

Episode # 35
A Word from our Sponsors
June 4, 2008

Good Morning and welcome to Income Property Investment Talk with host Peter Mosca and co-host Dean Essa. Together they will help you make smart investments in real estate. Now here are your hosts, Peter and Dean.

Mosca: Real estate, if purchased well continues to be the single best investment one can make. Welcome to Income Property Investment Talk, a program dedicated to providing investors eager to invest well in real estate, with the knowledge, the resources and the tools to generate increased wealth. Each week we bring the powerhouses of commercial and residential real estate to our show for you to learn from and to call at 1-866-472-5790. My name is Peter Mosca and my co-host is one of those commercial real estate powerhouses, Dean Essa.

Essa: Hey Peter, how you doing?

Mosca: I'm doing well Dean. Hey Dean, ask an economist right now if they believe the nation is headed for a recession or already in one and you're sure to get a variety of different answers. The facts, as they relate to commercial real estate investing are that while the national economy is slumping and are tighter credit standards for borrowers, there are markets in this country that are humming along quite nicely and lending packages available for the right properties in the right location with the right numbers. On today's program, we will cover the how-tos of successful commercial real estate investing, specifically multifamily and apartment buildings with professionals who do nothing but help investors and transaction partners generate wealth. Joining us today will be leaders from the sponsors of Income Property Investment Talk, RealSource. Since 1989, RealSource has been putting investor/clients in the right markets at the right time

Episode # 35
A Word from our Sponsors
June 4, 2008

and serving as a catalyst for the movement of money for its professional society of transaction professionals. The RealSource staff of real estate investment junkies will discuss the three keys to success in commercial real estate investments; research, relationship, and deals. We will hear from leaders in lending, tenancy in common, self-directed IRA funds, marketing as well as from client investment advisers who will detail how to invest well in real estate. So, whether you are an investor wanting to invest well in commercial real estate or a commercial practitioner looking for new ways to improve your real estate business and gain a competitive edge, you'll want to tune in today and then tune back again at a later date. Our first guest today from RealSource is Stan Hanks, principal of RealSource commercial and frequent guest on our program's Mortgage Minute. Stan, thank you for coming on this morning.

Hanks: Great to be with you this morning.

Mosca: Stan, why don't we just start off in generality right now and just talk a little bit about where the market is right now, some of the rates that you have and are offering to investor/clients across the country.

Hanks: Well, giving a broad-brush overview, lending has significantly changed from a year ago. Fortunately for RealSource Commercial and for anyone that is looking for a loan, we've stayed very close to the progress and what's changed in the market and there are still alternatives for obtaining financing. What you're finding is that where a year ago you may have had a lot of lenders very interested in your project, today you may have one or two that are interested which means that because there's not as much competition you may feel like you're not getting as good a terms and that may be true. But, the rates

Episode # 35
A Word from our Sponsors
June 4, 2008

and terms that are out there are still ones that will make projects cash flow and make sense from an investor's point of view. So, broad brush is there is still opportunities to get financing you just have to look little harder and be ready to give a little more.

Essa: How important is it to have long-term standing relationships with a lot of these correspondent lenders across the country that you guys have?

Hanks: I'll tell you, they're great when they are in business. In fact, there is a good group. 70% is what the statistics have shown of lenders that were in business a year ago are no longer in business and that's a combination of those who provide commercial loans as well as residential loans. That's a significant percent of lenders that are no longer lending money. As a result, of that remaining 30%, those who had some relationships with those 30% are really reaping the benefits.

Essa: And I would imagine also every day you must be trying to uncover new sources.

Hanks: No question and so from our point of view and from any lenders point of view, what a good lender's doing to provide for his clients is strengthening the relationships they currently have that are still in existence and uncovering new opportunities that are out there. That's exactly where most should be and that's exactly where RealSource Commercial is today.

