



THERE'S NO FREE LUNCH IN REAL ESTATE

**SIMPLE TOOLS FOR CREATING
LIFE-CHANGING WEALTH**

Successful Real Estate
Investing: The Power of the
Property Ladder

Brought to you by Jon Swire

Real estate is the only investment that generates a continually increasing passive income stream; money you can spend every year on anything you want.

If you've been watching the stock market, you're probably concerned about your investments and retirement. The market lost over 40% of its value in late 2008, and yo-yo's up and down daily. In fact, daily fluctuations or volatility has more than doubled in 2008 relative to historical norms. With this kind of uncertainty, now is the time to start thinking about a new investment paradigm: real estate. Real estate is the only investment that generates a continually increasing passive income stream; money you can spend every year on anything you want. Moreover, despite its own up and down price cycles, long-term trends are very positive and with steadily increasing population growth, real estate is supported by the fact that no matter how good or bad the economy is...people always need a place to live.



Hey, I don't hate the stock market. In fact, I'm invested in the stock market just like most people. But I'm here to tell you there's another place you should be investing your money. A place that will provide you with significantly more upside growth than stocks and bonds in a retirement account, and a passive income stream in the form of a monthly check you can use to pay for your bills, kids college tuition, your retirement and the lifestyle you've always dreamed of.

You see, I realized that if I was ever going to have the wealth I desired and the lifestyle I dreamed of, I would need to start changing the way I invested my money. Stocks and bonds are great, and everyone should have some money invested in them, but the problem is that stocks generate mostly capital gains and little spendable income, while bonds provide income but little opportunity for appreciation. The key to a fruitful and care-free retirement—even an earlier one than expected—is finding investments that create a consistent, passive income stream that continues to work for you even when you aren't. Real estate is the one investment that does just that.

Most people would guess that the majority of wealth in the United States was created through “the stock market”. While this was true during the late 1990’s, most wealth in the United States, and the world, has been created through real estate. In fact, McDonald’s, the U.S. Government, and the Catholic Church are three of the wealthiest organizations in the world, largely due to their real estate holdings.

McDonalds	Estimates of Real Estate Holdings topped \$46 billion or its entire enterprise value at the time of the analysis
Catholic Church	“Our assets and real estate holdings must exceed those of Standard Oil, AT&T, and U.S. Steel combined”
U.S. Government	Controls 1.2 million assets, over 500,000 building assets, nearly 4 billion sq. ft. of floor space, and over 600 million acres of land

Real estate investing involves building a portfolio of income-generating properties that produce rental income and a powerful and growing nest egg.

While these are considerable examples, property ownership is also one of the best ways for the average person like you or me to create significant net worth and the wealth we desire. You can achieve this by purchasing the home you live in and then expanding your portfolio to include income-generating real estate investments, which will provide the net worth and passive income stream you need to retire.

Real estate holdings will continue to generate monthly rents as long as you own them, and that amount will grow each year if for no other reason than rental inflation. Even if you never buy another property, your annual cash flow will slowly grow over time, generating more and more spendable cash for you to live on. That is one of the greatest benefits of real estate over other investments. The annual passive income stream continues to grow without any help from you, and you can use that money to pay for whatever you want.

I personally started investing with the purchase of a 4-unit property, and in just 7 short years, grew that into a real estate portfolio valued at \$5MM generating six figures per year in passive income. And while I still have to go to work everyday, I’m much closer to financial freedom than I ever have been.

With real estate investing, you benefit from leverage, the power of time and compounding, and rising rental income.

When I teach my class at UCLA, I begin each quarter with this simple but powerful question: If you had \$60,000 to invest, what asset class would provide you with the best return over a 30 year period? The obvious (or soon to be obvious) answer is real estate. The reason is all of the benefits a person gets from owning real estate, including depreciation, appreciation, passive income, and leverage. The graph and worksheet that follows explains this in dollars and cents, and gives an easy visual demonstration of why this is so.

