the Property report
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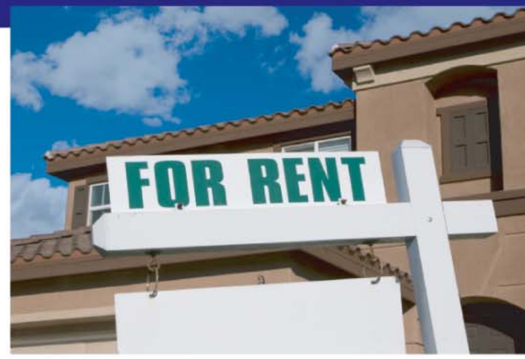

Welcome To The Property Report

- by Carter Froelich

It is our intention and commitment to provide meaningful information and tips which can be put to use immediately on your real estate investing journey. To this end, each quarter we will be providing information which we feel will be consequential regardless of where you may reside. We also intend to ask our Wealth Team™ members to contribute information related to their specific profession be it accounting, law, title, finance, market research, sales/acquisition, education or property management. In our initial issue we are happy to showcase an article written by the ever thought provoking Andrew Waite, the publisher of *Personal Real Estate Investor* magazine related to location.

While we now find ourselves in what some individuals are saying are challenging times, I see this as great opportunity to grow our real estate portfolios. Wayne Gretsky once said,

"You will always miss 100% of the shots you never take."

I believe that this saying is appropriate for today's market. We need not be paralyzed by the world around us. Rather we should go out and find greatness in each day, by taking the chances and taking the shots. I wish you all great success.

The Tax Corner

• Expect tax hikes in the United States. The Obama administration is contemplating reinstating the 36% and 39% tax brackets for married fliers making over $250,000 in essence replacing the 33% and 35% brackets with the higher categories.

• The maximum capital gains tax rate of 15% is expected to increase to 20% for filers who are above the 28% tax bracket.

Protect Your Assets Use Limited Liability Companies

In order to protect your personal net worth from potential law suits related to your investment properties, consider establishing a limited liability company ("LLC"). An LLC has advantages for most real estate investors that S-Corps and C-Corps as it provides asset protection without the demanding reporting requirements. To get maximum asset protection you should consider establishing a separate LLC for each one of your rental properties so that you are not placing other rental properties at risk should you be on the losing end of a court case. In most cases you will want to establish the LLC in your home state however, please consult with you legal advisor or accountant to discuss other options given your specific circumstances. While you have take time and money to set up an LLC you will sleep better at night knowing that you have taken steps to save you from possible financial ruin should there be a law suit involving on of your properties. One law suit can literally wipe out 20 years of investing and careful planning.

FEATURE WEALTH TEAM MEMBER ARTICLE

Local, Local, Location

By Andrew Waite – Publisher
Personal Real Estate Investor
Magazine

The people behind Personal Real Estate Investor Magazine are not just real estate investors. Our backgrounds include lawyering, journalism, technology, accounting, publishing, venture capital and city government. We come from businesses and disciplines with formal skills and measurements. Implementing these skills is not done in vacuum. Market feedback is relevant to adaptation and overall performance of any enterprise.

Metrically Dumbstruck

When we arrived in this business our first series of questions were to define the market and understand the measurements that applied.

We asked leading real estate professionals how you value a house and were told "comparable sales" or comps. Meaning the price of similar houses sold in an adjacent area indicated current pricing. The fact that this was a trailing measure up to 6 month old did not seem to faze anyone. The fact that these comps were up to two miles away and often fell "on the wrong side of the tracks", was not an issue. These exceptions, and with them thousands of dollars in value, could be easily explained away!

These comp price measures looked like one, maybe two dimensional, and did not bear much resemblance to rigorous rules of statistical measurement in securities analysis that require empirical, objective and repeatable data, overlaid with company culture and leadership.

Fundamentals and Technicals

First measurement in residential real estate investment is restricted to infrastructure fundamentals explaining physical residential plant – 3 BD/2BA – 3 CAR.

