CRAVEY REAL ESTATE SERVICES, INC.

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Cravey
Real Estate Services, Inc.

Managing A Portfolio Of Houses

When you think of a large real estate management company, you may think of them managing high-rise office buildings, huge apartment complexes and condominium homeowner associa-tions. They do of course. But you may not think of owners of single-family homes as big management clients. But over the past years, those real estate investors who specialized exclusively in homes have increased greatly. Many people think this is the safest invest-ment of all.

If you might think of this as a small investment, think of some investors who own 100 or more homes in the $300,000 value range! Even if values decreased some, owners like these are still multi-millionaires.

Many of these investors have had the enormous increase in value of these homes that took place in the last de-cades.

The houses are managed like any other real estate investment; they are like apartments that are in scattered loca-tions, and are managed the same way but without an on-site manager.

Now might be the time to look into an investment in houses! Buy an extra one for a rental - buy several scattered rental houses and you have the equiva-lent of scattered apartment units, or as one owner calls them, “horizontal apartments”.

An Investment For Anyone

The potential for higher returns is better in real estate than in some alternatives, such as the stock market. Many investors are “stock shy” after the stock market ups and downs of the last few years. Investing in single-family homes can be particularly attractive, since they will have little chance of tak-ing any huge drop in value at one time. Over the next few years, the values should have a steady increase. Compared to the stock market, the amount of capital re-quired can be remarkably small. The leverage is better, with down payments still as low as 10% of the value. You may be able to make an investment in a significant property with just a down payment in the $25,000 to $30,000 range (or even less). Someone else, either a lender or maybe the seller of the property will put up the rest of the invest-ment capital. Real estate is always the perfect place for the use of borrowed money. Good loans are available if the borrower has good credit.

It might be smart to obtain a line of credit to cover any unexpected expenses that may occur. Since the idea is to have a “leveraged” invest-ment, why not borrow as much of the needed cash as possible?

The Return On The Investment

If the increase in value in homes continues like it has been (and it will), the potential for capital gains on a leveraged OPM (other peoples money) investment can be significant. Remember, an increase in value affects the whole value of the property, not just your equity.

The Best Locations

Remember the old saying about the most important thing in value when searching for any kind of real estate. It is still location, always location. This will remain the same in homes as in any other real estate investment. What should you look for?

An owner-occupied community. You will prob-ably be able to get higher rents in an area where the other houses are owner-occupied. Owner-occupied houses will usually be better maintained and the neighborhood will be more stable. We can check the neighborhood by looking at the property-tax register. Since the name and address of the owner is provided, simply see if the address of the owner is the same as the property address.

Since the objective in this investment is increase in value, we are looking for the possibility of the resale. We will always have greater appreciation in a neigh-borhood where people maintain their property with pride.

Be aware of the location of schools, churches, shop-ping - just as you would if you were purchasing the property for your own residence. Your ultimate buyer of the property will be doing the same. Make sure of the zoning of the neighborhood and any adjoining areas. This will insure that you will not have any sud-den surprises after you make your purchase.

Decision To Lease Or Own Commercial Property

Whatever the kind of property used, the user has the option of purchasing or leasing. Should you buy the house you live in, or lease it from someone else? With few exceptions, there would be an over-whelming response to "own it". The benefits weigh heavily toward ownership. With business property, the answer sometimes may be a lease instead.

Real estate investors who enter into a long-term lease instead of buying property make a decision with implications that can have an effect on both financial and tax positions. The important difference of the long-term lease from a straight purchase (outright or with a loan) is borrowing (renting) the property itself for financial benefit.

Sometimes the choice of owning is not available and the property can only be leased not purchased. During a period of time when money is not avail-able except at very high rates, leases may be the only consideration. Another time when only leases are practical could be with the best possible location in a large city, where institutional owners hold the land on a long-term basis.

Here are examples of some property users who must make this decision:

1. Some real estate users have a prime objective of maximum cash flow now, in commercial or resi-dential income properties. They will be interested in securing capital, investing for maximum return.
2. Any store chain, fast food outlet, other franchise operations must use real estate in the operation. Should their money be used to purchase property for their locations or be retained for working capital and expansion?
3. An owner wanting the highest leveraged position, with the greatest interest in securing the largest gain possible from the property. This owner could avoid tax liability on current income from the property.

Property used in Trade or Business

With a new business, the owner of that enterprise has the choice of buying or leasing the business loca-tion. In the beginning, this choice has little meaning to most. The owner most often will lease a business location, preserving capital for operation of the busi-ness. Capital is always critical in early operations and is seldom in enough supply to purchase real estate.

A Later Choice

The choice of buying or leasing remains as an alter-native even later. After some years and much success, the owner may wish to expand, change locations, or just have a business location that is "tailored" to the specific needs of his operation.

So, the business owner buys a property with a small down payment. He borrows and builds a building, which is perfect for present and future needs of the business. In addition to the best location, there are other benefits that might help to make the decision to purchase the property. These are:
1. Like a home, the owner has the security of owning the property, and the peace of mind of knowing that no one will evict the business at some later time.
2. The new improvement (building) on the property is a depreciable asset and so provides the added benefit of tax shelter for current income from the business.
3. The interest paid on the loan is a business deduc-tion. The difference, the amount paid to principal, builds equity in the property.
4. The ownership of the real estate gives the owner a stability and added stature in the community, increasing his financial strength.

Now, in addition to security and self-image, the owner has all of the elements of a good "leveraged" investment: Low down, large loan and depreciation of the improvements. The cost may have been fairly small. After a minimum down payment, the payments on the loan may not have been too different from the previous monthly lease payments.