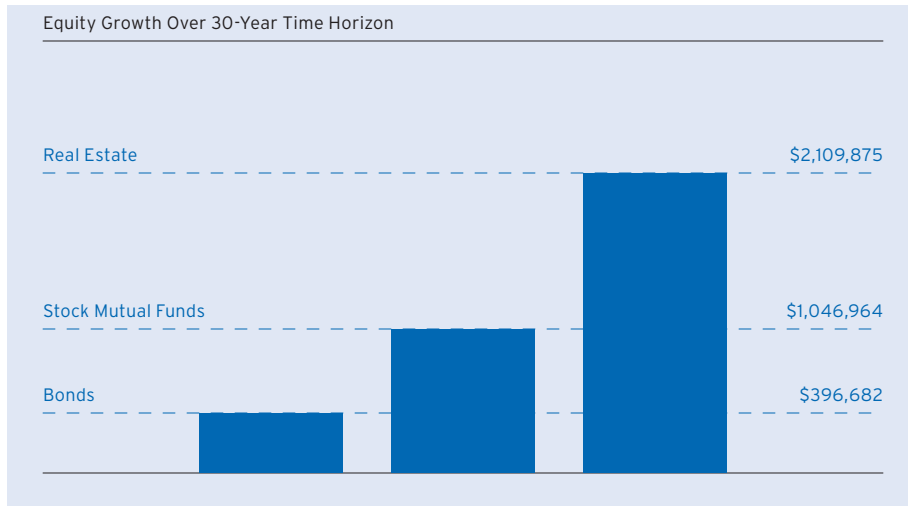
This example uses a time period of 30 years, since for most investors, it represents an initial investment made in their early 30s that's left untouched until retirement age. The point is to demonstrate the power of time and compounding when applied to real estate. Compounding is when you allow your annual returns to be reinvested so that your total, interest-earning principal continues to grow each year. Many of you may have funds invested in a retirement plan such as a 401K or IRA, and know that even though you may only be saving \$4,000 per year, that money will grow exponentially over time. The hope is that when you're ready to retire, you've saved a million dollars or more. As inflation continues to erode the spending power of the dollar over time, you will need to have saved enough money to be able to retire comfortably. After all, a gallon of milk costs more today than it did 20 years ago.

Historical Annual Results

Let's assume the following annual returns for each investment:

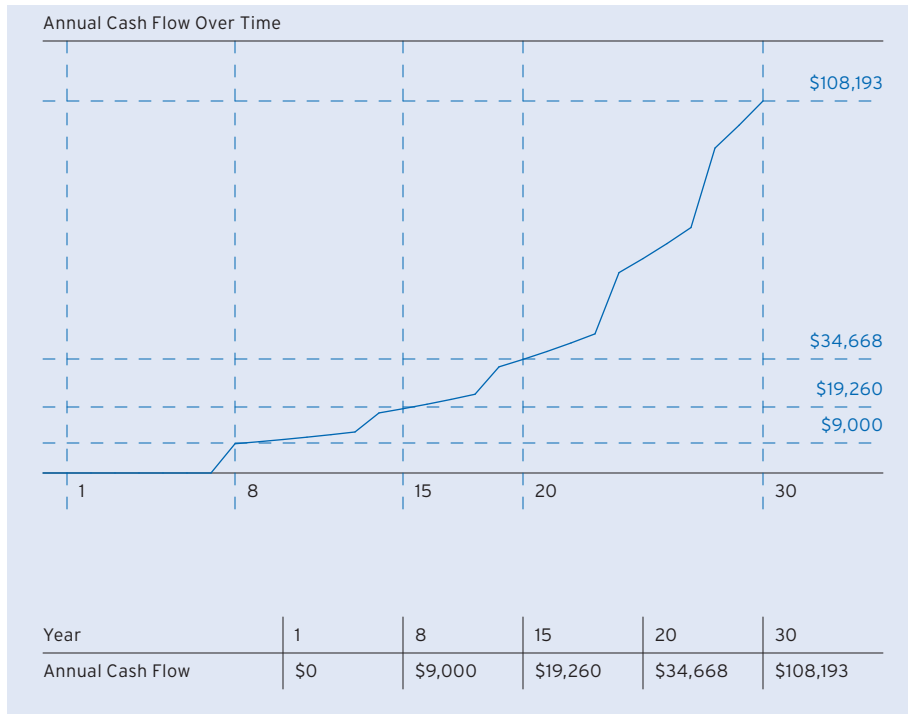
		
Bonds 6.5%	Stock Mutual Funds 10%	Real Estate 5%

Note that each of these returns is well within historical averages—even with market cycles and the current state of the real estate market. For example, The S&P Commercial Real Estate Index averaged a 6.0% annual appreciation rate from 1993-2008, and the median home price in the United States increased from \$20,000 in 1968 to \$218,000 in 2007, averaging a 6.5% annual appreciation rate (according to the National Association of Realtors). Both numbers are significantly higher than the 5% annual growth rate we are assuming in our example. In this sense, the figures are both historically accurate, and conservative with regards to real estate, yet still produce some very powerful results.



