S.E.C. Real Estate Observer
AN E-PUBLICATION OF THE SOCIETY OF EXCHANGE COUNSELORS
Service. Experience. Counsel.

Inside This Issue

Welcome to the Summer Issue of the S.E.C. Real Estate Observer, the electronic journal of the Society of Exchange Counselors.

Communication lets people share their gifts and make connections. Inside this issue you will find a variety of articles written by S.E.C. members and guest columnists that will give you practical tools, insightful formulas, and inspiring guidance to make your personal and professional lives richer.

As editor, I am deeply gratified by the thoughtful and unselfish giving of those who contribute to the Observer. Through your articles you capture the essence of the underlying axiom that "real estate is a people business" and help us connect our readers to the Society of Exchange Counselor's world.

We hope you enjoy this issue of the S.E.C. Real Estate Observer and welcome your comments. Remember…"Thoughts lead to words; words lead to action"…Mahatma Gandhi.

Marilee Anderson, S.E.C.
2004 Editor

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Spreading the "Good Word"

By

Virgil Opfer, S.E.C., CCIM
President
The Society of Exchange Counselors

For more than 40 years, the Society of Exchange Counselors has been spreading the "Good Word" about creative real estate throughout the nation. Our Society has been at the forefront of equity marketing and client counseling and that dedication has created the unique broker-to-broker marketplace that we now enjoy.

The underlying philosophy of the Society is that "Real Estate is a People Business." That strongly held principle drives the engine that has allowed our Society and its members and friends to prosper, in good markets and bad, to meet the investment needs of clients and the business goals of our membership. When we have clients who are well counseled and who understand the principles of equity marketing, we can create better transactions for all concerned.

Over the years we have used a variety of ways to "spread the good word" including attendance at our national invitational meetings, our education programs, as well as various newsletters and publications.

Our online e-journal, the S.E.C. Real Estate Observer is our way of sharing with our readers a variety of perspectives, transaction-making information, as well as observations about the real estate business. The articles that appear in each issue are written by folks like you and me, who are out in the marketplace every day making things happen.

Our steadfast objective as we continue to spread the "Good Word" via the Observer, our meetings, and our education programs is to help our friends and their clients succeed. As President of the Society, I hope that you enjoy each issue of the Observer and, as always, we invite your comments.

Remember, Real Estate is a People Business.

Virgil Opfer, S.E.C., is President of G5 Enterprises, Inc., a San Diego based company that specializes in syndicating real estate investments, such as the construction of SFR's, condos, apartments, and self-storage. He is the 2004 President of the Society of Exchange Counselors, a Director of the S.E.C. Education Foundation and was the recipient of the S.E.C.'s "Bob Steele Award" as the 2003 Editor of the S.E.C. Observer. He is co-author of "100 Equity Marketing Formulas."

Reader's Forum

Dear Marilee,

I wanted to take this opportunity to comment on two of the articles in the last issue of the S.E.C. Observer.

The first one was the well-written article by Henry Blanton, on the subject of the creation of a "Giant Client." Knowing Henry, as I do, and knowing his philosophy on business and life, I can appreciate the theme of his article, which essentially begins on the foundation of truly being of service to your client, and the client's needs which in turn builds the "Giant Client."

The "Value of Capital" by Virgil Opfer was also well written and complete with full details on this subject. Virgil and his group have certainly proved in their successful experience his subject matter.

Keep up the good work.

Robbie Robinson, S.E.C.

The S.E.C Observer's "Reader's Forum" is the Society's community bulletin board for our fellow exchangors and believers in the power of creative real estate.

We invite our readers to write to us about their experiences, creative ideas, transaction case studies, formulas in action, reflections on S.E.C. meetings and comments about each issue of The Observer….

Here are a few comments from our readers we thought you would enjoy…

- Marilee Anderson, S.E.C.
2004 Editor, The S.E.C. Real Estate Observer

WITH FRESH EYES

A Newcomer's View Of The S.E.C.

By

Robert T. Cheesbrough
The Prestige Group
Kamuela, Hawaii

I first discovered the Society through an invitation of Ted Blank at the December 2003 Las Vegas meeting. One of my partners arranged the invitation and I was betting that the trip would be worth it.

It will prove, I am sure, to be the most profitable bet I have ever made in Las Vegas.

I realized quickly that we could create an advantage as a company and be able to operate out of Hawaii, as well as within it. We know this will distinguish our company from 99.99% of real estate companies and that large portions of that remaining .01% are likely members or continuing guests of the Society. How's that for luck!

There is an ancient admonition, "Be careful what you wish for; you might just get it!"

Now, five courses and four meetings later, my brain has slowed to a moderate spin. After the Las Vegas meeting, we partners all agreed that we needed to make counseling and exchanging a mainstay of our business, with the goal of becoming our own best clients, in the words of Phil Corso. We committed to each other that as long as the Society kept inviting us, we would attend every meeting,

My wife, Erika, asked me once how I might summarize my recent experience with the Society. My response was that because of the Society and its members, I see the business, and my goals for it, with fresh eyes.

Point – Counterpoint

"Expensive Nostalgia: The High Cost of Farm Preservation"

Editors Note:

An article entitled "Expensive Nostalgia: The High Cost of Farm Preservation" by Claude Gruen recently appeared in the Gruen Gruen & Associates online newsletter, "Trends." Claude and Nina Gruen are nationally recognized economists. Their firm provides real estate consulting services nationwide and can be found on the web at www.ggassoc.com .

Society of Exchange Counselors member, Steve England, S.E.C., ALC, EMS, of Kearney, Nebraska reviewed the article and provided an interesting perspective that we thought you might enjoy. Steve is also an Accredited Farm Manager (AFM) with the American Society of Farm Managers and Rural Appraisers.

Point: Claude Gruen
"Driving past farms and ranches gives me a pleasant feeling of mythic nostalgia. It does that to city folks all over the developed world, regardless if they sprang from farm families. This motivates us to accept polemics in support of public policies that preserve farms and putative agricultural lands. This emotional feeling also causes us to shrug off the taxes we pay for these policies and to minimize the indirect costs of maintaining the rural farmscape."

Counter Point: Steve England

Although there are some proponents of Agricultural subsidies that think that they are doing this to "preserve the family farm" the real reason this is necessary is to preserve the agricultural production capacity of our nation. Crops primarily are annual crops that produce a crop to sell once a year. Therefore it takes lots of lead-time, and a huge capital injection to maintain equipment, land, distribution facilities, technology, innovation, etc. If we tried to react to only the current needs of our nation or the world we would not be able to deliver cheap food to our nation as a national policy. As an example this is a huge problem in the energy field because we decided to import our energy from OPEC, and others which allowed our "wildcatters and oil risk takers" to go out of business. Now the entire internal infrastructure is gone so it is going to be a long process if we ever try to restart our own internal exploration and innovation in the energy field.

Since we as a nation spend the smallest percent of our wealth on food, it leaves more for industrial or technical innovations as a society to lead the world in innovation. Most of the world's resources are spent just to feed its people. In my 30 years of farm management I have seen commodity surpluses evaporate over night and prices skyrocket when a world weather situation is unfavorable. If we had to wait for something like this to happen before gearing up our agricultural resources we could face major instability or possible famine even in this country. No one likes to see our tax dollars be used for subsidies for any industry but Agriculture is as vital to our national security as our energy problems that we talk about daily.

Point: Claude Gruen

“Although the acreage planted in artichokes has decreased by half, for example, I pay less for superior-quality artichokes now than I did 40 years ago. The prices of most other crops also have dropped since the '60s, and the quality of produce available year-round in the developed world has improved because increases in productivity have dramatically increased yields.”

Counter Point: Steve England

The paragraph contradicts paragraph's later in this article contending that U.S. stifles innovation with subsidies. The capital investment by the processors, marketers, seed companies, etc. result in incredible innovations daily.

Point: Claude Gruen

“The contention that we have to maintain the present supply of farmland or face a worldwide food shortage is flat out wrong. We are in an upside-down Malthusian world, with increases in the food supply outpacing increases in population. This relationship is not likely to change in the future, as population growth is predicted to stop long before technological and capital improvements cease to increase what can be grown or raised per acre.”

Counter Point: Steve England

It is true that in many parts of the world population is under control and distribution is the problem. We still have to get quality food to those areas hit by drought, famine, insurrection, disease, etc. and the U.S. has the ability to deliver this aid better than any other country and we should. If we can afford to protect ourselves by going to Iraq and then creating a democracy we can afford to provide surplus food for anywhere the world needs it.

Point: Claude Gruen

Many of those who argue for subsidies, price supports and farmland protection recognize that even while famine stalks many poor lands, the cause of this tragedy is not a shortage of food in the developed world. They recognize, too, that creating more surpluses in the rich countries is neither a temporary nor permanent solution to the problems of developing nations. One argument heard from those who understand this is that each nation or region needs to be self-sufficient. I have yet to see an analysis of how much the United States could reduce its present agricultural capacity and still have the potential for self-sufficiency, but experiences during World War II suggest a significant reduction would be safe.

