

AAII - LOS ANGELES CHAPTER

SEMINAR OF MAY 19, 2007

TOPIC:

HOW TO SIGNIFICANTLY INCREASE
YOUR PORTFOLIO RETURN
WITH REAL ESTATE
– ON A PART-TIME BASIS AND
– WITHOUT A CAREER CHANGE

PRESENTED BY:

ROGER H. SHAAR

DIRECTOR, INTERNATIONAL MARKETING & SALES
LOCKHEED CORPORATION (RETIRED)

&

AAII LIFETIME MEMBER
PAST PRESIDENT (L.A. CHAPTER)
MEMBER OF BOARD OF DIRECTORS (L.A.)

CALIFORNIA POPULATION

1895

TODAY

1,208,130

37,700,000

CALIFORNIA VS. GERMANY

AREA (SQ.MI)

155,980

138,244

POPULATION
(TODAY)

37,700,000

82,500,000

LOS ANGELES METROPOLIS

METROPOLIS
(GLOBALLY)

GDP
RANK

POPULATION
RANK

TOKYO

FIRST

1ST AT 35,300,000

NEW YORK

SECOND

3RD AT 18,500,000

LOS ANGELES

THIRD

12TH AT 12,100,000

ESTIMATED VOLUME SOLD IN L.A. MARKET IN 2006:

INVESTMENT PROPERTIES \$17,349,233,550

(APARTMENT 39%, OFFICE 36%, RETAIL 25%)

LOS ANGELES CITY (1895)
SAN FRANCISCO (1895)
SAN DIEGO (1895)

50,000
299,000
16,000

FRAMING THE PRESENTATION

PART TIME & NO "REAL ESTATE" LICENSES

NO CHANGES IN LIFE STYLE OR EMPLOYMENT

NO PREVIOUS EXPERIENCE NECESSARY

SMALL INCOME-PRODUCING APT. BLDGS.

BLDGS. WITHIN L.A. METROPOLIS

LONG TERM INVESTING (7YRS - INTERGENERATIONAL)

LEVERAGE AND REFINANCING - ESSENTIAL

STARTING CAPITAL > \$200K TO \$300K

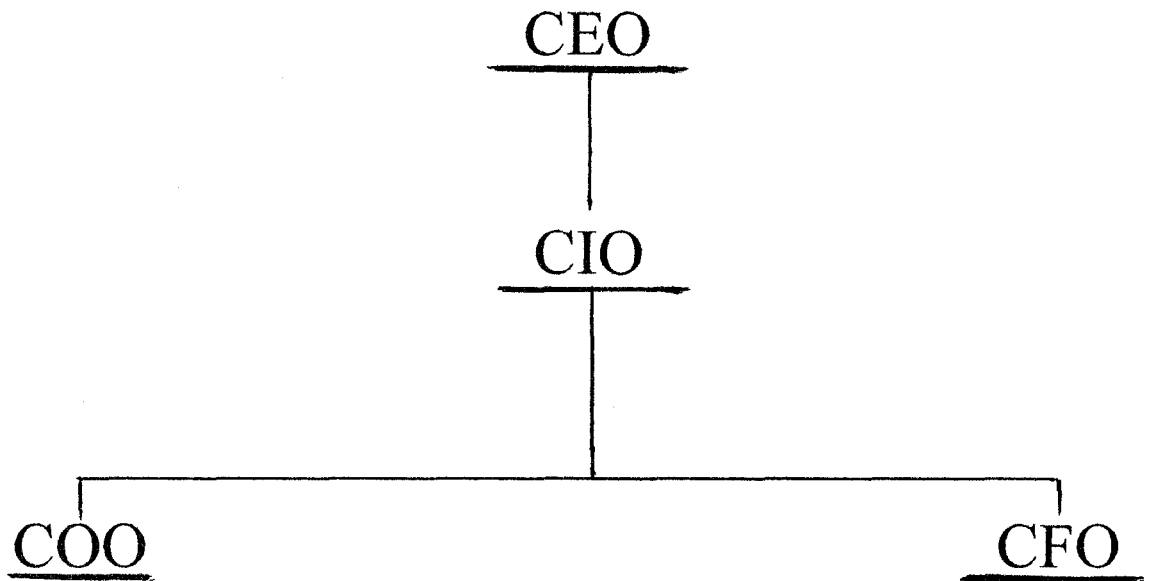
FOCUS ON RISK MANAGEMENT FIRST, THEN..

FOCUS ON R.O.E. MORE THAN ON CASH FLOW

REAL ESTATE VS. FINANCIAL ASSETS
(BY THE RULES OF THIS PRESENTATION)

- TWO DIFFERENT ASSET CLASSES IN MANY IMPORTANT AREAS
- TOGETHER, THEY CAN DIVERSIFY A PORTFOLIO SIGNIFICANTLY, DUE TO WEAK CORRELATION
- THEIR TWO CYCLES VARY GREATLY IN DURATION & VOLATILITY
- THE TWO ASSETS REQUIRE DIFFERENT SKILLS AND TEMPERAMENT - (BEHAVIORAL FINANCE)
- ASSETS FOLLOW TWO DIFFERENT INVESTMENT "CLOCKS" — (THOMAS JEFFERSON VS. MARIA BARTIROMO)

ORGANIZATION CHART



PROPERTY MGM'T. CO.
RESIDENT MANAGER(S)

R.E. BROKER
BANK, S&L
C.P.A.
LAWYER(S)
INSURANCE CO.
MORTGAGE BROKER
APT. OWNERS ASSOC
OTHERS.....