Mosca: Stan, let's expand on that a little bit. Talk about your daily business practice or what you do on a daily basis. I know that RealSource Commercial will finance the majority if not all of the real estate tenant in common deals that RealSource is a part of and we'll talk about that a little bit later on. What about somebody who's listening to the program today and is interested in maybe getting financing for a particular commercial

Episode # 35
A Word from our Sponsors
June 4, 2008

property? Maybe they're looking to buy a 20, 30 unit building somewhere across the country and they want to learn from Stan Hanks what Stan Hanks has at RealSource Commercial. What is your typical day like? What do you do and how do you keep up to date on what is happening in the marketplace?

Hanks: One of the first things you do is you understand where the rates are for that day so you can confidently talk to anyone about what kind of terms they should expect. When someone's buying a property they need to know whether it cash flows, whether it's going to cash flow, what the rates are to make some of the initial decisions whether or not to put a property under contract and to continue with the due diligence. So, if someone calls me and I can't very quickly and I'll just give you an example of what happened last Thursday. I received a call from someone who was refinancing a \$3 million apartment complex. They needed very quickly an idea from me of where they were going to be because they needed to pull a trigger because their loan was coming due within a very short period of time. I was able to quote to them a five-year fixed rate, which is what they were looking for, three years of it yield maintenance, the last two years open to prepayment penalty and this project because of the strength of the project and the cash flow is going to be an interest rate of around 5.78% fixed for five years on a 30 year amortization, a non-recourse. So that's an example of, I get in and I make sure I understand the rates, I make sure I understand what the tendencies are and then I continued to build my relationships with my lenders and answer questions of my clients.

Mosca: Stan, are you finding that most people or are you recommending that most people look toward that fixed rate for a short number of years?

Episode # 35
A Word from our Sponsors
June 4, 2008

Hanks: That's a question that I actually turn around and ask the client on what their strategy is. For example, if someone is interested in buying a project and they're a little older and they're thinking of using it as part of their estate planning, as part of their retirement, clearly that's one where I would suggest getting a good 10 year term. The 10-year, fixed rates right now are in the low sixes and so frankly, that's a really good rate, fixed for 10 years that should produce good cash flow on a property that has a cap rates in the high 6s or 7s. That's usually where we're seeing cap rates right now. We are underwriting cap rates right around 7%.

Essa: Are there loans available now with no prepayment for multifamily, say small to mid size?

Hanks: Sure. That was an example, just one I have right in front of me now, which is if you're looking for a five-year deal you can have the last couple years open or prepaid. If you're looking for a three-year deal usually you can have the last year opened for prepayment penalty. Are there ones that have no prepayment penalties? The answer is yes and usually those are adjustable rate mortgages that are based on LIBOR, which is an index that you can find in the Wall Street Journal as well as on line and if you add either 2 ½% to 3% on top of that, that's the rate that you might find today on an adjustable mortgage and you'll probably be in the high four percentage points today, somewhere around 4.8, 4.9%. That wouldn't have any prepayment penalty, but it would adjust each month. Someone just has to be aware of some of the nuances. If they want no prepayment penalty, they probably are going to end up with an adjustable rate.

Episode # 35
A Word from our Sponsors
June 4, 2008

Essa: Just what you said, you analyze each client, find out what their needs are, and fulfill their objectives.

Hanks: Exactly.

Mosca: Stan, most of us are aware of the federal government's role in the residential side in particular Fannie and Freddie in terms of providing liquidity to the residential side of transactions. What about on the commercial side? I know Fannie and Freddie have a mandate to provide liquidity for affordable housing, does that branch over into multifamily deals at all?

Hanks: It does. They are providing some great opportunities and fortunately we have access to both Fannie and Freddie. Those are some very good opportunities to obtain financing if you're buying a multifamily, especially if you're buying a multifamily but even branching out into the healthcare. Freddie Mac has really branched out into some out-of-the-box 2, 3 years ago to something that they are doing on a regular basis, some healthcare projects that they're doing. They've become very comfortable with that industry. The quote that I just shared with you with the terms was a Fannie Mae program where they're non-recourse, they have 30 year amortization, they'll go up to 80% loan to value, they will allow a second, for example if you get a 10 year deal with them and you decide to sell the property after four years and it's appreciated, there will be some level of prepayment penalty and since the rate was good that you got maybe the buyer would like to assume the loan. Well, he can go back to Freddie and say I want to bump up the loan to value back up to 80% and put a second on it so that they don't have to come in with 20% down.