Counter Point: Steve England

I assume that he is referring to during WWII we had sufficient food and were not worried about starving. However, in that era even most city home dwellers had their own gardens in the rear of their home and during the depression the rural folk always had sufficient food. This is a different time and less of U.S. citizens have a back yard and the knowledge to grow anything. We could pair back our production and live comfortable but the spin-off benefits of our world leading food production have to be considered.

Point: Claude Gruen

"The farm lobby also argues we must maintain farming as a way of life or as a unique sub-culture. A review of the costs of preserving farms and farming suggests that even if you feel farm preservation is worth the price, we are going about it badly. Worldwide, the annual direct costs of farm subsidies are estimated at about $235 billion. The Organization for Economic Co-Operation estimates a full-time farmers in the European Union receives $17,000 per year in cash or price supports, while the average full-time American farmer gets about $16,000."

Counter Point: Steve England

The farm lobby does try to use every technique such as "saving the family farm" to sell their views. This does provide a safety net for some inefficient and uneducated farmers but in the total they produce very little.

Point: Claude Gruen

"Not all the recipients of this largess get up early in the morning to tend to the cows or fields. In August 2002, the San Francisco Chronicle reported discount broker Charles Schwab put his1600-acre rice farm up for sale because he no longer had time to go duck hunting on the property. The article noted the Environmental Working Group estimated the Schwab family collected more that $730,000 in subsidies for the farm over a five-year period."

Counter Point: Steve England

As with every program a few that don't need it get it. However, if Charles Schwab received $730,000 he owns a productive rice farm and hunting is just available, not a duck farm that also grows rice. I really don't see much difference if Schwab used his money to buy 40 post offices and got a higher than local price for rent. The government subsidizes post offices also to make sure everyone in our country has the ability to send and receive mail.

Point: Claude Gruen

"Farm subsidies encourage production at levels above what the world can buy at anything close to the actual costs of production. The world price of food has dropped to the point where small farmers in developing nations cannot compete. For many of these countries, the type of farming that could succeed -- if they did not have to compete with the subsidizing nations -- offers their best path out of poverty. A March 27th New York Times article discussed the economic malaise of farmers in rural Poland, Slovakia, Hungary and the Baltics. The article suggested that after Poland enters the European Union May 1, some small-scale farmers may be bought out by wealthy investors from Denmark, Finland and the Netherlands, who will consolidate the farms and apply for and receive the subsidies from the European Union."

Counter Point: Steve England

As compared to subsidies in the U.S. Europe has a system that has become excessive like lots of their other social programs. U.S. farmers would agree.

Point: Claude Gruen

"In the United States, farming is treated differently from all other industries, not only in terms of supports but also by discouraging innovation. University of Wisconsin-Madison researchers Rodolfo Manuelli and Ananth Seshadri found the timing of improvements in the design of tractors and their use on American farms could be explained by following the path of real farm wages. During the Depression, when farm wages were low, farmers did not have the incentive to switch from horses to tractors. Only in the 1940's, when farm wages rose, were tractors widely adopted."

Counter Point: Steve England

This contention is typical intellectual university theory. Innovation is always led by desire to make a profit. If one can buy a machine to replace wage earners and do it at a lesser cost it is done. Do people really think we would be better off with low wages and no machines? I wonder how big a government grant these two professors received to study their theory?

Point: Claude Gruen

"Yet rather than supporting improvements in the design of harvesting machines, the U.S. government is trying to help farmers cut costs by encouraging the immigration of workers. I agree with agricultural economists such as Phillip Martin at University of California, Davis, who believes introducing machines will enable farms to compete and also allow them to increase the pay of the workers they do need."

Counter Point: Steve England

Taking policy advice from UC - Davis on Agriculture is like us taking your development advice from the no growth folks in Oregon or management of national parks advice totally from the Sierra Club. I don't see where U.S. policy encourages the immigration of workers. The machinery innovation just in the last 30 years has been unparalleled. We now have tractors used daily that drive themselves. Planters that show the number of seeds planted per acre and the ability through GPS to adjust this to soil type as a farmer traverses the field with his planter. It is obvious Phillip Martin has never gotten out of California to the Midwest where most of the food, fiber and protein are grown for the world.

Point: Claude Gruen

"Whether we use our excess farm land for needed housing and urban development or as public open space, a rational reduction in the costs of agricultural preservation would pay large benefits to taxpayers, workers and the health of our urban places."

Counter Point: Steve England

On the surface it looks like Farm Policy is way too expensive and even the Nebraska farmer hates to get checks from the government but most understand the need. Even with all of these subsidies the value of a bushel of grain sold is barely enough for only the best and brightest farmers to survive.

However, these dollars don't just stop at the farmer or the wealthy landowner they permeate through a system of farm suppliers and manufacturers of equipment, seed, genetically modified crops, embryo transplants, agricultural chemicals, agricultural researchers, bankers, real estate brokers, etc. etc. These new tractors, planters, irrigation equipment, and GPS technology move to other sectors of our society and export to other countries so they can improve their production for their societies. The jobs created by the Agricultural industry are still what drive most local economies the vast non-metropolitan areas of America.

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Residual Value Insurance for Real Estate

By

Vicki Yeomans-Klein, SEC

Residual Value Insurance is a new product for commercial real estate investors. Although you may not have heard of this product, probably you or someone you know has been involved with a lease where residual value insurance has brought benefits to the transaction.

RVI is common in equipment and vehicle leasing. In an auto lease, the Lessor's return is dependent upon the value of the auto at the end of the lease. When the vehicle is leased, residual value insurance is written indemnifying the Lessor from a drop in value of the auto at the end of the lease term. The policy has a one time fee and specifies that the vehicle must be properly maintained. Mileage limits are set.

The guarantee of value brings accounting benefits to both the lessor and lessee. The credit guarantee creates a bond for the lessor or manufacturer. The lessor can book the lease as a financing lease and income is declared at the beginning of the lease.

Since the lessee's total payments are less than 90% of the value, the IRS allows the lessee to record the lease as an operating lease. As such, the lease payments can be tax deductible and the lease can be carried as a non balance sheet obligation.

The strong RVI market for vehicle leasing has allowed low depreciation vehicles to be leased for a fraction of the same vehicle's monthly purchase payment bringing benefits to both the manufacturers and the lessees.

RVI for Real Estate:

RVI is now available for certain types of real estate transactions. A "credit" tenant must guarantee the income stream. Single tenant triple net leased properties are the most common coverage written. The time of coverage is date specific. The effective date of the policy is the last day of the initial term of the lease. If a mortgage is involved this date needs to coincide with the due date of the loan.

Underwriting:

Underwriting guidelines vary. Since the product is new, underwriters maintain they review each transaction separately. The insurer looks to the terms of the lease and the quality of the tenant to guarantee the maintenance of the improvements. The balance at the end of the mortgage term needs to be no greater than 35% of the current "appraised value" of the real estate. Appraised value is determined by market conditions and market rents.

Bonnie Barkely of RVI Inc, a company active in the RVI real estate market, stated, "Any evaluation has to pass the square footage test. We do not accept values with exorbitant square footage prices. We underwrite to market." Ms. Barkley went on to say, "The entire department at RVI, Inc. is made up of real estate people, so we look at location and the flexibility of the improvements."

The policy is generally written at time of loan origination. The premium is a one-time charge. Although premiums may vary 4% of the insured value is often used. The insured value is the loan balance at the end of the mortgage term. Premiums equates to about 1.35% of the purchase price of the property.

The RVI insurer is written into the mortgage documents as a successor and assign in the event of default. If the borrower cannot or elects not to pay the note when due, the insurance company is notified; the language detailing this notice is time specific. The insurer purchases the mortgage and proceeds with the foreclosure. As successor and assign the RVI insurer has all the rights and remedies of the original lender.

Benefits:

Loans with RVI have a more secure return to the lender and should demand lower interest rates and longer terms. Securitized lenders or Commercial Mortgage Backed Securities (CMBS) provide non-recourse, commercial real estate loans. The standard loan structure is a 10-year loan with a 30 year amortization. The loans are underwritten on asset value and cash flow. The greatest risk to the lender is loss of asset value and liquidity when the note is due. This risk is similar to the auto Lessor.

Because of the bond like guarantee that residual value insurance adds, CMBS lenders can sell the mortgages into more favorable risk traunches. The term of the mortgage can be extended to 15 or 20 years to coincide with the term of the lease. Equity requirements can be lowered. Some loans require as little as 3% down. Since leverage can be increased, the tax advantages of real estate can be extended and phantom income occur farther back in the amortization schedule.

Savings realized by favorable financing can be passed on to the tenant with a lower rent constant, or the owner can enjoy greater cash flow.

Policies can be written when no mortgage is involved. The property owner becomes the beneficiary. When RVI is combined with a NNN leased property to a credit tenant, the purchase becomes a corporate bond with depreciation and the transaction becomes an investment that's minimum internal rate of return can be calculated.

Residual Value Insurance can be a solution to the 1031 challenge where a client has low equity but needs a lot of debt.

RVI can be incorporated into synthetic leases to provide accounting benefits for the lessor/financer/developer and the lessee/tenant. The benefits are like those described in the auto lease.

Application for the coverage is similar to the loan application. Coverage needs to be closely coordinated with the lender. Bonnie Barkley of the RVI Group says, "Some institutional lenders now require residual value insurance."

