

The **REAL** Book of Real Estate

REAL EXPERTS. REAL STORIES. REAL LIFE.

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Bonus Material

TABLE 1.1

Liquid:	Long-Term:
Savings	Loans
Stocks & Bonds	Real Estate
Mutual Funds	Oil & Gas
CDs	Business
Other	Intellectual
Other	Other
Sub-Total:	Sub-Total:

TABLE 1.4 Most Common Ratios Used to Analyze Property Results

Ratio	Numerator	Denominator	Tells You
Cap rate	Net Operating Income	Property Value	How much the property is earning
ROI	Annual increase in value plus income	Cash invested	Total return
Cash on Cash return	Net cash from investment after taxes	Cash invested	Cash return
Current ratio	Current assets	Current liabilities	Ability to pay liabilities
Debt/equity ratio	Total debt	Net Equity	Leverage
Return on assets	Net operating income	Total assets	Profitability
Debt coverage	Net operating income	Annual debt service	Ability to service debt from cash flow
Loan to value (LTV)	Debt	Value of Property	Leverage
Internal Rate of Return (IRR)	Complex formula		Average annual return on investment

Drive Guide – The Neighborhood Environment

Below are the things you need to look for as you drive neighborhoods and look at environments. (Rating scale: 1 is poor, 2 is fair, 3 is average, 4 is good, 5 is very good.) Add comments to right.

Neighborhood Environment: _____ (list area)

Border: N _____ / S _____ / E _____ / W _____
(comments)

Overall upkeep	1	2	3	4	5	_____
General condition of buildings	1	2	3	4	5	_____
Quality/condition of cars in area	1	2	3	4	5	_____
Quality of businesses in area	1	2	3	4	5	_____
Traffic patterns	1	2	3	4	5	_____
Area landscape	1	2	3	4	5	_____
Overall visual interest	1	2	3	4	5	_____
Perceived prestige	1	2	3	4	5	_____

Would I buy here? Yes No

If yes, what product type? _____

On what street(s) would I own? _____

Your Feelings and Impressions

High points? Morning _____ Noon _____ Night _____

Low points? Morning _____ Noon _____ Night _____

Future Outlook

In 5 years: _____

In 10 years: _____

Other impressions: _____

Questions I need answered: _____

Drive Guide – The Building

Below are the things you need to look for as you drive and look at buildings. You'll want one form for each building you view. (Rating scale: 1 is poor, 2 is fair, 3 is average, 4 is good, 5 is very good.)

Building Name: _____

Building Address: _____
(comments)

Location within area	1	2	3	4	5	_____
Curb appeal	1	2	3	4	5	_____
General condition	1	2	3	4	5	_____
Parking	1	2	3	4	5	_____
Lighting	1	2	3	4	5	_____
Access/entrance and exit	1	2	3	4	5	_____
Tenants	1	2	3	4	5	_____
Ease of finding	1	2	3	4	5	_____
Landscaping	1	2	3	4	5	_____
Fits with your needs/wants	1	2	3	4	5	_____