What are very real but essentially unspoken are the technical issues of neighborhood performance. This is relevant to the current pricing and future returns on a home. This is part of our concern with the generalizations of major indexes like S&P Case/Shiller using non-standard, convenient or statistically questionable samples. We believe that you cannot compare the value of the identical infrastructure in a remote versus and inner city location. This is not simply explained by variances in the cost of the "dirt" or sticks, bricks and "mud."

Real estate professionals are discouraged by their licensing and professional E&O insurance from talking about investment.

Location^3

After a homebuyer buys "location, location, location," a strange thing happens. People live lifestyles.

There is no received wisdom on what this means. It is one of the secrets carried by "the high priests of realty." Ask a real estate professional what these metrics are and you get a puzzled look, as many believe "Metrics" are for foreigners.

We publish a city neighborhood guide, Where to Live Books. We imported the idea from New Zealand in partnership with a successful publisher who scores a city's neighborhoods from one to five stars. Five stars good, one star not so good.

This is an attempt to quantify anecdotal measures and so guide people to buy lifestyle as well as a house. We believe the not so subtle distinction between a house and a home is infrastructure versus lifestyle.

Culturals and Personals

Buyers fall into specific socio-economic classes. Profiles are reality. National origin, race, education, skills, income and desires are all the things that give a person cultural traits. "Birds of a feather" is an undeniable social tendency that applies to individuals and their home buying preferences. These are the anecdotal aspects of a home purchase that have a predictable pattern.

Taking these preferences and associating these "location3" can indicate how to best select a location for a home buying client, but in spite of the respect given the phrase, advice on getting to the ideal location varies wildly.

We describe answering these requirements as the art and science behind location. Within a neighborhood identifying what's valuable follows a simple model:

1. **Value:** Best match to the home-buyer's budget or affordability.
2. **Convenience:** Proximity to job, family, friends, faith & fun.
3. **Amenities:** Selection of nearby daily necessities, markets, restaurants, etc.
4. **School District:** Quality and indicator of community/cultural investment.
5. **Physical Beauty:** People prefer pretty places.

Graphically it looks like this:

Real Estate Valuation Matrix

Traditional Considerations Numbers	**Fundamentals** 1. Sq feet, 3 bd, 2 ba 2 cars, (appraisal #s) 2. Property value & historic economic performance versus like properties	**Technicals** Neighborhood values & economic performance versus like neighborhoods
Additional Investment & Lifestyle Considerations	**Culturals**	**Personals**
	Property Location & Curb	Appeal Measurements
	1. Value – Budget 4. School District	2. Convenience 3. Amenities 5. Beauty

The conclusion reached by defining and valuing these categories is that a house is just a house, but the house in the right neighborhood for the buyer, is a home and most likely a sound investment.

To subscribe to *Personal Real Estate Investor Magazine* go to *www.personalrealestateinvestormag.com*

Investment and a Well Bought House

In the Wall Street world of investment advice, professionals are driven by the mantra, "know thy client." That is, understand their needs and goals and make sure they are invested in instruments suitable and appropriate to these goals.

As obvious as this seems a similar mantra is illusory in the practice of real estate, while it is a practical, if not essential component, to personal or investment real estate purchases.

The big picture is that right deal in the right neighborhood is equally attractive to the owner occupier, investor, renter or a future buyer. People buy lifestyle. House B in a five or four star neighborhood will appreciate, occupy, rent or sell more readily than house A in a three or lesser neighborhood but for the biggest investment in most homebuyers' lives, the professional is legally discouraged to ignore these considerations.

Life versus Style

We so glibly talk of lifestyle but there is a cost to style that an unwise choice can lead to a reduced quality of life. Affordable granite counter tops and crown moldings in a remote neighborhood may come at the expense of a brutal commute. This commute is part of the almost always ignored total cost of ownership of a home that could push a selection economically negative fast. As Reverend Ike used to claim, "To help the poor, don't be one of them."

Because of the way developer sales people and real estate agents doing resales in this neighborhood get paid, ignoring these realities is desirable. Homebuyers need a new level of due diligence. Real estate professionals are increasingly likely to be held to professional standards as is illustrated by early California litigation attempts aimed at holding real estate professionals to professional advice standards. Although none of these cases have succeeded, do not expect these claims to stop until a legal standard is achieved by a successful award for damages based on negligence or fee preferred advice.

