How To Increase Your Real Estate Earnings

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TRUMP UNIVERSITY
SPECIAL REPORT

Table of Contents

I. Introduction

As a real estate agent, you have an unparalleled opportunity to benefit from real estate investment. First, you can boost your reputation and sales by learning how to pitch the investor market. More importantly, you can establish your own multiple streams of income by making property investments of your own. You're in a great position to do so. Few people have access to the kind of information that you do. With education and knowledge, information becomes foresight, and foresight becomes profit.

More and more, agents and brokerage firms are approaching real estate like entrepreneurs. Thinking like an investor helps you to "business plan" your operation, with definable objectives and strategies to help you succeed. I hope you find the information in this report to be useful as you create your own business strategy, using the tools already at your disposal.

II. Real Estate Agents: Untapped Potential

As a residential real estate agent, you're on the frontlines of the real estate market. You have access the kind of juicy, up-to-the-minute information that investors crave. The question you should ask yourself today is: Am I using this intelligence to my advantage? In pursuit of the next sales commission, it's easy to let other opportunities fall by the wayside. I'd like to show you how to maximize your potential. If you want to expand the breadth of your business and generate more personal wealth, you can do so in the following ways:

- Buying and selling properties
- Providing clients with investment consultation

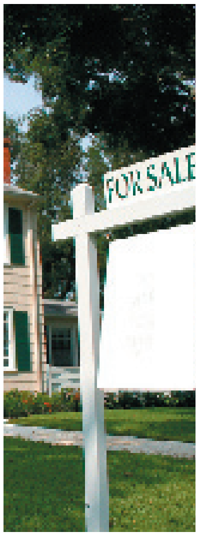
These activities will advance your reputation and direct business your way. But first you have to think like an investor. When you're walking through a property with a prospective residential homebuyer, you may tend to focus on features that seem to accommodate the person's lifestyle: the brand-new maple floors, the walk-in closets, or the spacious outdoor patio. This approach might be appropriate for the situation, but it wouldn't pique the interest of an entrepreneurial investor like me. I'm only concerned with features as they relate to my financial opportunity. The areas that interest me are: rent levels, property expenses, tenant turnover rate, vacancies, and the performance of comparable properties. Like most investors, I try to keep my emotions in check. I don't think in terms of aesthetics, but numbers. The bottom line: What is the return?

As the market changes and becomes more competitive, successful residential sales agents will be those who think like investors, who identify and utilize the types of resources used by investors to make critical decisions. In some parts of the country, the days of putting up a "For Sale" sign and watching the bids roll in are past. More than 700,000 real estate agents have entered the marketplace over the last five years. This translates to more agents chasing fewer sales when there is a downturn.

By arming yourself with real estate investment knowledge, you acquire a two-fold advantage over other agents. First, you enable yourself to better serve small investors, a market that accounts for 10 to 30 percent of all one- to four-unit residential sales (large commercial investors typically deal with specialized agents). The more you can cater to the small investor population, the more you will distinguish yourself from other buyer's or seller's agents. Second, and more dramatically, an education in real estate investment gives you the tools you need to become entrepreneurial investor yourself.

I was recently in Minneapolis, a market that has appreciated enormously over the years, and I chatted with a knowledgeable, experienced real estate agent. "You must have really made some money over the years," I told him, thinking my comment to be rather self-evident and benign. Needless to say, I was surprised when he replied ruefully, "I don't know why I never invested. I could have been a multi-millionaire many times over." His story is not unique. Studies have shown that the majority of real estate investors do not invest heavily in real estate. It brings to mind a famous quote from Henry David Thoreau: "To regret deeply is to live afresh."

Retirement is not the time to harbor feelings of regret, which is another reason to start thinking seriously about real estate investment. If you are working as an agent, you're most likely working as an independent contractor with no pension for retirement. Real estate investment can fill this gap by providing a sustainable, higher-yield source of retirement income, a fiscally prudent supplement to a 401(k) or IRA. Of course, smart investing requires strategy backed by education.



III. Return on Investment Education

Most real estate agents don't recognize why they need to understand investment fundamentals. I'd like to help change that. There are many ways investment can help you grow your business. They include:

1. Repeat Business. When somebody buys a home, they tend to stay put for years or decades. Investors buy and sell more frequently.

