

◆ **MAKE MONEY** ◆ **ON REAL ESTATE**

WOJCIECH ORZECOWSKI



BUY
RENOVATE
AND SELL
OR RENT IT
AT A PROFIT

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**This guidebook teaches how to become a rentier
within 6 years**

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From the author

As I am writing this book I am 39 years old and I have over 19 years of business experience. For 15 years I have been running a company named Go3.pl Ltd., acting as the chairman of its management board. During that period, I have trained and led to success dozens of traders from all corners of Poland. I have been dealing with trade in real estate since 2006. I buy, renovate, lease or sell different flats, houses and business premises in various cities in Poland¹. Since 2012 I have been the vice-president of housing cooperative board in Łódź, at 270 Piotrkowska street. This cooperative associates 43 owners of business premises, covering a total of 15.500 m² and the property itself in total is worth over 50 million PLN. In this building I own around 700 m² of space which I manage and lease successfully. What I also own constitutes basically of two floors in a I exclusively supervise in the center of Łódź. Currently, the total value of the real estate I exclusively supervise exceeds 5 million PLN.

What is more, nowadays when I am finishing this book (2014), I am the only real estate expert in Poland who conducts Workshops on Investing in Real Estate using the formula of mentoring². I will personally lead you through the whole investment process, starting from the moment of planning, through obtaining resources, purchase of the real estate, its renovation and then lease or sale with profit!

¹ When I mention my investments I also mean those acquired on behalf of a commercial law partnership with me in the management board or those I am the shareholder of or with the members of my family acting as shareholders and me as the organizer, as well as investments conducted by my wife or other family members with my organizational participation.

² Mentoring, advising – it is a partner relationship between the master and trainee (student, employee etc.) aimed at discovering and developing the potential of the trainee. It is based on inspiration, stimulation and leadership. The point is for the student, thanks to proper activities of the master, to get to know himself/herself, consequently developing self-awareness and not being afraid to follow the self-realization path he or she selected.

For the last two years I lived in Italy enjoying financial freedom. In the meantime, I taught online the participants from Poland and Europe how to invest in real estate as a part of the workshop of investing in real estate WIWN® MIX. I decided to translate this guidebook into English because the rules described here are also well established in the European market. So far, I trained over 150 people, leading by the hand through the entire process of investment, who acquired a total of 59 apartments and have already sold 17 of them. The average annual rate of return on the capital invested by using leverage ROE exceeded 125%. By investing an average of 7200 euro using leverage in the form of a bank loan, within 6 months, participants achieved a profit of 4700 Euros (the average cost of the total investment amounted to 47,000 euros). That is: $4700/7200 = 65\%$ in real estate in the year, the annual ROE = 130%

Feel free to contact me.

I worked out effective investment procedures. Moreover, I think one of the most pleasant results of our cooperation from your perspective is also the fact that 100% of the profit you will make thanks to real estate during the workshop stays in your pocket!

This book will teach you how to avoid many costly mistakes made by many people without proper experience. You will get to know the whole investment process as well as all details which decide about the success of your investment. You will also find out how to wisely and safely money on real estate.

When you decide you are ready to use this knowledge in practice, it will be enough to contact me and I will lead you to success step by step.

Try your chances as an investor

I would like you to use the knowledge contained in this book as much as possible. As a result, at the end of each chapter I prepared various questions and tasks for you. If you take up a challenge, you can benefit from them a lot, as these tasks constitute an element of workshops I run and each task refers to real life situations. Thanks to this approach,

you can feel like a proper real estate investor as early as at the stage of reading this book.

I guarantee I will answer all messages I get. Moreover, I will provide you not only with confirmation but also with analysis of your message, as it is important even at this stage to notice, understand and be aware in what way the numerous factors influence the success of the whole real estate investment process.

If you want to start investing in real estate, make a decision and start acting. The knowledge you will obtain after each chapter execution used in practice. If you have any problems with execution of the task or you have questions – contact me.

