Eastern Michigan Real Estate Investment Association

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February 2013

Is That a Condo in Your IRA?

By Conor Dougherty

Most investors use individual retirement accounts to buy stocks, bond and mutual funds. Gordon Berger uses one to buy distressed homes and apartment buildings, which he fixes up and rents out.

Mr. Berger, a 70-year-old retired college professor who lives in Santa Monica, Calif., says the rental income he receives is the equivalent of a return of roughly 8% a year, after accounting for expenses. The income helps replenish his retirement fund even as he draws it down for living expenses.

"I had built that account for retirement, and when March 2009 came along I watched it lose 40% of its value," says Mr. Berger, who uses a so-called self-directed IRA. "I decided I didn't want to leave myself vulnerable by having all my retirement in stocks and bonds."

Self-directed IRA's give small investors greater leeway to invest in more-exotic assets than those typically offered by big IRA administrators, such as real estate and hedge funds, while still reaping the tax advantages of traditional IRA's.

By buying rental property, investors hope to capitalize on an anomaly in the housing market: Home prices are relatively low and rental income is relatively high, producing returns that are higher than in many other investments. It is a strategy that some institutional investors have been employing for the past two years.

Nationwide, the average monthly rent for an apartment was $1,048 in the forth quarter, up 0.6% from the third quarter and up 3.8% from a year earlier, the largest year-over-year increase since 2007, according to research firm REIS.

But there are downsides. The strategy can put investors at risk of violating IRA tax rules. And unlike mutual funds, which can be bought and sold quickly, homes can be tough to unload in an emergency. Cont. pg 2

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By Conor Dougherty

What's more, owning rental units can mean fixing damaged property and fielding midnight phone calls from tenants complaining about leaking faucets and the like.

Still, the practice is starting to catch on with small investors as they seek alternatives to stocks and bonds, which often are seen as either too volatile or with returns that are too skimpy.

New Direction, a Louisville, Colo.-based custodian of self-directed IRAs, says that in the past year real estate has made up about 45% of its investments by new clients, compared with about a third in the past. Jason Craig, president of **Entrust Group**, an IRA custodian in San Francisco, says that in 2012 IRA clients' real estate purchases increased since 2008, says Jeff Desich, chief executive of **Equity Trust**, an IRA custodian based in Elyria, Ohio.

That isn't to say using an IRA to buy rental property is easy. Investors are allowed the same freedoms-and headaches-as a typical landlord: They decide which house to buy, who they rent to and where the rents are set.

IRA holders must also comply with a web of complicated rules designed to keep them from using their retirement account to skirt tax law.

For example, all property costs and repairs have to be funded by the IRA account that owns the house, says Tom Anderson, president of the Retirement Industry Trust Association, a trade group for self-directed IRA custodians.

The IRA holder can't live in the house, even part-time, or put his own labor into maintaining the home. Violating any of these prohibitions can result in losing the IRA's special tax treatment.

Mr. Desich says his firm's typical self-directed IRA clients are people over age 45 who believe they can beat the market by investing on their own. They pay an annual fee to custodians, typically about 0.2% to 0.3% of the account's value. There also can be transaction fees on asset trades, usually a flat rate of no more than a few hundred dollars.

Growing Tax-Free

As with any IRA, assets in a self-directed IRA rise tax-free while held within the account. Withdrawals from the accounts, which are mandatory starting at age 70½, are taxed as ordinary income (unlike those from Roth IRAs). The income that is generated from the property has to stay inside the IRA account, just like a stock dividend or any other investment income, say Ami Givon, a partner at GCA Law Partners in San Francisco.

Only 2% of the $4.9 trillion in IRA accounts in 2011 was in self-directed IRAs, according to the Securities and Exchange Commission. But Clay Malcolm, director of business development at New Direction, says real estate is gaining momentum. "It's a physical asset [investors] understand," he says.

That is what attracted Tim Marshall, 59, a retired business analyst in Johnstown, Colo. When Mr. Marshall retired from Hewlett-Packard in 2005, he rolled over his 401(k) account into an IRA. Since 2009, he has purchased seven homes with about $700,000 from his IRA.

Mr. Marshall says he is getting an annual return of about 10%. Six of the properties he purchased had been in foreclosure. "Part of my purchasing strategy is take what the property sold for in 2005 and try to buy for no more than 70 [percent]," he says.

Unlike stocks and bonds, though, homes require a lot of oversight, including one tenant who moved in and never paid rent. Mr. Marshall took the tenant's deposit but still lost about a month's rent and had to spend about $500 repairing damage, such as a hole the tenant kicked in the door.