The Next Buyer

Still later, the picture changes again. After using the property for ten or fifteen years, this owner might be approached by a broker with a buyer for a good property to own as a passive investment. The investor prefers a commercial building with a good tenant and a long-term lease. The broker suggested a purchase of an existing business property from the present owner who might then lease back the property.

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The big change for the business owner happened over the years. Because of inflation in those years of ownership and the annual reduction of the mortgage with the loan payments, he has built an enormous equity in the property. The original down payment has now grown to a huge equity – maybe hundreds of thousands or millions of dollars!

The New Benefits

The purchase of the property was an excellent move for the business owner, when it was done. Now, with the passage of time, his position has changed. When discussing this with his Real Estate Investment Counselor and CPA, the following list of benefits for the sale of the property, then a leaseback, were developed.

1. The hundreds of thousands of dollars (or millions) of capital tied up in the real estate ownership would be released for expansion of the business, operating capital, investments, personal use or retirement.
2. The business owner's balance sheet could improve. The amount of the current real estate loans would not show as a liability and the cash would increase the asset side.
3. The seller still has the use of the original building, built to the specific needs of his business, but now it will be with a long-term lease.
4. The rent paid on the building after the transaction is deductible as a business expense, just as it was when the business first started.
5. If the proceeds of the sale are invested, the annual return may equal the rental payments on the lease, in effect making the rent on the property free of out of pocket expense.
6. The cash will be received by the seller without any loan approvals and does not have to be paid back.
7. After the sale, if the business owner reserves the right to sublet the real estate, he may be very flex-ible on future plans to sell the business or continue to operate it.

These benefits were all to the liking of the business owner. The only drawback was the tax to be paid on the gain in value. After his CPA computed the actual amount, the tax was minimal compared to the benefits, so the sale, then leaseback was completed.

Deductions

The sale-leaseback often accomplishes more for the seller than getting money by borrowing on the property. The seller is entitled to deduct the entire rental payment as a business expense. On a loan, only the interest can be deducted.

So, the sale-leaseback, in effect, makes the cost of the land depreciable. With a mortgage, the mort-gagor can neither depreciate the land nor can the portion of the loan payment that amortizes the land (loan reduction) be deducted. Since the payments on rent are similar to principal and interest payments on a loan, this means that all of the monthly payment (rent) is put on a tax-deductible basis. This may more than compensate for the loss of the depreciation deduction, which was only on the improvements.

We recommend consulting with your CPA and/or tax attorney for any changes in the tax laws.

Obtaining The Land For Development

Acquiring land for development is necessary no matter what kind of market we are in. Professional real estate assemblers are always looking at and acquiring under-utilized sites within cities or in suburbs. Here are some ideas on how those professionals do it.

- **A Thorough Knowledge.** Only purchase or option property in well known localities to reduce the risk of unexpected surprises. If the locality is not familiar, seek out local professionals for their opinions.
- **Be A Follower.** Being the first to buy increases the risk of being wrong and may mean an unexpectedly long wait until values rise. It is often better to go in after values have begun to increase or after some development has started.
- **Government Maps.** Local governments often have maps and plans for projected roads and highways. These can point the way to desirable acquisitions.

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- **Prepare An Acreage Map.** The map should show the ownership of all tracts in the locality and (if known) the asking price of each. This step marks the prime differ-ence between the professional and the non-professional land acquirer.
- **Seek Out Builders.** Try to find a builder willing to let you act as an intermediary in acquiring land.
- **Option Or Installment Contract.** When acquiring property, get a firm commitment from the landowner without the buyer having to pay out cash. This can be done either with an installment contract under which the buyer can pay interest only for the period of years with a right to walk away without further penalty.

Note: An investor or investment group retained by a builder to find land is obligated to give the builder the first opportunity to buy in all cases. However, any land the builder does not want may be a good investment for the assembler since its value is likely to increase as new construction occurs.

Commercial Real Estate Representation

There are a number of ways to buy, sell or exchange investment or commercial real estate. Having the knowledge of what you can do in some tax situations can be the difference between an annual profit or loss in a property that you intend to acquire or one that you already have in inventory.

The professional commercial real estate broker is in the position to represent clients in real estate transactions by setting up sales, exchanges, leases, purchase and sales of options, and management of real estate. A professional real estate practitioner must stay aware of current tax laws and court decisions in order to structure transactions, but does not give legal or tax advice (unless he/she is also an attorney or a certified public accountant). In any complex transaction that might result in changes in any owner's legal or tax situation, the other members of the "consulting team" should be the owner's attorney and CPA. We always recommend meeting with these other professionals during the planning and closing of major real estate transactions.

As commercial brokers, we are part of your professional team. It is our job to create the real estate transactions
that will be needed to enhance your estate. We should meet with our clients on a regular basis to evaluate their present position in properties, reviewing plans for future acquisitions or exchanges.

Reviewing your plans and goals can give us the information needed to help us in moving you in new directions as soon as possible, using purchases, sales or tax deferred exchanges.

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Featured Listings

FM 763
Corpus Christi, TX 78415

Sale Price: $465,900.00
Lot Size: 93 Acres

Description: 93 Acres of Land Currently Being Farmed at $85.00 per acre year to year. Located Near Airport and in Potential Future Path of Development. 31.64 acres is located in the County. 61.35 acres is located in City of Corpus. Land is zoned Flood Zone C which is not a flood area.

For more information contact Adam Stern:
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(O) 361-271-1525
(C) 361-739-0808

3682 Perry Ln
Corpus Christi, TX 78410

Motivated Seller

Sale Price: $317,300.00
Lot Size: 16.7 Acres

Description: Irregular shaped land in the Calallen / Five Points Area.
Utilities are available.
Close proximity to residential, parks, IH 37 and Hwy 77 (future I-69), Leopard Street , shopping, hospital, restaurants and schools.

For more information contact Matthew Cravey:
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