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May you learn a thing or eight! Please feel encouraged to drop me a line on what was most insightful, if you did not learn at least eight things or if you actually found an error or typo!

PREVIEW
of

80 Lessons Learned

on the Road

from

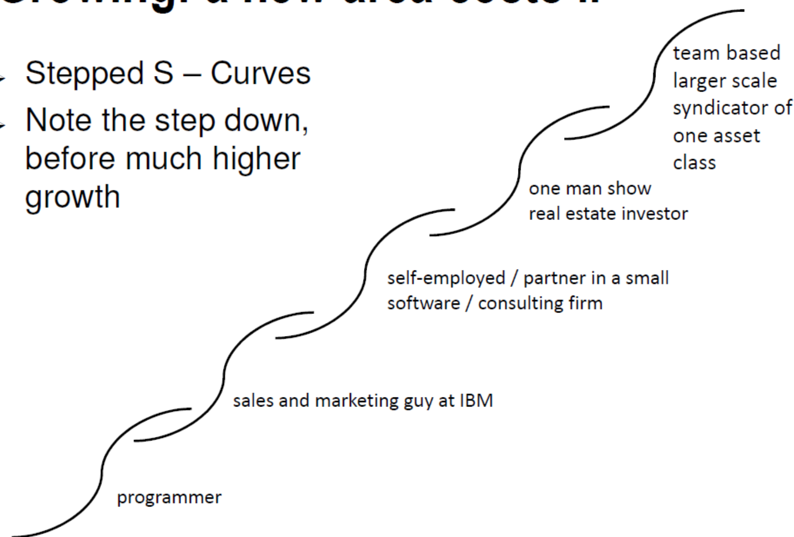
$80,000 to $80,000,000

by

Thomas Beyer

One Lesson from Chapter 1 – Life Lessons

Lesson 12: Growth in Discomfort – The Anatomy of an Uncomfortable Change (The Stepped S-Curve)



Growing—that is, making necessary yet often uncomfortable change—resembles a stepped S-curve as shown above. I thought it would be valuable to walk through the process of the uncomfortable change step by step and give you a sense of what you can expect when you make a change.

When we want to make change, we're often faced with an old enemy named "fear." When we don't know what's on the other side of the change, and this side is cozy and comfortable—with a

big-screen TV, a nice paid holiday, a big warm house, and a fancy car—it's easier to stick with what we already know instead of jumping over the other side and risking it all.

I commend you if you even *recognize* that you're ready for a change that will undoubtedly bring you discomfort. If you identify it and want to make the change, I think it's valuable to know what to expect. Below is a step by step explanation of the phases of an uncomfortable life change:

1) **Awareness that something isn't right.** Whether you process based on rational thought or on gut feeling, you may be familiar with the feeling that something isn't right in your current life position. For me, there have been numerous times when I knew a change was necessary.

One that stands out was when I was working in my very first "real" job back in Germany, prior to coming to Canada to study at the University of Alberta. I was working in the software division of Siemens, a giant German company with more than 200,000 employees, a company that was into almost everything—from micro-processors, medical imaging systems, telephones, software, printers, and trains, and even whole nuclear power plants.

When I started there, my manager sat me down and showed me the income growth curve that I could expect. There it was, my entire life laid out before me (at least the income part), and I didn't like what I saw. I was in my early twenties, and I saw that my colleagues who'd been there for 15 or more years had already reached the top of their earning potential and the work they were doing.

For the most part, I was already doing the same work as them, namely programming. They knew their work better than I did,

and they were more specialized and experienced, but essentially we were doing the same job.

Those points of awareness led me to believe that this was not the life for me. This realization was my first step toward making the uncomfortable change—moving to Canada to study for an MBA.

2) **Make the change.** I am no psychologist, nor am I a neuroscientist, so I won't be able to explain in technical terms how one gets one's mind prepared for a change. What I do know is that whenever I've known that I had to change in order to move forward, I've typically been able to gather enough courage and strength to make those difficult changes.

   Don't ignore the awareness that something is wrong. Act upon your feelings and make the change necessary. You may not know exactly what to do, you may just know that you have to make a change (that's where Ready, Fire, Aim comes into play—more on that later). Even if you don't know the perfect next step, and you only know that you *must* make the change, it's best to act on that feeling.