Your \$60,000 investment grows to just under \$400,000 with Bonds, over \$1,000,000 with Stock Mutual Funds, and over \$2.1MM with Real Estate.

As you see in the figure above, the \$60,000 investment grows to just under \$400,000 with Bonds, over \$1,000,000 with Stock Mutual Funds, and over \$2.1MM with Real Estate. Real estate returns over 5 times the amount of bonds and over twice the amount of mutual funds, without even considering the spendable annual passive income stream that real estate generates. This supplemental income can be spent every year, on whatever you'd like: a vacation, your kids' college tuition or even another income property. Because this example assumes that you reinvest the annual gains with the Mutual funds and Bonds in order to produce the given growth, neither generates any annual spendable cash flow for you to use.



Build a \$6,600,000 portfolio that generates over \$100,000 in annual cash flow in addition to significant equity growth.

This chart shows you how the annual cash flow from the real estate increases over time, eventually growing to over \$108,000 by Year 30, all from a \$60,000 initial investment. By Year 30 you'll be earning over a 150% return on your money, in entirely spendable funds. That doesn't even take into account the equity that you're building each and every year. This is the power of real estate, the only investment that provides you with both income and appreciation.

And the best part is come Year 30 you'll own real estate worth over \$6.6MM. Your \$60,000 investment will have grown into a \$6.6MM asset, of which \$2.1MM is equity. So, how does it work?

Step 1: Getting In the Game

The first step is to get in the game and make your first investment. In this case, since we're starting with a small equity investment of \$60,000, we're going to purchase a 3-4 unit property. This size property typically won't cash flow positive, but it will allow you to obtain great leverage and stretch your dollars, putting as little as 20% down. So, you're going to take your \$60,000 and purchase a \$300,000 property. Since you're so highly leveraged, the rental income you collect each month will only be enough to pay for all your expenses (taxes, insurance, utilities, etc.) and your mortgage. The property will essentially break even, and your goal is to hold it for appreciation and equity gain. In just a few short years the value will grow to over \$400,000, and your equity will grow from \$60,000 to over \$160,000. Remember, we're assuming a 5% annual appreciation rate (the historical average is 6.5%).

The following chart details a 30 year schedule showing when you buy and Exchange, how much equity you've accrued, what the value of the property you own is, and how much annual cash flow you're receiving.

Your Climb Up the Property Ladder

Purchase	Year	Equity	Property Value	Cash Flow
1st Purchase 20% Down	1	\$60,000	\$300,000	\$0
	2	\$75,000	\$315,000	\$0
	3	\$90,750	\$330,750	\$0
	4	\$107,288	\$347,288	\$0
	5	\$124,652	\$364,652	\$0
	6	\$142,884	\$382,884	\$0
	7	\$162,029	\$402,029	\$0
2nd Purchase 1031 Exchange 25% Down	8	\$150,000	\$600,000	\$9,000
	9	\$180,000	\$630,000	\$9,630
	10	\$211,500	\$661,500	\$10,304
	11	\$244,575	\$694,575	\$11,025
	12	\$279,304	\$729,304	\$11,797
	13	\$315,769	\$765,769	\$12,623

Step 2: Sell & Do a 1031 Exchange

Once you've built up enough equity, it's time to sell and do a 1031 Exchange. 1031 Exchanges are discussed in great detail in Chapter 12 of my book, but the basic concept is that the government allows you to sell a property and defer taxes on the gains until sometime in the future. This allows you to use the money you would have paid in taxes to purchase a larger property generating larger cash flows. 1031 Exchanges are one of the most powerful tools available to you as a real estate investor and combined with Cash Out Refinances (discussed in Chapter 9) will allow you to explode your wealth and climb the Property Ladder (discussed in Chapter 13).