Commercial Mortgage Backed Security lenders are in a unique position, once a CMBS loan is sold, it becomes a security and cannot be modified. Unlike the commercial banks, the CMBS lenders do not have the flexibility to renew or extend a loan. Therefore this additional layer of guarantee is very attractive to the CMBS lender.

Disadvantages:

Disadvantages of the product include cost of the premium and an additional layer of legal documents at time of loan origination. Since the coverage is date specific, a tenant default or bankruptcy during the term of the lease does not activate coverage. Like with all guarantees, you need to determine the credit of the insurer.

Like many insurance tools, RVI can bring benefits if you understand the purpose and the application.

Vicki Yeomans - Klein, S.E.C. is the owner of Yeomans Realty in Houston, Texas. Ms. Klein specializes in property management, leasing and development of various real estate projects.

Giving Can Be Very Profitable In Real Life
~~If You Know How~~
By
Jim Wilson, CCIM

Unfortunately, I have seen a great many people instantaneously close their minds and stop listening to anything said when the word "charity" is mentioned. The problem is that a Charitable Remainder Trust (CRT) would be the most ideal strategy for preserving their wealth for a large percentage of these people. When using a CRT strategy, nothing goes to charity until all the asset owners have died and the heirs have received the whole value of the assets tax-free. The fact is, until all owners die, all the benefits of ownership remain with the owner of the assets. A companion Wealth Replacement Trust is used to pass the entire value of the assets on to the heirs in cash tax and probate free. So, lets explore how this all works in the real world.

I have found that it is possible to overcome the emotional barrier to considering this great investment strategy is to ELIMINATE THE USE OF THE WORD **"CHARITABLE."** Think of a CRT as a **"SELF-DIRECTED TAX-EXEMPT TRUST."** There are some limitations on ownership benefits with this trust as there are with many other forms of asset ownership. This will help to reopen the thought process and clear the vision. Assets are owned to produce benefits such as regular cash flow income, capital wealth accumulation, personal use, pride-of-ownership, emotional security, and financial security for family members after death. The various forms of trusts, partnerships, and corporations are just tools and strategies when one thinks of their assets in terms of BENEFITS. Millions of people own assets in regular "C" corporations. This form of ownership has many benefits but also subjects the owner to double taxation, limitations on tax deductions, and many other negative ownership aspects. Under some circumstances, the "C" corporation is absolutely perfect to achieve certain benefits. The "C" corporation does not fit all circumstances nor do any of the other legal forms under which title can be held. A CRT is no different. It all depends upon the benefits the owner is seeking under their specific circumstances.

Twenty-five years ago, George and Helen took some classes and read some books and became very adept at buying rental houses and two-family rental properties with NOTHING DOWN. Over the years, they have accumulated ownership of 20 such properties. They have renovated, managed, leased, maintained and improved their properties. The lovely, wonderful tenants have paid off virtually all of the mortgages for them and they now have a substantial monthly income from these properties.

George and Helen's circumstances have changed greatly in 25 years. Their children are all grown, through college and on their own. The grandchildren are spread over several different states. They have depreciated all of their rental properties down to the land value and they have no interest deductions. Virtually all of their rental income is being taxed at ordinary income rates for both Federal and state taxes. They are good managers and do not have a lot of after-hours emergencies. However, they still must be there to MANAGE. They also have to replace roofs, refrigerators, air conditioners, etc. at regular intervals. They must see to cleaning and maintenance between tenants and handle leasing. All the accounting and record keeping has become much more of a chore in the last few years. They are now in their 60's and have become more interested in getting in the motor home to go see the grandchildren and taking a cruise a couple of time a year with their family and friends. They have not had good experiences with professional property managers when they have tried them. The good news is that they now own approximately $4,500,000 in nearly free and clear income-producing rental property. The bad news is that their basis for tax purposes is only about $300,000. In addition, their income from the property is so great that they are now in the very highest income tax bracket. To add insult to injury, they do not need anything close to the amount of income on which they are paying taxes to live in the style they want. After doing some financial planning, they have discovered that if they were to die, the estate taxes in 2004 would be at 50% of all their assets in excess of $1,500,000. There are strategies using living trusts that can be used to double the amount of the estate tax exemption but they would eventually have to deal with estate taxes when both spouses have passed away. There are a number of estate planning strategies that can be used to eliminate tax problem upon death and a IRS Section 1031 exchange could be used to convert the ownership of 20 small residential rental properties to a larger low or no management income-producing property without the current **CAPITAL GAIN** taxes. Unfortunately, **the 1031 exchange will NOT eliminate the estate tax problem.**

This situation is ideal to employ a SELF-DIRECTED TAX-EXEMPT TRUST with a companion WEALTH REPLACEMENT TRUST to pass on the entire value of their assets tax-free and in cash to their children and grandchildren WITHOUT even the problems and costs of probate. The simple approach is to establish the George and Helen tax-exempt trust with George and Helen the directing beneficiaries. The wealth replacement trust is established with their children and grandchildren as the beneficiaries. The titles to the rental properties are transferred from George and Helen to the George and Helen Trust. The trust sells the property tax-exempt and all the proceeds after costs of sale are then reinvested at George and Helen's direction into their choice of more passive investment. These investments could be no-management net leased properties, mortgages, partnership shares in larger high quality income properties, or any of the traditional types of securities such as stock, bonds, mutual funds, etc. They might choose to spread their reinvestment cash out over several of these investment alternatives to provide income security as long as they live. The income they take out of their trust will be taxable but they do not have to take out more income than they need to live in the lifestyle they choose. If they have income inside of their trust greater than their personal needs, they can simply direct the reinvested inside the trust TAX-EXEMPT.

BIG BENEFIT!!! If they were to sell their property for $4.5 million with a current adjusted basis of $300,000 they would owe Federal capital gains taxes of a minimum of $600,000 allowing for sales costs. If they are subject to depreciation recapture, their tax bill will be larger. If they live in a state that also taxes capital gains, their tax bill will be even greater. By using a self-directed tax-exempt trust, George and Helen will be able to keep and reinvest the $600,000. Even at 5% return, that would provide $30,000 per year **ADDITIONAL** income for as long as either George or Helen is alive. Since they are only in their 60's, they will most probably live at least another 20 years. That means they would get all $600,000 to use during their life and then they can pass the $600,000 along with the rest of their assets on to their heirs tax-free in cash.

The Wealth Replacement Trust is the vehicle use to pass on the total value of the assets to the heirs. There are a variety of structures to accomplish this but the most used is method is an Irrevocable Life Insurance Trust. A small amount of the income paid out of the George and

Helen Tax-Exempt Trust is used, in compliance with the IRS rules, to purchase a specialized insurance program to fund the life insurance trust. Unless the dollar amount of assets is extremely large (over $10 million) the cost of the life insurance can be structured to have very little impact on the growth of the assets in the tax-exempt trust. There are a variety of methods to deal with a high-dollar asset situation, which I will not go into here. There are two important benefits to using a life insurance trust as proposed. (1) The life insurance trust can be used and structured exactly as one would a will **WITHOUT** the problems of probating a will. (2) The assets are passed on to the heirs tax-free in cash. 100% of estate taxes are eliminated and one does not have to schedule dying in 2010 to accomplish this objective. The Wealth Replacement Trust can even be indexed for inflation.

Only after George and Helen have passed away is there a gift to charity of whatever assets that are left in the tax-exempt trust. George and Helen get to choose which charities are to receive this residual benefit. They can change their choice at any time while they are alive. They can choose more than one charity as long as it is a qualifying charity, which may include their church. In this case, George and Helen decided to have their tax-exempt trust convert to the George and Helen Family Foundation when they have both passed away. Their family foundation will distribute the income from the assets to the charities of their choice as long as the foundation has any assets. Their children will participate in future decisions concerning which charities are to receive the annual gifts, which can provide many social and prestige benefits to the children and grandchildren for generations.

BONUS BENEFIT!!!! Since there is eventually a gift to the charity or charities of the choice of George and Helen, they will receive a current tax deduction for the present value of that future gift. The amount of the current tax deduction will depend upon the ages of George and Helen, the amount of income they will take out of THEIR trust each year, a government funds rate, etc. There is a formula proscribed by IRS to calculate the deduction. To put it into simple terms, the current tax deduction will range somewhere between 10% and 40% of the value of the assets placed into their tax-exempt trust.

Obviously, any use of tax-exempt trust or any other tax reduction and estate planning strategy needs to be accomplished with the guidance of qualified and experienced tax, legal and financial planning professional. The example presented here is only one relatively simple application of the SELF-DIRECTED TAX-EXEMPT TRUST strategy. In the next issue, we will explore how to use a self-directed tax-exempt trust to accomplish the disposition of a property with multiple owners who have widely divergent financial and lifestyle objectives.

Jim Wilson, CCIM, EMS is a Candidate for Membership in the Society of Exchange Counselors. He is President of Investment & Real Estate Solutions, Inc. in Orlando, Florida, and Real Estate Director and Board Member of the Children's Community Foundation. Has been in the real estate and financing fields for 32 years. His experience includes development and construction of residential, commercial and industrial projects and extensive experience in tax-deferred exchanging and utilization of charitable trusts with real estate investment assets. Jim previously held a Certified Business Counselor's designation and was an instructor for the Institute of Certified Business Counselors and has conducted real estate related training seminars and workshops nationally for over 25 years. Jim is a real estate investor and is currently managing partner in several active real estate development projects.