REAL ESTATE INVESTING IS
IDEAL

I FOR **INCOME**

D FOR **DEPRECIATION**

E FOR **EQUITY BUILD UP**

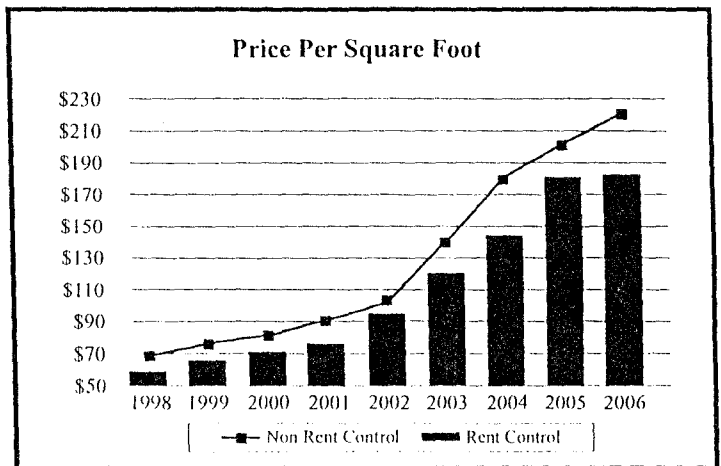
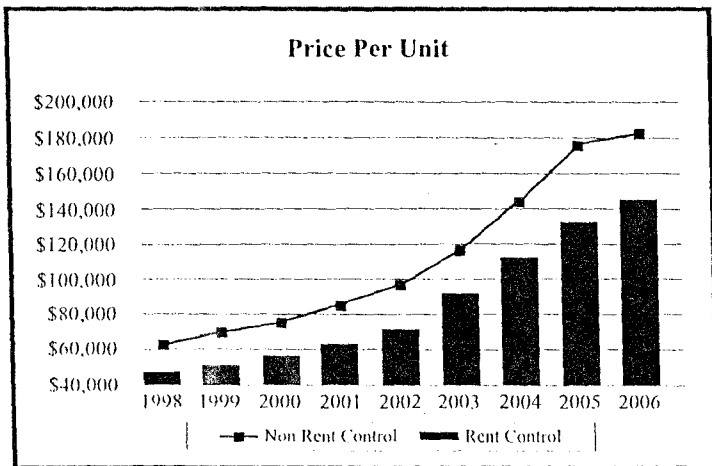
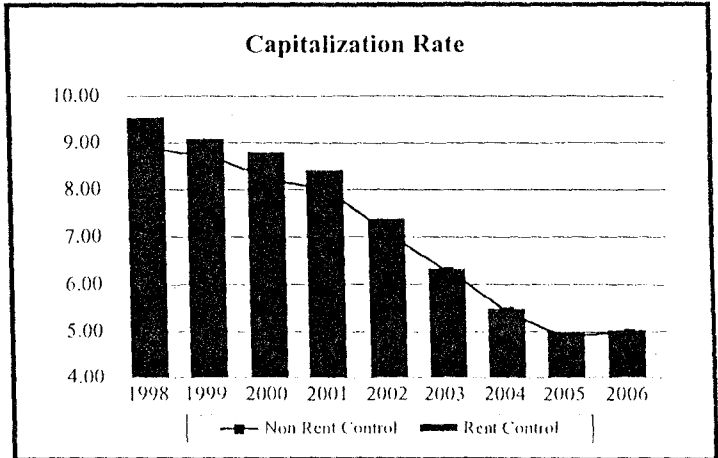
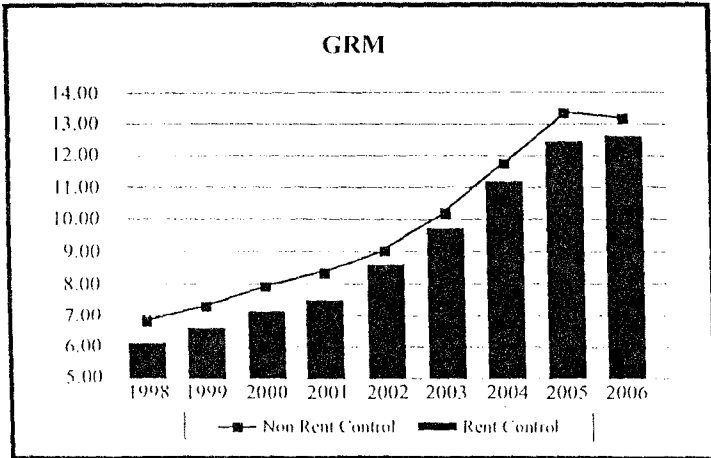
A FOR **APPRECIATION**