Homebuyer's agents need to get beyond the sales pitches and determine total cost of ownership of any property.

The manner and sequence of residential development are pursued means that any buyer applying a fundamental, technical, cultural and personal valuation matrix can almost certainly project total cost of ownership and quality of life. Homebuilding and selling professionals need to embrace this as we move into a more demanding economy and an era of more demanding and smarter homebuyers and investors.

Now Is a Great Time to Purchase Investment Property

As the general populace is concerned about the reduction in real estate values brought on by the huge number of foreclosure units on the market; the seasoned real estate investor knows that this is the best time to purchase rental properties and set themselves up for significant wealth creation in three to five years. As a result, investors are attempting to purchase as many rental properties as they can. Reasons that the down real estate market is a great investment opportunity include the following:

1. Purchase prices for investment properties in many areas are below replacement costs. This situation cannot last forever as investors and first time home buyers are absorbing the distressed properties.

2. Foreclosures of homes are creating more demand for well located rental properties and represent opportunities for rental rate increases and appreciation.

3. Interest rates are at historically low levels allowing you to lock into low interest rates if your situation is such that you can qualify for a non-owner occupied financial instruments;

4. Low certificate of deposit rates ("CD") rates of less than 3% offer opportunities for real estate investors to borrow money from those holding cash in CDs to finance real estate acquisitions secured with a first trust deed.

5. With falling prices it is now possible to find positive cash flow property acquisitions relatively easily.

6. Over time prices will recover and begin to appreciate at their historic levels of approximately 6% per year.

7. Real Estate is still the best place for the majority of individuals to invest their money. Property has double in value, on average, every seven to ten years for more than seventy years.

Managing Your Return on Equity

The Property Ledger allows you to monitor the financial performance of individual properties as well as your portfolio as a whole. One of the key financial metrics of a property's financial performance is the return on equity ("ROE"). ROE is an important financial measurement as it is the ratio which describes the amount of value which is created per dollar of equity in an investment property. The ROE is always changing as the result of the amount of equity in a property is changing every year due to appreciation and debt reduction. As a general rule, ROE will decrease from year-to-year as the annual growth in equity in the property is growing smaller as a ratio of the cumulative equity in the property.

For instance, if you purchased a $100,000 home with $5,000 down and a $95,000 loan and assuming the home appreciated 6% to $106,000 in the first year; your ROE would be 120% [($106,000 - $100,000)/$5,000]. Assuming the property appreciates at 6% for a period of 5 years; the ROE in year 5 would be only 19.5% [$133,822-$126,247)/$38,822]. The reason that ROE has dropped so much from 120% in year 1 to 19.5% in year 5 is the result of equity building-up in the property thus driving down the ROE.

If your goal is to manage the ROE of your rental properties to be equal or greater than 30% per annum; by monitoring the ROE of each one of your properties using The Property Ledger, if a property's ROE drops below 30%, you can pull some of the equity out of the investment property by refinancing, taking out a second mortgage and/or establishing a line of credit against the property. When you reduce the equity in the rental property by pulling money out of the property you will automatically, increase the property's ROE. You can then use these funds to acquire additionally rental properties and repeat the process. This is how you create real wealth.

The Property Ledger Tip

Track Actual Operating Results and Financial Performance in order for you to always know how your individual properties and your real estate investment portfolio is performing at the close of the calendar year; replace that year's projected income and expenses with the actual income and operating expenses experienced for that particular year. Do this by going to the "Add An Actual Income" in the "Rental Income" section and the "Add an Actual Operating Expenses" in the "Operating Expense" section of The Property Ledger and following the directions. In this way you will know exactly where you stand on your real estate investment portfolio's financial performance.

If you are currently not utilizing ***The Property Ledger*** to analyze potential real estate acquisitions and track the financial performance of your real estate investments, get your **FREE TWO WEEK TRIAL** subscription at www.thepropertyledger.com.

If you purchase The Real Estate Wake-up Call you will receive a **FREE TWO MONTH TRIAL** subscription to ***The Property Ledger.***