3rd Purchase 1031 Exchange 25% Down	14	\$300,000	\$1,200,000	\$18,000
	15	\$360,000	\$1,260,000	\$19,260
	16	\$423,000	\$1,323,000	\$20,608
	17	\$489,150	\$1,389,150	\$22,051
	18	\$558,608	\$1,458,608	\$23,594
4th Purchase 1031 Exchange 25% Down	19	\$540,000	\$2,160,000	\$32,400
	20	\$648,000	\$2,268,000	\$34,668
	21	\$761,400	\$2,381,400	\$37,095
	22	\$880,470	\$2,500,470	\$39,691
	23	\$1,005,494	\$2,625,494	\$42,470
5th Purchase 1031 Exchange 25% Down	24	\$980,000	\$3,920,000	\$58,800
	25	\$1,176,000	\$4,116,000	\$62,916
	26	\$1,381,800	\$4,321,800	\$67,320
	27	\$1,597,890	\$4,537,890	\$72,033
6th Purchase 1031 Exchange 25% Down	28	\$1,500,000	\$5,950,000	\$94,500
	29	\$1,797,500	\$6,247,500	\$101,115
	30	\$2,109,875	\$6,559,875	\$108,193

In this example you sell your first property in Year 8 and do a 1031 Exchange and purchase a second property. At this point you've accrued about \$150,000 in equity that you'll use to purchase a \$600,000 multi-family property with 25% down. A multi-family property is a 5+ unit apartment building, and unlike 2-4 unit properties, it will generate cash flow, mostly due to the fact that you aren't as highly leveraged (25% down vs. 20% down). This property type is discussed further in Chapter 3 & 4.

Since this property cash flows positive, you'll have spendable income each year, and during your first year of ownership you'll earn just over \$9,000 in pre-tax cash flow. This figure will grow annually, if for no other reason than inflation. Remember, a gallon of milk costs more today than it did 20 years ago, and the cost of everything around you is constantly increasing. You'll again hold this property, and over time it will appreciate and your equity will grow. Within a few years it will be worth over \$760,000 and you will have built up over \$315,000 in equity. It's then time to do another 1031 Exchange into a larger property with larger cash flows (3rd Purchase).

You'll repeat this process every few years and by Year 28 you'll find yourself with \$1.5MM in equity, purchasing a property worth almost \$6.0MM, generating \$94,500 per year in passive income. And by Year 30 the property will be worth \$6.6MM, with \$2.1MM in equity, generating over \$108,000 per year in passive income—all from your initial \$60,000 investment. So, are you ready to get started?

Now the example above I detailed doesn't happen overnight. It takes time. But as I like to tell my students, 'slow and steady wins the race'. This is the true benefit of owning investment property. It generates an ever-increasing annual passive income that you can either spend or reinvest; and your underlying principal (your equity investment) appreciates each year—without you doing anything.

The real question is, “How can there be such a huge disparity between these investments?” After all, you’re starting with \$60,000 in all cases, but the end result is much different. There are a few reasons for the difference in values 30 years from now. They are:

Equity Growth

The equity growth in real estate easily outpaces other investments. Remember, your \$60,000 investment in bonds will grow to \$396,000, and to \$1,046,000 in mutual funds, but over \$2.1MM in real estate. This is due to leverage which will be discussed in further detail.

Continually Increasing Annual Passive Income Stream

No other investment provides you with a growing spendable income stream. Every year, if for no other reason than inflation, the amount of money you collect in rental income is going to grow. This translates into larger checks each month and year to you. That’s the beauty of real estate. Your money works for you even when you aren’t.

Further, you can spend that money on whatever you’d like: your bills, a nice vacation, your kids’ college tuition, your retirement, or even another income property. And, if you decide to save the money instead, you’ll be increasing the size of your nest egg in addition to the equity you’re building in your property.

Annual Appreciation

As a general rule, due to inflation, products and some assets increase in value. The same is true of real estate. Every passing year, the value of the asset increases. Time is on your side. Real Estate provides you with annual appreciation of the asset, so even though you’re spending the annual cash flow and not reinvesting it, the property value and your equity are growing. In this example your equity grows from \$60,000 to over \$2.1MM as you go from owning a \$300,000 property to a \$6.6MM property.