Episode # 35
A Word from our Sponsors
June 4, 2008

Mosca: Stan, we're bumping up on the next break. I'm hoping that you can stay with us. Stan Hanks, RealSource Commercial found online at RealSource.net. When we get back from this short break we'll talk more about financing, what's available, and hopefully we'll be hearing from other professional staff folks and executives at RealSource coming up on Income Property Investment Talk.

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Thanks for tuning in today to Income Property Investment Talk. If you have a question for Peter or Dean call now, listener lines are open. The toll free number is 1-866-472-5790. That number again is 1-866-472-5790. Now back to Peter and Dean.

Mosca: Welcome back to Income Property Investment Talk. We're talking with Stan Hanks, RealSource Commercial, found online at RealSource.net. Stan, you were talking a little bit about Fannie and Freddie and how they are being helpful for investors who are looking to purchase multifamily properties. Perhaps you can finish up on that thought and maybe turn your attention to the listeners out there, the investors out there who are catching wind of the many advantages to investing in a tenant in common property and how you help to make that happen.

Hanks: Sure Peter, will do. I'll try and hopefully explain in a way that makes some sense and get through what I think is somewhat of a maze and somewhat of a complex issue on the tenants in common. I will finish up, for people who are obtaining financing on multifamily, you asked is Fannie and Freddie an opportunity or a place to obtain financing and clearly it is for those who are looking to obtain financing for multifamily. They do have the best terms and the best rates generally that are out there today. There

Episode # 35
A Word from our Sponsors
June 4, 2008

are some hoops you have to beware of to jump through but they are well worth the program that you'll end up with. With that being said, I would love to help any that are looking to finance a multifamily and I have access to those programs and they will produce as good a return as they're going to find out there. The real benefit and I use the term non-recourse and I'm sure your listeners are aware of what that means, where they don't have to put up their personal wealth and risk their personal wealth on the loan where that the recourse to the lender is solely the property itself. That's really the type of loan anytime you're going to get one, that's the type of loan you'd want to get. It just is harder and harder to come by but Fannie and Freddie offer it so it makes a great opportunity for your investors. Please call me if you have questions on that and I can direct you. The tenant in common industry and just some background is where you may have three, four up to thirty-four different individuals who combine together to buy one project. They each take title to protect their 1031 exchange. It really has been a growing industry over the past three to four years. I've been involved with it for that period of time and we've provided some excellent opportunities for those people who maybe owned a 50 unit project, were tired of managing it on a day-to-day basis, sold that project and said I want to 1031 my gain into another project. They just don't want to manage it day to day so they put it in with a group, they find a good sponsor that has a project, they put it in with a group and they get updates and they get a monthly check and it actually turns out to be a fairly good process for most that get into that. The financing historically has been fairly straightforward. We've obtained non-recourse financing. Usually our terms have been five to 10 year fixed rates. They've been very aggressive. We've had interest only

Episode # 35
A Word from our Sponsors
June 4, 2008

during that period and the cash flow has been strong. That came to a screeching halt last August/September timeframe meaning that the financing that was traditional for tenants in common really took a big change and now we're looking at two types of financing that will produce what we think are good returns but people need to be aware of some of the changes. The first is really a tough one where the banks, there's regional and national banks that are stepping into this industry and saying we want to lend to tenants in common projects but we want to have a little more recourse than a non-recourse loan. They want to potentially have access to the sponsor and have part of the recourse back to each of the tenants in common.

Essa: Have you found a way around it yet?

