INVESTING IN REAL ESTATE

Are you a speculator or investor? Great fortunes can be made and lost in real estate ***Certified Mortgage Planning Specialists professionals*** are committed, qualified and equipped to help you implement the seven keys to profitable real estate investment:

- **Determine Level of Liquidity** - liquidity is the ability to quickly convert an investment into cash, without losing any of the principal that you've invested. For example, a savings account is highly liquid. In contrast, real estate is considered to have low liquidity because of the time it takes to sell the property and the unpredictability of the market value at the time you are ready to sell. The greatest real estate fortunes have been lost by those who overextended themselves and didn't have enough liquidity to weather to ups and downs in the real estate market. CMPS professionals help you implement strategies to maintain high levels of liquidity to be able to weather the storms in the marketplace and take advantage of profitable investment opportunities.

- **Determine Level of Marketability** - marketability is the ability to convert an investment into cash quickly, at any price. For example, stocks can be sold anytime on an organized stock exchange at the prevailing market value. However, the price at which the stock is sold can produce a loss for the investor who is selling the stock. With real estate, not only will you need to deal with market conditions, there will be real costs to consider whenever you sell a property such as brokerage fees, marketing fees and title insurance. CMPS professionals help you invest with a business plan and avoid the marketability risks associated with real estate speculation.

- **Determine the Impact of Leverage** - leverage is the use of borrowed funds to finance a portion of the purchase price of an investment. The ratio of borrowed funds to the total purchase price is known as the loan-to-value (or LTV) ratio. A high LTV would result in high leverage, while a low LTV would result in low leverage. Real estate investments can be more leveraged than most other types of investments. Sometimes, mortgage debt results in 'negative leverage'. In this case, you should avoid mortgage debt or sell the investment. Other times, mortgage debt results in 'positive leverage' and can enhance your rate of return on investment. CMPS professionals help you avoid the trap of negative leverage while maximizing the benefits of positive leverage.

- **Evaluate the Investment Management Issues** - there are really two levels of monitoring and managing a real estate investment:

  1. Asset Management - this is where you monitor the financial performance of the investment and make changes as needed. With stocks and bonds, you consult with an investment advisor, and/or a CPA to determine when to buy and sell investments. With real estate investments, CMPS professionals are qualified to serve as 'real estate investment advisors' and give you solid advice in this area.

  2. Property Management - involves the overall day-to-day operation of the property and the physical maintenance of the building or buildings. Property management can include rent collection, paying the taxes, insurance and utilities, the exterior maintenance such as landscaping, snow removal and roof issues, as well as interior maintenance such as plumbing, painting, flooring, walls, kitchens, etc. Property management can become a huge trap for you if you don't give it the proper evaluation prior to purchasing an investment. Obviously, unless you want to fix leaky toilets and gets calls from tenants at all hours of the night, you should seriously consider engaging in a professional relationship with a management company. Remember, time is money. If you want to make money in real estate, don't waste or lose your time, because if you waste or lose your time, you are in effect losing money.

fast facts

- **Determine level of liquidity**
- **Determine level of marketability**
- **Determine impact of leverage**
- **Evaluate investment management issues**
- **Properly calculate your rate of return**
- **Consider the tax impact**
- **Evaluate and reduce investment risk**
- **Understand due diligence**
- **Invest with the right entity**
- **Diversify**

EQUAL HOUSING OPPORTUNITY

INVESTING IN REAL ESTATE

• **Consider the Tax Impact of Your Investment Decisions:** This includes such issues as:

- Classifications of passive, active and portfolio income and losses
- Capital gains taxes
- Income taxes
- Tax Credits
- Tax deductions
- Tax Deferments

CMPS professionals help you determine your before and after-tax rate of return on real estate investments. CMPS professionals also work with your CPA in determining the best tax strategies for your situation.

•**Evaluate and Reduce Investment Risk** - risk is the possibility of losing either the principal invested and/or the potential income from the investment. CMPS professionals help you reduce investment risk in several ways.

•**Risk Analysis** - This is the process of evaluating alternative investments based on their level of risk. Risk analysis can be done using industry-accepted rates of return and allowances for risk, or it can be done on an individual basis. Each investor has a different tolerance for risk, depending on their tax status, their capacity for leverage, their financial situation, etc. For example, if you can earn 15% per year on an investment with a tenant who signs a five year lease, versus 20% per year on an investment with a tenant who signs a two year lease, is it worth the extra risk of not having a tenant after two years for you to accept the 20% rate of return versus the 15% rate of return.

•**Shifting risk** - CMPS professionals help you structure your leases and rent agreements to shift the exposure of increasing costs to the tenants. This can include shifting the risk of rising interest rates, operating expenses or tax increases.

•**Due diligence prior to purchasing an investment property** - Due diligence is the process of examining a property and related documents such as appraisals, inspections, environ mental surveys and title work in order to reduce risk. By helping you apply a consistent standard of inspection and investigation, CMPS professionals help you determine whether to purchase a property, or move on to the next deal. You should always be prepared to walk away from an investment if it does not meet your predetermined standards and criteria.

• **Investing with the right entity** - CMPS professionals work with your real estate attorney to help you structure different 'entities' such as LLCs, Partnerships and Corporations to limit losses to your initial capital contribution into the investment.

• **Diversification** - Investing in multiple investment properties with varying risk levels reduces the chance that all the investments will be affected by the same turn of events. By keeping all your real estate equity in your primary residence, you are not diversifying your real estate portfolio. On the other hand, if you spread your real estate equity and investment dollars over multiple properties, you would be hedging your real estate risk and diversifying your portfolio. On the same token, you need to be careful not to spread yourself too thin and not to invest without a business plan. If you end up with 10 mortgage payments on 10 vacant properties with no tenants, you would end up in a very precarious financial situation. CMPS professionals help you diversify your investment portfolio to include real estate while also diversifying your real estate investment portfolio itself.

Greg Lartilleux, CMPS®
Avenir Mortgage Planners
140 Mayhew Way, suite 902
Pleasant Hill, CA 94523

(925) 627-2111 ext.145 direct
(408) 772-1276 alternate
(925) 627-2770 fax
greg@AvenirMP.com
http://www.AvenirMP.com

AVENIR MORTGAGE PLANNERS