2. Referrals. Since so few sales agents know the language and valuation techniques of investing, knowledgeable agents will make a name for themselves among the great majority.

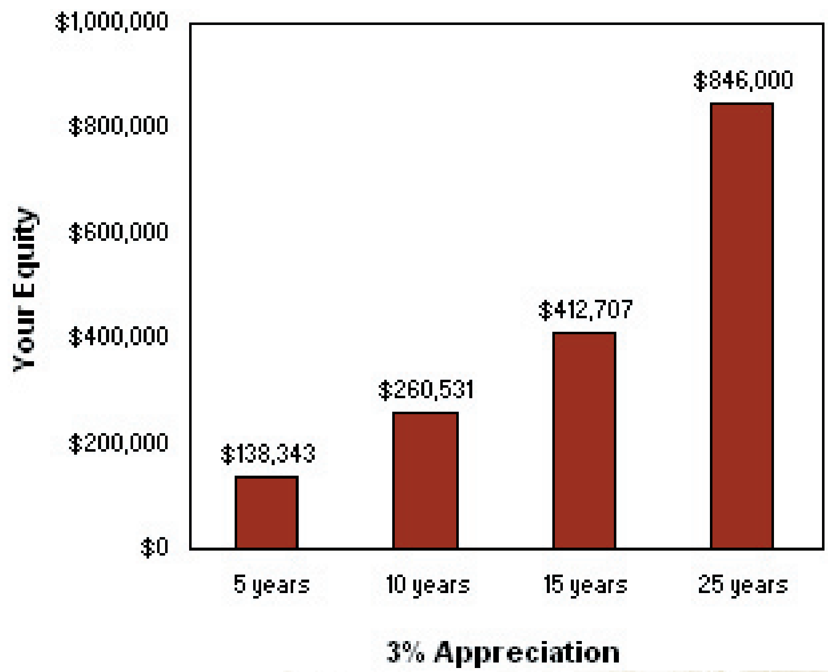
3. Consulting and Appraisal Fees. Investors, mortgage lenders, and developers pay for market knowledge and investment expertise, yet they routinely get this information from non-(sales) licensed market consultants. If you can think beyond the immediate commission and market yourself as a consultant as well as an agent, you'll foster trust and relationships that will generate more clients and commissions.

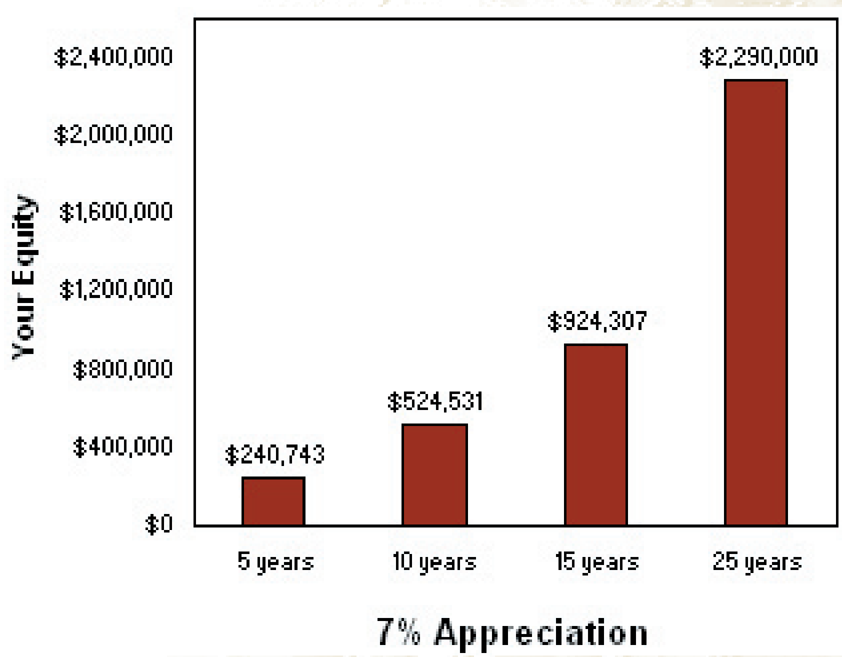
4. Commercial Real Estate. Commercial investment real estate offers the opportunity for bigger deals and more reasonable work hours. With a working knowledge of small investment fundamentals, you can learn to apply these techniques to bigger and bigger projects.