"If someone leaves and they stiff you for it, well, OK, I lost $1,000," he says. During the 2009 stock-market swoon, "I lost tens of thousands."■

Case-Shiller: U.S. Home Prices Continue to Climb by Meg Handley

Single-family home prices in the nation's 20 largest metro areas rose year-over-year in November by the most in more than six years, an industry group reported, adding further credence to the notion that the housing recovery is strengthening.

The S&P/Case-Shiller index of home values jumped 5.5 percent from November 2011, slightly missing projections from economists but still the largest year-over-year gain since August 2006, the report noted.

Prices on a month-over-month basis slipped slightly, but economists blamed the decline on seasonal weakness in real estate rather than evidence of a fundamental reversal of the housing recovery.

"Winter is usually a weak period for housing which explains why we now see about half the cities with falling month-to-month prices compared to 20 out of 20 seeing rising prices last summer," David M. Blitzer, chairman of the Index Committee at S&P Dow Jones Indices, said in a statement. "The better annual price changes also point to seasonal weakness rather than a reversal in the housing market."

But while experts anticipate prices to continue rising throughout the year, the tight supply of homes for sale could limit gains for the housing market overall. Pending home sales data from the National Association of Realtors released Monday showed a slight decline in contract signings, which real estate agents blamed on a lack of supply of homes for sale rather than demand.

Thus far, experts have credited the robust gains in the homes sales and property values to healthy investor interest in real estate, largely driven by the rising number of renters and rent prices coupled with low mortgage rates.

But as investors and hedge funds have dominated the market with cash offers on affordable homes, the available supply of homes has dwindled, pushing out the important set of first-time homebuyers. High levels of negative equity across the country continue to trap some would-be sellers in their homes, further constraining the supply of homes for sale.

"The supply limitation appears to be the main factor holding back contract signings in the past month," NAR Chief Economist Lawrence Yun said in a statement. "Supplies of homes costing less than $100,000 are tight in much of the country, especially in the West, so first-time buyers have fewer options."

Yun and others expect the strong spring real estate season will bring more homes on the market slightly easing the inventory issues, but overall, prices are still expected to head up for the rest of the year.

"We do expect appreciation for the full year of 2013 to be much more moderate as these home price gains pull some sellers back into the market and new construction picks up," Stan Humphries, chief economist at real estate website Zillow, said in an email. "Annualized appreciation will get even higher before the year is over."

But while the largest metro areas in the country are seeing healthy year-over-year price gains, the recovery overall is still fragmented. Real estate is appreciating much faster in larger cities with attractive investment options, better economies and stronger job growth, experts say.

"It's a further indication of a separation between the haves and have-nots," John Tashjian, principal at New York City-based Centurion Real Estate Partners, said in an email. "Only when consumers are able to enter the market through better financing and increased job growth will we see the rest of the country catch up with the larger Metro areas."■

Common sense guide to solving mold problems

by Austin Reid

Is Mold Testing Really Necessary?

In most cases, if visible mold is present, paying hundreds of dollars for mold testing is a completely unnecessary expense. A visual inspection and a little common sense will typically serve as the best indicator of a mold problem because most people know what mold looks and smells like. The best way to determine if a problem exists is for the landlord, property manager, or maintenance person to physically inspect the residence *before* calling in a professional. It is a good idea to take digital photos of any suspected mold that is encountered during the self-inspection for future reference.

Only in specific instances, such as cases where litigation is involved, a complaint has been made by an occupant but there are no visible signs of mold contamination, or health concerns are a problem, should mold testing be considered. Testing may also be considered after mold has been cleaned up to verify the process was successful. Bet even in these cases, it may be more prudent to trust your eyes, nose and common sense. Keep in mind that mold testing can become very expensive. If it is not absolutely necessary, time and money would be better spent trying to alleviate the problem by simply getting an estimate for repairs instead of paying hundreds of dollars to find out what you already know.

Conflict of Interest Tester or Remediator?

There is a common misconception in the industry that it is a conflict of interest for a company to perform multiple services such as testing and removal. There are companies that offer testing only, while others provide remediation (removal) services. Typically, the larger, full service companies will offer a wide variety of services. This is true not only in the mold industry, but in many other industries such as plumbing, electrical, automotive, just to name a few.

As an example, if you had or suspected a plumbing problem, you would contact a plumber to evaluate the issue and more than likely pay a fee or get a free estimate for that service and for his professional evaluation. You would also expect some sort of bid or estimate for repairs. If you agreed with the contractor's assessment and price to repair, you would hire them; but only after you have performed your due diligence by getting the customary two or three bids, second opinions and checked references of the contractors you are considering hiring. The question of a conflict of interest will ultimately be decided by the customer. If they have done their homework, checked licensure, etc., conflict of interest should not be a concern. It comes down to whether you trust your service provider. Ultimately, you have to go with your gut instinct.

