



Next Monthly Meeting

To Be Determined

*Please see page 3 for details on the next tentative meeting about **Lead Based Paint***

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Notice

- If you wish to see an article pertaining to a certain subject or if you would like to publish one, please contact Julia at the main office.
- In attempt to decrease costs and paper waste, we will now send your newsletter to your email if we have your address on file. If you need to update your address or wish to continue receiving a paper copy of the newsletter, please let us know as soon as possible. jtyrrell@innovativehousing.org

Tell me and I'll forget; show me and I may remember; involve me and I'll understand. People are more likely to rent when they are involved in the leasing process, truly understanding the value your property offers to them. How do you involve your prospects in the process? It's simple, by creating a "selling" environment.

It is vital in today's competitive apartment rental market for leasing professionals to learn to turn a "telling" environment into a "selling" environment. So what is the difference? When a leasing professional tells, they're merely reciting information memorized off of the property's brochure with creating a connection between the amenities and the benefits those amenities offer the prospective renter. This is known as the leasing robot or "feature dumping." However, when a leasing professional "sells" during a tour, he or she creates a bridge connecting amenity with the benefit for the prospective renter.

Feature-Advantage-Benefit

Here's an example: While touring through a vacant apartment, you walk through the living room and simply point out the ceiling fan and then move on to another room. What opportunity was missed? A leasing professional who is "selling" uses the technique called feature-advantage-benefit (FAB). When pointing out the ceiling fan, ask the prospective rent to turn on the three-speed control switch (**feature**) and then mention that it's a great way to cool down the room in the summer or to disperse the heat in the winter (**advantage**), and then follow-up by reminding the prospect that this will save them money by reducing their electric bill (**benefit**).

This technique accomplishes two things:

- 1) You create value! The more value you create during your tour, the less price becomes an objection!
- 2) Your prospect becomes involved with the tour, connecting the value your apartment community offers them. When you involve your prospect during the tour using FAB, your chances of scoring a signed lease increase dramatically.

Tip: Here's a great exercise for your team. In one column, list all of your property's amenities and features. In the next column, list the advantage of each amenity or feature. In the third column list the benefit to the prospect. Once this is complete, role play these findings with your team. The more naturally FAB is integrated into your leasing tour, the more successful you and your team will become.

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From The Voice, April 2010



Many members have reported that they are confused over some of the specifics of the new Renovation, Remodeling and Painting Rule (RRP). One of the areas of confusion is the difference between a "Certified Renovator" and "Certified Firm."

After April 2, 2010, rental property owners who do their own renovation, repair, or painting of surfaces that contain lead-based paint in housing built before 1978 must be:

Certified as a Certified Renovator;
Follow lead-safe work practices;
AND become a Certified Firm.



Any employee of the property owner may simply become a Certified Renovator and work under the supervision of the owner that is both a Renovator and a Firm. An employee is anyone that receives a W-2 form from the Owner/Firm. Someone that works for the owner but receives a 1099 is considered a subcontractor and must have their own certification as a Renovator and Firm.

To become a Certified Renovator, rental property owners must complete the 8 -hour training approved by EPA called "Lead Safety for Renovation, Repair & Painting." This training covers the use of lead-safe work practices.

To become a Certified Firm, the owner must apply to the EPA to be a "Certified Firm." To do this, they must submit an application for Firm Certification and a fee of \$300 to the EPA. The EPA has up to 90 days after receiving a complete request for certification to approve or disapprove the application.

Certification for Renovators and the Firm is good for five years. After that time, Renovators must take a refresher course, and the Firm must pay a renewal fee for certification.

In short, if you are a landlord and own properties built before 1978 and want to work on your own units, you should become both a Certified Renovator and Firm. The alternative is to hire a Certified Firm and Renovator to do the work for you.

NOTE FROM E.M.R.E.I.A.

Our organization is in the planning process of sponsoring a meeting on this very important topic so that we may go into deeper detail and address any questions or concerns you as a property owner may have. If you would be interested in registering for this meeting, please contact our office. The date, time and location of the event will be determined at a later date once we get some feedback.

Introduction

Common elements in most of the thousands of landlord-tenant court opinions that I have analyzed over numerous years provide guidance that can help keep landlords out of court and win lawsuits that do occur.

The most basic advice is to treat tenants the same way that you would like to be treated and maintain rental property the way that you would like your own home maintained.