5. Investing in Real Estate. In addition to the cash flow you earn in rents, real estate wealth grows through property appreciation and mortgage amortization (paying back the amount you borrow with the rents you collect). Together, appreciation and amortization turn acorns (small down payments) into oak trees (equity that multiplies 5, 10, 20 times, or more).

   For purposes of illustration say you buy a $400,000 fourplex and finance it with a 90% loan at 6.5% interest for 25 years. You think this property will appreciate at a minimum rate of 3% a year, but that could increase in value by as much as 7% a year. Under this range of assumptions, you can see that after just 5 years, your original equity of $40,000 will grow to at least $138,343. And at an appreciation rate of 7%, your equity after 5 years would reach $240,743.

Growth In Equity





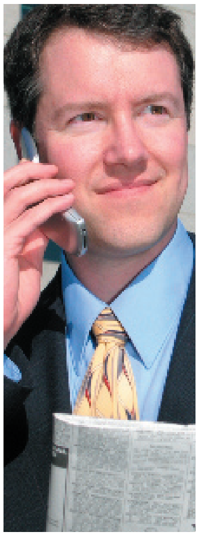
Study these amounts of equity growth. You can't help to realize that a huge multiplication of original equity does not require heroic assumptions about the rate of appreciation. Rather, the figures reveal the enormous power of leverage.

Now for further comparison, assume that instead of buying this small income property, you invested your $40,000 in stocks and earned a 10% net rate of return. Here's how your $40,000 would grow:

<u>Stock Returns @ 10%</u>

Today	5 Years	10 Years	15 Years	25 Years
$40,000	$56,000	$108,280	$178,120	$482,240

Even when you contrast your stock market wealth to the equity you could earn with just 3% per year of property appreciation, the property wealth wins by a long shot.



IV. Think like an Investor

As I stated before, smart investors are concerned with a property's features only in terms of their capacity to generate wealth from that property. You could help investors and win their loyalty by providing them not just with a property's qualitative attributes (big kitchens, cozy fireplaces), but the kind of quantitative information that helps them make decisions. This includes:

1. Rent Levels. What level of rent are tenants paying? This information helps investors project the income they can extract from the property. A few months ago, a real estate agent in Florida was unable to provide me with this easy-to-find data. Avoid that embarrassing situation if you want to be taken seriously.

2. Property Expenses. Prepare a detailed breakdown of the expenses associated with a property, as well as those of comparable properties.

3. Tenant Turnover. How long do tenants typically stay on the property's rent rolls? How long do tenants remain at comparable properties?

4. Vacancy Rates. How many tenants currently live in the building? Are there vacancies? What's the vacancy rate for comparable properties? Be prepared to specifically define "comparable." Think in terms of market segments. Are you going to compare the property to others with two-bedroom units? Are your comparables in the same neighborhood? Don't just say the vacancy rate is 6 percent.

5. Zoning. How is the property currently zoned? Are you aware of any potential zoning changes on the horizon?

When you think like an investor, it's important to remember that possibilities create value. A novice investor might look at a five-bedroom, two-bathroom home in a developing area and think it's "too big" to sell. When you look at the same property, you may think "college rental" or "home office," considering all of the possibilities associated with a big house. The novice investor might shy away from a huge and seemingly unusable basement. As an entrepreneurial-minded investor, you might think about putting in storage lockers and renting them out. With the right imagination and know-how, an extra-large yard can be viewed as a parking lot. Entrepreneurial investors always think about revenue-producing opportunities.

When dealing with investors, you will win esteem when you can talk about a property's appreciation potential rather than past performance. I've had conversations with agents who have tried to persuade me that I should invest in a neighborhood simply because it has appreciated 10 percent for each of the last five years. I've watched real estate markets long enough to know that if an area's been consistently appreciating at 10 percent each year, chances are it's going to slow down and some other area is going to take off. Most cities in the U.S. have a neighborhood that turned around: Wicker Park in Chicago, Williamsburg in New York City, and South of Market (SOMA) in San Francisco immediately come to mind. Entrepreneurial investors look where a neighborhood is headed, not where it has been. As an agent, you'll have more success if this is the manner in which your frame your conversations.