Hanks: We have. That's really what's out there and we found a way to actually provide non-recourse financing which is a huge step for anyone in the TIC business. What that means is that if you go out on a project, if you go into a tenants in common project and want to have non-recourse, you may end up getting a smaller project instead of buying a 30 million apartment, you may end up buying a 10 to 12 million dollar project and that's what one of the RealSource entities is in the process of doing. What that allows is a smaller group but still a group of tenants in common to purchase it and as long as the group is small enough we can get non-recourse financing. What it really provides is still some interest only product, it provides non-recourse, it provides very competitive rates, and allows people to continue to invest in what I think is a great opportunity for people who don't want to manage a project day to day.

Episode # 35
A Word from our Sponsors
June 4, 2008

Mosca: Absolutely. What you're talking about Stan are real estate tenant in common deals. That's something that RealSource has been doing for a number of years.

RealSource is a tenant in common provider, a real estate tenant in common provider and we now have on the line Kent Anderson, who is part of that division that you were talking about, the RealSource Equity Services Division. Kent, I'm not sure how much you heard Stan talking about but can you tell us a little bit from your perspective what it is that you do at RealSource to help investors get into these real estate tenant in common deals.

Anderson: Definitely one of the big concerns like we've been talking about is financing lately as I'm sure a lot of the listeners are concerned about trying to find good financing especially for the TICs. These days with non-recourse financing having dropped off, and I see that Stan has already gone through an awful lot of that. One of the things I wanted to add with what Stan talked about with what they're trying to do with this agency financing that makes it very attractive is under the old collateralized mortgage backed securities that we used to do that was non-recourse, we couldn't layer in an additional loan on those when we went to sell the property which when it's appreciated the LTV that a prospective buyer might be looking for might not work. If they were trying to assume that loan and as I understand from Stan, Stan maybe you can correct me if I'm wrong or add to that, we can layer that in and therefore make it attractive exit alternative for us. If somebody wants to assume that loan they can layer in another loan and get the desired LTV they're looking for from that buyer.

Episode # 35
A Word from our Sponsors
June 4, 2008

Essa: Let's talk about some of the advantages of tenants in common. I understand one of the tremendous advantages is to be able to make a play on a larger property where the individual would never have an opportunity to make a play on it. Stan touched earlier on management as well. What's the advantage from a management standpoint?

Anderson: On the management side of this? The nice thing is on tenants in common, depending on the sponsors that while the owners are exercising control over the property through their vote they don't have to deal with the day to day of it, on the management of it which can be very nice especially if you're in a tenant in common project you're not near. If you're trying to manage that on your own it might be kind of difficult while when you're in a tenant in common project you're not going to have to be involved in all the day-to-day of it but you still exercise control through the sponsor and the property management that they're having done on that property.

Essa: So there's a little flexibility in that if that investor only wanted to write a check and just sit and observe he or she could do that.

Anderson: Yes.

Essa: That's wonderful.

Anderson: It does make it a lot easier for a lot of investors who are pretty busy with other things in their lives. Another thing that makes it pretty attractive too is it's easier to diversify geographically. If you were somebody who likes to buy a lot of different investment properties and trying to get them in different markets, trying to manage those with your different property managers you might have can be very difficult, a very daunting task. With a tenant in common project you don't have that.

Episode # 35
A Word from our Sponsors
June 4, 2008

Essa: That dovetails perfectly into RealSource's philosophy overall which says that live where you want to live and invest only where it makes economic sense. If it doesn't make economic sense where you live but there are three markets out there where it makes economic sense and you have 300 grand, you could put 100 grand in each one of those markets. You've diversify, you've lived where you want to live and you've invested where it made sense and you didn't even have to deal with the management.

Anderson: And it's very important to diversify, as everybody knows, not just with the type of investments you're investing in but where you're investing in. It does make it a lot easier to do that and it's important to do so.

Mosca: Stan, is this type of solution that you've come up with will this work for, I mean there's no such thing as 100%, but for the majority of the investors coming in, this sounds like a good opportunity.