Each year, new books devoted to real estate appear. Countless seminars, courses as well as workshops can overwhelm a person who wants to learn how to wisely and safely invest on this market which is tempting him with very high profits. In such a situation it is worth to consider which criteria to accept in order to obtain the most precious knowledge from a particular workshop or book. To answer this question I will use an adequate example from real life. So one of the students of one of the best Polish universities (I do not provide its name intentionally) told me once about classes on enterprise management. Lectures were conducted by a professor who throughout his whole life has been working for somebody else. He has never ever started his own business. The professor indeed, had great knowledge but only theoretical, not practical. He knew the practical aspects only from stories of business people. The situation is similar when it comes to the authors of some books and workshops. That is why one of the most serious criteria you should consider while choosing a mentor is his/her practical knowledge and experience. The manner of conveying the message and involvement, understood as involvement of both parties, is equally important. You will obtain the best results when you have a chance to get to know the branch “from backstage” as practical knowledge is the key to success in the real estate market!

Enjoy reading,

Wojciech Orzechowski

What do you need to know before investing

1. Fear and stereotypes versus experience and common sense.

Finances are probably the greatest barrier when it comes to deciding on investing in real estate. Generally, the potential investor asks himself or herself a question regarding the validity of dealing with such subject. **If it wasn't for the fact that some of us are too afraid to lose money, probably all would invest in real estate. You can actually invest in real estate without having your own financial contribution, but not many people know about it.**

This book will help you to understand the techniques of financing real estate investment in such a way, so that your investments would be stress-free and pleasant with a minuscule level of risk. The following chapters will convince you that the danger of losing capital is at a similar level similar as in the case of investing in any other financial instrument or commercial product, if the investment is well considered.

You can invest on stock market, *Forex* market. You can also invest in currencies, trade of products, services and in your own undertakings but the astonishing truth is that investing in real estate bears the lowest level of risk. I am sure after reading this book you will agree with me. Of course, I mean sensible investing which is well thought out from beginning till the end and implemented based on previously established rules which guarantee success. You will learn about these rules soon, in the following chapters.

Let's return to the types of investment mentioned above. Stock exchange can make you lose money. Of course, it is not money strictly speaking. These participation units lose their value and then you have to wait for a long time before you make up for the losses. However, usually the mechanism in case of inexperienced players investing in stock exchange ends up with the investor breaking down emotionally, as a result the investor sells his or her shares which lost their value. And this is exactly the most frequent cause of the actual loss.

A lot depends on the level at which you place the „stop loss” and if you actually have the possibility of setting it. The same happens on currency and commodity exchange *Forex*. However, in this case the changes take place much faster. It must be said that on many occasions the investors cannot notice a situation, see the causes which finally result in losing the capital. Thanks to *Forex* you can earn much but you can lose as much – literally in few seconds. It happens because in this type of investing the situation occurring at stock exchange when participation units lose their value and then getting it back does not take place so you can't make up for the value you lost and regain the funds you invested. When investing on *Forex* market, if the situation is going bad and you do not stop a particular transaction, **you will lose all**. Business is similar.

Investing in any business is connected with much more risk compared to investing in real estate as apart from unsuccessful transactions one has to deal with dishonest clients, suppliers or employees. Moreover, unexpected circumstances can occur which will prevent you from obtaining the profit you expected (e.g. you thought there would be greater demand for your goods and there was no demand at all). We are often uncritical when it comes to our ideas and convinced that we are making an investment of our lifetime. However, in the end, it frequently turns out our activities do not provide the expected result.

In the case of properly planned investment in real estate the situation is completely different. The basic difference is **that demand for land, flats and house as well as commercial real estate existed, exists and will always exist.**

And here comes the fundamental issue – the investment in real estate has to be smart and well considered to minimize the risk of loss as much

as it is possible. So the question arises, what conditions have to be met to call an investment smart and well considered? I will try to explain that in the following chapters.