Costs

The unpredictable nature of mold removal lies mainly in the fact that a lot of mold contamination is actually hidden behind walls, floors, ceilings, etc. and is unseen by the human eye. Costs or corrective actions will of course vary from job to job, but even the smallest remediation project will not usually be less than $1,000-because there are basic procedures, set-up and mobilization that have to take place with every project. Then there are standard overhead cost factors to keep in mind, such as contractor liability and Workers' Comp insurance. The EPA's website offers instruction on do-it-yourself mold removal projects that affect less than 10 square feet and should only be done if the homeowner is comfortable with the process and adheres to the recommendations.

Mold Removal Techniques

Common sense guide to solving mold problems by Austin Reid

The ultimate objective of mold removal is to physically remove the contamination, not to simply "treat" it. There is a common misconception that certain chemicals (i.e. bleach) will "kill" mold and solve the problem. The reality is that even "dead" mold spores can be allergenic if left on a surface. It is not recommended to use bleach or harsh chemicals as they tend to create an even more toxic environment than already exists. Therefore, mold abatement efforts should focus on safely removing building materials that harbor mold, and when physical removal is not possible or feasible, treating the surfaces in such a way that little or no spores are left behind, such as encapsulation (sealing) the area. Companies should use only EPA-approved green anti-microbial products that are effective in aiding the remediation process and follow the guidelines set forth in the EPA's Mold Removal for Schools and Commercial Buildings, as well as our current industry standard known as The IICRC S520 Guideline for Professional Mold Remediation.

Biggest Causes of Mold

Besides excessive moisture being the obvious culprit and usual suspect, deferred property maintenance is the leading cause of mold and water damage. It is very common to see buildings and homes that are fifty, sixty and seventy years plus with the same plumbing systems in place as when the structure was built! We see roofing and window systems in complete disrepair and sprinkler systems that water the building more than the landscape.

The list goes on and on but the result is the same: expensive repairs. We advise homeowners and landlords to inspect their properties a few times a year for defects and issues that can become major problems down the road. Often these small inspections cost very little and can save thousands. When it comes to mold, an ounce of prevention is truly worth a pound of cure.

Weather Related Mold Issues

Since we live in a very dry climate, mold problems as a result of weather related issues are the exception rather than the rule. Again, the problem usually stems back to poor or deferred maintenance, even when bad weather is involved. As an example, a poorly maintained roof or incorrectly installed window is more likely to leak under the stress of a severe storm. Prevention is the key.

Insurance Coverage

Insurance and covered losses vary widely. Some insurers have limited coverage for mold damage, and yet others have no coverage for mold at all. However, all insurers provide some sort of coverage for water damage or even mold if it is the result of a sudden, unexpected event such as a broken pipe or flooding that requires emergency service clean up. Since all policies are different, it is best that the owner check with their insurer and review their policy *before* a loss occurs.

Red Flags; Buyer Beware!

Unfortunately, every industry has a certain amount of unscrupulous individuals and dubious operators, with the mold abatement business being no exception. The customer should be aware of red flags such as "test only" companies that offer expensive inspections and unnecessary sampling (testing) to inflate the cost of an inspection, as well as mold abatement companies that are not licensed, bonded or insured.

The diligent homeowner should make sure that the service provider performing services has verifiable references and some type of industry certification such as (cont pg 9)

Michigan Post-Foreclosure Eviction Procedures

by Jason Gillikin

The eviction process for a homeowner in Michigan can drag on for more than a year, during which time the mortgage owner, the mortgage holder, the servicing company and the court system engage in an elaborate dance of fees, paperwork and hearings before a homeowner's mortgage is foreclosed. Once foreclosure is final, however, the eviction process is swift.

Foreclosure Process

The foreclosure process begins when the homeowner breaches contract. According to the Michigan State Housing Development Authority, most mortgage servicers begin the foreclosure process after a mortgage is 60 or more days overdue. The servicer begins acceleration procedures to recover the full amount of missed payments and applicable interest and fees. If the homeowner is unable to bring the mortgage current, the foreclosure paperwork generally begins, on average, 90 days after the original delinquency.