Your Feelings and Impressions

High points? Morning Noon Night

Low points? Morning Noon Night

Future Outlook

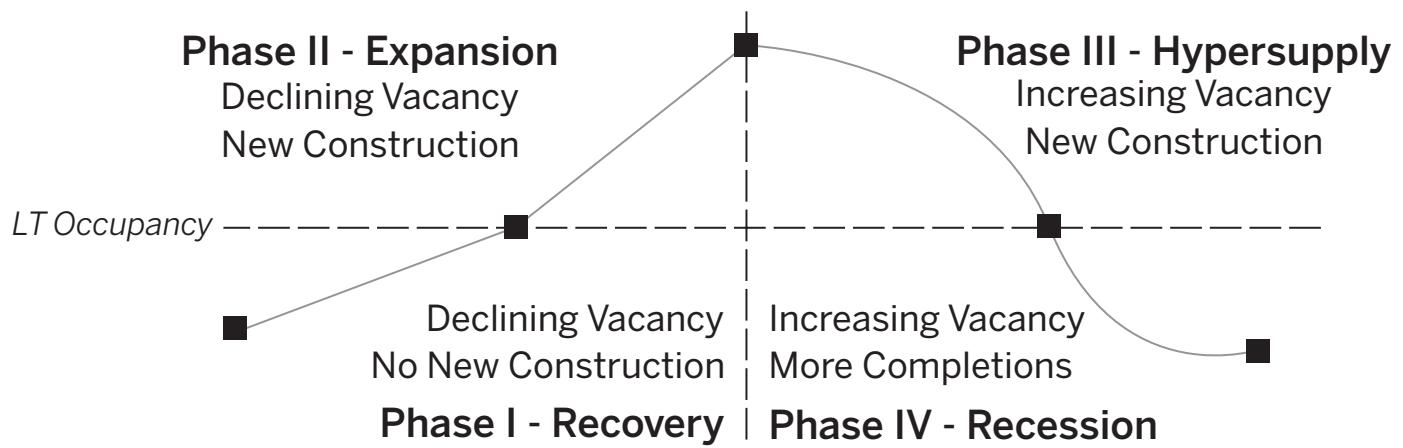
In 5 years: _____

In 10 years: _____

Other impressions: _____

FIGURE 5.2

Market Cycle Quadrants



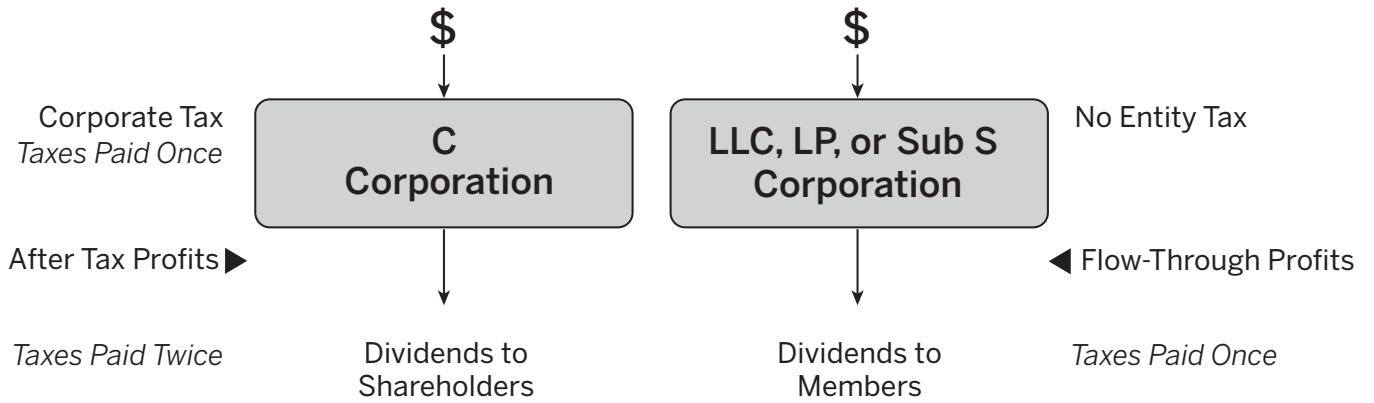


FIGURE 6.2

Real Life Story: John's Bad Day

John was a doctor in California. He had worked hard and paid his taxes. He owned a twenty-unit Roseville apartment building free and clear and a significant brokerage account. He felt as if he were doing well, but the combination of the malpractice and real estate litigation explosion and the ravenous demands of both the IRS and California's notorious state tax collector—the Franchise Tax Board—had led John down the path of considering offshore options.

A promoter from the Caribbean Island of Nevis held a seminar for doctors and dentists in John's hometown. The self-styled asset protection man with glowing testimonials and advanced degrees from schools John had not heard of, laid out a comprehensive and seamless case for using Nevis structures to protect assets. The promoter boldly claimed that by using offshore trusts John could obtain complete privacy and incredible tax savings. His strategy was graphically represented as follows:

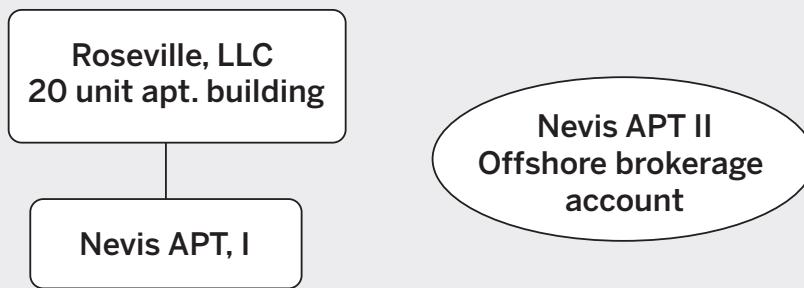


FIGURE 6.6

The promoter indicated that John would not have to pay any taxes. Because the apartment building LLC was owned by the Nevis APT ("asset protection trust"), profits generated from rents could pass offshore without taxes. The domestic LLC would simply file zero return. The promoter further stated that insurance was not needed on the apartment building because it was now in a bulletproof structure. As well, by moving John's significant brokerage account into the second APT, profits could be generated offshore without U.S. or California taxes. Better yet, the monies could be accessed by John, tax free, into the United States by simply requesting the Nevis trustee—who received \$3,000 a year for the service—wire the money.