V. The Insider Advantage

I was at a bookstore recently and asked one of the clerks if they carried a particular title. They didn't, the clerk informed me, and that was the extent of our exchange. He didn't bother to log my request, so there was no record of the inquiry. If every clerk acted accordingly, the store's management wouldn't know if a dozen or a hundred other customers had asked for the same title. This simple example illustrates how record-keeping can help reveal patterns and unanticipated opportunities. When you start to think like an investor, you'll realize how much of the market information that comes your way can be used to your advantage. This includes:

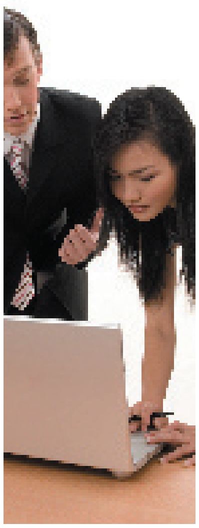
- Sales values and inventory data. Investors are always looking for the most up-to-date comparables (sales values), and revealing information about a neighborhood's "inventory" of properties. A rising inventory may increase property values via residential and commercial revitalization. A rising inventory can have a negative effect on property values, though, if housing supply outstrips demand.

- Pending contracts/contract fallouts/rejected offers/bidding battles. You'll know which properties are on the market before anyone else, and you'll be aware of bidding wars, which are oftentimes indicators of a hot market.

- Time on market. Time on market also tells you how hot the market is. A short time on market indicates a neighborhood on the rise, while longer time on market indicates a neighborhood in which values are stagnating or decreasing.

- Financing knowledge and contacts. You should get to know mortgage lenders and brokers and familiarize yourself with their policies. That way, you'll know about the best financing deals when you are counseling clients or considering investments of your own.

- Buyer, tenant, and seller preferences. Pay attention to buyers' and tenants' preferences so you can use this information to make your own properties more attractive through improvements. Similarly, you should know what sellers prefer so you can make attractive offers.



VI. Data Collection, Analysis, Synthesis, Interpretation

A real estate agency newsletter that features holiday recipes and lifestyles articles alongside a photo of a real estate agent may soften the image of sellers in the eyes of first-time homebuyers, but it does little to enhance credibility in the eyes of an investor. To become an agent/consultant/investor, you need to keep systematic and thorough records. You may consider creating an archive of file folders and/or maintain spreadsheets on your computer. Patterns will emerge as you collect and synthesize data. You'll notice an increase in property values in an unexpected neighborhood, for example, or a decrease in time on market. Your job as an investment-minded agent is to ask "What am I seeing? What do these data signal?"

The more you support your advice using real market data, the more buyers and sellers will lend weight to your opinions. When I go to property shows around the world, I sometimes run into agents who have little substantive basis for their claims about a property. They merely rehash what they've heard from others or read in the newspaper. If you want to think like an investor, you should be proactive, constantly on the lookout for patterns that emerge from the data you collect. You can use this information to take any of the following action steps:

1. Buy or Sell. With well-reasoned information to guide you, you're in a position to buy and sell properties.

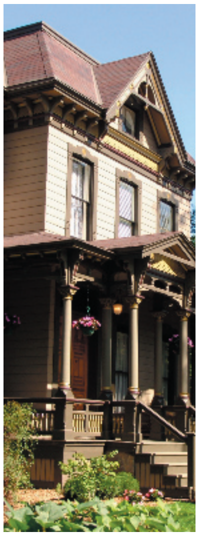
2. Notify customers. When you spot opportunities you can justify through your research, hit the phones, and advise clients to buy or sell accordingly. They'll appreciate that you've been doing homework on their behalf.

3. Raise/lower prices or rents. A typical seller's agent will list whatever price his or her client suggests. The agent will wait 45 days before suggesting a decrease in asking price. The investment-minded agent should be much more proactive, actually recommending prices or rents based on the facts at his or

her disposal.