Sheriff's Sale and Redemption

Between 150 and 415 days after the original delinquency, depending on the servicer and the court system, the foreclosure process concludes by judicial order or by a sheriff's sale. The highest bidder receives a "sheriff's deed" that grants ownership of the property to the winning buyer after a mandated redemption period. During this period, which usually lasts six months in Michigan, the homeowner can pay off the entire mortgage plus applicable interest and fees and thereby retain ownership of the property. State law provides several exceptions to the process, including waiving the redemption period for abandoned homes. If the holder of the sheriff's deed paid any taxes on the property, the homeowner must reimburse those costs in full to avoid eviction.

Eviction Initiation

When the redemption period ends, the holder of the sheriff's deed obtains lawful ownership of the property. If the original homeowner refuses to surrender occupancy of the property, then the eviction cycle is identical to that for rental properties: The new property owner files a request for eviction with district court, the court conducts a hearing 10 to 20 days after the court serves notice to the defendant and the court issues its judgment.

Eviction Completion

The occupant must surrender the property within 10 days after the eviction judgment. If the occupant still refuses, the new property owner may request a Writ of Restitution signed by the judge that authorizes a court officer—usually, the local sheriff's department—to accompany the new property owner to the house to forcibly remove the occupant from the premises. If any personal property remains inside the house, the new owner may transport it to the curb.■

What Happens After a Redemption Eviction in Michigan?

By Chris Newton

Foreclosures affect both homeowners and tenants. During the foreclosure process in Michigan, the house is sold. However, before the buyer can take ownership of a foreclosed home, the current owner is allowed a redemption period of six months. During this time, the owner has a chance to catch up on payments and regain the home. If you rent a house that is going through foreclosure, your lease is valid in Michigan until the redemption period is over.

Michigan Foreclosure Process

The foreclosure process for homes varies from state to state. In Michigan, when a homeowner becomes two or three months behind on payments, the bank may begin the foreclosure process. The initial process in Michigan takes about six weeks. A sale or auction date for the home is chosen and must be advertised in a local newspaper for four straight weeks. Notices are typically posted on the home as well. Then, the sale or auction occurs, and the home is sold to the highest bidder, which often ends up being the bank that financed the mortgage loan. However, the owner still has a chance to regain the house through the redemption period, which takes about six months. At the end of that redemption period, all tenants must leave the house unless the owner was able to pay back enough debt to regain ownership.

Eviction Process

If you stop paying your rent, your landlord can evict you from the house, regardless of whether the house is in foreclosure or in the redemption period. However, if you are renting or own and live in a house that has gone through the redemption period, you typically have 30 days from the end of the redemption period to move out. If you do not move out during those 30 days, you will likely receive an eviction notice and might be ordered to appear in court. It is best to move out before the 30 days are up to avoid any legal issues.

House Payments

Technically, your lease is valid on a house until the eviction proceedings begin. Therefore, you should continue to pay rent on the home. Once you move out, you are entitled to receive your security deposit back, even though the lease likely ended prematurely. Michigan security deposit law protects renters from losing their security deposits on rented foreclosed homes. If you own the home and do not make payments during the redemption period, then you will accumulate more debt to the bank and likely lose the home after the redemption period. Some banks will allow you to set up a payment plan to pay back the past-due amount and keep the house. It is best to speak with your bank early in the process to learn about all your options as the homeowner.

Next Steps

After a redemption period and eviction, you will need to find a new home. If you were the homeowner, getting a new mortgage loan will be difficult because of the recent foreclosure on your record. Renters will have an easier time, since the foreclosure was not their fault, unless they missed rent payments which caused the foreclosure. Banks might come after the homeowner to recover any financial loss on the house after the eviction. Similarly, landlords might contact renters for any missed rent payments during the lease period, even after the process is over.■

7 home expenses renters don't pay

by Janet Fowler

When it comes to owning a home, the initial down payment and mortgage payments are just the beginning. There are a number of expenses that you should consider before deciding to purchase your first home. Many of these expenses continue for as long as you own your home-even after the mortgage is paid off.

1. Property Taxes

Property taxes are typically paid to your municipal or local government to fund such things as public works, wages of government workers or public school boards. Homeowners can expect to pay taxes on their home for as long as they own it. Taxes are assessed based on the current value of your home, and can change over time to reflect your home's increase or decrease in value. Property taxes can also vary depending upon the region, so you should always investigate the area you're looking to buy.

2. Home Maintenance

Homeowners can't simply call the landlord when the appliances need to be replaced or the hot water tank stops working. All these home maintenance tasks-and even the larger home renovations-are the responsibility of the homeowner. Whether you're planning a large remodeling project, or just to cover the necessary repairs, it is suggested that homeowners budget at least one per cent of their home's purchase value per year towards maintenance. Therefore, if your home is worth $220,000, you should plan to set aside at least $2,200 towards maintenance costs. Some sources even suggest you should budget for up to four per cent per year, which would be $8,800 on a $220,000 home.