The S.E.C. Guest Relations Program

By

Lance Warner, S.E.C., EMS

The S.E.C. Guest Relations Program has experienced significant growth over the past several years. We have experimented with changes and added new activities with a steadfast focus on three primary goals. The program is designed to: A) make each Guest feel welcome and valued; B) orient the Guests to the mechanics of an S.E.C. Marketing Meeting; and, C) create opportunities for Members to personally interact with Guests. The driving force behind this program is the realization that Guests represent the crucial building blocks in our Society's efforts to remain at the forefront of creative real estate and equity marketing.

The Guest-Mentor program represents most Members' initial point of contact with Guests. The Program begins several days before the Marketing Meeting by identifying those members who will be attending. We then attempt to assign a Mentor to each relatively new Guest, defined as those Guests who have attended less than four recent meetings. Because of the increasing number of guests, this is not always easy. Officers, Chief Moderators, and others whose duties prevent them from devoting quality time to the mentoring activities are not assigned Mentees. Consequently, with the relatively large numbers of Guests we have been hosting lately, sometimes we don't have enough Mentors to go around. Even so, the Guests have been giving our Members high marks for being helpful and making them feel welcome.

By design, we try to assign a different Mentor each time a Guest attends another meeting. By changing Mentors each meeting, the Guest receives different perspectives about our business and provides more opportunities for our Members to become better acquainted with a larger number of Guests.

Guests sincerely appreciate the several members who have taken the initiative to contact their Mentees prior to the meeting via telephone or E-mail. This effort makes a very positive impression on the Guest. More typically, a Guest's first opportunity to meet their Mentor is at the Sunday evening cocktail party. To facilitate the connection, we ask the Inviter to introduce their Guest to the Mentor.

On Monday morning, we host the special Guest Breakfast. Because we have a lot of information to cover, we ask them to be there promptly at 7:30 AM. The full restaurant breakfast is served with an emphasis on cordiality, thus reinforcing the message that the S.E.C. places a premium on "doing things right." While they are eating, we ask the Guests to briefly introduce themselves. Following that, we organize them into two groups, those who have attended less than three recent meetings, and those who have attended three or more. The latter group (Experienced Guests) is "hosted" by an S.E.C. Member who leads them in a discussion on a topic of the

Member’s choosing, usually related to a particular expertise or specialty of the Member. One benefit of this forum is that it provides the host S.E.C. another chance to get to know individual Guests in a small group setting with more opportunities for discussion and interaction. It also benefits the Guests by learning about the activities and expertise of the Member.

Meanwhile, the Newer Guests are being briefed on a number of orientation topics, including, but not limited to, the format of a Marketing Meeting (emphasizing *the property, the people, the opportunity*), what makes up a professional back-up package, terminology and jargon used in creative real estate, as well as the S.E.C. membership process. Before adjourning, each Newer Guest is asked to tell the group a non-real estate passion of theirs and what primary goal they hope to accomplish at the meeting.

As the breakfast meeting adjourns and the Guests make their way into the Marketing Meeting, S.E.C. Candidates are usually on hand at the entrance to the marketing meeting room to help them locate their Mentor. During registration, the Mentors are furnished an extra name tent to place beside them in the meeting room, thus reserving an adjoining seat for their Mentee.

Following Tuesday’s Marketing Meeting, the President usually holds a question and answer session with the Guests when we ask for ideas and/or suggestions to make the meeting more productive for the Guest. From these discussions, several ideas have emerged. Recently, we started providing each guest a multi-page handout of terms commonly used in our meetings. We are currently developing a notebook with the name and photo of each Member so that a guest may refer to the notebook to “place a name with a face.” The Jargon Dictionary and the Photo Roster are the direct result of suggestions from the Guests at the Tuesday afternoon sessions.

In addition to the above primary goals of the S.E.C. Guest Relations Program, the efforts of the program are centered on assuring that the Guests have a productive meeting, and that they gain an appreciation of how much emphasis S.E.C. Members place on relationships and helping each other. We also want them to understand how much we value their active participation, and how that participation contributes to the productivity of our meetings.

Lance Warner, S.E.C. is a client-centered real estate exchange agent trained to achieve real estate investment goals, solve real estate problems, and take advantage of real estate opportunities, including Section 1031 tax-deferred exchanges. Lance is trained to help clients over a wide geographic area including, but not limited to, N & W of Youngstown, Southeast Michigan, and Sandusky, Ohio.

Top 10 Things To Remember
When Originating A Short Term Mortgage Loan

By

Edward Berlinski, S.E.C., CCIM

As many of you know, I have been involved in short term mortgage financing for many years. Like every business, there are critical things that have to be incorporated into the transaction. Below, based on my experience, are the top 10 things to remember when you're involved in lending your funds and taking back a short-term mortgage.

1. Get a "heavy" real estate attorney to create your documentation. Don't be reluctant to pay top dollar to "create" the right document for you. Once you've settled on "standard "documentation you can utilize a "middle of the road" attorney who is more reasonably priced for your future closings. Have your attorney research the usury statutes of the state you're operating in. These statutes will define the maximum interest rate you can charge. Remember, each state has its own rules and regulations.

2. Don't lend to a complete stranger. Find your prospects through referrals of other brokers or persons you know and respect. Check up on the borrower. Obtain a 'tri-merge" credit report. Get a Net Worth Statement, even if it's rough (and have him/her sign and date it.)

3. Forget about amortization! Since the loan were discussing is short term, amortization is somewhat meaningless. Also, and very importantly, it will make your record keeping so much easier at tax time. All payments will be either all interest or all principal.

4. Insist on <u>monthly</u> payments.

5. Always state the purpose for the use of the funds in your loan agreement so that the funds must be deployed toward a specific property you both have agreed upon.

6. As much as possible, loan on projects or properties that are "self-liquidating" in nature. In other words, pick those loan opportunities where the loan repayment will be available from the proceeds of the project itself, such as a rehab.

7. Forget about second mortgages! Stick to first mortgages until you have done many (several dozen) transactions. Seconds have many implications that can "complicate

your life." In eleven years in this business I've only lent on a second mortgage basis once.

8. Insert in your documentation a cross default provision that creates a default in your agreement if the borrower is in default in any other agreement for borrowed money. It's next to impossible to monitor this. However, it allows you to declare a default under your agreement if you become aware that the borrower is in default on another loan.

9. Loan relatively modest sums to start. Get comfortable with your documents and your borrowers before you loan large amounts.

10. Always <u>insist</u> on a personal guaranty of the borrower if the borrower himself/herself is not the entity that is borrowing the funds.

It is critical to remember that the above is just a "sampling" of the items that must be considered. Many more issues, such as the issue of appropriate collateral, must be evaluated before documents are executed.

This method of creating an income stream can become extremely enjoyable and financially satisfying, as it has for me. However, it can quickly become a "nightmare from hell" for those who are not cautious and financially knowledgeable and who don't have top-flight legal representation.

I hope this may be of help to those of you reading this article.

Ed Berlinski, S.E.C. is a Certified Commercial Investment Member (CCIM) and a member of the Society's Board of Governors where he serves as Chairman of the Production Committee. He is an Associate Broker for RE/MAX 1st Commercial in Rochester, N.Y. active in real estate counseling, general brokerage, real estate finance, and investor representation. Ed has a strong financial background, having been a corporate financial officer for several major corporations. He has a BS in Economics from Villanova University and an MBA in Finance from the Wharton School of the University of Pennsylvania. Ed has also completed the Executive Management Program at Yale University.

Protecting Your Email Address From Spammers

By

Doug Turner, Esq.
Evergreen Management Group, Inc.

Listing your email address in your website is a great idea. You want your email address prominently displayed so that clients, prospective clients and website visitors have an easy way to contact you. However, the advent of Spam makes this a little more complicated. Today, programs known as spam bots or spiders roam the information superhighway, randomly searching for email addresses posted on websites. Your websites – and your email addresses – are prime targets.

The result? You wade through hundreds of junk mail daily. Potentially millions of dollars worth of productivity is sacrificed as you delete the rubbish in your inbox. Each day, you wince as screaming banners tell you to enlarge certain body parts, become filthy rich before your next cup of coffee or buy cheap medication concocted in somebody's kitchen. Worse, the occasional Spam generated by a virus penetrates your inbox and kills your operation for a day or two.

It is annoying, yes. You have as much right to complain as the guy who is roused from bed at 6 on a Sunday morning by a salesman. Getting junk mail is just as infuriating. It is the same concept of privacy invasion. Even worse, it is a serious obstacle to your productivity.

And Spam spiders are the main culprits.

However, advancements in technology have turned the fight against Spam bots in your favor. It is now possible to cloak email addresses such that the email address is still visible to website visitors yet invisible to Spam bots.

For example, if your email address is listed as myname@mydomain.com in your website, the html code in your web page will appear as:

myname@mydomain.com>

The above code is vulnerable to Spam bots. This email address will be harvested and added to some Spammer's mail list.