Hanks: I think so. One of the caveats we always have to give is in this difficult time there's always hurdles that come up. Any time you're financing a project there are unforeseen challenges but we believe that this provides an opportunity for financing that is similar to what we saw maybe a year ago. It just requires us to possibly, the only nuance I think and yet to be determined and you'll tell more in three to six months is that we're probably going to have to go after a little smaller project because we need fewer tenants in common per project. Outside of that, I think we found a solution that's going to work for the investors. The investors still will need to have good credit. If you have poor credit, you have very little liquidity, very low net worth, there's probably other opportunities that may make more sense but as long as you've kept your credit clean and

Episode # 35
A Word from our Sponsors
June 4, 2008

you're a solid investor and you have some good net worth, come to the table with some liquidity, then this would work I think very well.

Mosca: Okay guys, we have one minute left with the both of you. Can you very quickly, Kent, give us a last bit of advice, information, knowledge that you'd like to share with the listeners?

Anderson: Another thing that's very important that tenant in common project is the kind of properties that you're investing in. Multifamily these days has become very attractive because of the difficulties that many people are having with residential or the smaller projects they've been investing in. The larger projects and multifamily and commercial properties and that are having a hard time getting their financing and making their deals work. Occupancy is climbing in some of these multifamily projects simply because of what's going on with residential housing.

Mosca: Excellent, Kent Anderson, Stan Hanks, RealSource online at RealSource.net, we thank you for joining us on Income Property Investment Talk.

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Mosca: Welcome to the sponsor program. We're hearing from professionals at RealSource talking about the different ways that they help not only investors but transaction professionals generate wealth through investing well in multifamily and apartments. We have three more guests with us now. We have to have Kevin Peay, Kerby

Episode # 35
A Word from our Sponsors
June 4, 2008

Peterson, and Michael Madsen. Kevin is the director of marketing and new business development at RealSource, Kerby is what we lovingly call a client adviser and one who is intricately important to the success of investors throughout the country, and Michael Madsen is with a new department at RealSource called RealSource Retirement Services. Gentlemen, welcome to the air. Kevin, I would like to start with you and then we'll switch over to Mike because the two of you have a relationship together in that you both offer commercial real estate brokers and agents an opportunity to enhance their businesses, to enhance their business models and to generate increased wealth in real estate. For example, Kevin I was hoping maybe you could talk about the relationships that you're building with brokers across the country helping those brokers/clients get into some of these excellent real estate investments that RealSource is aware of.

Peay: I think it's been a real eye-opener for me, Peter, to be able to understand that brokers are very conscientious of what they're clients are trying to look for and clients are trying to be led to areas and being able to understand where their clients can be placed in multifamily opportunities. There is also an opportunity that when a client looks for diversification of multifamily and triple net a number of different investments out there, we've been able to strategically navigate that as well with affiliate relationships to help them more of a one stop shop opportunity, first looking at the multifamily application and then looking at other portions of their portfolio. These brokers are starting to find some real benefit to that, to being able to have a one-stop shop location to help their clients in their investment needs.

Episode # 35
A Word from our Sponsors
June 4, 2008

Essa: I'm sure they love the opportunity to be able to bring a client on and actually get paid for bringing the client to you.

Peay: Absolutely and that's where that has really begun to shine. We've started to see that brokers as they look for that as a new opportunity for them to be able to see an increase revenue pool to not only their operation houses but also to be able to experience some long-term residual effect for them.

Mosca: Kevin, when you talk about one stop shopping just get into that a little bit more. I know what you're talking about but I'd prefer for you to answer that. Talk about the different transaction professionals that you deal with as well.

Peay: It's interesting to watch a broker who will actually say I've got the client who needs this and who needs this and who needs this and they'll come to us specifically for multifamily solution and then when you see a multifamily solution take place it's really neat to watch that process happen. Occasionally there has been money left on the table as far as retirement dollars or that they're looking to actually spread some of the diversification and they can do that through different multifamily applications that RealSource has in different markets. But occasionally an investor may say I would like to dip into a triple net opportunity or I would like to look at a dental center or I would like to look at something that is a little broader in scope as far as what I've traditionally done on part of my portfolio. In our alignment with a number of professionals, the Sperry Van Ness and a number of the NAIs and a number of the individuals who help with dental center investments and those type things, we can take a look at what really fits the client

Episode # 35
A Word from our Sponsors
June 4, 2008

strategically and be able to open some of those new portals and avenues to them now that will really make sense for them in that diversification.