Tenant Screening

A significant number of lawsuits in which a tenant has not paid the rent or has violated his or her lease in a way that justifies an eviction and/or a landlord to compensation involve a tenant who provided false or misleading information on his or her rental application.

I advise landlords to follow the Ronald Reagan policy of "trust by verify" and the Nancy Reagan philosophy of "just say no" regarding iffy rental applicants. The reason that some dishonest people are called con artists is that they are good at getting your confidence and exploiting that trust.

I recommend checking every reference that a prospective tenant provides and being careful if something does not seem right. Red flags would include an unusually large number of moves or not listing a current landlord as a reference. I would be cautious as well if any good comments that a reference

provides seem insincere.

Difficulty paying the rent and the security deposit that are due upon entering a tenancy is another red flag.

Treat Every Tenant Equally

It has been a long time since I have shared my philosophy that disliking anyone for any reason is perfectly permissible but you cannot act on this in any way in a business setting. This is highly relevant to our current topic.

It seems that most courts will give both landlords and tenants a great deal of leeway regarding many types of legal disputes; in fact, I have been surprised that some tenants have been allowed to continue living in a rental unit despite violating multiple enforceable agreements to pay their rent in a timely fashion and that landlords have received undue opportunities to remedy uninhabitable conditions.

However, courts tend to be far less lenient regarding a claim that a landlord has committed unlawful discrimination regarding approving a rental application or providing a tenant services. Tenants often provide proof that landlords told politically incorrect jokes and made inappropriate comments to any tenant or building person to support a discrimination claim.

A landlord who cannot provide adequately creditable proof of a valid nondiscriminatory reason for not



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STRATEGIES - *continued from pg 4*

treating every rental applicant or tenant the same will almost certainly have to pay all of the large fines and penalties associated with such an offense, compensate the affected tenant(s) for the damage that the unequal treatment caused, have to post notices regarding tenancy-related discrimination laws around the rental property, and participate in training regarding these laws.

Documentation

A lack of specificity is often fatal to a legal claim or to a defense to one. Examples of this include statements that a superintendent responded to repair requests by the tenant timely, that the tenant received several lease notice violations.

Keeping written records of all these things and anything else related to communications with tenants is very important so that you can provide dates of events and other specific relevant information about matters.

An abbreviated example of one incident in a proper claim or defense would be:

Henderson, a tenant, told Jones, the building manager, on January 29, 2009, that Smith groped Jones in the elevator the day before and told her that she had a "nice rack." Jones wrote Smith a letter, which was submitted to the court regarding an

eviction lawsuit, the next day that stated that the incident violated the lease provision that prohibited directing unwanted and unwelcome behavior at a fellow tenant. The letter stated too that Smith would be evicted if it was found that he engaged in any similar behavior at any time during his tenancy.

Such documentation helps support a specific claim or defense and also can help your case generally by showing the court that you keep proper records.

Bottom Line

The sad truth is that our litigious society makes a strong case for taking the attitude that anything that you say can be used against you in a court of law, including business dealings with tenants.



When you buy distressed properties, adding liquidity to illiquid situations to make transactions work, risking your cash and your credit, you hope to make a profit for taking those risks. But exactly how much and when do you make your profit?

The book *How to Make Money Fast Speculating in Distressed Property* suggests that you must engineer the transaction and plan it so that you can make a profit by reselling in the current (depressed) market. Sure, it's good if you can afford to hold 5 to 10 years or longer.

But it would be a blunder to buy at full ticket current market, based on what houses might bring in 2016 or 2022. You're looking for deals below the current 2009 market.

Here are more valuable parameters. During the late 1980s to early 1990s downturn, the Resolution Trust Corporation was set up to get rid of a glut of foreclosed properties that overloaded S & L's and banks. The FSLIC had so many bad loans and payouts that it had to be folded into the FDIC and the FSLIC disappeared.

The TRC was set up by William Siedman, CPA to sell and auction off these REOs (Real Estate Owned by banks and lenders). How much money did the TRC get when it Auctioned those properties?

After the dust settled, it turned out that the TRC realized average 59% of low appraisals on buildings including homes. Auctioning and selling vacant land, the RTC realized 41% of low appraised values. That is what properties sold for. Do you think that is high or low?

Our clients who bought properties from the RTC did very well during the remainder of the decade of the 1990s and beyond, well into

the 21st century boom in real estate.

More Keys to Profit

Stick to modern properties. You don't want a teetering 90 year old termite-ridden wreck with a sagging foundation, where the doors don't close and the windows are ready to pop. You want modern buildings up to code.

