

Nor-Cal REIA

November 16, 2006

By: Reggie Lal



Deal Sources

- Current MLS Inventory
- Vacant
- High DOM
- Fixers
- Expired Listing
- Withdrawn Listing
- First Day Listing
- Priced Wrong
- Bad Agent – continue to follow their listings
- Adding Square Footage
- New Construction
- New Builder Inventory- Tying it up pre construction
- **Foreclosure**
- New MFG Home on Land
- REO- Buying Lender Inventory
- HUD
- VA
- TS
- Property Managers
- Attorneys – BK, Probate
- Probates
- Code Violations
- Evictions
- FISBO
- Tax Delinquent Properties

Network: Support Circle

- Real Estate Agents
- Lenders
- Attorneys
- CPA's
- Property Managers
- Contractors
- Investors/Wholesalers
- Bird-Dogs

Getting started

- Decision to get started
- Realistic business plan
- Data Sources
 - MLS
 - Title Company
- Asset Protections
- Tax Planning

Be Committed, Organized and Consistent!

We should only deal with
Motivated Sellers!

I Want to sell....

I Need to Sell...

I Have to Sell...

Why Real Estate is Discounted

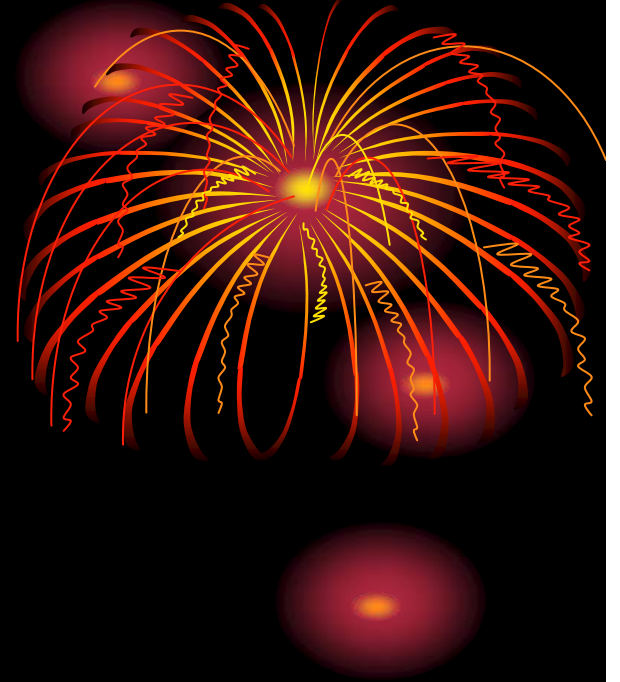
- Divorce
- Drugs
- Job loss
- Job transfer
- Loss of one income
- Property Condition – Unusable and/or Unsellable
- Bad Tenants
- Poor Cash Flow/ Mismanagement of Money
- Bad Economy
- Tax problems
- Death in family
- Business problems

Why Real Estate is Discounted

Bad Loans

- High Interest Rate
- Balloon Payment
- Adjustable Rate goes up
- Pre-Payment penalty
- Stated Income - Should not have gotten loan in the first place
- Straw Buyer – Qualified but can't really afford the payment

Timing isn't about
being in the right place
at the right time...



It's about being in the right place
all the time.



How to Analyze a Deal

New California Forecast: 2 Percent Home Price Decline

by Broderick Perkins

The latest forecast for the California housing market's reversal of fortunes jibes with a previous outlook predicting flat, rather than falling home prices in California for the next few years.

In 2007, California home prices will slip only 2 percent, while sales will be off 7 percent, according to the California Association of Realtors' ["2007 California Housing Market Forecast"](#).

"The housing market clearly downshifted in 2006 from the record-setting sales and robust price gains of the last few years," said CAR president Vince Malta.

"The residential real estate market in 2006 was characterized by a gap between buyer and seller expectations. Sellers sensed that the peak of the market was approaching, yet still hoped to obtain the highest possible prices. Buyers' sense of urgency waned as the number of homes on the market grew and they took longer to identify and subsequently purchase a home," Malta added.

There was much agreement with the CAR forecast and "2005: The Year the Tortoise Won the Race, Whither California Home Prices," by [University of California Los Angeles \(UCLA\) Anderson Forecast](#) director Edward Leamer.

Leamer also says the real estate sector will be plagued by falling sales more so than falling prices and that home prices five years from now will be about the same as they are today. However, in real terms, values could be 20 percent lower due to the impact of inflation.