   The longer you wait in the stagnant position, the more you stagnate. Move, change, and see where the cards may fall.

3) **Feel the pain.** It's inevitable. When you jump ship from that cozy lifestyle that you've come to trust, you will inevitably feel the pain of your change.

   On the stepped S-curve, this pain is represented by the small drop-off whenever you make a change. What this means is that there is every possibility that you will go backward for a little while before you go forward to the desired result that you want.

In practical terms, it means that you will likely make less money for a while, you might sleep less, you might have less personal time, you might have to move, you might have to spend money, you might have to divorce your spouse, you might have to travel, or you might have to stop traveling.

Relax. All of those things are temporary, or at least they're temporary in the form that you're currently experiencing them. Either the experience will change, or your perception of the experience will change. You will adapt, you will grow into it, or you will stop doing it. But importantly, you have to give it some time, and you have to push through the discomfort.

4) **Skyrocket.** Just as certain as the fact that you will feel significant pain is the fact that you will skyrocket in your growth curve after pushing through the pain. Take a look at that stepped S-curve. It shows exponential growth after the initial phase of pain and difficulty. The growth in this phase is truly remarkable.

   While on this part of the curve, it can be a remarkable emotional high. You will feel invincible, like you can conquer the world, and your outlook for your own future will be limitless.

   When you make a difficult change, and you then experience the skyrocketing, feel free to enjoy the ride: you've earned it, and before long, the real work (kaizen-like focus) will come.

5) **Plateau.** Soon you'll normalize all the incredible growth and change. What was incredible not too long ago is now normal.

Financially speaking, this is where so many people get themselves into trouble. They start making double, triple, or more than they were making in a previous position, and they believe that the natural next step is a bigger house, a nicer car, more trips around the world, etc. They think that there's no way they can ever spend all this enormous new wealth they have.

Before long, their new lifestyle is stretching their financial resources, and all of the old difficulties that they thought they were escaping come rushing back into their lives.

I believe the plateau phase is one of the most difficult to manage. It takes a special kind of focus to navigate your way through it. It takes a commitment to incremental growth, which unbeknownst to you may be setting up the next big change/growth cycle.

I credit my stable base with helping me to work through all the phases, but especially this tricky plateau phase. My stable base has helped me to refocus and grow incrementally through the plateau phase on each occasion.

Always remember these phases when you're going through or about to go through a change. Knowing which phase you're in will help you chart a safe and enjoyable passage through the change.

One Lesson from Chapter 2 - Business Lessons

Lesson 49: Green Money vs. Red & Blue Money

What is green, red and blue money? Green money is traditional money; it's what you think of when you hear the word "money." It's dollars, cents (in the United States, at least), bills, coins and digits on a bank statement. It is printed in green—or, more recently, a greenish color.

Red money is a mortgage or credit or a line of credit. It puts you in debt, in the red.
Blue money is time and expertise. The question you must always ask yourself when you undertake a project in business is: What is my time & expertise worth? How many blue dollars am I investing here? What is the risk beyond time and real dollars invested ? Can I lose more than I invest because I take on debt ?

In my opinion, most people do not value their time enough. Time is actually more valuable than money. Don't believe me? Think of it this way: money can be replenished at a later date. Sure, you don't like to lose money, but if you lose money, you can get more money later.

If you lose time, you cannot get more time later. Once time has been burned, you cannot get it back. (Perhaps this is why older people get up earlier than young people as they value the time left in their life far more than young ones.) If you lose your reputation that hurts, too.

Beginning real estate investors and business owners often act as though their time is worthless. If you decide that you want to purchase a property that you think will earn you $10,000 over the

course of a year, but you have to spend 15 hours per week on that property, you're actually working for slightly under $14 per hour. Is that worth it? Well, it might be if you make $14 per hour in your regular job and want the long-term equity.

The above example is a little bit extreme, but new business owners and real estate investors make decisions like this all the time. When I purchased my first property (a rental-pool condo in Calgary) I knew that I didn't want to trade my time for the minimal profit that one property could provide. That's why I didn't buy a single-family home in Crossfield (an hour away) instead. I knew the Crossfield property would represent a significant number of blue dollars, which I didn't want to invest.