L FOR **LEVERAGE**

MARKET WATCH

SAN FERNANDO VALLEY

Apartment Trends 1998 - 2006 (Rent Controlled & Non Rent Controlled Buildings)



GROSS RENT MULTIPLIER (GRM)

= BLDG. FAIR MARKET VALUE / GROSS RENT

CAPITALIZATION RATE (CAP RATE)

= NET OPERATING INCOME / BLDG. FAIR MARKET VALUE

CAP RATE AKA ROA AKA EBITDA

***WHAT CAUSES REAL ESTATE
APPRECIATION OR
DEPRECIATION?***

THE BUILDING

THE NEIGHBORHOOD

CITY GOVERNMENT

STATE/COUNTY GOVERNMENTS

FEDERAL GOVERNMENT

FEDERAL RESERVE

(THE FED IS OF, BUT NOT IN, THE GOV.'T)

GLOBAL CAPITAL MARKETS

(IMPACT ON U.S. LIQUIDITY & INTEREST)

THE PERFECT STORM
SO. CALIF.'S REAL ESTATE "DEPRESSION"
(EARLY 1990'S)

- 1) COLLAPSE OF MANY S&L'S / MORTGAGE BANKS DUE TO BUBBLE OF LATE 1980'S
- 2) IMPLOSION & COLLAPSE OF THE SOVIET UNION, AND WITH IT MUCH OF SO. CALIF.'S AEROSPACE/DEFENSE INDUSTRY & JOBS
- 3) ONSET OF THE JAPANESE DEPRESSION
- 4) FED'S ACTION WAS LATER JUDGED TO HAVE BEEN TOO SLOW TO HELP SO. CAL. HOUSING

THE RESULT:

DEPRECIATION OF 22 % TO 30% IN REAL ESTATE PRICES IN SOUTHERN CALIFORNIA

POOR LIQUIDITY IN FINANCIAL MARKETS

MANY BANKRUPTCIES - CAUSING "R.E.O.'S"

R.O.E. =
(RETURN ON EQUITY)
(BEFORE TAXES)

1) CAP RATE

+

2) (CAP RATE – INT.) (D/E)

+

3) (APPRECIATION RATE) (1 + D/E)

NOTE: 1) BUSINESS PART
2) FINANCIAL PART
3) ECONOMIC PART

TAX CONSIDERATIONS:

1) DEPRECIATION – *DEDUCTIBLE*

2) INTEREST ON DEBT – *DEDUCTIBLE*

3) CAPITAL GAIN – *DEFERRED*

SYNTHESIS

IMPORTANCE OF TIMING FOR BEST RESULTS IN REAL ESTATE

- REAL ESTATE CYCLES ARE UNLIKE FINANCIAL SECURITIES CYCLES— IN BOTH DURATION & VOLATILITY & THEY ARE EASIER TO UNDERSTAND AND HANDLE

- WE NEED TO DETERMINE OPTIMUM TIMES IN REAL ESTATE CYCLE TO BUY, TRADE UP, LEVERAGE, SELL &/OR REFINANCE INCOME PROPERTIES

- TIME TO BUY REAL ESTATE IS ESPECIALLY CRITICAL FOR BEGINNERS WITH LIMITED EXPERIENCE & RESERVES - IT COULD LEAD TO FORECLOSURES

(Every thing should be made as simple as possible, but not simpler) - Albert Einstein

ESSENCE OF RISK MANAGEMENT

IT REQUIRES

A GREAT DEAL OF BOLDNESS
AND
A GREAT DEAL OF CAUTION
TO MAKE A GREAT FORTUNE

AND WHEN YOU HAVE GOT IT

IT REQUIRES

TEN TIMES
AS MUCH WIT
TO KEEP IT

Nathan Mayer Rothschild

Patriarch of Rothschild Dynasty

Richest man in the world (circa 1820's to 1850's)

In Victorian Great Britain

SUMMARY
FOR INVESTING IN
INCOME PROPERTIES IN L.A. METROPOLIS

- HISTORICAL GROWTH ASSURES STABLE SUPPLY / DEMAND IN HOUSING FOR THE LONG TERM

- TAX LAWS FAVOR REAL ESTATE SIGNIFICANTLY

- PRUDENT LEVERAGE IS THE NAME OF THE GAME FOR INCOME PROPERTIES

- LEVERAGE + TAX ADVANTAGES = SUPERIOR INVESTING RESULTS

- RISK IS EASY TO UNDERSTAND, BUT REQUIRES “SOBRIETY” & PATIENCE

WORKSHOP
ON
REAL ESTATE
INVESTING

THIS IS A FOLLOW-UP TO:
(SKIRBALL PRESENTATION OF MAY 19, 2007)

PLACE: SKIRBALL CULTURAL CENTER

DATE: SATURDAY - ?? AUGUST, 2007

DAY AND TIME: TO BE ANNOUNCED

[CHECK WEBSITE OF AAI - L.A. CHAPTER]

[YOU WILL ALSO BE ADVISED BY E-MAIL]

IF YOU PLAN TO ATTEND THE WORKSHOP,
PLSE RESERVE A PLACE, AS SEATS ARE LIMITED

SEND E-MAIL TO :

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