

S.C.A.R.E.I.A.

*Sandusky County Area Real Estate Investors Association –
serving all of Sandusky County and surrounding areas*

NEXT MEETING

**Monday
May 21, 2007**

Inside Stories

**3 Good Reasons Not
To Over Finance Your
Properties pg2**

**What Does Rehabbing
REALLY Cost? pg3**

**Watch Out For Hidden
Health Hazards pg5**

Field trip planned for April 16th meeting

Mary Methner has graciously chosen to allow the SCAREIA members and guests to tour her most recent purchase – a repossessed drug house located at 426 Walnut St., Fremont.

We want to get YOUR perspective on

rehabbing and what the differences are between remodeling to flip and sell vs. remodeling to hold and rent.

We're also planning on having some area contractors give us their estimates for repairs, upgrades, etc.

Wear your best "work

clothes" for a truly enlightening experience.

Plan to meet at Fort Stephenson House, 600 W. State St., Fremont at 7:00 p.m. for a brief business meeting and then caravan over to Walnut St.

SCAREIA would like to start a lending library of informational books, tapes, etc. If you have anything that you'd consider donating, please contact Tiffany Jones at 419-332-7275, and she will make arrangements for collection as soon as possible. Once we have some things in our library, we will make them available to all members at little or no cost.

Also – we are always looking for new members – so if you know of anyone who might be interested in networking with other investors, landlords, etc. please invite them to attend our monthly meeting – the first one's FREE. The more members we have, the more you might learn!

If there's a specific topic we have not yet covered during one of our meetings, please contact Harry Aspacher at 419-334-8846 and offer your suggestions.

**National Speaker Don Beck comes to Tiffin
"Landlording on Cruise Control"
Presented by the Tiffin REIA
Monday, May 7 at 7:00 p.m.**

**THIS EVENT HAS BEEN CANCELLED
HOPEFULLY TO BE RESCHEDULED IN THE FALL**

3 Good Reasons Not to Over-finance Your Properties

by Vena Jones-Cox



“There’s nothing wrong with having no money in a property — as long as your total debt is less than 80% of the retail value.”



With the advent of 90%-100% LTV loans on investment properties, many investors are taking the opportunity to finance (or refinance) their properties at a higher percentage of value than normal. Many are taking cash out at the closing, and many are choosing to pay close to retail for properties that qualify for this financing, on the theory that a no money down deal is a good deal, even if it only cash flows a little. Smart investors avoid the temptation (and the strong come-ons by mortgage brokers) to do this. Here’s why:

1. You can’t “dump” properties in an emergency. I get calls from landlords in this position literally every day. Like from a guy who paid \$78K (full value) for a rental last summer and got a purchase money loan for \$76K. Now his tenants are driving him crazy and destroying the place, and he wants to sell NOW. He can’t sell to an investor, because he’s over-leveraged, and can’t sell to a homeowner, because his tenants have destroyed the house. Or from the lady who bought a \$100,000 duplex for \$59,000...but then got a 2nd mortgage for another \$50,000. She took cash out, spent it, and now can’t afford to sell the pain-in-the-rear property

2. You can’t get consistent cash flow. I got a call yesterday from the owner of a 3 family who got a 2nd mortgage a few years ago to take some cash out. Now the city’s on his back and he wants to sell...but the 2 payments total more than the property would gross fully rented. Unless HE pays off the 2nd of \$20K, he won’t be able to sell.

3. You’ll pay an arm and a leg in the long term. Check out the difference in total interest payments between a property financed at 80% of its value vs. 100%, and you’ll see what I mean.

There’s nothing wrong with having no money in a property—as long as your total debt is less than 80% of the retail value. Borrowing more may make you feel richer in the short term, but it’s a recipe for disaster.

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Time, Money, and Sweat - What Will Rehabbing That House REALLY Cost You?

by Attorney William Bronchick

It takes more than home improvement know-how to make the big bucks in rehab properties. In order to be a successful investor, you need to know what *needs* to be repaired - in addition to knowing *how* to do it. You also need to know how to work with others. Even if you fancy yourself the second coming of Bob Vila, you only have two hands and sometimes it pays to have an extra set (or more). This means not only assessing the cost of labor, but also dealing with insurance and tax issues - not to mention city work permits and other legal hassles.



Estimating Repair Costs

Even experienced investors routinely underestimate repair costs, and in doing so, they often sacrifice what would have been healthy profits. Remember, you make your money on a deal when you buy, not when you sell, so before signing your name to the dotted line, be sure to do a thorough room-by-room repair assessment. Write down everything that needs to be fixed or replaced, and then take your list to Home Depot or Lowe's and total the bill. For labor, anticipate between \$0.50 and \$1.00 of installation cost per dollar spent on materials - and then add 10 to 20% percent to the total. This way, you are unlikely to underestimate the costs and you will be sure to make an offer that allows you to turn a handsome profit. For older houses, add as much as 30% to 50% to the total, for the "Hoffa" factor (the chance that you will find Jimmy Hoffa buried inside the walls!).

Determining What Should Be Repaired

Many new investors have the urge to spruce up everything and turn their investment property into a place that they would like to call home. Others are would-be slumlords who want to leave all but the bare essentials unfixed. Which approach is more effective? The answer is, it depends on the home's neighborhood.