However, if your email is effectively cloaked, the Spam bots will see a set of random codes such as the following:

```
<a
href="&#109;&#97;&#105;&#108;&#116;&#111;&#58;&#99;&#108;&#97;&#114;&#105;&
#110;&#101;&#116;&#100;&#97;&#100;&#64;&#101;&#97;&#114;&#116;&#104;&#108;&
#105;&#110;&#107;&#46;&#110;&#101;&#116;">&#99;&#108;&#97;&#1</a>
```

Meanwhile, visitors to your website will still see your email address, and you will be able to maintain contact with your website’s target audience.

Cloaking is an excellent technique that confuses those vicious Spam spiders, thus providing an effective solution to junk mail. The result is less garbage in your inbox and more productivity for you and your employees.

Is your current email address cloaked? Well, a quick check of S.E.C. member sites would suggest that it is not. As you read this article, yet another Spam spider is pulling your email address into its cache. The solution is inexpensive and simple. You just need to take action.

Douglas A. Turner, is founder and CEO of Evergreen Management Group, Inc., a global web technology organization headquartered in Golden, Colorado. Besides designing web sites, Evergreen Management Group provides cost effective marketing and administrative support services to small and medium size businesses in the United States. For more information on Evergreen Management Group, visit www.emgtgroup.com. For more information on Douglas Turner's law practice, visit www.douglasturner.com.

"A Journey of the Mind"
Books on the Counselors Nightstand

By

Harry Kennerk, S.E.C.
Indianapolis, Indiana

As members of the Society of Exchange Counselors, creativity is at the forefront of our daily thinking. But, how does creative thinking begin and subsequently become nourished over time?

I see that process as a *"Journey of the Mind"* which begins and ends with the things we read and experience every day. As our experiences vary by who we are and what we do each day so do the books we read to expand our horizons and keep our creative thinking on the cutting edge.

So, I got curious as to what books were on the nightstand of my fellow Counselors. Below is some information I gathered and thought I would share with Observer readers…

Enjoy your "Journey of the Mind"

Marilee Anderson, S.E.C.
Real Estate Counselors, Inc
Chicago, IL and Denver, CO
marileeanderson@msn.com

Specialty: Investment Real Estate, Exchanges, and Business Opportunities

- Life 2.0: How People Across America are Transforming Their Lives by Finding the Where of Their Happiness

  Author: Rich Karlgaard,

  Topic: Forbes Magazine's "Flying Publisher", Karlgaard, barnstorms America collecting real life stories about those open to personal innovation."

- Boomtown USA: The 71/2 Keys to Big Success in Small Towns.

  Author: Jack Schultz

  Topic: Why some small towns boom while others die.

Leo Goseland, S.E.C.
Plaza Real Estate, Inc/ Commercial Division
leo@plazacommercial.com

Specialty: Educator, Exchanges, Land, Subdivisions

- The Transparency Edge – How Credibility can Make or Break you in Business

  Author: Barbars Pagano

  Topic: Though targeted for the work place of small business and corporate giants, the principles apply to all of us who work in the business and investment marketplace.

William "Bill" Richert, S.E.C
Richert Properties
Tulsa, OK
brichert@sbcglobal.net

Specialty: Generalist

- How to Finance Any Real Estate…(Any Place, Any Time)

Author: James A. Misko

Topic: Real Estate financing strategies that work.

Misko has demonstrated his theories with great real world examples.

- Getting to Yes

Author: Roger Fisher and William Ury

Topic: Negotiate anything without giving in.

Harry Kennerk, S.E.C., is CEO of the Sycamore Capital LLC, a real estate investment/ management company specializing in the acquisition, management, and disposition of multi tenanted real estate investment properties on clients behalf. Sycamore Capital is a value added investment company that pursues varied investment properties and opportunities.

Mr. Kennerk is a past president of the Society and currently serves on its Board of Governors. He was the 1985 S.E.C. Counselor of the Year.

A BUSINESS PLAN…WHO NEEDS IT?

By
Ron "Robbie" Robinson, S.E.C.

Let me ask you a question, would you ever consider the construction of a home or any building for that matter, without a detail set of plans to guide you to a successful completion of given project?

The answer of course is absolutely not. Yet many embark upon complicated endeavors in the area of real estate and business ventures without giving a thought to sound planning. The type of planning that requires a well thought out business plan. A plan that asks the pertinent questions that not only acts as a guide for the individual or company launching the endeavor, but also for those who might be called upon to make an investment.

When a reporter for a newspaper begins to write a news story he follows a pattern of "who, what, why, where, how and when." Applying this same line of questioning to projects in real estate or business can be of great help in evaluating an endeavor. It is a simple formula, but you would be surprised at what can come out of a thoughtful approach of this nature.

The process of asking yourself questions and writing the answers down can bring clarity to any given idea. You can create a simple business plan or you can obtain a computer program that is tutorial in that the program asks the questions and you write the answers. When completed the programs prints out a comprehensive finished product, which can become a working document as time makes its revisions.

A business plan is the only defense against "assumption-it is." This can be a very costly disease. It usually happens like this. You approach potential investors and make certain assumptions of how a particular venture is going to perform, it is a tedious job to make a comprehensive business plan and do the kind of research required, so you simple make assumptions. Inevitably, you find out, much too late, that one or more of these assumptions are wrong. The results are often devastating, and frequently fatal to the endeavor. What is more, your reputation suffers.

If a project is of a large and complex nature it is often wise to obtain an outside firm to perform the act of doing a comprehensive business plan. This will provide a detailed analysis, time line and financial projections that can make financing much easier and expeditious. A plan of this nature can also examine and discuss the feasibility of the endeavor. A professional business plan of this nature can also be a working document in that it can be in constant revision as you move ahead with your plan and reality begins to manifest.

Ron is a commercial real estate broker based in Las Vegas, Nevada. He has been involved in the creative real estate market for many years. Ron is a long time member of the Society.

How About 14% True Yields?

"Capital Gain Going In - 1031 Going Out Later"

By

Hunter Quistgard, S.E.C.

I counseled with another broker's client recently about an interesting opportunity. Here are some facts about the deal to consider:

- The broker has the clients' property listed at $975,000.
- The property is a 20 acre ridge top with fabulous views, a 3,000 sq. ft. older home and some farming tenancy.
- The property is one mile outside the current urban development boundaries and is surrounded by 10-20 acres fancy estates (this one has the best view!).
- The client has apparently turned down $750k stating as his reason: "I think the future value is so high, I just didn't want to give it all away."

After listening to the owner, I proposed several "share the future" proposals. The one I focused in on was like this:

1. We provide a buyer for the property at $650K and take over, replace or pay off your $400k existing loan at 6% (We may have to leave him in partial title for that purpose).
2. The seller will lease/option back the property at $1,500 per month NNN (so management, maintenance, etc. are built in therefore no ownership expenses to the new owner. The NNN rent will increase $300./mo. each year for 10 years (figures plucked from air for example to seller of concept = not negotiated)
3. The buyback option cannot be exercised for 2 years.
4. The option price will be on an increasing scale such that total net return to the owner will be 14% + 20% of any upside value over the option price remains with the new owner/lessor/optionor
5. The option to buyback will expire after 10 years.

My approach above is kind of a forced savings program for the investor that allows most of the yield to be long-term capital gains (the portion that is not in rent, but in increased option price). Anyone investing in this deal would need to be convinced that the discounted purchase price from it's current value and future prospects is where the security is, so that if the lessee does not perform, there would be no problem getting a sale or whatever that keeps the investor's capital whole. (Lease terms can be modified to leave the investor exposed to some of the variations in taxes, insurance or? if a NNN is a tax problem.)

After talking about the benefits of this formula for a while, we discussed whether owner might take trade for most of his equity over the existing $400K loan. I discovered that he is geographically fixed and will not take property out of his area, but open to equity in lieu of cash.

There are many variations of this approach to "sharing the future" while giving security to the investor and solving the diminishing negative cash flow motivating the seller. Your job is to pass to us the 821 other alternatives you see here so that you and the rest of us will have all those tools in our bag when a similar situation comes up for solution.

This is just one more way to cause a "win-win" transaction when there is not a user/buyer in the market for a motivated seller.

Hunter Quistgard, S.E.C., is a semi-retired investment Realtor/exchange counselor. Licensed in 1960, and formed Hunter Associates in 1962, which managed, brokered, syndicated, and exchanged investment real estate. Hunter won the Counselor of the Year Award in 1984, and was President of S.E.C. in 1988. Motto: "A motivated owner with a knowledgeable and connected exchange counselor can manufacture a solution out of whole cloth."

Using Technology to Manage Your Business

By

Ted Blank, S.E.C., CCIM, EMS
Denver, Colorado

How do you use the technology available today to manage your business? I was looking for a new way to manage my contacts so I sent a message out to the Society members about how our members use technology to manage their contacts, clients, investors, vendors, and consultants, etc. We all need to be organized to effectively manage the information flow typical to our real estate business.

Following are some of the responses I received from Society members that I hope might assist you in using technology to manage your business.

