by stepping out of the day to day operations completely. Systemizing your properties and their operations frees you up to focus on important matters such as:

- Evaluating deals
- Fine-tuning the cash flow at your existing rental properties
- Increasing your equity through careful capital improvements
- Figuring out creative financing strategies for acquisitions
- Re-financing existing properties to create cash for down payments
- Relaxing and enjoying your free time!

When you allow yourself to get caught up in the “busy-ness” of the day to day operations of your properties, you don’t have time to “mind your own business.” Things slip through the cracks, tenants get away with things that they otherwise shouldn’t because you’re too busy to worry about the details. Soon you’re not making as much money as you could be.

Paying a little too much on expenses coupled with losing a little bit of money to a bad tenant is a double-whammy! When your cash flow wanes a small amount, the impact is more significant than you think. Remember our earlier analogy about putting grains of sand on the scale to tip it in our favor? Taking grains of sand away can just as easily tip it out of our favor. Create your systems, line up a team to implement them, and your time will be leveraged to its highest and best use!



I have taught hundreds of real estate investors, Realtors, and property managers fresh ideas and strategies that have resulted in higher monthly cash flows, increased equity, freed up time, and efficiency they never dreamed possible. The Landlord System was created to help you automate the management of your rental properties. You, too, can leverage money, cash flow, and time for unlimited wealth and financial freedom!

Recent Successes

Read what others have experienced with The Landlord System:

I have been a full time real estate investor for 8 years. My company has about 40 single family houses rented or lease optioned. I purchased "The Landlord System" and have immediately put several systems in place that make life for me and my help so much easier. I would recommend Anesia's landlord system without reservation.

- Chad Jordan

Professional Investors, Inc.

Lexington, SC

I purchased The Landlord System a couple of months ago and have to say that it has been one of the best investments I have made in my real estate business. Thanks for putting this information together and making it available!

- T. R. Beauchamp

Trinity & Assoc. Properties

Smyrna, GA

As a new investor/landlord, I needed a system that would take a lot of the fear out of the equation. I purchased Anesia's Landlord System and I really think she has hit a home run. I feel empowered and at ease with the best way to run my rental business and after implementing her system, I'm ready for more.

- Tom Wallace

Newnan, GA

I was always afraid of being a landlord because I thought I had to do most of the work, but after purchasing your system nothing will stop me now. So if someone is having second thoughts about being a landlord, I highly recommend The Landlord System.

- Larry Butler

Akron, OH

I am a realtor for Keller Williams Realty, and Loan Officer for Peoples Home Mortgage here in Minnesota and have found Anesia's information priceless. When it comes to giving helpful and trustworthy advice and guidance your system works wonders.

- Larry Scaringe

Minnesota

I've been exposed to so many so called gurus in the past and I must say that you are one step ahead of these folks. You are very sincere and honest. Whatever material you've recommended, I've bought.

- Harold Louis

Miramar, FL

I have learned a huge amount of information from Anesia. This program has improved my cash-flow.

- Fritz Beckworth

I have discovered so many helpful tips from Anesia for my rental business. I have implemented some already! I am now 100% rented up and have a waiting list of people looking for homes.

- Dianne Kimball

Important Note

The Landlord System is going physical! The \$97 digital version of the product will cease to exist after 12:00 pm on August 21, 2006. At that time we are moving exclusively to hard copy products and the price will be increasing significantly.

You must order your copy of The Landlord System before noon on August 21st to take advantage of its lowest price ever! Visit the following website to get your copy before it's gone forever:

www.TheLandlordSystem.com

All customers who purchase the digital version now and want to upgrade to the hard copy version later will be offered a special discount that will not be made available to the general public. Only "insiders" will be able to take advantage of this and other special offers.

Think we're bluffing about the price change? The new software, web pages, and pallets of hard copy product are ready and waiting for us to "flip the switch" at 12:00 pm on August 21.

In Summary

Are you building a rental portfolio that will fund your retirement, get you out of the rat race, and take you into unlimited wealth? The power of leverage will catapult you there sooner than you think! The Landlord System shifts your mindset, sparks creativity, and teaches you how to leverage:

- Money: use other people's money to finance your down payments, pay down your mortgage, and accumulate enough excess cash flow for down payments on additional properties.
- Cash Flow: find "grains of sand" that will tip the scales in your favor. Learn tricks that the pros use to increase income and reduce expenses, resulting in a higher appraised value and equity that can be used to buy more properties.
- Time: set up systems and team members that allow you to exit the day to day operations of your rental properties. This freed up time allows you to focus on evaluating more deals, creative financing techniques, and fine-tuning your cash flow.

Secure your copy of The Landlord System at our “last chance price” of just \$97 by visiting:

www.TheLandlordSystem.com

To Your Freedom,

A handwritten signature in black ink that reads "Anesia Springborn". The signature is fluid and cursive, with a large initial 'A' and a long, sweeping tail on the 'n'.

Anesia Springborn

Goal Digger, Inc.

About the Author

Anesia Springborn is a real estate investor and entrepreneur involved in multi-unit apartment buildings, pre-construction, property management, rehabbing, land development, condominiums, and most recently, a hotel. She currently holds



properties in the northwest, midwest, and southwest areas of the United States. Her favorite type of real estate is multi-unit apartments that generate cash flow every month.

After working inside of corporate America for 10 years, Anesia knew she needed a change. She wanted to stop working so hard for money and discovered that investing in real estate would put her money to work for her. She bought her first 10 units and learned the business as she went. Working full time at a job and simultaneously full time on properties lead to the creation of The Landlord System. Only with the help of systems was she able to wean herself away from the daily demands of her investments and buy more properties while still holding down a job. Once her monthly

cash flow exceeded her living expenses, Anesia quit her job and got out of the rat race. Today she spends her time looking for deals and teaching others how to systemize their rental properties so they can reach financial freedom as well.

Anesia's professional background is in business to business software sales. She holds a bachelor's degree in marketing and has trained to become a private pilot. She has experience in all aspects of landscaping, laying tile, installing concrete, and painting. Anesia resides in Phoenix, Arizona with her husband and her Westie. She enjoys traveling, hiking, investing, wine, and music.