Leverage

One of the great advantages that real estate has over other investments is leverage; banks are willing to be your silent partner. It’s the ability to use “Other People’s Money”. Banks typically invest between \$3-\$4 for every dollar you invest, and only ask for a flat rate of return in the form of a monthly mortgage. They don’t ask for any of your back-end profits, and allow you to put as little as 20% down to purchase a property. For example, in your first purchase you’ll be borrowing \$4 for every \$1 you invest (20% down). And once you do a 1031 Exchange into multi-family properties that cash flow positive, you’ll still be borrowing \$3 for every \$1

Leverage allows you to stretch your investment dollars and control a larger asset generating larger cash flows.

you invest (25% down). This allows you to stretch your investment dollars and control a larger asset generating larger cash flows. (As a side note, you can invest in stocks using leverage—it's called buying on margin. This can be quite risky and only experienced investors should take advantage of this. For most of us, we'll never experience the advantage of leverage when buying stocks or bonds and not with our mutual fund investments).

Here's an example of how leverage works to your advantage. You invest \$60,000 in a mutual fund which earns 10% in Year 1, or \$6,000. This is your Return on Investment (ROI). Or, you take that \$60,000 and purchase a \$300,000 property with 20% down. The property appreciates by 5% in Year 1, or \$15,000. You just realized a \$15,000 gain on a \$60,000 investment, or a 25% ROI. Which is better? You see, with real estate you earn the appreciation on the entire asset value, not just your investment. This allows you to build equity faster than any other traditional investment. That is why you're able to accrue over \$100,000 in equity in just a few short years in our example. You're earning a 5% annual return on a \$300,000+ asset, not your \$60,000 investment.

Principal Pay-Down

Every month your tenant's pay you rent and you use those funds to pay both your mortgage, and the principal balance on your loan. Essentially, your tenants are paying your mortgage for you, and on a typical 30-year amortization loan, it takes 30 years for you to pay the balance down to zero. This means that in addition to the equity you're accruing from appreciation each year, you're also building up equity through principal pay-down.

Early Withdrawal Penalties / Annual Contribution Limits

Unlike traditional retirement accounts and investments, real estate does not have annual contribution limits or early withdrawal penalties. You can save as much as you'd like, and you can access the funds when you're ready, not when the government tells you. After all, if you plan on retiring early, and before 59 1/2, you'll want access to the hard earned money you've saved. Real estate allows this.

Due to the nature of the investment, real estate provides you with a smaller income stream in the early years, but substantial income and wealth due to property value appreciation in the later years, when you're looking to step back from your regular employment and retire. And, unlike traditional retirement accounts, there are no early withdrawal penalties for using the passive income generated on anything you like, at any age. So, if you're ready to step back and play golf all day at age 55, go ahead and do so. After all you've worked hard to save your money and invest wisely, and the passive income stream is available to be spent.

It's not what you earn...
it's what you keep.

Use 1031 Exchanges and
Cash-Out Refis to explode
your wealth and climb
the property ladder.

Taxes / Depreciation

Every year that you own income property, the government gives you a significant tax incentive in the form of depreciation. Depreciation is a non-cash expense that will shield part or all of your income every year, increasing your after tax cash-on-cash returns. After all, it's not what you earn, but what you keep.

For example, on an average \$345,000 property the government would allow you to shield \$10,000 in income every single year, for 27.5 years. What this means is that the first \$10,000 in income generated each year would be completely tax free, and you wouldn't owe any taxes at all on that money. If you're in a 35% marginal tax rate, this represents a tax savings of \$3,500 per year, and almost \$300 per month in additional spendable income. No other investment offers this type of tax shield. Not stocks, not bonds, not money market accounts and definitely not cash. I'll show you how to use depreciation to shield a large part of your income from taxes, so that you keep more of what you earn.

1031 Exchanges / Cash Out Refis

1031 Exchanges and Cash Out Refis are the tools you'll use to climb the Property Ladder and expand your wealth. Both allow you to take the equity you've built and use it to purchase larger properties generating larger cash flows. And neither has any immediate tax consequence, which means the funds you access are not taxed until sometime in the future, giving you access to them to purchase a larger property with even larger cash flows.

1031 Exchanges are used to sell an existing property you own and replace it with a larger property without paying any taxes on your gains. These are usually used with properties you're ready to sell and move on from. Cash Out Refis (or Refinances) are used to take cash out of a property by placing a larger loan on an existing property. The additional funds are then used to purchase a second property generating a second cash flow stream. These are usually used with properties you like and still want to keep as part of your portfolio.

When used in conjunction with one another, these two tools allow you to keep your equity moving and climbing the Property Ladder. After all, your goal is to build a portfolio that will generate a continually growing passive income stream you can retire on.