2. Macro-economy – investor's best friend.

For starters, I will use a thesis. If you know how to maneuver on the real estate market, know basic rules of investing in property as well as rules of selecting the perfect properties to invest in; if you know which properties are worth investing in and which not, you probably are decreasing the risk of your money being invested badly. Conclusion – knowledge can protect you from a catastrophe. What I have just written is that investing in real estate can be safe. It does not mean it is not burdened with risk. It is. But the knowledge presented in this book is to protect you from bad investment of your money. First think, analyse, do research and then invest.

The basic knowledge in macro-economy, states that some circumstances occurring in economy can decrease or increase the demand for real estate. It can correspond to, for example, unemployment in chosen area, economic crisis, bankruptcy of working places, irresponsible credit policy of the state, increase in the rate of interests of loans, expensive and unavailable bank loans or great supply of flats on the prime market, etc. **So can a particular real estate lose value due to ensuing macro economic circumstances?** Of course, the answer is yes. There are so many examples of ghost towns in the world, where currently the properties are worth nothing and one can search for causes of it in macro-economy. However, one can find many reasons which were difficult to predict beforehand, like war or forces of nature which have nothing to do with macro-economy.

An example of such a place is Kolmanskop, Namibia. The reason for establishing a city was diamond mining in this region. After World War II exploiting precious stones was not profitable anymore and most residents left for good. In 1956 the last family left the city. For many years the desert tried to take over the colorful streets. Today, most properties are hidden under the sand. Only few survived, among others a theater with well preserved interior.

Another example of a ghost town is Pripyat in Ukraine which was ousted after the explosion of power plant in Chernobyl. Within an hour, over 50 thousand of people were evacuated from the city. Today, tourists can see blocks of flats terrorizing with emptiness, abandoned churches, schools, theme parks, hospitals and theatres.

There are many other similar examples in different parts of the world.

1944 Oradour-sur-Glane, France – bestial murder of all residents by the fascists.

1963 Craco, in Italy – the destruction of the city was caused by deteriorating geological conditions.

1974 Hashima, Japon – closing the lignite excavation complex (belonging to the Mitsubishi concern) which made the existence of the city purposeless and unemployment soon forced people to migrate to other cities.

Detroit USA – due to ethnical riots, increase of crime and economical crisis, the population of the city decreased within few dozen years from 1,8 million to 700 thousand. As we can read in Wikipedia: „to sum up in Detroit there are 70 000 empty buildings, 31 000 houses and 90 000 plots. In 2012 the average price of the house was 7 500 USD, in the January of the following year 47 houses were on offer for 500 USD and less. Five properties were evaluated as one dollar. Despite extremely low prices most properties are on sale for longer than a year”.

In Poland one can also indicate few towns abandoned by the society, e.g.: Kłomino and Sulinowo – left behind in 1992 after the dismantling of Soviet military garrison or Janowa Góra in the Kłodzko Basin which was abandoned as a result of Operation Vistula.

Extreme situations connected to the forces of nature such as e.g. floods and hurricanes also form a part of the risk of unsuccessful investment. In this case, however, we can purchase an insurance which will protect the investment from losses.

3. OBJECTIVE is the most important.

I make the participants of my workshops aware that the objective is the most important thing. A well, specified objective will help you to

earn well, so that after few years of responsible and sensible investing you won't have to work full-time, you won't have to get up at 6 in the morning every day, in a nutshell – this book is supposed to help you as fast as possible, so that without having and knowing too much you could really retire and become financially independent! In other words, it is about how to reach a moment when you do not work for money but... make money work for you.

Can anyone succeed? Maybe, however it is surely easier for those who have the so called entrepreneurial spirit. The character and personality you have is very important and will make it easier or more difficult for You to achieve the objectives. Bravery, cleverness, determined pursuit after the objective, the ability to make decisions and work under pressure, commercial skills and systematicity are the characteristics which will facilitate your pursuit after increasing your property. Of course, one can make up for lacking of the features mentioned above but it requires time and persistence.