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Chris Dischinger, S.E.C.
Louisville, Kentucky

For my part, I have used ACT contact management software since the early 90's (my database is that old and many of the contacts date back that far). It is a great program and I am sure I don't use 20% of its capabilities.

The reason I like ACT is that it is simple to use, it is an industry mainstay which means they keep updating it (I first started using it in the old IBM 286 DOS computers, before windows was even available), it interfaces with Microsoft WORD, and I now have it synchronized on my phone (2,000 contacts complete with notes on my cell phone wherever I go). ACT also works with OUTLOOK so that I can e-mail straight out of ACT.

ACT creates a record of phone calls, e-mails and faxes so that I have a record of interaction with contacts. My assistant shares the database with me so that we can schedule appointments with or for each other and I can review the tasks that she completes when I am out of the office.

I could go on and on as to the many benefits of this software to my daily business and personal needs. One piece of advice I will share is that whatever program you chose, start slow and don't try to do everything the first day. The basic operation of ACT is easy to learn. Your database and expertise will grow over time.
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Don Dobroski, S.E.C., CCIM
Rochester, NY

I started out with outlook but found it too cumbersome for communications and history. Now I use outlook (2003 version) for my master database but when I start working with a contact, I transfer the name to ACT for the same reasons Chris gave. I like the ease of writing documents, the ability to easily create a history for documents and other communications and the ease of finding people. I have over 500 contacts in my database. Have not lost anyone yet. I have the ACT 6 for 2004 version. I have found good compatibility with Microsoft Office 2003 so far. Another benefit is that you can set up your own e-mail groups within ACT

If you are not already using outlook, my recommendation is to go directly to ACT. They will give you free set-up help for the first 30 days. If you want to export all outlook names to ACT, you can do that also.

Steve Eustis, S.E.C., CCIM
San Angelo, Texas

I have been using "Ares for ACT!" for a couple of years now ACT!, in association with CoStar (a nation commercial real estate information provider) to specifically design an ACT data base format for commercial real estate. It is call ARES for ACT! and it has not only the people part of contact management but also a module for your property listings, comps, etc. It does flyers, everything you can imagine – and more - to run a paperless commercial real estate office.
You can learn more about it by going to the web site for Costar: www.costar.com click on products then choose Ares 6.0. It is a great system (I've been using just the people part for several years and probably only about 10% of its capability). Jeff Latimer was an expert at it and is who introduced it to me. I have thought about seeing if CoStar would make a presentation to S.E.C. on not only Ares (the ACT contact and property software that you would buy for your in-house use), but also all of CoStar services and what they can offer us. CoStar has data on millions of properties all over the county –comps, rent rolls with lease expiration data, web marketing, exchange info and many other services. I am not a CoStar member although I have considered joining (they do not have the data on any building in San Angelo like they do on every building in every major city in the U.S.). I do however really like their "Ares for ACT!" software for my contact database.

JackieHellingson
Executive Director
Society of Exchange Counselors

I used to use Access and loved it. Our online database is designed to work off line with Access. Since Access is part of Microsoft Office, I never had compatibility problems. It is my understanding that ACT sometimes doesn't integrate well with other programs.

William E. Stonaker, CCIM, SEC
Grapevine, Texas

Like Chris Dischinger, I have used Act for years, since an earlier DOS version. I agree with what Chris said. However, I think the Microsoft system and Act don't always work perfectly together. I would also suggest that you look at using Outlook for the same reasons and it obviously will work so well with all other Microsoft programs. There is one more plus: you don't have to buy another program – you already have Outlook. But you might want to look at the newest version of Microsoft Office that should include Outlook

I agree with Jackie that Access works seamlessly with Microsoft and Act doesn't always. One of my investors is a certified Act specialist and he agrees. But, unless Access has gotten much easier, Ted doesn't want to go there. Besides, it is way too much for what Ted (or I) would ever want. Access is probably the most powerful relationship database in the market In short; my only problem with Act is the compatibility with the Microsoft OS and Office programs.
Try using Outlook for your needs and see how you like it. You might take a class on it. The next time I upgrade, I am going straight to Outlook and ditching Act

Summary

In total, I received 11 responses from Society members. Three preferred Outlook; five used ACT with one managing 11,000 names, and others recommended Gold Mind, Palm 7 or PalmTreo 600, and Access.

Ted Blank, S.E.C., is owner of Ted Blank and Associates based in Denver, Colorado. Active in the real estate business since 1979, he specializes in syndications, note acquisitions, REO properties, and client based counseling. He is past President of the Society, a past recipient of the S.E.C. Counselor of the Year Award and the 2002 recipient of the "Jack Hunt Excellence in Education" award; and serves on the Board of Governors. Ted holds the CCIM designation from the National Association of Realtors.

Creative Real Estate Education ~~ Then & Now

By

Mark Johnson, S.E.C., CCIM
President
The S.E.C. Education Foundation

Can you remember what you were doing 30 years ago? Perhaps you were graduating from high school or college? One thing is for sure; you would endure and perhaps enjoy the one and only Disco craze. Go Donna Summers! Remember the Bee Gees? Oh yeah, the minimum wage was about $1.10 per hour.

So, having survived these last 30 years, I found myself asking some questions recently that I thought I would share with Observer readers:

- How has the real estate world changed today?
- Can you imagine being in the real estate business 30 years ago?
- How and where would you go for advanced educational needs?
- What education was available to you back then?
- How has technology changed our business with speed and ease in obtaining knowledge and distributing information?
- Who is the new real estate practitioner? A generalist? A specialist?

It's a forgone conclusion that the real estate world is ever changing yet the basic needs of the real estate practitioner have remained the same. We have to stay on the cutting edge and we do that by expanding our knowledge on a regular basis. We educate ourselves or we get left behind.

I recently found a list of the creative real estate courses offered in 1975 and compared them to those being offered today. Upon examination, we can reach a common conclusion; that the basic creative real estate courses, although always changing, are similar and in some way have proven themselves and have passed the test of time? We owe a huge gratitude of thanks to the leaders of education and to the California organizations for leading the way.

Understanding that the future of, and survival of, all real estate professionals would be through education, the Society of Exchange Counselors established the S.E.C. Education Foundation in 2001. Funded through individual contributions, the Society's Foundation now offers and sponsors a broad selection of courses. These courses provide the basics necessary to succeed in any type of real estate market, in any type of expertise and in any type of financial status.

An example of these courses is entitled *Broker Estate Building, which was originated some 30 years ago by Cliff Weaver and Colby Sandlian,* and rewritten and offered today by Phil Corso and myself. This course provides the attendees with the expertise and knowledge of *how to be your own best client.* Our students learn how to live on cash flow not commissions. Once that transition is made from commissions to cash flow you now rely on yourself and your decisions instead of the decisions of others. You are in control!

The S.E.C. Education Foundation would love to bring one of our courses to your town. Contact the EDF by visiting our website at www.secedfoundation.com and tell us which course would best serve your real estate community.

Mark Johnson, S.E.C., CCIM is the president of Border Properties, Inc., based in Brownsville, Texas and active in industrial development specializing in NAFTA based warehousing on the Mexican Border. He is an active nationwide investor and provides property management services for retail, commercial and industrial property. Mark was the 2003 President of the Society of Exchange Counselors. He won the S.E.C.'s Yvonne Nasch Award in 1996 and 1998. He currently serves as the 2004 president of the S.E.C. Education Foundation and was named as the Society's 2003 S.E.C. Counselor of the Year.

A Commitment to Education

"How your organization can help its members"

By

Ted Blank, S.E.C., CCIM

Local and regional real estate organizations throughout the nation strive to provide services to their members. Perhaps the most needed service that your Board of Realtors, CCIM Chapter, RLI Chapter or Exchange Group can provide to your members that will bring the highest return on investment are education programs that go beyond that required for continuing education credits in your respective states.

In January of 2004, two organizations I belong to, the "Mile Hi Exchangors" and "Colorado Creative Marketing Exchange" made a commitment to upgrade the quality of our meetings and to provide education programs to our members to help them expand their horizons. We had several newer members coming to the marketing sessions not knowing for sure why, not having counseled the client, and not knowing what to do with the information they had. They needed to understand Equity Marketing, the fine art of Counseling and the basic Creative Real Estate Formulas.

Since that decision was made, we have conducted 3 one-day courses utilizing the services of instructors from the Society of Exchange Counselors S.E.C. Education Foundation. Chuck Sutherland presented his program on Creative Real Estate Formulas, Bob Brougham taught his program on Equity Marketing and I presented my course on Counseling.

The response from our membership and the Denver real estate community was overwhelming. Each program sold out with 70 real estate professionals in attendance per session. The attendance, quality, and production at the meetings have greatly improved. Our local Mile Hi chapter hosted the events in Denver and was willing to stand behind any losses. They broke even or a little better even though we only charged $40 per course.

So, here's a suggestion for you to take to the leadership of the real estate organizations to which you belong. Ask them to commit to education. Remind them that this is the most important service they can provide to the membership. Create a one year plan to bring in at least three (3) unique and powerful education programs…. outside that boring box known as continuing education credits. It will make your organization stronger and your members better able to serve their clients and their own objectives.

The S.E.C. Education Foundation can assist you and your organization in meeting your education objectives with both financial and program assistance. Please visit our web site, www.secedfoundation.com and contact us for ideas on how to make it happen.