Positive Inflation?

Real estate is the one investment that provides a perfect hedge against inflation. First, your largest monthly expense, your mortgage payment, is typically fixed for 5-30 years, and each year you're repaying your loan with yesterday's, cheaper dollars. While the cost of nearly all goods and services—including housing—is rising, your largest expense remains constant. Rising housing prices also means that your rental income will grow, translating into a larger passive income stream. As a landlord, one can argue you like inflation. It reduces the real cost of your mortgage and increases your rental income stream.

Investors vs. Landlords

We've all heard people say that one of the major impediments to them owning income generating property is a concern over being a landlord. And I agree. No one really wants to be a landlord. I certainly don't and I'm not, even though I own multiple properties with many tenants. The key is to view yourself as an Investor, not a Landlord, and engage the services of a professional Property Manager to handle the day-to-day duties associated with owning income generating property. Remember, Investors deal with big picture decisions and cashing checks, while Landlords deal with trash, toilets and tenants. I'll show you how to become a successful Investor and leave the Landlord duties to someone else.

“There’s No Free Lunch in Real Estate” will teach you time-tested proven methods that are being successfully used right now by investors just like you to create lasting wealth and a growing spendable income.

What’s Next?

You’ve probably realized by now that you need to change the way you’ve been thinking about investing and start incorporating income generating properties into your plan. After all, no other investment generates an annual passive income stream that grows each year building the wealth and cash flow you need for a comfortable retirement.

Over the past 5 years my clients, students and I have bought and sold over \$250MM worth of real estate throughout the United States. I’ll teach you time-tested proven methods that are being successfully used right now by investors just like you to create lasting wealth and a growing spendable income. Anyone can learn them. The key is to set goals and be consistent with your investments.

So, what’s the next step?

First, visit www.theresnofreelunchinrealestate.com and purchase my book and DVD series. This will give you all the tools you need to create life changing wealth. It’ll show you how to:

- Build a consistent, passive income stream from your real estate investments
- Create cash-flow models to make sure your buying decisions are the right ones
- Select a property type(s) and obtain financing for income generating properties
- Climb the Property Ladder and build your portfolio to secure your financial future
- Use 1031 Exchanges to boost wealth-building and defer taxes

This information is for anyone who has dreamed of one day retiring with a steady income stream that requires little time and effort to manage. By employing these techniques, carefully and over time, you too can build a portfolio that can provide for your kid’s college tuition, and your retirement.

These are the same techniques I’ve used to grow my portfolio from an initial investment of \$25,000 in a 4-unit property, to owning multiple properties throughout Los Angeles and the United States valued at \$5,000,000 generating six figures per year in passive income. Let me show you how to build your own multi-million dollar portfolio generating six figures per year in passive income and change your life.

About Jon Swire

Jon Swire is an author, teacher, investor and practicing commercial real estate agent, as well as the creator of the program, "There's No Free Lunch in Real Estate". He is one of the nation's leading specialists in multi-family investments and has helped investors and students buy and sell over \$250MM worth of real estate throughout Los Angeles and the United States. He's worked on all types of property ranging from Single Family Residences to 2-4 unit properties, as well as multi-family and commercial, ranging in value from \$200,000 up to \$100MM. A testament to his program and success, Jon was one of the Top 25 Commercial Agents Worldwide for the past 5 years, and was the #3 Agent in the United States in 2006.

Jon's true passion is real estate and helping others learn how they can use real estate as an investment vehicle to change their lives. He teaches a class at UCLA Extension titled "Real Estate Investment Analysis", which is a 12-week, 40-hour course designed to help students and investors navigate the real estate investment landscape. His goal is to provide them with the tools needed to create life-changing wealth.

Jon realizes that most people are barely getting by these days and haven't saved nearly enough for retirement. His program, "There's No Free Lunch In Real Estate", teaches others how they can change their investment paradigm, take control of their finances and create the wealth they desire. He preaches consistent investments over time, which will create a passive income stream that will help you achieve the lifestyle you've dreamed of.

In addition to teaching and brokering deals, Jon speaks to investment clubs and other groups. He has bought and sold over 20 properties himself and currently owns real estate in Southern California and throughout the United States. Jon holds an M.B.A. from the Anderson School at UCLA and a B.S. in engineering from Northwestern.





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