Each of my properties, as far as turnover is concerned (that is purchase-renovation-sale) provides me with a return rate of over - 100%. And if you started with 30 thousand PLN...how much time do you think you would need to become a rentier? It is a person who doesn't have to work anymore and his or her assets work on rentier's behalf themselves. Imagine a situation in which you own the real estate providing you with at least 15 thousand PLN of income. What is your cost of living? 5 thousand PLN? In that case you would obtain passive income at the level of 10 thousand PLN before tax. Isn't that enough to live in wealth? According to my calculations, if you have 30 thousand PLN of capital and double this capital each year, after 6 years you should approach the amount of about 2 million PLN. If you invest this capital in real estate for lease, it should provide you with 15-20 thousand PLN before tax each month. Imagine you own some commercial premises in the city center which provide you with such profit. Would you like that to become your objective? If you would manage to invest in real estate 50 thousand PLN once in six months and obtain profit of 30 thousand PLN from each property after taxation you would obtain the return rate of about 50%. If you do it twice a year, you have a chance to double the

capital you invested. It means that your return rate will be a minimum of 100% a year of what you invested.

If you have 30 thousand PLN to start with, after a year you will have 60 thousand PLN, after two years 120 thousand PLN and so on until after 6 years you will obtain the capital at the level of 1,9 million PLN which after investing it in real estate will provide you with 15 thousand of income a month.

Let me remind you, you have 120 thousand PLN at your disposal and you have efficient creditworthiness to buy two flats making use of a credit with the total value of about 400 thousand PLN. If your goal is to double the capital each year, you have to buy, renovate and sell 4 flats in a year. Your goal is to purchase and sell two flats during first six months and to repeat that during the following six months. During each of these transactions one invests in model real estate (definition of which is to be provided in the later part of this book). Assuming, having the real estate of about 55 square meters, the investment will reach the following values:

- purchase of real estate (in Łódź, purchase price in Łódź, 2900 PLN/m²) = 154.000 PLN
- renovation (let's assume about 800 PLN/m²) = 44.000 PLN
- costs connected with the purchase (notary, advertisement, etc.) = 10.000 PLN
- costs connected with the loan (commissions, interests) = 10.000 PLN
- maintaining the real estate for the time of investment (rent) = 4.000 PLN
- sale of real estate (selling price equal to the lowest rates for one meter of a renovated flat in Łódź in 2015 that is 4600 m²) = 253.000 PLN
profit before taxation = 31.000 PLN

During first six months you have to buy and sell two flats. The investment for bank purposes takes the value of = 198.000 PLN (including the purchase price and renovation cost). Remember that according to our assumptions you have 120 thousand PLN, so in this case your contribution is 40 thousand PLN – as investment in purchase and renovation of real estate and additional 20 thousand to cover the other costs,

for example cost connected to the purchase. Summing up, you need 60 thousand PLN in total for a single flat. If the investment has the value of 198 thousand PLN, it is easy to calculate that for this purpose you will have to make use of a credit covering the amount of 158 thousand PLN. Ultimately from each 60 thousand PLN invested in a single flat, you should earn 30 thousand PLN, which as a result means 50% of return rate in case of each flat. Two transactions like this every six months, four transactions a year, are to double your capital. The last thing to do is to plan a good tax optimization. But this is what you have to discuss with your accountant. There are many possibilities of investing smaller amounts, starting with 15 thousand PLN. If these calculations pose an issue for you – contact me, we will do them together.

Let's move further in our considerations. In the following years to double the capital either you increase the number of properties you operate with during a year or you increase the square metres. Flats are good to start with. Later you can invest in apartments, houses or commercial premises. The point is to purchase for a minimum 20% less than the average market price and then sell in such a way to implement the objectives with regard to the profit.

