

November 2007
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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, Dec. 17
7:00 p.m.
**Christmas
“Potluck”
and
Mentoring**

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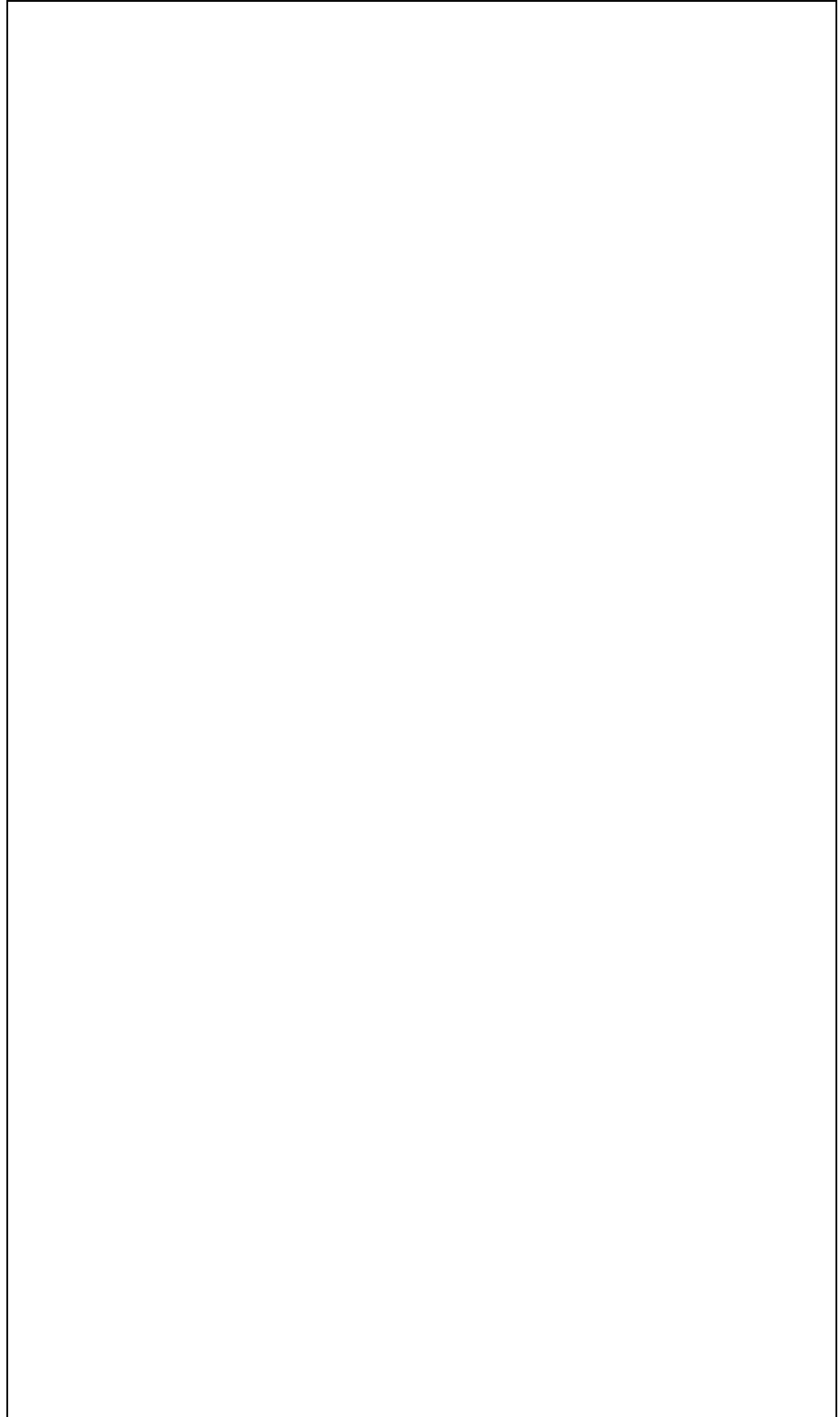
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Two Reasons Why Real Estate Outperforms All Other Investments - Even Today

by Gary W. Eldred, PhD

Since the late 1990s, sharp increases in property prices, along with a corresponding relative decline in cash flows and rental yields, have led the major media to persistently babble about real estate “bubbles.”