3. Mortgage Interest

The amount you'll pay in mortgage interest over the duration of your mortgage depends upon the length of time you amortize your mortgage over (or the number of years that it will take you to repay your home loan), the frequency of payments and the rate of interest. The interest rate on your mortgage can fluctuate over time, depending upon the type of mortgage you select. However, for a general idea of how much interest a homeowner can expect to pay over the course of their mortgage, if you have a $220,000 mortgage that is amortized over 30 years at a rate of five per cent, you can expect to pay roughly $205,162 in interest.

4. Home Insurance

Renters may have to pay rental insurance, but homeowner insurance tends to be a lot more expensive. Rental insurance typically covers the contents of the unit you rent; however, homeowners are concerned with the value of the physical structure of their property as well. If a home is lost in a fire or natural disaster, insurance will cover the remainder of their mortgage, or the cost to rebuild or repair the home. Insurance policies offer different levels of protection and coverage, and premiums can vary greatly.

5. Real Estate and Legal Fees

The mere act of buying or selling a home comes with costs. The seller is generally faced with paying the real estate agent fees, which typically come in the form of commission. Commissions are negotiable, but tend to run about six per cent. If you sell your home for $220,000, you can look at paying about $13,200 in commission. Also, both buyer and seller must pay legal fees to cover the transfer of title. Legal fees vary depending upon the lawyer. Of course, the actual cost will depend on the requirements and the experience of the legal team. Real Estate lawyers also charge for additional closing costs associated with the purchase or sale of your home, so you should always budget a bit extra. (Property transactions are complex and subject to specific laws and regulations. A professional can simplify the process.

6. Landscaping and Lawn Care

If your home has a yard, you will definitely need to budget for landscaping and lawn care costs. Paying a landscaping company to care for your lawn could run you about $30 per week. That adds up to between $120 and $150 per month for a basic lawn. If you choose to do the work yourself, your costs will undoubtedly be lower; however, you'll still need to consider expenses like fertilizer, tools and maintenance equipment, tree maintenance and seasonal plants for the garden. Although you might want to think it is free if you do it yourself, you do need to think about the time cost of mowing the lawn or shoveling snow.

7. Home Owners' Association Fees

Some developments charge a Home Owners' Association (HOA) fee or condominium fee. These fees often cover external building maintenance and landscaping costs for common areas. This minimizes the cost of any home expenses that are covered by the HOA fee, though these fees won't cover any internal maintenance costs associated with your unit. HOA fees may not cover maintenance or construction projects if the HOA doesn't have enough money in reserve to cover it. This may result in a hefty cost to owners in the development. Those in HOAs should set some money aside to cover such unforeseen expenses associated with the maintenance of their communal property.

The Bottom Line

Keep in mind that your landlord is paying all these expenses for the property that you're already living in-therefore, all these expenses are being factored into your rent. Other fees could include an extra parking spot, or loss of percentage of the security deposit. Also, real estate values tend to increase over the long-term commitment to owning a home, there is a definite potential to earn a profit from the sale of your property. Just keep in mind that there are more expenses involved with owning a home than immediately come to mind. Just because your mortgage payments are less than your rent doesn't necessarily mean that you'll come out ahead in the short term.■

Reasons Renting Is Better Than Buying

by Amanda Haury

A lifelong goal that many citizens strive to achieve is homeownership. While many people own their own homes in today's society, this wasn't always the case. Historically, families either needed to build their own homes or rent a home from someone else. While both renting and buying have their own sets of financial advantages, renting does appear to have an edge when the economy is poor. There are tremendous financial benefits to renting as opposed to buying a house of your own. Here is a look at 10 reasons why renters have the better financial deal over homeowners.

No Maintenance Costs or Repair Bills

A definite advantage that renters have over homeowners is that they have no maintenance costs or repair bills to pay off. When you rent a property, your landlord is responsible for all maintenance and repair costs. If an appliance stops working or your roof starts to leak, you do not have any financial responsibility to have these things fixed. Homeowners, on the other hand, are responsible for all of their own repair, maintenance and renovation costs. Depending on what the repair is, these costs can be quite extensive.

Access to Amenities

Another financial benefit to renting over buying a house of your own is having access to amenities that would otherwise be a huge expense. Luxuries such as an in-ground pool or a fitness center come standard at many midscale to upscale apartment complexes with no additional charge to tenants. If a homeowner wants to match these amenities, he or she can expect to pay thousands of dollars in installation and maintenance costs.

