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- ✓ Monthly newsletter

A one-year membership is \$99.

To join or e-mail RAA, go to
www.rockfordapartmentassociation.org

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WELCOME new members:

Tomas & Cher Miller
Nick LaBansky
Ruth Snyder
Jason Withrow

MARCH MEETING

Tuesday, March 18, 2014

The R.A.A. would like to invite you to our
Networking / Vendor Information 6:30 P.M.

General Meeting 7:00 P.M.

Cash Flow

Analyzing a deal, determining what your cash flow is, and what it should be. RAA members will share their own cash flow methods and how to increase your current cash flow.

Tues - Mar. 18th at 7pm

Cost: FREE for members, \$15. non-members

Operating rental property is a business. The people who succeed recognize that fact and apply sound business principles whenever possible in the management of their property. This month RAA will focus on cash flow analysis and how to use that information in valuing property. We will have a panel discussion to provide an over view and answer your questions on the subject. A preview is featured in this months newsletter. I hope you can all join us.

—Paul Arena

Let's Get to Know TOM HOWARD by Jerri Cole



Sometimes when I do these interviews, I run into people who don't talk much about themselves. People who don't brag about themselves. You have to try a little bit harder to get to know them. Since Tom didn't go into a whole lot of detail, I asked Tim Hoffman for his insight concerning Tom Howard. Tim said, "I see Tom as a serious, all business, focused, to-the-point, matter-of-fact conservative, who is professional and has a good sense of humor."

That's how I see him too!

Describe yourself: I am single but attached. I enjoy good humor and can be very funny myself. I am serious to the point that raising my family is and always will be the most important thing I will ever do.

Favorite Hobby? Favorite things to do on your day off? Travel? On my days off I love to spend my time with my family. When it's nice outside I enjoy doing pretty much anything: fishing, bike riding, hiking, shooting, etc. There are two trips that I hope to take some day. One is to head out west to Elk hunt with my two sons and my brothers, and the other would be to go to Bora Bora for some fun in the sun.

When did you become interested in becoming a landlord and what led you into it? Where do you see your company in five years? "I grew up mostly living in apartment buildings. As a teenager, I wanted to buy the building we lived in, but no one would lend money to a teenager with a summer job. When I became more settled as an adult, I decided to chase the old teenage dream. I started out with a partner buying a few duplexes and houses, but that partnership did not last very long. That is what happens when two people want to go in different directions. I took a couple of years off and started back slowly by acquiring a few houses and then ventured into the multi-family units."

I got into property management because of a friend asking me to take care of his units. So I decided that I would give it a try. I had a full time job and it was good side money doing something that I was already doing. I started my company (Superior Realtors & Rental Properties) and started doing this more on a full time basis. I chose the the name because I wanted the name to reflect the quality of service that my company provides to both owners and my tenants. I continue to do this business because I enjoy working with both my clients and my tenants. It gives me a lot of pleasure to know that I provide my tenants with a very nice place to live and that I am maximizing my owners' return of investment.

I would like to think that in five years my company will still be providing quality service to both our clients and to our tenants. I never set out to be the biggest management company in the area. I just want to be known as one of the best. THIS IS THE WAY I HAVE BUILT MY BUSINESS AND THE WAY THAT I WILL ALWAYS DO BUSINESS!!!

What would you like people to know about you?

I believe that my best attribute is my integrity, honesty and loyalty.

What do you like best about being a landlord?

I enjoy working with all the different people. I like knowing that I have done my best to put a tenant into a quality place to live.

What do you like least about being a landlord?

I don't like it when tenants lie to me. I am the type of person who will help anybody as long as you are honest with me and are willing to help yourself.

Strange or funny story or stories that have happened to you since becoming a landlord.

I can't think of anything that I would call funny or strange. However, while I have been a Landlord, what I can state that makes me very proud is the number of tenants who move from a unit because we have let a client go. They call us to find a unit that suits their needs that I manage. To have a tenant pick up and move because of the way I treat them and take care of their issues is truly humbling. That is one of the reasons I continue to be driven in this business.

Clubs or organizations or any other affiliations you are involved in. I am only involved with the Rockford Apartment Association. I have been a member of other clubs in the past. I just didn't feel like I was getting anything from those clubs. I have always been able to learn from the members of the Apartment Association and that is why I am a member. *continued on page 5*

Analyzing Your Cash Flow by Terry Heilman

Terry was a Certified General Appraiser in the Chicagoland and Midwest. He will be one of the panel members for our March meeting on Cash Flow."

Figuring out the net operating income and cash flow on a property is a basic skill to understand investing in Real Estate. Below is a sample three unit building that we recently purchased.

Income			
	Monthly	#	
One Bedrooms	\$ 400	1	\$ 4,800
Two Bedrooms	\$ 600	1	\$ 7,200
Three Bedrooms	\$ 650	1	\$ 7,800
Potential Gross Income			\$ 19,800
Less Vacancy & Collection		8%	\$ 1,584
Effective Gross Income			\$ 18,216
Less Expenses:			
Management		10%	\$ 1,822
Utilities			\$ 250
Taxes			\$ 3,747
Insurance			\$ 500
Maintenance		10%	\$ 1,822
Landscaping & plowing			\$ 750
Total Expenses			\$ 8,140
Net Operating Income (NOI)			\$ 10,076
Debt Service 5.5%, 30 yr, 70% LTV			\$ 2,809
Cash Flow			\$ 7,267
Debt Coverage Ratio (NOI / DS)			3.59

Potential gross income or gross income is the potential amount of income you receive when multiplying the rent by 12 months. So in this example, a \$1,650 monthly rent would have a potential gross income of \$19,800.