Taking a cue from these misguided journalistic missives, many people now believe that real estate is no longer a good investment.

Nothing could be further from the truth. Let me shed some light on only two of the reasons why real estate is still the best investment out there - even if you buy a property that does not produce lavish cash flow, or which does not appreciate quickly.

Reason One: An Instant Boost in Equity

If you buy publicly traded stocks or bonds, you will pay the current market value for these investments. You may enjoy price increases over time, but you will not immediately advance your current wealth. Not true for real estate.

You can buy property for less than its market value. Common reasons that prompt sellers to discount their prices include:

- Financial distress
- Need for quick cash to pursue other opportunities
- Ignorance of the current market
- No eye for entrepreneurial transformation
- Unskilled sales/promotion efforts
- Desire for quick sale, minimum effort
- Desire to avoid paying a real estate commission

Recently, I bought a rental house for \$150,000, but the mortgage loan appraiser placed this property’s market value at \$180,000 to \$200,000. The seller lived out of town and had relied on an incompetent real estate agent for advice.

Such deals don’t come along every day. Periodically, though, you will find (or negotiate) bargain prices that will increase your equity -- and net worth -- instantly.

That’s a possibility that simply does not exist if you are investing in stocks, mutual funds or bonds.



Reason One:
*An Instant Boost
in Equity*
Reason Two:
*Income Tax
Advantages*

Two Reasons Why Real Estate Outperforms All Other Investments – Even Today (continued)

Reason Two: Income Tax Advantages

Although it seems odd to use the words “tax” and “advantage” within the same phrase, the Internal Revenue Services (IRS) offers property owners a unique set of benefits, including:

- Not all of your net rental income is subject to income taxes. The tax code permits you to offset income with a deduction for depreciation.
- You can grow your portfolio of properties through Section 1031 exchanges and never pay income tax on accumulated gains.
- You can sell your personal residence and escape income taxes on the first \$250,000 of gain (\$500,000 if you're married).
- For some types of properties and property improvements, the IRS grants tax credits that reduce income taxes.
- If you pull gains out of a property via a cash-out refinance or equity credit line, that money comes to you tax free.

Admittedly, the IRS weaves each of these tax benefits within a web of rules and regulations that go beyond the space available here. But the fact remains that dollar-for-dollar, federal law permits property owners to pay less tax than investors who trade stocks or bonds.

So as an astute wealth-builder, always evaluate and compare the after-tax returns of alternative investments.

How to Recognize Topping of the Real Estate Market

Much of real estate investing involves predictions: Is now the right time to buy or sell to make the most profit possible?

No one can tell for sure when a housing market has hit its peak, but the following signs are good indicators:

- High-priced deals will fall out of escrow, failing to seal the deal - sometimes for no apparent reason.
- Interest rates will rise significantly.
- The number of houses for sale will increase considerably.
- Sellers will be more likely to negotiate good deals, and buyers will rarely pay listing price.
- Lenders will become tougher when reviewing applications.
- Properties will stay on the market longer than usual.
- Problem properties and serious fixer-uppers will stop selling.

Real estate naturally ebbs and flows in multi-year cycles. Make sure you have the right tools as a landlord and you know what you're getting into before you buy your next property.

In any real estate downturn, stay focused on the big picture; history has shown there are always deals to be made in both downturns and upturns for savvy and patient investors.

Landlord Maintenance Requirements vs. Tenant Maintenance Responsibilities

Once a renter moves into your building, you and the tenant share joint responsibility for the maintenance and repair of the unit. However, a far greater duty to maintain the premises lies with you as the landlord.

As property managers, we are required to provide rental units that meet basic structural, health and safety standards. If these are not met, a tenant may have defense for not paying the rent.

This warranty of habitability applies to all residential rentals, whether under a lease or a rental agreement (periodic tenancy).

When people talk about an express warranty of habitability, it simply means the rental agreement states the landlord is responsible for maintaining the premises and making repairs. The landlord must also ensure there are no latent defects in the premises that are hazardous to the life or safety of the tenant when the tenancy starts.

To prevent future problems, examine your property thoroughly before each lease begins. It is also a smart move to photograph all areas of the property, paying close attention to condition of the flooring and appliances. These items are easily damaged and are costly to repair or replace.