No Real Estate Taxes

An obvious benefit that renters have over homeowners is that they do not have to pay real estate taxes. Real estate taxes can be a hefty burden for homeowners and very by county. Although property tax calculations can be complex, they are generally determined based on the estimated property value of your house. With houses getting larger and larger, property taxes can be a significant financial burden.

No Big Down Payment

Another area where renters have the better financial deal is upon signing. You do not have to have a huge down payment saved up to move into a rental property. While the exact amount you need to move in varies from case to case, the total amount is significantly less than you would need to buy a house.

According to a graph released by *the New York Times,* many landlords require a rental deposit equal to the amount of one month's rent while a down payment for a house is much higher. For example, with a 5% deposit on a house that has a market value of $175,000 your move-in costs start at $8,750 which is much more than the average one-month rent rate. Also, those buying will want to save up much more than 5% for their initial down payment because the bigger the down payment, the better. By renting you can avoid the high initial down payment costs.

Shaky Market Creating More Renters

While many experts claim the U.S. Housing market is making a full recovery, others aren't so sure. An article written by *International Business Times* claims that the market is just now stabilizing and the word 'recovery' is unwarranted. As foreclosures continue, many citizens are scared off of buying altogether. By renting, citizens are avoiding potentially owning a mortgage that is more than the house's worth.

Decreased Property Value

Property values go up and down, and while this may affect homeowners in a big way, it does not affect renters. Home value determines the amount of property taxes you pay, the amount of your mortgage and more. In a rocky housing market, renters are not as adversely affected.

Flexibility to Downsize

In today's economy, many people struggle to make ends meet. By renting, citizens have the option to downgrade into a more affordable living space at the end of their lease. When you are a homeowner, it is much more difficult to break free of an expensive house because of the fees involved with buying and selling a home.

Fixed Rent Amount

Rent amounts are fixed for the span of the lease agreement. While landlords can raise the rent with notice, you are able to budget more efficiently since you know the amount of rent you are required to pay. Meanwhile, mortgages and the amount of the property tax can fluctuate.

Lower Insurance Costs

While homeowners need to maintain a homeowner's insurance policy, renters would be wise to invest in a renter's insurance policy. Luckily for renters, renter's insurance is much cheaper and it covers quite a lot. The average cost of renter's insurance is just $12 per month, according to the Independent Insurance Agents and Brokers of America. Meanwhile, the average homeowner's insurance policy cost ranges between $25 to $80 per month.

Lower Utility Costs

With homes getting larger and larger, it is often much more affordable to heat and power an apartment or small rental home as opposed to a larger home. Rental properties typically have a more compact floor plan, and renters can expect lower utility costs.■

Common sense guide to solving mold problems conclusion

by Austin Reid

from The Clean Trust (former known as the IICRC) or others. Most importantly, service providers must possess and show proof of liability and Workers' Compensation insurance. That way if a service provider is injured at your property, or causes extensive damage to your property, you will not bear the financial burden of paying for the ensuing medical bills or damage done to your property.

Prevention Tips

Owners and occupants should work together to identify, prevent and repair moisture intrusion problem(s) as soon as possible. Both parties are ultimately responsible for working together to keep moisture out of living spaces that could lead to mold growth once it has been removed, as well as promptly repairing any defects that led to the original mold problem. Always dry or remove wet or flooded building materials within 24-48 hours to prevent the spread of mold growth; therefore, it is a must that tenants notify owners of potential problems immediately!

Remember, the keys to mold prevention and expensive repairs are moisture control and preventative maintenance. Always perform yearly property inspections on roofing, plumbing systems, exterior drainage, and interior ventilation to name a few. Every six months take a quick look under sinks in kitchens and baths for leaks; always call a professional if you're not sure of what to look for. Be sure to get multiple opinions, and in the end, go with your instinct and hire the one you trust.■

Where Have All the Foreclosures Gone?

By Roy Oppenheim

Not long after the national mortgage settlement was announced, I warned clients that the training wheels would come off and foreclosures would ramp up again.

Now foreclosure information firm RealtyTrac has confirmed that fact in its latest report, which shows that in 2012, foreclosure filings rose in more than half of the metropolitan areas they track.

Florida, where a massive foreclosure backlog is still clogging up the courts, is leading the pack. Tampa and Miami saw the biggest increases in foreclosure activity last year, and eight of the top 20 foreclosure rates in the nation belonged to Florida towns.

But despite hard data showing that foreclosure activity is picking up again, experts have blamed a tight supply of homes for sale—including foreclosures-for sharp year-over-year increases in home prices and disappointing monthly home sales numbers.