A market vacancy is the amount of time that the property is expected to be vacant on turnover. It is an average across the market and is subtracted from the potential gross income. A market vacancy rate will vary by location and property condition. In the above example an eight percent vacancy means the property is vacant about one month per year. Sometimes this line item is called vacancy and collection loss and includes the people that won't pay you.

Management fees are what a professional manager would charge to manage a property. They will vary depending on the number of properties that you have, competition in the market and typically are ten percent for small properties. A typical question is what if you manage the property yourself? Realize that management is a real cost to operating real estate if something happens to you and you can't do it.

Utilities expense will generally be at turnover unless you have a larger property with common areas. Although in Rockford, the landlord pays the water.

Real estate taxes can be the actual amount charged. Be careful to check the assessment and be aware that the taxes can be higher or lower than what you are paying for the property. If they are low, figure the taxes at the purchase price of the building or you could have higher taxes when it is reassessed. If you buy foreclosures, the assessor generally will not use the sale amount. In this example the building was assessed at \$112,000 and appraised for \$58,900, so the tax amount is high and will have to be appealed to the state. An additional challenge will be that the appraisal was low.

For insurance, you can call your agent to get a quote before buying the property. The amount will vary by company that you deal with and it pays to get several quotes.

Maintenance is the expected amount of repairs you make to a property and will vary by year. It is a realistic plan to set aside whatever you don't spend to build up a reserve for repairs or replacement of water heaters, roofs, furnace etc. A typical owner operator underestimates this expense because they do the repairs themselves and they don't have a labor expense. This is like a management fee when you pay someone else. This becomes a real number very fast.

Landscaping and plowing varies by property. A single family or duplex is typically taken care of by the tenant. This property has a long driveway and large yard so we budgeted \$750.

Net Operating Income (NOI) is the amount of money you have available after paying all expenses except debt.

Debt service is the annual amount of your debt on the property.

Your cash flow is your NOI less your debt service.

A debt coverage ratio is how much net operating income you have to cover your debt. This is a key number for banks and tells them how much risk an investment has. A typical minimum debt coverage ratio is 1.20. This simply means that for every \$1.00 in payments you have \$1.20 in NOI.

Terry Heilman, Heilman Properties LLC

Ken Becker

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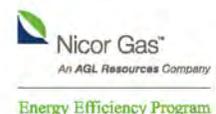
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February Speakers



Andrew Robinson - Allstate Insurance vendor, does rental insurance.



Mark Madorin - NTN - vendor who does background checks and collections.



Tom Lawson - Clerk of Courts - ran the website technical presentation.



Thomas Klein - Clerk of Courts - did the January presentation. It was very informative about how their website works to look up criminal background.

RAA Email

The RAA email group is intended for the discussion of issues related to rental property. Posts to the group are to be courteous. No personal criticism of other members is permitted.

The email group is not to be used as an advertising medium. The use of the email group for commercial purposes, is prohibited. A member may not actively advertise a business or service from which he/she profits directly or indirectly nor may a member make an unsolicited endorsement of a business.

This policy does not prohibit a member who is in the business of selling a product or service from responding to another member's inquiry or request for a product or service.

Nor does this policy prohibit a member from offering for sale a rental product in which the member has a personal interest, provided that the member is not in the business of selling that rental product. A rental product is any equipment or real estate used in the real estate rental business.

Determination whether an email is in violation of this policy will be determined by a majority vote of the RAA board of directors. Violations will result in a warning to the offending member advising them of the policy. Subsequent violations will result in a suspension of email privileges of the offending member for a 30 day period. Further violations will result in suspension of email privileges for a period of time to be determined by a majority vote of the RAA board of directors.

continued from page 7

What are your pet peeves?

My biggest pet peeve in this business is all the scams people try to get by you. If they would just be honest it would make life easier for everyone involved.

What would you like to see Rockford do to help landlords? There are a lot of things I think Rockford could do to help landlords. I would like to see Rockford work with the landlords who provide a place to live instead of against us. They always want to hold the landlords responsible instead of the tenant. I also would like to see the city do something about the high property taxes.

Best advice for new landlords? Stay on top of things, from your books to your staff, and always stay on top of tenants. Be willing to communicate and to listen. Never rent to family or friends . . . it's rarely worth it!

Tom Howard, Superior Realtors & Rental Properties
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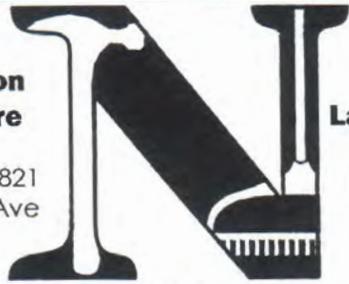
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See if you can figure out what these seven words all have in common!

- | | | |
|------------|-----------|-----------|
| 1. Banana | 4. Potato | 6. Uneven |
| 2. Dresser | 5. Revive | 7. Assess |
| 3. Grammar | | |

Are you peeking or have you already given up?

Give it another try....Look at each word carefully. You'll kick yourself when you discover the answer.

No, it is not that they all have at least 2 double letters.

Answer: In all of the words listed, if you take the first letter, place it at the end of the word, and then spell the word backwards, it will be the same word. Did you figure it out?

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MARCH MEETING

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Cash Flow

Speaker: Terry Heilman, Heilman Properties LLC

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Association Of Realtors***

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State Line Rentals	920 22nd Street	1-815-398-8886
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