TIP: Think in terms of even numbers - \$10,000, \$15,000, \$20,000. Amateurs always guess \$12,430.00, which should be rounded to \$15,000. Amateur golfers make the same mistake, always missing the green short on their approach shot, ending up in a sand trap. Always take an extra club, so to speak - you're not as good as Tiger Woods!



TIP: In some parts of the Country, you need a Certificate of Occupancy ("C.O.") from the local building department before you can close a property that you did a rehab on. Also, while local building departments may not require it, a lender who is funding a refi or purchase may insist on it.

Your goal as a rehab flipper should be to upgrade the condition of your property so that it fits in with other homes in the neighborhood. You don't usually want the nicest house on the block - just the cleanest! For example, if every house in a half-mile radius has an air conditioning unit hanging out of a window, then it would be foolish to install central air. Regardless of the neighborhood's affluence, the following upgrades rarely pay for themselves: New windows, sprinklers, security systems, and storm doors.

In general, your goal with any repair should be for it to add double its cost to the home's value. Installing a ceiling fan, for example, adds to a property's desirability factor well beyond its purchase price and cost to install. Switching old doorknobs, switch plates, toilet seats and trim can also do wonders for a home's selling price.

Finally, the least expensive thing you can do to increase a home's value is some simple yard work. Even modest landscaping can greatly increase the curb appeal of your property, which is generously reflected in a retail buyer's perception of value.

Cutting Through the Red Tape - Dealing With Insurance and Work Permits

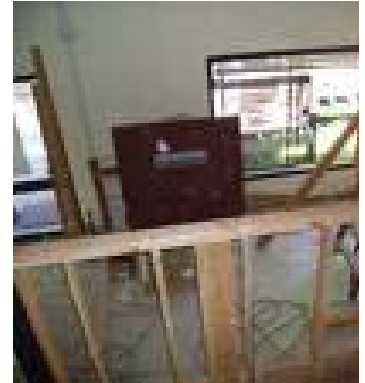
If you hire professional contractors, make sure they show proof of disability and liability insurance. However, chances are you will be hiring acquaintances or perhaps day laborers you find through your local paper's classified ads, and these people are unlikely to be insured. Therefore, ask your insurance agent about a "landlord-type" insurance policy, which should cover you for any injuries sustained while performing most tasks. If your agent tries to steer you toward a more expensive "builder's risk" policy, make sure that it is truly necessary. It is also imperative to carry fire and hazard insurance on any properties that you purchase.

Few people enjoy dealing with insurance agents, but even fewer relish the opportunity to deal with government bureaucrats. Many localities enact extremely strict building codes, and if you ask whether something is permissible without a permit, the answer you get from a city official will probably be "No!" However, be sure to talk to contractors from your area because they will know what you can really get away with without a permit. There's no sense wading through red tape in order to get the government's permission to change a burned out light bulb - your time could be better spent finding and negotiating new deals!

Watch Out for Hidden Health Hazards!

You should always have a professional home inspector thoroughly examine any property you intend to buy, and insist that he pays special attention to any potential health hazards. For your own knowledge, you should be aware that water damage can lead to black mold, which is a serious health threat and very expensive to deal with. Lead-based paint, asbestos, and radon gas are just a few of many other lawsuits waiting to happen if you don't address them. While only serious health hazards should jeopardize a deal, you can use the presence of them to justify a lower asking price. Calculate the cost of dealing with the hazards, add in 50 to 100 percent, and then subtract that amount from your offer.

The rehab field is where the big boys and girls of real estate play, and where the big bucks are made - and lost. In order to succeed, you not only need a strong business sense and plenty of ambition, but also an appreciation for the details. With a basic understanding of the subjects discussed in this article, you will already be on the right path to property rehab success.



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SPECIAL THANKS TO MARTY MEINKE – Last Month's Guest Speaker

Meinke Appraisal Service is a leading provider of real estate valuations for the mortgage-lending marketplace. With many years of experience in the business, they have a proven track record of reducing time, efforts and costs in managing the appraisal process. They are a leading provider of appraisals for:

Primary and secondary mortgages

Mortgage refinancing

Estate planning

Private mortgage insurance removal

Employee relocation

Divorce settlement

Their investment in training and technology has helped their customers greatly reduce their workload. By offering online appraisal ordering, coupled with automatic report status updates and electronic delivery of the final product, they are able to eliminate the run around and phone tag hassles associated with this process. And since this saves them money as well, they can keep their rates competitive with anybody in the industry.

Short turn-around times

Electronic ordering and delivery

Highest quality appraisal reports

Competitive pricing

Online status reports

Through their website, www.meinkeappraisal.com, you can perform a number of tasks. Ordering an appraisal is just a click away. Or, spend some time and find out a bit more about the appraisal business. The more you know, the better decision you can make.

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For further information,
you may contact any
one of the Board
Members at any time

About Our Organization...

SCAREIA was organized in October 2005. Our primary focus is to share information, to help educate and to motivate our members in their successful real estate endeavors.

Anyone interested in Real Estate Investing, whether you are just beginning or a seasoned investor, are welcome to join.

SCAREIA meets the 3rd Monday of every month at 7pm. Meetings are located at the Fort Stephenson House, 600 W. State St. Fremont, Ohio.

What's new with SCAREIA??

We now have an "early bird" session starting at 6:00 p.m. before each monthly meeting. It's for those of us who want just a little bit more information. Stop by and see what else you might learn. Also - Check out our NEW website: www.scareia.com

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