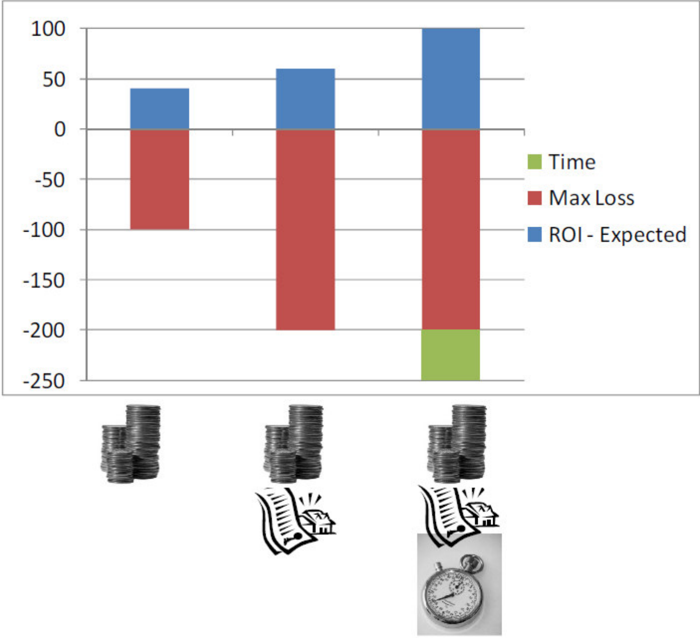
At the time, I was investing all my blue dollars into my software management company, a business that supplied an ample number of green dollars for my blue dollars invested.

What was the problem with the Crossfield property? I just didn't see how the significant blue dollars that I'd need to invest would produce a significant enough return in green dollars to justify the investment. This is because I could not produce an economy of scale. It was a single property and I couldn't systematize it in such a way that I would invest little time and reap large reward.

So I continued to invest my blue dollars primarily into my software company and my green dollars primarily into real estate. Eventually, I invested my blue dollars into real estate as well, and in those early years, I had to invest a lot of blue dollars. Real estate is up-front intensive. I did a lot of work in the early years and now, with the system that I have in place, I don't have to invest too many of my blue dollars to reap a significant return (in the good years!). When a large portfolio grows by 1 percent to 3 percent per year, the return for an investor, and myself and my partners, is significant.

In real estate you take on substantial debt, usually secured as a mortgage. You need a return on that. I have on occasion helped others co-sign debt. You must get a return on it.

So, as an example, if you can make 8% a year or 40% in 5 by just investing money, you must get a higher return by also co-signing a mortgage in a JV, for example. Let's say it ought to be 12%/year or 60% in 5 years. If you also invest your own time and expertise into the venture, i.e. you do all of it yourself, you must get an even higher return, aiming for 20%/year or 100% in 5 as shown in the figure below. The lines below 0 show potential losses if the market goes completely sideways; a possible albeit unlikely scenario with proper due diligence. Many real estate investors in 2008-2009 did not see this market correction coming and many a friend (incl. those in the REIN group) lost a pretty penny when highly levered assets did not go up in value but down, in markets such as Grand Prairie, Detroit, Las Vegas, Florida or California.



Two people I know at least went bankrupt due to personal guarantees on mortgages, i.e. red money. The risk of taking on debt shall not be underestimated, and as such it has to be rewarded if you co-sign a mortgage.

In addition, you may say that my time is now more valuable than it's ever been before. This is a benefit of building any business properly. There is an understanding that with an increased investment of your green, red and blue dollars in the early years, you will ultimately need to invest fewer blue and/or red dollars in later years and reap more green dollars.

A business that does the opposite is a business worth questioning seriously.

Take my Stony Plain houses, for example. It's been approximately one year since I learned that these properties were not operating as I'd originally intended when I went into partnership on these houses.