John followed the promoter's advice, paid the \$25,000 for setting it all up, and in the first year his financial condition greatly improved. With his assets offshore and no onshore taxes paid, he was doing really well. He wondered why everyone didn't do this. Then, in one day, two problems arose. He was sued for malpractice by a patient and a tenant fell at the apartment building.

When the tenant's claim was made, John informed the claimants that there was no insurance. When the tenant's lawyer indicated they would sue anyway, John calmly replied that the building was owned by a bulletproof offshore asset protection trust.

The lawyer laughed and said John needed to get a local attorney to advise him. When John did so he learned the bitter truth: You can't protect U.S. real estate with offshore entities. The apartment building was located in California and, as such, California courts had jurisdiction. This was the law in all fifty states. The tenant could bring a claim against the LLC, and with no insurance in place, the tenant could reach the entire free-and-clear equity in the apartment building. The fact that the LLC was owned by an offshore APT was of absolutely no consequence and offered zero protection.

John also spoke to his new lawyer about the malpractice claim. As a doctor, John was sued individually. But he felt protected because his brokerage assets were privately all held offshore. This was when the second shoe dropped.

The lawyer explained that if John had followed all the tax reporting requirements associated with offshore entities, a creditor could easily learn what John owned.

John was incredulous. The promoter had assured him that he had bulletproof privacy and asset protection without the requirement of taxes or even tax reporting. The lawyer had seen other professionals lured in before. He presented John with the following chart detailing all the reporting requirements:

John now realized that everything the promoter said was false. Given the IRS rules, there was no privacy, no tax savings, and no bulletproof protection. With the help of his new lawyer, John cleaned up the offshore mess by paying significant IRS penalties and fees. A demand to the Nevis promoter for the \$25,000 John was lured into paying for worthless strategies and documents went unanswered.

TABLE 6.1

IRS Requirement	IRS Rule
U.S. persons must report all gratuitous and nongratuitous transfers to a foreign trust.	Section 6048, Section 1494
Foreign trusts owned by U.S. persons must file an annual tax return on IRS Form 3520-A. U.S. persons are subject to a 5% penalty against the value of offshore assets each year for failure to file.	Sections 671 to 679
U.S. persons receiving offshore distributions, whether taxable or nontaxable, must report them or pay 35% penalty.	Section 6677(a)
Foreign trusts owned by U.S. persons must appoint a U.S. agent so that the IRS may examine offshore records.	Sections 7602 to 7604



FIGURE 10.1 What I Thought Success Would Look Like

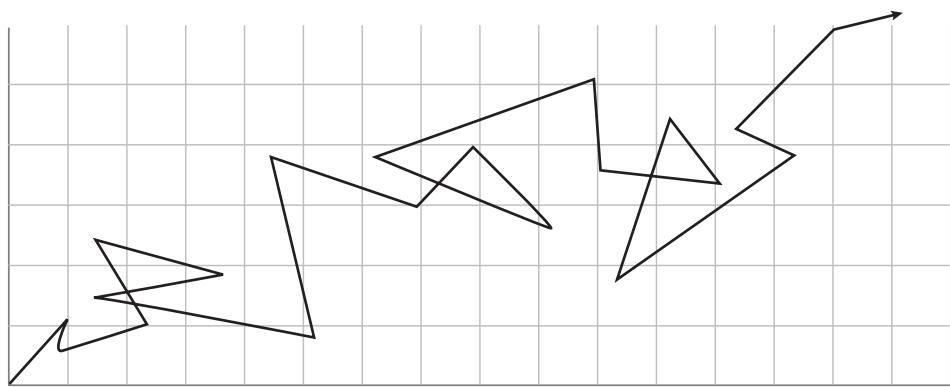


FIGURE 10.2 What the Path to Success *Really* Looks Like