Ted Blank, S.E.C., is owner of Ted Blank and Associates based in Denver, Colorado. Active in the real estate business since 1979, he specializes in syndications, note acquisitions, REO properties, and client based counseling. He is past President of the Society, a past recipient of the S.E.C. Counselor of the Year Award and the 2002 recipient of the "Jack Hunt Excellence in Education" award; and serves on the Board of Governors. Ted holds the CCIM designation from the National Association of Realtors.

S.E.C. News Brief

Creative Real Estate in New York

The summer issue of the "NYSCAR News," the newsletter of the New York State Commercial Association of Realtors, included a report on the recent 3-day marketing, education and business meeting for NY Commercial Brokers. 140 commercial real estate brokers attended the meeting. The article noted that members of the Society of Exchange Counselors and several S.E.C. guests were instrumental in making the meeting a huge success. S.E.C. Candidate, Jim Wilson ran the marketing session and Society member, Chuck Sutherland, presented his education program on Creative Real Estate Formulas.

Long time S.E.C. guest, Don Welch was very active in organizing the event. Society member Bob Genecki, S.E.C, CCIM, was instrumental in the success of the meeting with "Easy Ed" Berlinski, S.E.C., CCIM, working hard to get all the pieces together. Also attending were Society members, Paul Manza, Wayne Jensen and Steve Bushey.

The Society's objective is to reach out to commercial real estate brokers nationwide with our unique formula for marketing real estate and to provide creative real estate programs and instructors via the S.E.C. Education Foundation.
Submitted by:

Ted Blank, S.E.C., CCIM
S.E.C. Education Chairman

S.E.C. Newsbrief

Upcoming Education Program

"Investing in Real Estate with IRA Funds"

Burlington, Vermont

On Sunday, September 19, The S.E.C. Education Foundation will present another timely education program for real estate investors and brokers entitled "Investing in Real Estate with IRA Funds." The program will be held in conjunction with the Society of Exchange Counselors National Invitational Marketing meeting in Burlington, Vermont.

Presenting the program will be Michael P. Scott, Vice President in charge of Pensco Trust Company's east coast operations. Mr. Scott is responsible for the development and implementation of marketing programs to introduce Self-Directed IRA's to consumers and professionals who states; "The most interesting thing that many people are not aware of is the opportunity to include potentially more lucrative non-publicly traded alternative assets within a Self-Directed IRA, penalty free and tax deferred."

Mr. Scott will also moderate a panel discussion featuring Society members Jack Harper, S.E.C., CCIM, Jim Wilson, CCIM and Mark Johnson, S.E.C., CCIM.

When asked why he uses IRA funds to invest, panel participant, Mark Johnson stated: "Why not use an IRA to invest; it is your money! The question you should ask yourself; 'can I build my estate and pay more attention to the details than a anonymous company clear across the U.S.?' The answer is YES – just as long as you understand the rules."

This exciting program will cover everything you ever wanted to know about Self-Directed IRA's including:

- What is a Self-Directed IRA?
- What type of real estate can IRA funds be invested in?
- What Transactions are allowed?
- What Transactions are prohibited if the IRA purchases Real Estate Directly?
- What are the Logistics of R.E. Investments in a Self-Directed IRA?
- How do I Manage the Investment?
- What Steps are involved in Investing IRA Funds in an Investment Property?
- Who offers Self-Directed IRA's?
- What is the Difference Between Vendors?

The program will be held at The Sheraton Burlington Hotel, the site of the S.E.C. National Invitational Marketing Conference on September 19-22, 2004. To make your reservation for "Investing in RE with IRA Funds" register online at www.secounselors.com,

BIOGRAPHY

COLBY B. SANDLIAN, S.E.C.

Colby B. Sandlian, of Wichita, Kansas, has been in the commercial investment real estate business for a career spanning over 50 years. His real estate career includes activities as a broker and investor/developer involved in all aspects of the real estate brokerage industry, as well as the ownership and development of various investment properties and income producing real estate.

Mr. Sandlian has been a member of the Society of Exchange Counselors since the late 1970's, and served as its President in 1981. Among S.E.C. members and other real estate professionals, he is best known for his activities as a real estate educator, including the infamous "Broker Estate Building Classes", wherein a substantial number of real estate professionals were able to learn the elements of "creative real estate" in a practical, efficient format. Mr. Sandlian has taught other seminars in various aspects of creative real estate techniques and development of real estate.

In 1971, Mr. Sandlian developed his first self-storage facility in Wichita, Kansas. As a founding member of the Self-Service Storage Association (SSSA), a national trade organization, he was instrumental in establishing national standards of operations and management training for the self-storage industry. He was an early innovator in the creation of high design standards, security systems, and demographic research for the development of mini-storage projects. The U-Stor mini-storage division of Sandlian Realty and Investments currently comprises over 85 projects in ten states, totaling in excess of two million square feet of self-storage facilities. His activities span the continental United States, with facilities in Arizona, Oklahoma, Colorado, Texas, Louisiana, Indiana, Tennessee, California, Ohio, and Florida. As an investment builder, the U-Stor mini-storage division creates its self-storage projects with the goal of long term cash flow and ownership for its corporate holdings, and those of its investors and partners.

A devout giver of his time and expertise to the S.E.C., Mr. Sandlian has acquired a reputation for honesty, integrity and discipline that is a model for real estate developers, investors and brokers to emulate in their careers.

Mr. Sandlian and Sandlian Realty and Investments is headquartered in Wichita, Kansas, which serves as a base for his nationwide activities in the commercial real estate investment and development business.

S.E.C. Education Foundation Instructor Interview

Jim Brondino, S.E.C., CCIM

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Editors Note:
This interview was conducted with Jim Brondino, a long time member of the Society of Exchange Counselors. Jim teaches several courses for the S.E.C. Education Foundation and has been recognized nationally as one of the nations leading real estate educators. He provides his perspective on the state of creative real estate education today and the importance of counseling and equity marketing in assisting clients in achieving their objectives.

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Observer:

Thanks for chatting with us, Jim. Tell the Observer readers about your teaching background.

Brondino:

I obtained my BA degree and Master's in Teaching with an emphasis in history from the University of Redlands. I have taught at the high school, Community College and University levels. Currently, as requested I conduct seminars to real estate professional organizations and marketing groups, as well as through the auspices of the Education Foundation of the S.E.C.

Teaching has been a rich and rewarding experience for me. Over the past 30 years, I have been privileged to conduct numerous professional seminars for CCIM, RLI, NCE and various Board of Realtor Investment groups on a national and international basis.

Observer:

It's clear that you have been teaching the principles of counseling and equity marketing for a long time. Is there one particular aspect of client counseling that you encourage your students to incorporate into their business practice?

Brondino:

There are actually three aspects of the counseling process that merit incorporation into one's business practice. They are:

1) *Listening*
2) *Question structure*
3) *A genuine concern for the client without compromising one's own principles.*

Observer:

I have heard you talk many times about the importance of understanding the difference between clients "needs vs. wants" and how counseling a client can help them achieve the benefits they seek. Can you elaborate for us?

Brondino:

The difference between a "want" and a "need" is the action, or lack thereof, taken toward the desired result. If there is no action initiated or taken by the client toward addressing a solution to their circumstances or motivation, it is only a "want." On the other hand, if the client exhibits a cooperative spirit, produces requested documentation, demonstrates a broad acceptance level as to solutions presented and is willing to contribute their skills, talents, and resources to the transaction making process, they are taking action that demonstrates a "need."

Because "benefits" come in the form of pride, pleasure, profits or some sort of relief, once the client has been given the opportunity to express themselves through the proper "counseling" process, they will recognize more clearly the benefits available to them when they are presented.

Observer:

You teach a course called "Counseling for Action." Please tell our readers a little bit about the course and what they can expect to learn in the two days they spend with you.

Brondino:

Essentially, the seminar demonstrates the processes of how to interact with a client to obtain relevant information to understand how best to assist them in achieving their realistic goals and objectives. Just as important, the seminar provides the methods to employ that assess whether it is in the best interest of the agent to accept the responsibilities associated with the employment agreement or listing. Because counseling is the process of revealing one's self unto one's self, the seminar is directed at addressing how best to achieve this result. The seminar is interactive. The participants are guided through various role-playing activities that support the course narrative.

Observer:

You teach another course for the S.E.C. Education Foundation on "Equity Marketing." Tell Observer readers about what "equity marketing" is and how they can benefit from this course.

Brondino:

Basically, equity marketing is a cornucopia approach rather than a myopic approach to the transaction-making process. The course was developed as a result of attending marketing meetings and sessions throughout the years. After witnessing what was useful versus what was not so useful in being productive at these events we put this specific course together. We discuss *the philosophy and the important elements of equity marketing versus the traditional buy/sell market place, and how pursuing this philosophy enhances one's ability to derive more income.*

The course also addresses the responsibilities of the presenter, the moderator and the audience; and how this interplay can be useful and productive during and after the event. Writing meaningful transaction proposals (mini-forms), structuring effective and informative packages, understanding the role of the presenter, the moderator and the participants, and how to effectively present the results produced at the meeting to the client are part of the presentation. The objective of the course is to create a productive marketing environment by understanding the key elements that contribute to that objective.