The biggest problem was that I didn't have a backup plan if the original partnership plan was to fall through. Fall through it did, and I ended up having to take care of the properties myself—that is, find a new property manager and new metrics for repairing a house vs. smaller but more numerous apartment units. If they were apartment buildings, I would simply have put them under the management of my normal team and treated them with the minimal blue dollar investment that I normally do with any other buildings.

But these two houses were outside the system (so to speak). I have no useful system for dealing with two problem single-family homes. It's been a year of getting renovations done, spending money and finding tenants. Finally, I am clear of the problem and as unbelievable as it is, I've probably spent almost as many blue

dollars in the past 12 months on these two properties as on the other 1,000 units combined.

Which do you think has produced a greater number of green dollars for me, the Stony Plain houses or the 1,000 units?

Obviously the 1,000 units have been vastly superior at returning green dollars to me than the Stony Plain houses have been. When I started the project, I had the best intentions of earning some green dollars with very little of my own blue dollars invested, but it did not work out like that, and you may make a case that I did not value my blue dollars enough.

Blue dollars are in many ways more valuable than green dollars. Think and act carefully before you invest your blue dollars. Do your best to never throw away green or blue dollars, but if you must throw away one of the two, make it the green dollars since they can be replenished. Value your time like the precious commodity that it is and use your blue dollars wisely.

Two Lessons from Chapter 3 – Real Estate Lessons

Lesson 74: Real Estate Is Like a Three-Course Meal™

The more specific reason why real estate is a get rich for sure scheme is the fact that real estate is like a three-course meal.™ (Yes, that is my intellectual property—still un-monetized.) It's a three-course meal that lays out like this:

1) Appetizer = Cash Flow
2) Main Course = Mortgage Paydown
3) Dessert = Appreciation

You don't *need* to eat an appetizer or dessert, but you *do need* the main meal. If you stop eating, you stop existing. Real estate is the same.

Profit Centers in Real Estate
A Three Course Meal!

- Appetizer: Positive Cash-Flow
- Main Course: Mortgage Pay-down
- Dessert: Value Growth
  - – Improvements
  - – Re-positioning
  - – Reduced expenses / higher rents
  - – Time

In real estate, one can rely on the constancy of the mortgage paydown. When you sign those mortgage documents, you're committing yourself by law to make those pesky monthly payments, and with every payment you pay not only the interest the bank charges but also a portion of the principle.

However, *you're* not paying down the principle, your *tenant* is, and that's the beauty of real estate. Someone else pays you to get wealthy. This fact is as simple to understand as it is difficult to execute.

The mortgage payment is the main course, and the longer you hold the property, the more wealth the mortgage payment produces for you. The mixed blessing is that wealth created through mortgage paydown is not liquid. The only way to unlock the accumulated cash from the mortgage paydown is to either refinance the property, thereby pulling out excess equity, or to sell the property and take home the remaining cash after the rest of the mortgage is paid out from sale proceeds.

The benefit to impatient people like myself is that you cannot spend the equity immediately nor can you sell an asset as fast as, say, a stock. It will make you a more patient person, a more patient investor and a purveyor of more assets with similar characteristics.

On one hand, it might be seen as a drawback that can't access the locked-up equity quickly, but on the other hand, if you can't access it quickly, it's more likely to accumulate slowly and surely. You almost forget the equity is there, but when it comes time to realize the gain, you're pleasantly surprised.

To this day, I credit this lack of liquidity with helping me build wealth. I'm quite an impulsive person, and tend to make decisions quickly. Often I've had the urge to sell a property for one reason or another, but didn't act on that urge because of the lengthy process involved in selling a property.

Then, lo and behold, a couple of weeks later, I've realized that it's better to keep the property. Months or years later, holding the property for longer proved to be wise. Much wealth has been created by just waiting in real estate. That's why I believe the noble art of getting things done is great, but the even nobler art of leaving things undone is better. Hence, I also trademarked this simple nugget of wisdom:

"Don't wait to invest in real estate—Invest in real estate and wait!"

Time favors the real estate investor because mortgage paydown ensures that money will be made from owning real estate, regardless of the economy—so long as the property is impeccably managed.

It's pleasant to have the cash flow, but you can live without it. When I say cash flow here, I mean the kind of cash flow that you actually keep. New investors often have the misunderstanding that cash flow only flows into their jeans, when in reality, it flows in and it also flows out.