However, you should remember that you need to know how much you will earn on an investment as early as on the purchase day, as well as know the precise amount. If you are not sure, if you don't know – don't invest. You will probably ask now how are you supposed to know if you make profit on real estate? From the calculations I presented you above. If calculations indicate you can earn – go ahead. Only pay attention to PURCHASE PRICE (PP) as well as SELLING PRICE (SP). Predicted SP must position itself within the lowest TRANSACTION PRICES (TP) on the market. You will know the transaction price when you subtract 5% from AVERAGE OFFERED PRICE (AOP).

How to calculate AOP? Research the market. Choose 5 renovated flats with the lowest prices from online advertisement portal. Calculate average OP. First call and make sure the flat is still available. Remember real estate agents use tricks involving the publication of online properties with underrepresented prices. They do it all, just to make you call them and start cooperation. Firstly, this agent will inform you that un

fortunately this add is no longer available but a day or two later the agent will contact you to preset offers of other flats and suggest good price for them. You must be alerted. If you know AOP, you can calculate SP faster because that is PP you should buy the flat for. Determine PP and observe the market. If you manage to purchase a flat to renovate at designated PP – you know exactly how much you will earn within the upcoming time. I can help you and advise you in making these establishments.

Now you know how the mechanism of earning on real estate looks like. Actually, you could stop reading this book here, however, you should bear in mind that investing in real estate is safe if the following three conditions are met:

- 1) On the purchase day you know exactly how much you will earn based on a particular property. You know how to research the market and select the most beneficial offers from the financial point of view.
- 2) You know its features and you know which of them make it attractive. Your property cannot have more owners which creates the risk of it becoming a market dud. I distinguish 60 features which influence the value of real estate.
- 3) Your real estate is free from legal defects.

On the following pages of the book I will expand on the aforementioned three points. I will provide you with sufficient knowledge to invest in real estate safely. Systematic repetition of these activities can turn you into a rentier within few years. The expected realization time with regards to the plan is 6 years. On some markets this period has to be extended to 10 years.

Summary

- Investing in real estate is safe and profitable if you have the proper knowledge in this area.
- Plan the whole transaction well. Find out the price of a potential real estate. Thanks to that later you will be able to offer a price of the lease or sale price competitive to other similar properties in that area.
- Verify in which places there's a high demand for lease or purchase of real estate. Adjust to the situation on the market. Never do it the other way round.
- Pay attention to macroeconomic data which have a decisive influence on demand and can make your real estate decrease or increase in value.
- A well prepared plan will guarantee you a successful transaction. Well prepared plan reduces the risk of a failure. Analyse the process of renovated flats precisely. Check how much you can get for this type of real estate on a particular market. Then subtract all of the costs and profit, then you will end up with a price you should buy a specific flat for to earn by selling it.
- Research the market, look for opportunities and invest.
- To become a specialist in real estate business you need half a year of intensive work and market research. On the other hand it will take you a year to make close connections with „the providers of pearls” so that they could recommend you the investments you can make money on.
- Keep on trying. Only those who do nothing make no mistakes.
- Never buy a flat if you don't have a considered analysis of profits which you are to obtain thanks to this particular real estate.

Tasks

1. Choose a city or town where you want to invest. It needs to have promising prognosis of further development. Consider the development potential in relation to a particular location. Check the condition of enterprises and companies situated there, pay attention to the level of unemployment. Schools of higher education can be a great asset as they attract young people. Graduates often stay in places where they study, start their families and have the need to buy an apartment.
2. Take into consideration whether in this town the number of potential buyers of your flat will increase or quite the opposite, year after year you can have more troubles with selling/leasing the flat?
3. Choose a housing development or a couple and check what is the sales price of well renovated real estates. Then, subtract the costs concerning the purchase and your profit – as a result you will obtain the purchase price you should apply buying the flat. If you have difficulties with estimating the aforementioned values – you should definitely contact me: wojciech@wiwn.pl – we will do it together.
4. Prepare a table in spreadsheet program for yourself where you can enter all the costs, income and calculate the profitability of a particular transaction precisely.
5. At the same time determine OP and TP on the market you are interested in, determine the best SP for you and then, based on that data determine PP.