"We do not predict a recession, nor do we predict a substantial decline in average nominal home prices. This forecast is based on two arguments. There is not enough vulnerability in the usual sources of employment loss to create a recession, and the historical record suggests that average home prices do not usually fall without this kind of job loss," said economist Ryan Ratacliff, author of the Anderson Forecast "Soft Landing with Turbulence Ahead."

CAR pointed to unsustainable home price increases, related affordability concerns, rising energy costs and higher interest rates as the culprits responsible for undoing California's boom.

"Fixed-rate mortgages also hit and passed the psychological threshold of 6 percent, while adjustable rate mortgages passed 5 percent, ultimately causing a decline in affordability. Affordability concerns also will continue to constrain sales for many households in California throughout 2007, especially for first-time home buyers," said CAR vice president and chief economist Leslie Appleton-Young.

CAR also expects the greatest sales declines to come from the Central Valley, San Diego and Riverside/San Bernardino regions that were among the Golden State's biggest boom markets.

"That also holds true for several second-home markets, including the desert areas of Southern California and the Wine Country," she added.

Anderson forecasters said California's housing market could fare worse should higher interest rates break household budgets, many of which remain intact with high-leverage, risky mortgages.

Interest rates thus far have remained well off the 7 percent level forecasters predicted this year.

Published: October 23, 2006

Cleveland Federal Reserve Bank President Sandra Pianalto says the economy can ride out the slumping housing market, but the Fed may have to hike interest rates if inflation doesn't subside.

"I expect the economy to weather the recent challenges in the housing market," Pianalto said at an event sponsored by the Pittsburgh Business Times. "I fully expect the economy to grow at a moderate, but sustainable pace."

"I do not expect conditions in the housing market to spill over into the broader economy in a meaningful way," Pianalto added. "We seem to have two economies at work — the housing economy, which is experiencing a very large adjustment, and the 'everything else' economy, which is performing fairly well."

Pianalto's remarks echoed those of Chicago Fed President Michael Moskow who said yesterday, "Currently, we do not see the slowing in housing markets spilling over into a more prolonged period of weakness in the U.S. economy overall. On balance, the 95 percent of the economy outside of housing remains on good footing."

Pianalto is a voting member of the Federal Open Market Committee (FOMC), the body that sets rates at the Fed. The FOMC voted to keep interest rates unchanged for the third time in October after raising rates 17 times in the past two years

Toll Brothers CEO: No End in Sight for Housing Slump

Amidst chatter that the nation's housing slump is stabilizing, one homebuilder says there's no end in sight.

"We continue to look for signs that a [housing] recovery is imminent but can't yet say that one is in sight," said Chief Executive Robert Toll in a statement.

Toll Brothers announced a 57 percent slide in contracts for new homes in its fiscal fourth quarter compared to last year. Home orders fell to 1,035 as of Oct. 31 from 2,427 in the prior year, said the company.

Toll reported that revenues fell 10 percent in the quarter. Toll's backlog of homes awaiting construction tumbled 25 percent as 37 percent of orders were canceled. The company also lowered its 2006 estimate for home deliveries to 6,300 to 7,300 from 7,000 to 8,000.

Toll lamented, "Weak buyer confidence is keeping many customers on the sidelines." As home prices fall, buyers tend to wait for prices to stabilize or back away from deals already made.

"Order declines worsened significantly, despite the easier comparison [to the year-ago quarter], increased community growth, and a likely greater willingness to adjust prices as management has seen that the slowdown has stamina," wrote Banc of America Securities analyst Daniel Oppenheim in a research note Tuesday.

"We expect the cancellation rate to remain elevated while home prices decline and the time [needed] to sell a home lengthens," he added.

The company says it will take additional write-downs of between \$50 million and \$100 million on land it owns and options.

- **Existing Home Market.....B-**

Annual existing home sales are now 13% below year-ago levels, falling to 6.3 million homes through August; the lowest level since January 2004. Sales in the western United States are down 23% in that time. Slowing sales continue to push up the months of existing home inventory, which is now at 7.5 months, a level last reached in October 1992. The volume of existing homes available for sale has now surpassed 3.9 million.

- **New Home Market.....C-**

New home sales declined to a 1.05 million unit annual rate through August, down nearly 17% from one year ago. Sales are down 20% year-over-year in the Midwest and 35% in the West. Builder confidence continues to decline as well: the Housing Market Index fell another 2 points in September to 30. The index has now fallen 57% in the last 14 months, a much more rapid pace than previous downturns. Unsold new home inventory has increased to 6.6 months of supply, while the supply of completed new homes also increased to 1.7 months.