Cash flow (especially in the early days of ownership) has this purpose: reinvesting into the asset, or building a buffer for a rainy day. As mentioned elsewhere, maintaining the asset is necessary, so much of the cash that the property produces must be allocated back to the property for maintenance and upgrades. I never assume that cash flow will be removed from a property during the hold, at least not in the first five years of a 70-80 percent levered asset.

Appreciation is a delectable dessert. We do everything we can to make sure that we get to eat dessert in real estate. We study the markets, we buy at the right price, and we hold for the right amount of time. Appreciation doesn't always arrive in the time horizon we hope (and of course the 2008–09 correction taught us that lesson), but generally speaking, if we stay in the game long

enough, it does come. Prices in 2013, in most markets in Canada, are well above 2007 levels again, so holding through this three- to five-trough was necessary to actually get some dessert. Prices in 2023 will be higher than today, and even higher in 2033.

While the main course (mortgage paydown) produces moderate wealth, the dessert (appreciation) often produces immense wealth. When a market's values start to rise, it is best to be levered as highly as possible in as much real estate as possible, since this is when you start making money on borrowed money, not just the money you initially invested.

Owning $80 million worth of real estate (with $40 million in equity), when a market appreciates 5 percent, equals a $4-million growth in net worth, whereas owning $40 million worth of real estate at the same 5 percent pace results in a $2-million growth in net worth—not bad, but not as stunning as a $4-million growth.

Thus, lever as high as the cash flow allows, then dial it up or down a notch depending on your comfort level, risk tolerance and market outlook.

Real estate, as exciting as it seems during the chase of a hot deal, and as frustrating as it seems when a tenant decides to stop paying, is basically predictable, boring even. You learn to systematize everything, even the non-paying tenant, and you find that even the unexpected is expected. The end result is that real estate is a boring get rich for sure scheme.

Learn to follow the sure steps and use it as a steady way to increase your wealth over the years, and you will be sure to create immense wealth. Always remember that a) to create wealth for sure you need to be able to hang in there and b) the longer you're in it, the more wealth you create.

Always eat your main course, and whenever possible have an appetizer and dessert. Following the dinner rules, get out there and create wealth for sure.

Lesson 77: The Cash Flow Myth

So many real estate investors believe in cash flow. For all intents and purposes the dream of cash flow is a myth. It's possible to earn real cash flow, and after many successful years in real estate, my company Prestigious Properties® is putting some effort toward creating that plan, but for the vast majority of real estate investors, it does not exist.

That's not entirely true. It *does* exist, just not in the way that most envision it. The common vision looks something like this:

1) I buy a property with $300 cash flow per month.
2) Therefore, if I buy 20 properties with $300 cash flow, I will have a total of $6,000 cash flow per month.
3) I can then quit my job and live off the cash flow.

This is not a good plan. The cash flow of $300 on each property that flows into your jeans at the end of a perfect month will most definitely flow out of your jeans in a less-than-perfect month some time down the road. If you save the $300 monthly cash flow for an entire year, you'll end up with $3,600 in the bank. I strongly suggest you keep that money in the bank because there will undoubtedly be a rainy day for each property you own.

I've created a cash flow plan for several years, and I suggest you do the same if you're involved in real estate. The bigger and more complex your real estate holdings are, the bigger and more complex your cash flow planning must be.

However, the basic breakdown looks like this: maintenance is ongoing, and a large chunk of the actual cash that the property

generates monthly will be plugged back into the property in the form of maintenance (or perhaps paying holding costs such as a mortgage, property taxes & utilities during a vacancy, or a combination of the two). On top of the basic maintenance there are also larger capital expenditures (improvements).

Sometimes you can fund improvements from the cash generated through rents, but other times you will need another form of cash to fund bigger expenses. A roof, a boiler or furnace, a hot water tank and windows are all large expenses that real estate investors must pay every now and again.

You might do one big item every two or three years, for example, on any given property. Often the cash flow doesn't fund such improvements, but the building's rising value can. The only problem is how you unlock the building's excess value in order to pay for the larger improvements. Refinancing is often the only vehicle to raise the extra funds needed.