So to paraphrase the 1960s folk singer Pete Seeger, "Where have all the foreclosures gone?"

While it has decreased, the shadow inventory-the backlog of bank-owned homes that remain off the market-is still lurking just out of our reach.

Banks never had much to lose by allowing these distressed homes to languish, and that remains true. In fact, they have a lot to lose if they put them on the market too fast. If these foreclosures were allowed to pour down instead of trickle out as they are now, banks would have to write off their losses en masse, and that simply would not benefit their balance sheets. Their capital reserves would plummet and we all know what happened the last time banks' capital reserve took a dive.

Wall Street wants the option to bring foreclosures faster, but not necessarily to sell them off. They just want to be able to control the flow and supply of the inventory back into the marketplace in order to sustain their financial viability as well as control the supply.

Banks continue to set their own rules, and are able to do so because of regulators who are still afraid to stand up to them, fearful of an economic collapse they keep telling us will come if banks are actually held accountable.

The second line in Pete Seeger's song "Where have all the flowers gone?" is a "Long time passing" and it's going to take a long time before we see all of those foreclosures finally out from under the banks' balance sheets and back on the market.■

Housing: Play the rebound by Lisa Gibbs

Housing stocks, which not so long ago looked as likely to pay off as a $2 Powerball ticket, have become a hot commodity.

Anticipating the real estate recovery that surfaced in the fall—home prices in October were up 6.3% from a year earlier, and new-home construction reached a four-year high—housing-related stocks led the market in 2012.

Homebuilders (returning 77% through early December), the lumber industry (74%), and home-improvement stores (55%) were the top-performing industries in 2012, according to Morningstar. And the Dow Jones U.S. Home Construction ETF traded in December at a lofty 27 times projected earnings—nearly double the figure for the S&P 500.

These numbers may make a housing investment look expensive, but it's not too late for you to profit from the revival. The 2012 surge in stock prices was merely a snap back from the worst real estate correction on record, says Michael Magiera, manager of real estate analysis for investment firm Manning & Napier. "Keep that performance in the context of the long cyclical recovery we're going to have," he says.

Of course, various factors could delay progress: elimination of the mortgage interest tax deduction, for example, or an unexpected surge in foreclosures. Still, economists predict a continued upswing.

Moody's housing economist Celia Chen, for one, forecasts above-average growth in construction, prices, and home sales through 2014. "After that," she says, "growth will still be healthy."

That's good news for the slice of your portfolio invested in real estate.

Over the past 20 years, home-related stocks have roughly tracked new construction, itself perhaps the best indicator of the housing market's health. Plus, growth over a cycle can justify the high price/earnings ratios that housing stocks might have initially; future earnings and price appreciation can make those formerly costly-looking stocks seem cheap in hindsight.

To maximize your profit, though, you have to look beyond what real estate fund managers judge to be the most expensive parts of the industry: homebuilders and real estate investment trusts that own apartment buildings.

So here are three creative strategies for investing in the boom, along with stock and fund picks for each.

Strategy #1: Buy the suppliers, not the homebuilders

The numbers support more growth in the housing market. Octobers annualized figure of 894,000 housing starts—up 42% from a year earlier—was still well below the industry's 50-year average of 1.5 million. Existing-home prices will rise 3.3% a year through 2017, forecasts Fiserv Case-Shiller.

"All signs are flashing green," says Jeff Kolitch, manager of the Baron Real Estate Fund.

Problem is, the most obvious beneficiaries of this trend—homebuilders—are the costliest stocks in this arena, say Kolitch and other fund managers. "The risk-reward proposition," he says, "is more interesting elsewhere."

One such area: companies selling to homebuilders. The suppliers may have similarly high P/Es, but their prospects for earnings growth are better, partly because their profits come as a delayed reaction to homebuilder activity.

The picks: The division of Weyerhaeuser Co. supplying lumber and plywood board to builders—a money loser in the bust—has begun to drive earnings, thanks to the minimal investment needed to boost production.

The company's profits, up 48% in 2012, are forecast by analysts to jump 88% in 2013. (Weyerhaeuser converted to a real estate investment trust in 2010, giving it favorable tax treatment in return for paying out most of its earnings as a dividend, now 2.5%.) While the company's 30 P/E is high, a return to 2004 earnings levels—not a stretch—would translate into a P/E of only 12, says Ryan Dobratz, co-manager of Third Avenue Real Estate Value, where Weyerhaeuser is a top 10 holding.