- **Housing Supply.....C-**

Housing starts are falling faster than the Federal Reserve expected, putting the "soft landing" theory at risk. Annual housing starts fell to 1,665,000 in August, the lowest since April 2003, representing a 20% year-over-year decline. Single-family starts declined to 1,279,000, or 25% over the last year. Permit activity fell for the seventh month in a row to 1,722,000 units, which is nearly 22% below the permit level in August 2005.

Realty Times: Nov. 8, 06

The National Association of Realtor's latest report indicates that pending home sales are up (according to the figures for August) by 4.3 percent.

While this number is still 14.1 percent lower than last August, it does give experts reasons to predict that the market is stabilizing.

David Lereah, NAR's chief economist, reports, "Our sense is that home sales may have reached a low in August -- the Pending Home Sales Index shows home sales should be fairly stable over the next two months, although a minor decline is possible. With fewer new listings coming on the market, we should be able to draw down the inventory supply early next year to the point where home prices will rise, but at a slower pace than historic norms."

Regionally, the West saw the largest rise in pending home sales for August, at 9.2 percent. The Midwest saw no change and had the largest decrease from last year, at 20.4 percent lower.

2006-Q2 Foreclosure Rates:

Top 10 Metros

1. Indianapolis: 0.987%
2. Atlanta: 0.904%
3. Dallas: 0.891%
4. Denver: 0.784%
5. Austin, TX: 0.706%
6. Houston: 0.691%
7. Memphis, TN: 0.682%
8. Stockton, CA: 0.649%
9. Salt Lake City: 0.607%
- 10 San Antonio: 0.601%

Sellers Net Sheet

Projected Sales Price of Property

Less:

10% Closing Costs	_____	_____
(6% Realtors, 2% Title and Escrow, 2% Buyers Assistance FHA ect.)		
1st Loan Balance	-	_____
2nd Loan Balance	-	_____
3rd Loan Balance	-	_____
Back Payments, Penalties & Fees	-	_____
Other Liens: _____)	-	_____
Holding Costs (Mon. Pymt _____ X # of Mons.____)	-	_____
Utilities (Mon. Pymt _____ X # of Mons.____)	-	_____
Property Taxes (Current \$ _____ + Delinquent \$ _____)	-	_____
Supplimental Taxes (Due Later)		_____
Property Insurance	-	_____
HOA Dues	-	_____
Home Warranty	-	_____

Repairs:

Roof (Inspection and Repair)	_____	
Termite (Inspection and Repair)	_____	
Carpet/Linoleum	_____	
Drywall/Patching	_____	
Paint Inside	_____	
Paint Outside	_____	
Landscaping	_____	
Electrical	_____	
Plumbing	_____	
Windows/Screens	_____	
Garage Door/Fence	_____	
Fixture Replacement	_____	
Appliances (Stove,Dishwasher ect.)	_____	
Other	_____	
Total Repairs	-	_____

Total Net To Sellers

What We Can't Do *In a Declining Market*

- Take out a lot of new credit in your name
- Take on Negative Cash Flow Properties
- Ignore Normal Property Maintenance & Expenses for income property.
- Assume Market Appreciation will give us our Profit- *Profit has to be there when you buy it!*
- Over Estimate Property Value- *Learn how to determine value in a declining market.*
- Ignore Repair Costs
- Underestimate Repair Cost

What We Can't Do

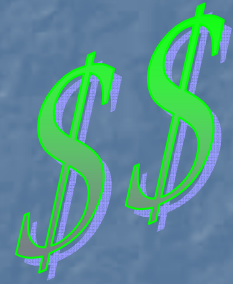
In a Declining Market (Cont.)

- **Property Types to Avoid** – Can't be solved (bad location, zoning, high-end properties, tough fixers, Bad Floor Plans, Abnormally small Square Footage, Bad Add-Ons)
- **Death By Condo**
- **Take on Long-Term projects that require monthly payments**
(Hard Fixers, Mapping/Subdividing, New Construction, Condo Conversions, Long Rent Backs)
- **Buy with only a Discount for a Listing Commission (6% off)**
 - *Need to Net at Least 15-20% profit (NET- NET- NET !)*

You Can't Work For FREE!

Always Remember.....

Your Net WORTH



is Directly Related to

Your NETWORK !



The Eight Ways the Successful Real Estate Investor Should Think!

- Be Motivated
- Be Persistent
- Have a Plan in Place
 - Big Goals*
 - Good Model to follow*
 - Good Habits*
- Think Financially (Money Matters)
- Think Net Worth
- Think Real Estate Investing
- Think Value, Opportunity, and Deals
- Think Action

Q & A

Thanks for coming
All the Best in your investing.

Reggie Lal

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