Look for locations near the major job centers within commuting distance. Something that is cheap because it is not within commuting distance of major metro job centers will stay cheap. Remember to avoid these. This is common sense.

Useful Yardsticks

Here are some "yardsticks" I use when making offers based on the current market. You're going to have real estate expenses, whether you sell now in this market or in a future market. Therefore, when you are the reseller, expect to pay a broker's fee of 6% to 10%. You'll also have to pay for Title Insurance; you'll pay 50% or more of escrow expenses. Right out of the gate, you'd better figure out 10% below the current 2009 frozen market appraisal just for resale expenses.

You will also have repair expenses, depending on the condition of the building. Expensive items are new roofs, new heating, new air conditioning, foundation repair, plumbing and electrical wiring. It is also expensive when the homes or buildings have been trashed with kicked-in walls, graffiti and smashed windows and when appliances have been stolen. Also, if it has stood vacant for an extended period of time, additional work may be needed, such as new heating and air conditioning units along with new plumbing. Former occupants often vandalize and wreck buildings as do squatters and thieves.

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Special Notice!



Beautiful weather is upon us and the demand for vacation getaways will soon be in full force!

E.M.R.E.I.A. in the process of possibly creating an online database of vacation properties in the Blue Water Area that can be accessed by vacationers.

If this is an area of interest to you, please contact our office so that we may begin to compile an inventory.

Waterfront and/or Non-Waterfront Properties
Seasonal and/or Yearly Lease Agreements

In order to kick off this idea, we need feedback!

Give our office a call
at (810)385-2332



Profit-Peak Vital

Therefore, before you estimate 5% or 10% or more for necessary repairs before resale and occupancy, you must do an inspection of the premises. Maybe it looks OK on the outside but from the inside or up on the roof it may be a house of horrors.

Don't cut corners on inspections. You can't afford to buy site unseen as some real estate advisors will suggest.

Don't buy blind. Suppose you can't get inside to inspect. Then your repairs discount from appraised value should err on the high side, not the low side.

Since you wish to make a profit for risking your cash and your credit and your carrying costs until date of resale, when you actually resell for a profit, you should probably look for a 20% profit, more or less, based upon your final 2009 purchase price. If you can make 20%, why bother? There are other competitive fields out there where you can earn substantial money (10% to 18% on Tax Lien Certificates), without going through all the hassle of actually owning distressed property.

Therefore, if you're buying a vacant property for \$200,000 after all deductions for repairs and resale expenses, you should be hoping to resell it at least 20% higher than the total you paid, over and above your cost of ownership.

How Long Until Money Flows to You?

You'll have to estimate your holding period until you can resell it. During that time, you'll be responsible for paying property taxes, insurance plus interest on any mortgage that you can arrange. If you estimate your holding period at 36 months, you'll have three years of property taxes, insurance and interest. If you don't cover these

costs, how can you resell at a profit? Properties do take much longer to resell in this depressed market than in a boom market where buyers are lined up; something that happens only 10% to 20% of the time!

Forced Sales

During the 1990s, the market in Japan, as well as in the U.S., turned soggy. Japanese banks and execs had been buying trophy properties in the U.S. during the late 1980s just to own them: famous buildings and famous golf courses, etc. But when the recession hit, many of the lenders in Japan not only had to sell trophy properties at steep discounts, but the ones that could not be sold were carried as bad loans for up to 15 years pretending they were good loans. This delayed recovery from the recession in Japan by many years!

You don't want to be placed in that position. For example, if you plan on buying a property for a profit and then reselling you may misestimate the necessary holding period by several years. Instead of three years, maybe it will take five or seven years to resell.

In this particular area, after the January 17, 1994 earthquake, properties in the Northridge earthquake zone could not be resold for up to seven years. That's how long it took new buyers to "forget." (Even though many of those properties had been completely remodeled, refurbished and redesigned with big bucks so that they look like new!) Therefore, you want to estimate your potential holding period to be as accurate as possible.

What's Cheap, What Isn't?

According to my experience, here is what is not acceptable at a cheap price: bad locations,

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zoning problems, remote properties, obvious disadvantages such as bad neighbors (or junkyards, tanneries, landfills, etc). Avoid these. You're prospecting for profits and need-to-sell properties because they have to be sold for other reasons, such as to raise cash, settle estates, settle mergers and court orders, asset liquidations by bankrupt companies and creditors, divorces, lawsuits and government orders.

