

You've probably seen social media influencers showing extravagant lifestyles and flaunting amazing profits all from real estate. You can't believe everything you see on the internet, but you can build serious long-term wealth through real estate.

How do you make money owning real estate? How does real estate build wealth? Here are our top 5 levers for building wealth in real estate:

**Appreciation:** Over time, property values tend to increase, allowing you to sell at a profit later. The average annual appreciation rate for real estate in Iowa can vary by region and property type, but the long-term appreciation rate for many areas in Iowa has been around 3% to 5% annually. There have been recent years where appreciation has been much higher. Market demand, interest rates, supply and rental rates can have an impact on overall market pricing and appreciation.

**Cash Flow:** Rental properties can generate a steady stream of income, providing cash flow that can be reinvested or used for living expenses. When you subtract all your expenses from your income, the remainder is your cash flow. If you own a property outright, this could be the same as your Net Operating Income (NOI). If you have a mortgage, your cash flow is what's left after you have paid ALL your expenses, including the mortgage. Cash flow is what helps enable investors to hold properties long-term.

**Tax Benefits:** Real estate investors often benefit from tax deductions on mortgage interest, property taxes, and depreciation, which can enhance overall returns. Repairs and maintenance can be tax deductions as well. There are also tools like cost segregation studies, bonus depreciation and 1031 exchanges. Off setting taxes are one of the top priorities for most real estate investors

**Equity Building:** Some refer to equity building as loan pay down. The concept is simple. As you pay down your mortgage, you build equity in the property, which can be accessed later through refinancing or selling. It could also be described as your tenant pays down the mortgage, which builds up your equity position over time. Depending on your loan, your principle pay down is probably low for the first few years but eventually you will start paying down more principle and the equity building will start to add up.

**Leverage:** Real estate allows you to use borrowed funds to purchase properties. This means you can control a larger asset with a smaller amount of your own money, amplifying returns. The basic scenario for using leverage might look something like this. You have \$100,000 to invest. You talk to your lender, and they can loan with a 75 Loan to Value (LTV). This gives you purchasing power of \$400,000. You get the cash flow, appreciation, equity building and tax benefits from the entire \$400,000 property. If you combine this with an interest rate of 5% and a capitalization rate of 8% the returns can add up. There is a certain amount of risk associated with borrowing money, so it is important to not get "overleveraged".

We thought it would also be worth mentioning two other factors that are not necessarily wealth levers but good characteristics of real estate.

**Inflation Hedge:** Real estate often keeps pace with or outpaces inflation, helping to preserve and grow wealth over time.

**Diversification:** Investing in real estate can diversify your portfolio, reducing overall risk compared to stocks or bonds.

All real estate investments have some combination of the five wealth levers. The best deals have ALL five or several that are significantly outsized from the market. Examining these factors in a deal is a good way to evaluate a property. You may find a cash flowing property in an area with limited appreciation or a market with high appreciation has very limited cash flow. An interest only loan might increase your cash flow but will remove any equity buildup from paying down the principle.

If you can identify and maximize these aspects of your real estate portfolio, you will be in a strong position to build long-term, life changing wealth through real estate.