Mosca: I'm going to take advantage of the new portal and avenue approach that you just mentioned Kevin and bring Michael Madsen onto the program very quickly. Mike, you are affiliated with RealSource's RealSource Retirement Services. Not many people out there know that they can take IRA funds and put them into real estate as well and you also work with brokers and agents who might have investors to the same thing. Can you talk a little bit about that?

Madsen: Yes, I hope everybody out there is listening. Can you hear me okay Peter?

Mosca: Absolutely.

Madsen: I hope everyone out there realizes that there's about \$1 trillion, \$1 trillion going from the stock market into real estate by about 2016. So, if you're a real estate broker you're going to want to take advantage of that. Right now, our industry, self-directed industry is just trying to get the word out that you can do that. Currently, about 97% of our IRA dollars are in the stock market and that's going to go about down to 85% by that 2016, so it's definitely something you want to take advantage of and you're definitely going to want to have an administrator like RealSource Retirement Services to help with your options.

Mosca: You know what Mike, let me just stop you there because you're very low. We're going to try to work something out so we can hear you better. Kerby let me throw it over to you. Kerby Peterson at RealSource, RealSource's top client adviser. Can you talk a little bit about your relationship now that let's say Kevin and Mike brought some

Episode # 35
A Word from our Sponsors
June 4, 2008

investors to RealSource, what your role is and how important that is while I deem it to be very important that you work hand in hand with individual client/investors across the country.

Peterson: Well, that's interesting what Mike was saying and Kevin was saying that each client has a certain different need, so as a client advisor what we've done because of the service oriented business that we're in and they've worked hard for their money we want to make sure that we are there to service them at all times. We've assigned two client advisors to almost every client. In doing so, that gives us the ability to work on looking for property for the client, of his needs and wants and then the other one can turn around and talk about the exact markets we're in, what his goals are to exit out of his current market, what his goals are to enter into the new market, or if he wants to go into the passive part of ownership of the TIC, or if he wants to turn around and use his self-directed IRA and go into investments of that nature. What we do is find out exactly what the client's got, what he wants to accomplish, and we set a path and direction for him to accomplish that going through brokers, through our services, through other private services that we have out in the individual markets and do what they are looking for.

Essa: Now, I know that you won't brag on yourself Kerby, or your team over there but from a customer service standpoint you guys are second to none. What I've seen you do with clients, literally when it comes to your service, there is nothing that you won't do for a client, especially for those clients who want their hands held, who want to be walked through the whole process, you guys absolutely are amazing.

Episode # 35
A Word from our Sponsors
June 4, 2008

Peterson: That's a very good point because what RealSource is doing is listening to the client and the client's needs and we used to do what is called a tour process. We still have that tour process in line for those that are more on the beginning state or feel like they need their hand held, but we also have the ability to enlighten them and go directly to the brokers and seek properties individually that is the best interest in time management for them. We are listening to what our clients want. We're adapting our program continually to be the best and most efficient program out there for the investor's growth.

Mosca: Mike, can you hear me okay?

Madsen: I can.

Mosca: Okay, fantastic. Let's get back to your answer from before because you were very low. Talk a little bit about how you're helping investors who have IRA funds get into real estate.

Madsen: In order to do that you have to take control by setting up a self-directed IRA. We have different custodians that we recommend to do that, but as soon as you roll your 401(k) or any IRA into a self-directed IRA, which is very inexpensive to do, it pretty much allows you to do any legal investment of your choice including real estate where 75% of millionaires made their money.

Mosca: Kevin, in terms of the marketing side of what you do at RealSource, I know there's an aspect to that where you go across the country and you actually reach out and welcome potential client/investors to hear a workshop. Can you talk a little bit about the workshops that you give across the country and what they mean to newbies or intermediate type investors?

