

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

## **NEXT MEETING**

**Monday**

**April 16, 2007**

### *Inside Stories*

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## **Guest Speakers for Mon. March 19<sup>th</sup>**

Troy Thatcher from the City of Fremont water department will open the night's meeting. Troy will be here to discuss water department billing practices and answer your questions.

Our featured speaker will be Marty Meinke who is a Certified Residential Appraiser. Marty grew up in Oak Harbor and now resides in Elmore. He owns and operates Meinke Appraisal Service, 16514 W. State Rt. 105, Elmore. Phone: 419-862-2234. He attended Bowling Green State University and majored in accounting. Marty has been in business 6 years and performs mortgage company appraisals as well as estate and personal appraisals. He primarily practices in nine counties including Sandusky, Ottawa, Seneca, Erie, and Wood. Marty will speak on all the ins and outs of a proper residential appraisal. You can also check them out on the web: [www.meinkeappraisal.com](http://www.meinkeappraisal.com). Come prepared with all of the questions you need answered.

## **Treating Real Estate as Anything OTHER than a Business**

People are lured to real estate because of the quick buck that it promises. Don't hold your breath, you won't get rich quick. An "overnight sensation" usually takes about five years. More than ninety percent of the people who take a real estate seminar quit after three months.

Why the high fallout rate? Lack of action and unrealistic expectations. Real estate investing should be treated with the seriousness of a career. It takes months, even years for a business to cultivate customers and have a life of its own. You need to treat real estate like any other business.

Give yourself at least six months to see if real estate works for you. It may even take a year before you buy your first property. Maybe in the second year you will buy three or four properties. If you work hard at it and keep your eyes and ears open, you may even find your first deal in 30 days. Certainly, you will not make money by talking or thinking about it; you must go out and take action.

## RAISING THE RENT, IT'S A MORAL IMPERATIVE



Do not forget to raise your rents. The reasonable rental value of your property is what a willing tenant is willing to pay a willing landlord to reside in the rental unit. It has nothing to do with your costs of owning and maintaining the unit. These costs do not determine what the rent will be, they only determine whether you can stay in business.

It follows that your decision to raise the rent, or lower it if market conditions demand, should have nothing to do with whether or not your cost of doing business has increased. If market rents have increased in your area, your rents should increase as well. Why? Keep reading.

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*“There are a number of good reasons why you should increase your rents, if the market so dictates, on an annual basis”*



There are a number of good reasons why you should increase your rents, if the market so dictates, on an annual basis. If it is a multi-unit building, the value of your property is largely determined by the amount of rent it generates. It is this cash flow that investors will buy when it comes time to sell. If you procrastinate and allow rent to fall significantly below market levels, you may still be able to sell the property, but it will not fetch nearly what it might if you keep up with the market because any buyer will have to take into account the problem of giving a massive rent increase after he buys the property. This may not bother you, but it will definitely bother your heirs. If you give regular rent increases, then they will be relatively small. Waiting may necessitate a large rent increase later on, when you finally realize what is happening. This is a perfect formula for the creation of a tenant's union. On the other hand, if the increases are small, then your tenants will have an easier time gearing up to the new rate. Regular, moderate rent increases are a favor to your tenants. Rare, shocking increases are a disservice to them.

Increase your rents regularly and modestly. Provided you keep within the market, your tenants may grumble a bit, but they won't move.

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## Tax Strategies For Landlords

By Bob Cain

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A real estate broker I know was complaining a few years ago about how much he had to pay in taxes. Considering his personality, the complaint was part complaint and part bragging. Because, of course, the more money you make, the more you have to pay in taxes. On the other hand, a good friend of mine, when he heard the complaint replied "I wish I had to pay a million dollars in taxes." If you had to pay that much, you'd have a pretty hefty Adjusted Gross Income.

Still, there is no reason to over pay your income taxes. All we need do is play the game skillfully to get our taxes lower.

### Record Keeping

The better your records, the bigger the deductions you can write off on your taxes. And if you are audited, the more likely you are to be able to keep your deductions.

First, pay your bills by check or credit card. That's pretty basic, and you probably do that already. However, the problem arises when you pay for something for a property repair with cash from your pocket. After all, that \$19.95 isn't worth writing a check for, you say to yourself. One time won't hurt much, but once you say "just this time," you set yourself a precedent.

The reason for the check or credit card is that you have both the receipt and the canceled check or credit card statement. First, always write on the check what it's for. Likewise, always write the check number on the receipt. If possible, use one credit card only for rental purchases. Create a system for keeping track of your receipts. It doesn't have to be complicated: an envelope for every month will work fine.

