

## NEXT MEETING

**Monday,  
May 18, 2009**

**Fort Stephenson  
House  
600 W. State St.  
Fremont**

### Inside Stories

*How to Have the  
Government Pay  
Your Rent*

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## **MONDAY, APRIL 20<sup>TH</sup> MEETING:**

### **Latest Credit & Appraisal Rules and Changes for Conventional, FHA and VA loans**

Presented by Cindy Crispen, Mortgage Loan Originator, Fifth Third Bank - with over 18 years experience in Mortgage Lending – along with Kenneth P. Wood, Appraiser of Martin-Wood Appraisal Group, Ltd.

Martin + Wood Appraisal Group, Ltd. was originally founded as Martin Appraisal Service in 1965 by Robert O. Martin. In 2000, Kenneth P. Wood formed Martin + Wood Appraisal Group, Ltd. after acquiring Martin Appraisal Service and merging his growing commercial appraisal business known as The Ken Wood Valuation Group, LLC.

The company has a staff of 31 full time employees that are ready to serve you in a timely and professional manner. Our appraisers have a collective 150 years of experience and since 1965 the company has completed over 210,000 appraisals of residential, commercial, industrial, agricultural, and special purpose properties.

Various clients served on a daily basis include: banks, credit unions, government agencies, attorneys, accountants, realtors, builders, developers, engineering firms, relocation companies, insurance companies, etc.

Our residential services division is one of the leading providers of real estate valuations for mortgage lenders in Northwest Ohio and Southeast Michigan.

We provide the following services:

- Scheduled appraisal appointments within 48 hours
- 24-hour delivery after appraisal inspections
- Automatic appraisal status reports delivered daily via email or fax
- Electronic on-line ordering and delivery
- High quality appraisals in compliance with USPAP
- FHA and state certified appraisers in Ohio and Michigan
- Appraisals in all 50 states via affiliate partners outside our market area
- Competitive pricing

# How to Have the Government Pay Your Rent

## *The Power of Section 8 Housing*

How would you like to own rental property where all or most of the monthly rent comes to you by check from the government? If that idea appeals to you, welcome to Section 8 housing!

Section 8 is a program setup by the U.S. Department of Housing and Urban Development (HUD) to provide safe and sanitary housing to low-income individuals or families, the elderly, disabled, or disadvantaged in the private market. By issuing Section 8 housing vouchers, HUD assists tenants by paying the majority of their rent to you (the landlord). In other words, you get a guaranteed check from HUD by the third of each month.

## *Residential or Commercial*

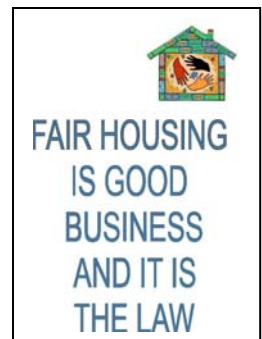
You can take advantage of Section 8 whether you prefer to invest in residential or commercial real estate. In fact, Section 8 housing can be single-family houses, apartments, condominiums, or duplexes. Many property owners elect to become Section 8 landlords because it provides them with dependable cash flow. And the city already has a list of approved tenants, so you don't even need to advertise your unit(s).

## *Better Quality Tenants*

Research indicates that Section 8 tenants tend to:

- Be better than average
- Often remain in their unit(s) for several years, and
- Are motivated to pay you their portion of the rent each month.

Sounds unusual, doesn't it? Why is this?



Well, in order to receive Section 8 benefits, individuals must undergo an application process through their local Public Housing Authority (PHA) office. There is generally a **lengthy waiting process** and in some cases it can take up to **one year or more** to receive Section 8 approval. Once approval is obtained, PHA places applicants on a **waiting list**--a list of people just waiting for a property like yours! (It's important to note that you never have to get involved in the process of establishing the eligibility of tenants. This has already been determined before the tenant calls you!)

Participants in HUD's Section 8 program must be re-certified each year. And no tenant wants to lose their Section 8 status. This benefits you as the landlord. Not only will you have fewer hassles, but your tenant(s) has a motivation to pay you the rent on time or risk losing his/her eligibility!

## *Many Types of Neighborhoods*

Ill-informed landlords believe that Section 8 property must be located in subsidized housing projects. Although some investors do go this route, this is simply not true. Remember: The program is geared toward low income people, but the participants can choose ANY housing that meets the requirements of the program. So if you own properties in middle-low to low income areas (not war zones!), the Section 8 program just might be your ticket to wealth!

Section 8 Housing can provide landlords with guaranteed rental income and long-term, quality tenants.

## Valuing Commercial Real Estate

### ***It's Based on Cash Flow, not Comps***

If you've ever bought a house, you know how it works. The value of the house is almost always based on comparable sales. *Comparable sales*--or "comps," as they are called--are homes similar in location, square footage, number of bedrooms and bathrooms, lot size, and type of construction.

Imagine you purchase a property that is worth \$300,000. Its value is based on the comps--which means that the house next door likely sold for around \$295,000, the one across the street for \$304,000, and the one down the street for \$299,000. So in that neighborhood, your property is worth \$300,000.