Episode # 35
A Word from our Sponsors
June 4, 2008

Peay: Absolutely, those workshops are designed to be able to educate people with inside key markets that have had some success or they are searching for new opportunities and avenues to learn more about where they should invest at the right place, at the right time. We see a number of people who come to those workshops and they're very well put together in such a way that the resources available to these clients or these perspective clients who are looking to try and find out information on how they should invest, where they should invest, should they own at 100%, is there a tenants in common opportunity for them and what are the requirements for that, how do I seek property management, and how do I find the professionals in a market. It's been enlightening as those workshops have gone forward to be a part of that and to be able to see the light bulb turn on for people when they start to realize that there is a place that has actually been able to assemble a template that can help me really plug into very quickly to make quicker decisions and be better informed.

Essa: What is the number one way to reach? You said we're a one-stop shop. We have RealSource Commercial, which handles all the finance, we have shared equity or tenants in common, we have regular brokerage, we have so many different departments, and self-directed IRAs into real estate. What's the number one way our listeners can contact you? Is it best to go up on your website?

Peay: Well, the website is one way to do it and simply call the 800 number at 800-929-2150 and that's 800-929-2150 and get a hold of a client advisor.

Essa: What's the website?

Episode # 35
A Word from our Sponsors
June 4, 2008

Peay: The website is www.RealSource.net and then we can lay all of those services out for them and they can choose from an à la carte menu of a number of things based upon what they're trying to accomplish.

Mosca: Kerby, any last bit of advice for anyone listening who is not an investor/client at RealSource, any suggestions that you may have to help them to invest well in real estate?

Peterson: The number one suggestion that I've got is that we are doing exactly what we're talking about. There are four of us involved in the client advisors. All of us own individual real estate; all of us have been involved in real estate in various states. It goes on a genre of people that we've dealt with, I own in five different states. Brad has been a developer and he's been a construction guy, he's been into real estate, he sold golf memberships, timeshare ownership. Sean has owned apartment complexes; he's turned around and been a builder/owner/builder in properties. We've all done everything we're talking about. We're not doing anything that we don't do ourselves and then we're bringing it to your level to help you gain the same expertise that we've got.

Mosca: Excellent, thank you Kerby Peterson, Kevin Peay, Michael Madsen. We appreciate you coming on the air with us. When we get back we'll talk more with Mike Madsen as well as bring on Britton Ebert, economist at RealSource.

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Episode # 35
A Word from our Sponsors
June 4, 2008

Mosca: welcome back. I want to welcome Britton Ebert, RealSource economist, to the program. He'll be joining us momentarily. Mike, I wanted to throw it back to you, Michael Madsen, RealSource Retirement Services, I thank you for holding line. Can you just quickly tell us what the process is if someone has IRA funds they're looking to put into real estate with RealSource? What's the process to make that start?

Madsen: The first process is to take control of your IRA and make it so you're qualified to do these types of investments. You need to choose a self-directed IRA custodian. We do have a few to choose from if you want to contact us, we'll give you the contact information for the best people to get a hold of. The next thing is to transfer the funds over into that account which can sometimes take up to 30 days and then also make sure that you've had a chance during that time to review all the different deals, investment options we do have at RealSource. And just to let everyone know, sometimes we do have high minimums for some of our passive income group deals but we have cut that down to a \$25,000 minimum, number one to make sure everyone can invest and get started and also to make sure that it's easy to diversify. The next thing to do would be to make sure that you've done your due diligence on the deals and you found out the right one. From there, you can go to your self-directed IRA, fill out some quick paperwork and make the transfer over into the investment and start realizing better returns.

Essa: And you walk them through the process, between you and the custodian?

Madsen: Absolutely.

Mosca: Michael Madsen, thank you so much for staying with us through the break and for explaining to us how investors can put their IRA funds into real estate. For more

Episode # 35
A Word from our Sponsors
June 4, 2008

information, obviously, you can go to RealSource.net or
incomepropertyinvestmenttalk.com. Thank you Michael.

