Using Leverage to Increase Profits

October 10, 2019 by John Parrett, President of BridgeWell Capital LLC

A common quote about RE Investing is *"It takes money to make money, but not all of it has to be your money"*. The fact is most experienced real estate investors use some form of financing or OPM (Other People's Money) for all of their RE investment deals.

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The use of financing for RE investments is often referred to as "Leverage". Why is the use of Financial Leverage so common in RE investments? The answer is in the definition:

"Financial Leverage, the use of borrowed money to increase production volume, and thus sales and earnings"

Avoid the "All Cash" Rookie Mistake

Many beginning Investors do not use Leverage for RE investments and this often leads to buying unprofitable properties. Most new, and even some veteran RE Investors don't understand the basics of using leverage for RE Investments. Therefore, frequently in an effort to avoid what they don't understand, their first instinct is to pay all cash for very inexpensive properties.

The problem with low-end RE is, it's very difficult, if not impossible to generate meaningful profit. This approach of using all cash, in fact, insures that you will be minimizing production volume, instead of using Leverage to help increase production volume and subsequently earnings.