Observer:

Jim, you've obviously enjoyed a great career both as a broker and a teacher. What are you doing these days and how can our readers benefit by perhaps doing business with you? What web site can we visit, and what e-mail address can our readers use to contact you?

Brondino:

Currently, I work with a select group of clients and manage their portfolios, including purchasing properties, exchanging, dispositions, refinancing, whatever is needed to best meet that individual's specific needs. I am also affiliated with a public real estate company, Secured Diversified Investment, Ltd, (SDI, Ltd,). SDI acquires income-producing properties and looks for "opportunity" properties nationwide. We are pleased to have such inventory presented to us. You will find us accommodating, receptive and creative in structuring transactions that provide the benefits sought by your client while producing satisfactory results for us. The web site for SDI, Ltd. is sdiltd.net.

On occasion and as requested, I conduct either the Counseling for Action or Methods of Marketing and Moderating seminars. The Certified Moderator seminar is a specialty seminar conducted that is exclusively dedicated to enhancing moderating skills at our marketing sessions and events.

My personal web site is www.brondino.com and my email address is Brondino@aol.com. I am happy to hear from anyone who wants to contact me. Thank you for the opportunity to respond to your questions.

Observer: Thanks for your time, Jim

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Additional information on education courses presented by Jim Brondino can be found on the web site of the S.E.C. Education Foundation, www.secedfoundation.com or by contacting Jim directly.
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THE SEVEN C's

By

Richard R. Reno, S.E.C.

Founder of the National Society of Exchange Counselors

Editors Note:

This article was initially published in the Real Estate News Observer in 194. It was the first in a series of articles by Dick Reno explaining the format, rather than formula, of the 7 ***C's*** *of modern real estate exchanging and counseling. We think this information is timeless and we'll be publishing the entire series in the S.E.C. Real Estate Observer in future issues. Enjoy!*
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The SEVEN C's

I : Contact

Much has been written about where to get clients, where to get listings, but there seems to have been little recognition of the study of the use of contacts themselves. Therefore, again based on experience and from a practical application, the following is suggested as a rather short dissertation on this subject of contact knowledge of which so little is acknowledged in writing in real estate education throughout the country. How to use contact knowledge to recognize a potential problem and/or transaction, and recognize that perhaps there is a problem that shouldn't be handled.

1. The contact is the starting place of all activity, so a contact must be handled in an adroit and positive manner:

A. To let the client know that you are interested in him, in his welfare, and how he might better himself in your assisting him to solve his problem - not just have an interest in a parcel of property.
B. So that you can, as quickly as possible, learn whether there is a problem that you believe you can assist in solving.
C. To learn whether there' is some reason you should not, or do not want to, get involved. Perhaps some other Broker is already involved in the client's affairs. People often use us with no regard or consideration for ethics between Brokers. Too often a client will be trying to pit one Broker against another. So it is important to get information of this nature as quickly in an original interview as it is possible to do so.
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2. Be careful, quick analysis, at the inception of the contact, you should learn:

A. Whether a knowledgeable Broker on the subject of exchanging and/or Exchange Counselor and/or Counselor is involved, or whether you are inadvertently working with a practitioner who has been a bartender for 18 years and has about 10 days before your meeting with him obtained his first real estate salesman's license.
B. Whether you may be working with a Broker who thinks for his client.
C. Whether you are faced with appraisal factors.
D. Whether you have a price conscious client.
E. The reason why the client has a parcel of property he doesn't want.
F. The degree of the "don't want," and whether a client is ready, willing and able.
G. Whether you will be forced to contend with an attorney.
H. Whether your client is knowledgeable at all about taxes, and whether he employs tax counsel.

3. Any contact should be given due consideration and full attention for the following reasons:

A. The new contact may have been referred to you and you must learn this, and also find out who did the referring.
B. Since the contact itself is the beginning of the flow of the life-blood of our business, no contact should be treated lightly.
C. Many large transactions grow from what seem initially to be a problem that might involve a very small transaction. If the contact is handled properly on a $6,000 vacant lot it could very easily, over subsequent months, become a $100,000 transaction, or even larger.
D. An image of you may have been portrayed to the new client, and it behooves you to maintain such an image. Therefore no contact can be sloughed in the handling.
E. If all contacts are not given the equal consideration of personalized handling, you will be failing in your professional operations.
F. If you don't let each contact feel that he is a "first nighter," he may feel that you are not interested in him or his problems, and since the specialty of the Exchange Counselor is based on the sincere desire to give service willingly and help people solve their problems, then unless you handle each one with the sincerity that is necessary to demonstrate that you are interested in him, you will not be getting the start with this client that is essential if you wish to handle him as professional Exchange Counselor

"Weaver Wisdom"

By

Phil Corso, S.E.C.

Authors note:

In researching the materials Colby Sandlian provided me during my rewrite of the "Broker Estate Building" education program he and Cliff Weaver taught many years ago, I came across these little pearls of wisdom in Cliff's old teaching materials. I think they provide a timeless perspective and a few chuckles in a far too serious world. They're included in the new "Broker Estate Building" program Mark Johnson and I teach these days.

So, here's a little "Weaver Wisdom" for your reading pleasure. Enjoy!

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ESTABLISHING BANKING HABITS
By Cliff Weaver S.E.C.

Opportunity does not usually synchronize with the amount of cash we have available, so what do we do? How do we prepare for the sudden opportunity?

It's called borrowing and financing. Financing is the real acre of diamonds in re-investment. It is an absolute sure way to wealth if you know how.

The people you must learn to work with are called BANKERS.

Bankers for some unknown reason are looked up to as the real financial Wizards of Oz, or so most people think. Many people go to bankers for all kinds of advice; many fear bankers. Now, it's time you learned to work with them. You must develop a relationship with at least one bank if you are to be successful and I am referring to a regular commercial bank.

Your first encounter with a banker: Dress well and don't act like you need money. Ask him for the type of loan and amount that you know he can't refuse, and explain your collateral carefully. For example, if you want $10,000.00, give him $20,000 in good security.
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Important Things to Remember:

1. Explain that you need the money for business purposes, and that's all.

2. Show how you will pay off the loan so if an emergency arises, you will still be able to pay it.

3. Do what you say or will do, make your payments on time.

Good Business Practice:

When you meet with your bankers, especially early in the game, bring him all the information he will need, protect him with plenty of back up information. For example, if you want to take a loan on a first trust deed, have a picture of the property, an appraisal, title report and copies of all related documents.

It it's on stock, with a difficult to ascertain value, have a letter to purchase from a reliable individual with his financial statement. Have a guarantee for the outstanding amount of the loan.

The Second Encounter:

Remember when you return for money again, that you have made money for the banker and that is why he is in business. Remind him and then pay for lunch!

Borrowing Money

There are some basic things you need to understand when borrowing money:

1. Recognize that banks specialize. Some are noted for auto loans, some for small business loans, some for real estate financing, etc.

2. Recognize that bankers, as all other people, are normally specialists only in one area (like saying no). Don't talk to the corner store banker about a complicated transaction. Go to the man who is familiar with complicated deals and knows how the bank can profit from getting involved.

3. How much should you pay to borrow a Bank's money? Only enough to get the loan! Negotiate to your hearts content but play the game by the rules.

4. Here are my ideas of the "Qualifications of a 100% Borrower":

    - If your statement shows a healthy ratio of fixed assets, increasing cash to liabilities.
    - If you security or collateral is unimpeachable.
    - If your ability to repay is in stated amounts and at stated intervals is unquestioned.

Weaver's Wisdoms:

BANK STOCK

Nothing warms the heart of a cold banker more than seeing his bank's stock on your financial statement. You must be intelligent and worthy of making a loan extension if you are smart enough to invest in the bank!

A BUCK'S BUCK

One day an Indian came into a bank in The Dalles, Oregon. "Me want $200," he said. "And what security have you?" asked the banker. "Got 200 horses."

This seemed sufficient security and the loan was made. A month later the Indian was back with $2,200, paid off the loan and headed for the door with the balance of the money.

"Why not let me take care of the money for you?" asked the Banker. The Indian looked him square in the eye and asked, "How many horses you got?"

BANKING

A few hundred years ago, when a man put money in English Bank, his deposit was recorded by notching a stick. The stick was then split, the bank keeping one half and the depositor keeping the other half. Before the money could be withdrawn, the two pieces had to be matched. The depositor's half was called "Bank Stock," whereas the part kept by the Bank was called the "Check."

PRIME BORROWER

You are a Prime Borrower IF you can borrow at lowest rates…the rest of us are just a regular cut of meat to the Banker…

Phil Corso, S.E.C. is President of P.C.I Associates, Ltd. and a real estate developer, investor and educator based in Scottsdale, Arizona. He is currently engaged in retail property and self-storage ownership and development. He is a past president of the Society of Exchange Counselors, past president of the S.E.C. Education Foundation and was the 2002 S.E.C. Counselor of the Year. He currently serves as the Publisher of the S.E.C. Observer. He teaches several real estate related courses and was the 2003 winner of the S.E.C. Education Foundation's Excellence in Education award.