If you find damage to the property beyond normal wear and tear, your tenant should be charged for the repair costs, and photographs serve as proof if there is a discrepancy.

In addition to basic maintenance responsibilities, most state laws require tenants to inform you immediately of any defects that may be your responsibility. It could be lack of concern or the fear of being labeled a complainer, but many tenants will not bother you with minor maintenance issues.

For example, a small drip in the bathroom ceiling may seem a small annoyance to a tenant but could indicate a much larger problem that should not be left unattended. Explain to tenants that no problem is too small to bring to your attention and that you want to address even minor issues before they become bigger.

One way to keep tabs on routine maintenance issues is to conduct regularly scheduled safety inspections during the year. One or two per year is probably sufficient, but it is a good idea to inform all tenants at lease signing of this policy.

For ongoing repairs, let your tenant know they need to contact you immediately when they notice a problem so you can address it. Remind them of your contact numbers, and be responsive when they do call.

Many landlords end up with big repair issues that could have easily been avoided if only the tenant would have called the landlord when it was just a small repair.



Many landlords end up with big repair issues that could have easily been avoided

QUESTIONS & ANSWERS

Q. My parents have signed as guarantors on my lease. What does that mean and are they liable for rent if I don't pay?

A. Having signed as guarantors on your lease, your parents have co-signed the lease and thus agree to pay in the event you fail to make the rent payments.

Your parents' agreement to pay is for a specific period of time. If your lease is a one-year lease then they agree to pay rent in the event you fail to do so. They will be liable for unpaid rent that was due during the original term of the lease.

If you enter into a month-to-month tenancy after the first year has ended then the lease must specifically state that the guarantor's obligation is of a continuing nature beyond the original one-year term of the lease. In other words, your parents' obligation to pay if you fail to do so continues with your month-to-month tenancy.

If your landlord has failed to include such language in the lease then your parents' obligation ends when the original term of the lease ends. If your landlord has attempted to include such language to bind your parents after the original tenancy period ends but his language is ambiguous then a court will construe the lease against the landlord and your parents will not be liable.

Q. My landlord will not give me a formal receipt upon payment of rent. They say that they do not give receipts. The only thing that they will do is initial the carbon copy of a check or the stub of a money order. Isn't it required by them to give me a receipt of some kind? The reason I am so concerned is because I have been living here for 6 months and have received 2 eviction notices for not paying rent, which I did pay. The only thing that saved me was having a photocopy of my money orders that they stamped. But now they will not even do that! I am afraid that their bad record keeping will cause me to get another eviction notice and the initialed stubs of my money orders will not hold enough significance to back up my payments.

A. Good business practice dictates giving receipts for rent. Unfortunately, some landlords do not engage in good business practices. How do you protect yourself from this situation? The easiest way to protect yourself is to pay with a check. Keep a copy of the check as well as the original check when you receive your bank statement. If you must, take a friend with you to witness the landlord's acceptance of your check. It is mind-boggling that landlords engage in this type of practice. Most likely, they are trying to get rid of you in order to move a higher paying tenant into your apartment.

If you cannot pay with check, keep a Xeroxed copy of your money order and bring a witness with you each time you pay rent. Have your witness sign a document indicating that he watched you hand your money order over to the landlord on a specific date at a specific time. After paying your rent, send a letter to your landlord indicating that you paid rent of a certain amount on a specific date and that this letter is confirming that transaction. If you go to court to fight an eviction, bring the witness and the documents he or she signed as well as the letters and copies of the money orders.

And above all, don't ever pay with cash.



Special "Thank You" to our October guest speaker, Phil Wylykanowitz, a local attorney who gave us the run down of basic contract law. He currently owns and operates a solo practice at the corner of Wood St. and Court St. in Fremont, dealing with extensive civil and criminal caseload in all areas of general practice. He also has experience in drafting estate, corporate, business and other legal documents. Don't hesitate to contact him if you need legal representation. He may be reached at 419-332-2200.

2007 S.C.A.R.E.I.A. Board Members

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419-547-8127

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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.

What's new with SCAREIA??

Have you looked at our website yet? www.scareia.com

SCAREIA is in need of any real estate articles of interest that you may have available.

Please email Mary Methner (mary_methner@hotmail.com) anything that might be suitable for printing in one of our upcoming newsletters.

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