A broader way to play the growing demand for timber is via a low-cost exchange-traded fund: iShares S&P Global Timber & Forestry Index (**WOOD**), which has Weyerhaeuser, Rayonier, and Plum Creek Timber as its top holdings. The average-size home uses about $25,000 worth of lumber, according to the National Association of Home Builders, and construction activity powers the ETG's performance. In December, the fund was up 19% for the year.

Strategy #2: Get in on the renovation resurgence

Each percentage point of appreciation in housing prices translates to an additional $190 billion in home equity—or about $2,500 per household—says the National Association of Realtors. That uptick makes owners feel more confident about spending money to fix up their houses.

U.S. remodeling spending, which by July 2010 had fallen 37% from its 2007 peak, in on the rise again, up from 12% year over year in September. The NAHB predicts a 2013 rise of 3.4%

Companies tied to renovation didn't go unnoticed in 2012; like the high-performing home-improvement retailers, furniture companies racked up big returns—29% through early December. Still, many renovation stocks are expected to grow earnings at double the rate of the average large stock.

The picks: Lowe's (**LOW**), operator of 1,745 home-improvement stores around the country, is one of the biggest beneficiaries of this upsurge in activity, says Dobratz; recently reported sales to professional contractors were particularly strong.

The company does more business than larger rival Home Depot (**HD**) in big-ticket items like cabinets and appliances, which are snapping back in the recovery.

While its P/E ratio of 20.2, based on expected earnings, was higher than the Standard & Poor's 500's 14 in December, earnings at Lowe's are expected to grow faster—20% this year, compared with 11% for the S&P. MONEY recommended Home Depot in October, but Dobratz and other managers say Lowe's, which had surprisingly good third-quarter results, is the better choice.

Or you can buy a basket of home-improvement stocks via S&P Homebuilders ETF (**XHB**). Don't be fooled by the name: The ETF has 45% of its assets in home furnishings and other remodeling-related companies (and only 25% in homebuilders). Lowe's is its top holding; Whirlpool, Home Depot, and Pier 1 Imports are among its top 10.

Strategy #3: Profit from people on the move again

Underwater mortgages and low-ball prices of distressed properties froze home sales after the housing bubble burst; sales of existing homes in mid-2010 bottomed out at the annualized rate of 3.4 million a year. That's changing: Sales as of October were up to 4.8 million a year, reports the National Association of Realtors, which forecasts 5.1 million sales in 2013.

Driving the sales, along with low mortgage rates, are rising prices.

Longtime owners who were reluctant to match fire-sale foreclosure deals have been lured of the sidelines. And fewer shorter-term owners are stuck where they live, owing more on their mortgages than their homes are worth. Data firm CoreLogic says 1.3 million homeowners exited underwater territory as of June, and another 5% price increase would lift 2 million more borrowers above the water line.

The picks: Roughly half of all self-storage transactions are tied to relocations, according to the National Self-Storage Association, CubeSmart (**CUBE**) is one of the best values in the sector, says Magiera of Manning & Napier. It trades at a lower P/E than larger rivals and has better prospects as it swaps out facilities in low-growth areas for regions with more potential. A recent dividend hike boosted the REIT's yield to 3.2%.

A fresh coat of paint is a top item on the to-do list both for sellers preparing to list their homes and for recent buyers. Year-over-year growth in paint sales at Sherwin-Williams (**SHW**) in the first half of 2012 was the highest since 2005, and the company's cost of raw materials is falling. The stock, a top holding of veteran real estate manager Ken Heebner of CGM Funds, trades at a 30% discount to the S&P 500 when weighing its P/E against in projected earnings growth.

As home sales pick-up, another demographic trend comes into play: the aging of America. Fourteen percent of buyers over 50 bought senior housing in 2012, says the NAR, up from 10% in 2010. And the pool of potential buyers—purchasers' median age is currently 64—is expanding: The 65-and-older populations will rise from 40 million in 2010 to 72 million in 2030.

Two standout senior housing companies, says the Baron Fund's Kolitch, are Brookdale Senior Living (**BKD**), which owns 565 properties in 35 states, and Emeritus (**ESC**), which focuses on assisted living and Alzheimer's services. The firms, which are top holdings in his fund, trade for what Kolitch estimates to be 30% less than their private-market value—a wide discount compared to the REITs they resemble.

Or you could simply buy Baron Real Estate (**BREFX**) itself, which is 18% invested in senior housing and 30% overall in housing-related stocks (much of the rest of its holdings are in hotels and gaming stocks). Manager Kolitch joined Baron Funds as a real estate analyst in 2005; the fund has topped its category in two of the three years since its January 2010 launch.■

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