This is one of the best reasons to refinance, the others being a) to pull cash out, and b) to decrease the mortgage payments by securing a superior interest rate.

Timing the extraction of equity for large capital expenditures is part of the reason I came up with and trademarked the phrase: Cash is King, Cash Flow is Queen.™ To me the phrase signifies the fact that cash flow is very important in real estate, but having a firm understanding and handle on the actual cash situation is slightly more important.

Some investors focus too heavily on cash flow and as a result never consider the value of the buildings and its cash requirements. They therefore often leave their buildings in rough shape when they exit. With this kind of short-term thinking, investors are leaving much profit on the table.

I said above that cash flow is mostly a myth, and this is mostly true. If you buy real estate, or the publicly traded equivalent of it, a REIT, you will get some cash flow, say four to five percent per year on the money invested. But if your overall asset value, or the price of a REIT, declines by 10 percent per year due to property value decline, are you actually ahead? No, you are not. Cash flow, and equity value in the invested asset, are very closely related. Equity is not cash … yet! So, you must always look at both: the cash flow and the remaining equity in the asset. The total of both is your overall return, and it is not always greater than zero!

The time horizon of real estate investments means that most investors stay in debt for most of the duration of their holding period on any given property. Investors are often forced to remove equity through a refinance to pay for bigger capital expenditures, and frequently to pay for lifestyle needs (such as sending kids to university or buying retirement homes). This means that they often continue to own highly leveraged assets.

However, when a property has a small mortgage on it (and sometimes no mortgage at all), real cash flow is possible (the kind you don't have to reinvest). This might seem like the ultimate achievement for an investor. However, in a fast-rising market, lower leverage means you have a lower return on equity (i.e., of dollars invested in the property).

When only 20 percent of the purchase price comes from cash and the other 80 percent comes from a mortgage, the cash-on-cash return is leveraged five times. If a building worth $1,000,000 appreciates 6 percent, then the return for the investor who is leveraged 80 percent is actually 30 percent ($60,000 divided over $200,000). A 30 percent return is incredible in a single year. This happens whenever a market is strong and investors are highly leveraged.

That same investor who does not have a mortgage on the same property would only earn 8 percent, so being highly leveraged has its place.

For some investors, the ultra-high cash flow of a mortgage-less building is more attractive. These days, I'm one of those investors. Luckily, through Prestigious Properties®, I do not have to do this with all of the buildings, but strategically, it makes sense that we do it with *some* of our buildings.

We've made the decision that some of our buildings will remain in our portfolio—in essence—forever. Of course, nothing is forever, but we have a few buildings where cash flow is so strong, and the potential to pay down the mortgage is so great, that it makes sense to keep them in our portfolio as low-mortgage properties forever.

While living off cash flow is not a total myth, it's a distant enough fantasy for most investors that it's best to think of it as a myth, even as you attempt to get there. As mentioned previously, real estate is a matter of hanging in there—both financially and emotionally. On the emotional side, it's a lot about protecting your time, and being comfortable with debt, but on the financial side, it's about having another plan for income other than cash flow.

Thomas Beyer arrived in Canada in 1986 with less than $1,000 in his jeans to pursue his MBA at the University of Alberta. Building multiple businesses—including one with more than $100 million in assets today—was not just far from his mind, it had never even occurred to him then. Working his way through various software engineering and technology marketing careers he left IBM in 1997 to grow a software and consulting firm with a partner in California. He eventually arrived at real estate investing, in parallel to his software start-up career in earnest in 1997, after 10 years of saying, "Gee, I should really do something in real estate." He started with a single rental pooled condo for $80,000, then grew the initial successes with his own money, and later investor & operating partners into an investment group with more than $100 million in assets with around 1,000 suites, and an associated property management company managing over 1,500 units. The author now lives with his wife in Vancouver, BC, Canada but travels frequently to Alberta to inspect the group's holdings, to visit their two adult children in Edmonton and to smell the clean, conservative non-unionized air.

"Listen to someone who has already cleared the path forward with his own hard work and your journey will become much clearer."
Don R. Campbell - *Investor, Best-selling Author, REIN Founding Partner*