The property has a tenant who pays \$1,100/month. But he is leaving, so you put a new tenant in that pays you \$1,300/month. Did the house go up in value? No, it's still worth \$300,000 regardless of what the tenant pays you. Why? Because its value is based on comparable sales.

### ***How It Works in Commercial***

Now let's imagine you purchase a commercial building that is worth \$1 million. It has a retail tenant who pays rent of \$7,500/month. But this tenant is also leaving. And you know that the building has been under-rented--that's why you bought it. So you bring in a better retail tenant who is going to pay you \$9,000/month.

Did the commercial building just go up in value? You bet it did. Why? Because the value of commercial property is based on its cash flow, not on comparable sales. The higher the rent--and the higher the quality of the tenant--the more the building is worth.

In this scenario, you just replaced a retail tenant paying \$7,500/month with one paying \$1,500 more. Want to know how much your building is worth now? It jumped from \$1 million up to \$1.2 million! That's right, you've just earned yourself \$200,000 in equity.

And now you've got options. You can:

- Keep the building (and the nice monthly checks it's bringing you)
- Refinance, and pull up to \$200,000 out, or
- Sell the building and take your profits!

Decisions, decisions!

### ***Cash Flow vs. Comps***

As you can see, commercial and residential use two different methods for valuing property. With residential, it doesn't matter what your tenant pays you--it simply won't affect the value. Your rental property could be vacant, and that wouldn't affect its worth. It would still be based on comps.

On the other hand, the potential of a commercial property can be as limitless as your imagination. Because the value is based on income, you boost the value of the real estate every time you boost the income (rent) you're receiving from the building. By scouting for commercial properties that are either under-rented or have inferior tenants, you can find potential gold mines.



## 4 Ways to Profit from a Business or Investment Loss

**1. Write it off!** Seems obvious, but so many business people miss this one that I HAD to include it. Writing off your "loss" the right way is like getting a 30-50% rebate on the loss from the government!

**2. Get strategic on the write off with your tax advisor.** For example, one client bought a business (C-Corp) a few years back... he recently took the election to make it an "S-Corp"... With me so far?

Well, on the books of the corp. when he bought it was a \$700,000 "debt" that was no longer going to be paid from BEFORE he bought the company... sounds horrible right? WRONG! The \$700,000 was already gone, and my client never spent that money, the old owner took the hit...

BUT now that he is making S-Corp election, is taking the "loss" this year... that \$700,000 paper loss will flow through to him on his PERSONAL tax return!

That equals INSTANT profit... How? Because he can go back a few years and amend his returns to carry that loss backwards to offset old tax he had paid (and now he gets that money back!) Then with any "left over" loss, he applies that to legitimately shield income from this and later years.

In essence he turned a paper loss from that entity into the equivalent of over \$250,000 cash!

**3. Profit from the lesson.** What did you learn from the loss? How can you apply the lesson in your business and investing moving forward?

Life has an interesting way of upping the ante... what you refuse to learn at \$200 costs you \$2,000.... And what you refuse to learn at \$2,000 costs you \$20,000... and up from there.

Action Step: Think of a business or investment loss from the past 12 months... what was the deeper lesson for you? How will you apply this lesson moving forward?

**4. Share it!** When you make a bad financial move or suffer a business reversal, share it with other "students" like yourself... Not only does this help you come to terms with the loss faster (and get over your "pity party") but it helps push you to get your lessons, reframe the loss, and get on with the business of moving forward towards your goals and ambitions....

What about you? Are you still holding on to any "losses" emotionally? Share them... teach others the lessons you've learned by getting involved in your local Real Estate Investor's Association...

## Ramifications of Locking or Freezing Out a Tenant

Every landlord has had a tenant so bad, they were tempted to change the locks or shut off their utilities; anything to encourage the tenant to vacate. However, if you don't want to end up in a nasty, expensive lawsuit, you should never resort to these measures.

Threats, intimidation, utility shutoffs or attempts to physically remove a tenant may sound more appealing than a lengthy eviction process, but this doesn't make them any less illegal or dangerous.

Taking eviction shortcuts can lead to lawsuits for trespass, assault, battery, slander, libel, wrongful eviction or intentional infliction of emotional stress. Depending on the state and the situation, tenants prosecuting their landlords may be awarded not only monetary compensation for their losses (such as the value of food when the refrigerator stopped working due to utility shut off) but additional penalties, such as several months' rent.

No matter how bad your tenant's conduct, your excuses will rarely hold up in court. It is far better to follow legal procedure to properly evict that terrible tenant.



### **THANK YOU TO LAST MONTH'S GUEST SPEAKER**

Special thanks to **Thomas M. Bowlus**, primary attorney at Bowlus & Bowlus, Ltd., for speaking on EPA guidelines and how they affect your rental properties. His practice includes probate and estate planning, real estate and transactional law, business entities, contracts, environmental issues, personal injury, and a general civil practice. If you need further assistance in any legal matter, please don't hesitate to contact Tom at 419-332-5342.

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For further information,  
you may contact  
any 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 in the basement of the Fort Stephenson House, 600 W. State St., Fremont, Ohio.

### SPECIAL THANK YOU TO FIRST AMERICAN TITLE FOR PROVIDING THE MONTHLY EVICTION AND FORECLOSURE REPORTS



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