Madsen: Any time.

Mosca: Britton, I want to turn it over to you for the rest of the time today. Obviously, as an economist and as a point person at RealSource what you do is one could argue the most important part of real estate is location, location, location. Can you talk to us a little bit about location investing and what that means to you?

Ebert: Yes Peter. The RealSource economics model, it essentially evolved out of an increasing demand for locating markets that are at the right time and that are the right place for real estate investors. A lot of people have been looking to increase their returns. They need to reduce their risks because they're out there finding and mulling over the various investments. So what we've done is put together a massive and dynamic statistical database that essentially filters through all 360 plus metropolitan statistical areas in the country and we isolate which markets are going to have the best investment potential for multifamily investors. That's what we do here at RealSource.

Mosca: As an economist, your role is to analyze all that data and I would assume you're looking at and I don't even want to think about the number of variables that you look at when you're going over that data.

Ebert: It's numerous variables. Some of the variables are more macro type variables, things like interest rates, the exchange rates and a lot of them are very market specific things like net migration, job growth, income growth, housing affordability, the level of building that's going on in the area, the types of infrastructure. We look at a significant

Episode # 35
A Word from our Sponsors
June 4, 2008

amount of quantitative data first and we run that through a statistical analysis and then after that we go through and we run a qualitative analysis to make sure that these areas, that the local governments and the local infrastructure are in place to support the amount of growth necessary to provide the returns to the type of investors that we have.

Essa: Britton, on those quantitative and qualitative analyses, it used to be in certain markets where that information is so valuable. In this market condition it is so essential and so critical, I can't emphasize enough to our listeners to be able to partner up with somebody who has an economist or economists on staff to make sure that you're in the right place. You know what Roger says, sometimes it's not as important about worrying about the return on your investment as much as the return of your investment. Make sure you don't lose your money. You guys have been wonderful about making sure that people don't lose their money and they get an incredible return on their money and you guys have been doing it year after year and market after market with a near-perfect track record. I just can't encourage people enough to line themselves up with people who have economists on staff.

Ebert: You actually bring up an important point. For quite some time we went through a pretty significant economic run in the real estate market, as many people know and commercial real estate benefited from that. But as the economy has turned and slowed down the market now is different. Now, that doesn't mean that there aren't opportunities but what it does mean is that investors need to be more careful and cautious and actually find the best opportunities and then have a strong value as strategy on top of that. So as you pointed out, we believe it's absolutely essential to know which market you're getting

Episode # 35
A Word from our Sponsors
June 4, 2008

in, why that market has potential, and then what strategy you need in each of the individual markets. That's essentially what our economic research provides.

Mosca: Britton you have about a minute and a half. I know you wanted to touch on something. I wanted to make sure you have some time to do just that.

Ebert: The important thing and it's basically just what I was touching on is that the returns the people were getting four or five years ago aren't necessarily reasonable today. Again, that doesn't mean that there aren't great returns out there but expectations of investors should shift. What they need to be is more careful in the due diligence process where they can find opportunities to buy a property at a reduced price and then they need to go into that property with a strong value strategy. They need to improve the operations and/or improve the physical value of that property. If that's combined with a strong and healthy economy in today's market investors will do excellent still.

Mosca: Britton Ebert, RealSource economist, I thank you for coming on Income Property Investment Talk.

Ebert: Thank you Peter.

Mosca: Dean, that was a great show learning from the professionals at RealSource how to invest well in real estate.

Essa: What about next week?

Mosca: Next week, we'll have Dr. Jim Gillespie. Jim is going to be talking about the top five activities that successful commercial brokers are doing right now. We're going to expand upon those. He's known as America's real estate coach so we thank him for coming on in advance of his show next week. In recognition of my cousin Paul, I want

Episode # 35
A Word from our Sponsors
June 4, 2008

everyone to get out and make sure they register to vote and do their responsibility this coming November. It's a big election.

Essa: It is. Just remember Income Property Investment Talk where your co-hosts are extremely good looking.