4. Property modifications. To maximize value, you should recognize how properties can be improved. If you're acting as a buyer's agent, you can recognize the hidden profit potential of a property. If you're acting as a seller's agent, you can advise clients how to maximize the attractiveness of their offer. Let's say, for example, that you know apartments with fireplaces rent for $75 to $100 more each month and that a fireplace can be installed for $2,500. That fireplace would pay for itself in a year and a half — a smart investment for whomever is controlling the property.

5. Modify lease clauses/terms. You can always modify the terms of a lease to make it more favorable to the buyer, the tenant, or both. For example, one university-area property owner began allowing his college tenants to sign 9-month leases rather than 12-month leases. The students liked it because they didn't have to worry about summer sublets. The property owner liked it because he was able to recoup the lost summer revenues by raising rent for the remaining nine months.



VII. Techniques of Valuing Deals for Investing

Determining Market Value

To speak the language of investors, you should familiarize yourself with the different methods used to estimate a property's market value, which is the most probable selling price of a property. As an agent serving the investor market, you need to expand your knowledge beyond the comparable sales approach to valuing properties. Specifically, you should be familiar with the following methods:

1. Cost. To determine a property's total value, use this formula: Estimated cost to build the property at current prices – depreciation + value of the lot.

2. Income Capitalization. Determine the amount of income that a property will generate annually, and estimate how much you should pay for that stream of income using a capitalization rate that is dictated by the market.

3. Cash-on-cash Return. This is the annual return on your down payment.

4. Pro-forma and sensitivity analysis. Projecting operating income and estimating returns.

VIII. Multiple Roles: Ethical Issues

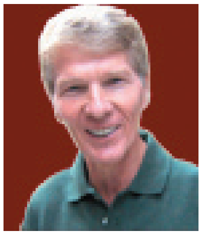
As you probably know, when you represent a client, it violates the law of agency to pass along confidential information that could benefit the other party at your client's expense. When you begin to invest in properties on your own, however, there's nothing preventing you from taking off your agent hat, putting on your investor hat, and saying something along the following lines: "You know, Mr. and Mrs. Jones, I don't just represent buyers and sellers. I also invest in properties. From what I've heard from you, I think I might be able to help you out. If you would like to bring in another agent and attorney to represent you, I think we can work out a deal that you'd be happy with."

Being upfront about your role and motivations will mitigate most problems. Your brokerage firm will have its own rules own rules and policies regarding ethical agent behavior. In any event, you should be familiar with the law of agency in your state and the licensing rules and regulations which govern all relationships. In the state of Florida, for example, no agent can buy a property without telling the seller he or she is an agent. Conversely, if you are selling your own real estate, you would have to disclose that you are an agent.

Another thing you can do is put together partnerships with investor clients by folding your commission into the deal. There are pros and cons to doing this, but beginning investors will certainly be impressed if you're willing to leave your commission in a deal to reduce cash out of pocket.

IX. Conclusion

Agents who are entrepreneurial investors will better serve their clients and create more personal wealth. An education in real estate investment can help increase your reputation as an agent, build your base of clients, and open the door to investment opportunities of your own. You already have access to the tools and market knowledge to execute your new and more profitable business plan, you just need to know how to put them to use.



About the Author

Gary W. Eldred, Ph.D., is a member of Trump University's real estate faculty. He has worked as an investor, consultant, professor, and author in the field of real estate for more than 25 years. He frequently speaks at major investment conferences and has been interviewed/consulted by journalists at CNN, BBC, Fortune, The Wall Street Journal, The New York Times, and many others. Dr. Eldred, has authored 21 books, including Investing in Real Estate and the series, "Make Money in Real Estate." He has also written or co-written three college textbooks and many academic articles and research papers. Dr. Eldred began acquiring properties at age 21, and today his properties include residential rentals as well as ownership interests in office buildings, shopping centers, and apartment communities. As a real estate consultant, Dr. Eldred has served Fortune 500 companies such as Wells Fargo, Georgia Pacific, and Century 21, as well as entrepreneurial investors and property developers. He has held faculty positions in the graduate business programs of Stanford, University of Illinois, and University of Virginia. He has also taught urban land economics and real estate investing at the University of British Columbia, and the American University of Sharjah in Dubai.