If you can't resist, and pay by cash anyway, always, always, always write the following on the receipt: the purpose, the date, the amount, the receiver.

At one seminar I attended, the seminar leader suggested a shoe box with a slot cut in the lid under the front seat of your car to stuff receipts into. That way you always know where the receipts are, and when you get the time you can go through the receipts and match them up with the cancelled checks and credit card statements...

Just as important is to create a receipt and deposit system for your rents. The IRS will retrace all your deposits, if they do an audit of your return. That means they will want to know where all the money came from and will want to know what happened to all the rents you received or they think you should have received.

For example, they will look at the duplex at 1234 Main St., where the rent is \$450 a month. You show that one side was rented for 12 months and the other side for 11 months. They will track the deposits to see if you deposited 23 sets of rents, or \$10,350. Any perceived deviation (real or imagined on their part) will get them digging deeper. So the better your records, the less intrusive the IRS might be.

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In fact, if an auditor sees that you have all your records in apple-pie order and easily accounted for, he or she might just do a cursory check and then try to find someone to really pick on.




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### Records You Need to Keep

1. All papers relating to the purchase of the property including closing statements and contracts.
2. Any improvements you make after you buy the property.
3. Property tax statements before and after you bought the property. In addition, make sure, if the tax statement doesn't already, that you break out the land value from the structure value.
4. Any amortization statements relating to the purchase.
5. A list of tools and equipment you buy to maintain your properties.
6. Any blueprints a previous owner can give you.

### If You Are Audited

The IRS will verify income and expense. As mentioned before, have a rent schedule and a receipt book showing who paid, when and how much.

The IRS will ask the following questions:

1. Did you rent to a relative? If you did, did you collect close to fair market rent? If the rent was too low, the IRS could limit your losses. (See a tax advisor.)
  2. If you bought rentals during a year the IRS is auditing, they will want purchase papers and will ask if you made it available for rent immediately after you bought it.
  3. If you made repairs before you put the house up for rent, the IRS will not let you deduct any of the costs of repairs. To immediately qualify for deductions, run an ad the day you buy the property. Try to get a renter for it while you are making repairs. They don't have to move in, they just have to agree to move in.
  4. The IRS will see if you expensed rather than capitalized major repairs. For example, if you completely re-roofed the property, you might have expensed it when the rules say you have to depreciate it over 27 ½ years for residential rental property. If you just patched, or put on half a roof, though, you can expense it.
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## DO YOU HAVE ANY EXTRA MONEY??

If you are in the enviable position of having excess money coming in, you may be tempted to pay off debt. Most people want to reduce their debt as much as they can and that may include their mortgages.

While debt reduction is almost always a good thing, it is important to give careful thought to which debt to pay down first, and even whether to pay the debt down at all. That's right, sometime it just does not make any sense to pay down a debt before its due date. Debt can be profitable, and should be used as an investment would be used.

The most important things you need to know are the amount of the effective interest rate and the amount of the prepayment penalties. The effective interest rate is what you would actually pay in interest from the day you propose to pay the loan off through the last payment, if you allowed the loan to be fully amortized. This issue does not arise with interest only loans. Note that your payoff on a fully amortized loan will be the amount of principal you still owe plus the prepayment penalty. The amount you owe will be calculated by taking all the payments you owe to date, less the amount of the interest that has accrued under the note, subtracted from the principal amount. Looked at another way, it is a rebate of the interest unpaid to the date of prepayment.

Note well that this interest rebate is only very rarely calculated on a straight-line basis. In most cases the interest would be rebated as calculated under what is called the Rule of 78, or Sum of the Year's Digits. The effect of the rule is to front load interest payments. If you are, say, 2/3 of the way through a fully amortized mortgage, you will have already prepaid most of the interest that would accrue during the total life of the loan. This means that, for example, the effective interest rate you are paying on your loan for the final 1/3 of its existence may only be 3%, even though the rate on the face of the note is 8%.

The reason this is important is that the criterion for paying off any debt is whether you will end up with more money in your pocket by paying off the loan, or by using the money to create more income generating machinery. This is the principal of leverage.

If you believe that at the end of the day you will have more money in your pocket by paying a debt, then, by all means, do it. This is almost always the case with credit card debt, consumer debt, and unsecured business debt. It is not always the case with debt secured by real estate, or even personal property, such as automobiles. So do the math and remember that managing your debt wisely is not always the same as paying it off.



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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.

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