Just because something is priced below replacement cost doesn't mean it is well designed. In a costly energy-environment, you don't want buildings that have very high ceilings, leftover pollution from gas stations and chemicals and chromium or lead discharges. You don't want the government coming in and making you part of a superfund clean-up site before you can resell the property! You're looking for properties that must be resold for other reasons, usually financial but often other kinds of liquidations.

Cut Your Standards?

I get all kinds of calls in where people want me to approve or "bless" their transactions on poorly located properties. Hopefuls may come to me with a bargain half-vacant office building that is off the visible main drag, the arterial highway, located a couple of blocks away where it is nearly invisible to potential buyers and tenants. Or someone may call me about a near-foreclosure remote desert property, too far from the major job centers to commute. Those properties are cheap for very good reasons. I predict they will remain cheap.

For example, on multiple properties, sometimes buyers will try to cherry pick the best one out of three that is on a corner, so that if you sell that one lot to the buyer, you're stuck with the two non-adjacent lots nearby that aren't on a corner and might have inferior zoning position in

immediate future. Tip O'Neill, former Speaker of the US Senate, used to say, "All politics are local." I would paraphrase his saying to, "All real estate is local." Think location, location, location and not at platitudes and generalities such as saying "South Florida will grow when the recession is over" to justify an imprudent current purchase. Don't lower tested, proved standards - lower harder.

How to Buy Cheaper Than Cheap

Valuable Tip: On properties that are nearing foreclosure (and therefore listed cheap); I sometimes have to tell clients, "Wait up! Let the property foreclose. Then, after the lender bids the price of the mortgage, you can go to the acquiring lender a little later and offer him 20% below what he paid at the mortgage foreclosure auction as an REO."

How to Get Sellers to "Eat Paper"

Furthermore, I often have to tell my clients to quit scrambling for a mortgage. If you're going to buy an REO from a lender who foreclosed, ask the lender to finance 80% to 90% of the purchase (even though you can afford a large down payment or all cash). Tell the foreclosing REO owner that he out to lend to you because:

- a) you'll pay property taxes and insurance instead of him
- b) he'll get immediate cash from you 20% down payment
- c) he'll be earning interest instead of paying interest on borrowed money
- d) you plan to improve that property, sink money into it (that he won't have to) to bring it up to modern resalable standards, lessening his REO risk for the loan

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AROUND THE NATION

Tenant Claims Wrongful Eviction Regarding Domestic Violence

Cleaves-Milan based the wrongful eviction lawsuit that she filed against her Illinois landlord on the landlord providing her an eviction notice in October 2007 after Cleaves-Milan received a protection order based on her report that her live-in boyfriend had shown her a gun and stated that he was going to end both of their lives. Cleaves-Milan asserted in her lawsuit against her landlord that the landlord based the eviction on the criminal activity of her boyfriend that she had reported.

The landlord responded that both the domestic violence that had occurred and concern regarding the ability of Cleaves-Milan to pay the rent after her boyfriend moved out prompted the eviction. Then landlord stated too that it tried to find Cleaves-Milan a less expensive apartment in the complex and that it never intended to penalize her for being a victim of domestic violence.

An Illinois law that will become effective in 2010 will prohibit a landlord from discriminating against a tenant who has obtained an order of protection from domestic violence.

Editor's Note: Victims of domestic violence are receiving increasingly strong protections against evictions and other adverse actions by landlords. These new laws are designed to encourage these victims to report these crimes; additionally, a landlord that asserts another reason for such adverse action must be prepared to prove that that reason actually motivated the action that the tenant challenged.

From The Voice, February 2010

CHEAP REAL ESTATE - *continued from pg 9*

After all, if he loaned a lot of money on that same property in the past, much more, he ought to be willing to lend you 80% or so of the current reduced price and loan amount. Wouldn't it be better for the lender-forecloser to have money and interest coming in and you paying the expenses rather than having the lender paying all that?

In a nutshell, this is how you sell "seller financing" to a former lender with a vacant REO!

John Kamin is a Consulting Economist and publisher of The Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356. (818) 345-4421. Forecaster Money-Letter publishes confidential reports about the future to benefit you, and makes decisions easier. It helps you profit, sidestep losses, enhance lifestyle and creates financial independence.

From The Voice, April 2010

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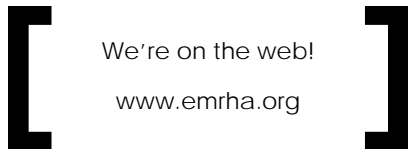
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