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Welcome to the summer 2018 issue of the *S.E.C. Observer*. In this issue, Brandon Sanders, S.E.C., 2018 president of the Society, recaps our recent meeting in Greenville and invites you to plan for our meeting in Detroit in September.

Ernie Eden, S.E.C., CCIM, shares many useful techniques to “add value to apartment communities.” Mark Johnson, S.E.C., CCIM, asks “what you would do” in a situation he recently experienced, and Ron Robinson, S.E.C., imagines the future of real estate and the “world around us as the use of driverless vehicles” becomes the norm. Bob Steele, S.E.C., shares two excellent strategies for counseling and offer presentations. The S.E.C. Education Foundation’s 2018 president, Lance Warner, S.E.C., reports on recent and upcoming courses.

The *Society News Briefs* section includes information about our upcoming meetings in Detroit, Michigan, and Fort Lauderdale, Florida, as well as preliminary information about our economic tour in Detroit and an excellent new course, “Exchange Magic,” which will be presented by Gary Vandenberg in November.

Darryl McCullough, from Canada, with information about his exciting new website is featured *In the Spotlight*. C. Charles Chatham promotes “making haste slowly” when counseling, and William W. Martin shares “private financing” techniques for success in the *History Files*.

Enjoy this issue. As always, we welcome your comments, suggestions, and submissions of articles to be considered for publication. Please contact the S.E.C. office via e-mail at sec@secounselors.com.

Jackie Hellingson
Editor, *S.E.C. Observer*
I. President’s Message

Brandon Sanders, S.E.C.
2018 President

We enjoyed another successful meeting in Greenville, South Carolina last month. We had over 90 in attendance with over 200 packages in the book, and the creativity of the group was flowing! We learned the immediate area is booming, with an MSA over 880,000, jobs continue moving to the area, pushing unemployment from a high over 10% in 2010 to a current level of 3.3%, and, most importantly, we now know there is a state law requiring motorized vehicles to stop prior to an intersection and discharge a firearm to alert any oncoming horses! The meeting format was fast-paced. The most motivated, and the Zander Board session received multiple compliments—special thanks to everyone who helped with the presentations.

We appreciate our national sponsors for all they do to make each meeting unique and special. Many thanks to Robert Charland, Exchange Authority, for presenting the 1031 class as our Sunday education, and to Angela Greiner, from Secured Title. She is a benefit to our group with her extensive knowledge and willingness to help. Meeting sponsors for Greenville included Aline Capital, ENERG3, RISCO, National Development Corporation, and Thompson Financial. Brian Bailey from the Federal Reserve provided an extremely informative presentation, and the discussion was priceless.

The next regular marketing meeting will be Detroit in September. Steve Eustis is working hard to finalize a Sunday tour of the old, new, and converted projects via a tour bus and private guide service—details to follow soon. Please watch for video links to be added to the website. Tuesday night in Detroit, we will conduct a Cowboy Auction, so consider packing some personal property you would like to exchange for something else; this event will be open to spouses/friends as well. Make your plans early for Detroit—it will be a terrific meeting with a lot of opportunity.

Enjoy your summer.
Adding Value to Apartment Communities
Ernie M. Eden, S.E.C., CCIM

Everyone wants to buy a “Value Add” apartment community. As a broker specializing in multifamily sales, I can’t tell you how many buyers want this. Let’s talk about what it means.

There are several ways an investor can add value to an apartment property, especially to a community with some age or one needing attention to deferred maintenance.

**Changing Management:** Sometimes a property is poorly managed, and one obvious way to add value is to improve the management. Believe it or not, there are still a few managers who don’t use computers at all to help manage their multifamily communities. Simply using management software, or even computerized bookkeeping or a spreadsheet, would vastly improve the information available to help understand the operations so the manager and/or owner can make decisions better and faster.

In other cases, while the management may use a computer to help manage the property, there are still areas in which improvements to the management function can help add value. Sometimes a new owner or manager simply pays attention to the basics, such as turning the units after residents move out, marketing the units for rent, getting folks to apply for units, doing the background checks, signing the leases, collecting the rent, sending out late notices on time, processing evictions, handling maintenance requests, taking care of preventive maintenance, and making sure the residents are happy campers.

I have seen a poorly managed property move from a vacancy rate of 40% to 95% in eight to ten months just because the new manager or owner paid attention to these basics.

**Raising Rents:** Sometimes the rents are lower than the market indicates they can be. Many folks who own or are looking at buying apartments do a simple market survey to see what the rents and occupancy rates are for the nearest 5 to 10 similar properties. They compare not only what rents are for the 1-, 2-, and 3-bedroom units with differing number of baths, but also the properties’ rent per square foot in each of the unit types. They pay attention to when each property was built and to the amenities, both for the community and for the interior of each unit. And they visit the other site managers to see what is working well for those who are more successful.
If the occupancy in your apartment community is consistently 100%, and the units attract word-of-mouth prospects because they know someone is getting ready to move out, this could be a hint that the rents may be too low.

**Unit Improvements:** Sometimes the rents in your community are at market compared with the other units all around you. It may be, however, that there are prospective renters who like the area but want a little bit nicer place. Sometimes you can spend an extra $2,000 or $3,000 on a turnover and find that there are residents in the area who will pay an extra $100 or more monthly for the upgraded unit. Often in lower- and moderate-income neighborhoods, the other apartment owners have not imagined that this is possible, and therefore this is not yet a choice that is available to renters. The beauty of this is that you can experiment with it one unit at a time with very little risk. Possible upgrades might include stainless steel appliances, hardwood or laminate floors, ceiling fans, new bathroom lighting, flooring, lavatories and vanities, new kitchen flooring, countertops and cabinets, an in-unit washer and dryer (but make sure to take into account that they may use more water), just to name a few. Let’s think about the economics of this. Spend $3,000 above and beyond the normal turnover cost. Raise the rent $100 per month due to the improvements. Assume expenses do not change as a result. This is $1,200 more income per year. At a cap rate of 8%, you have just increased the value of the unit by $15,000! *Not a bad return on a $3,000 investment.* The exact numbers will depend upon your situation, and you don’t need to make a major commitment to do the whole property. One unit at a time will work, and you can experiment with different items of improvement until you find the best combination of investment and return. A great byproduct of this approach is that you also attract a higher quality resident, and this may help with collections, evictions, and so on.

**Reducing Expenses:** Finding ways to reduce expenses in operating apartment communities can also be a great value-add component. My favorite in this area is reducing consumption and therefore the cost of water and sewer. In my local area of Atlanta, we have very high water and sewer rates. There are things that can be done to reduce water consumption, such as changing out toilets, replacing shower heads with low-flow heads, and adding aerators to faucets, that will reduce this consumption and therefore the cost to the owner. In some cases, depending upon the configuration of the piping and local laws and regulations, it may make sense to submeter the water and let each resident pay the bill for his or her own consumption. Typically, in the beginning, you can afford to actually reduce the rent and still come out ahead. I know one apartment owner whose bill to submeter was about $300 per unit. If his water bill per unit was $50 per month, and he reduced it by 80% (assuming there was still 20% underground leakage he could not find), he would save $40 per month for each unit, or $480 annually. Again, using an 8% cap rate, this increases the value of the unit by $6,000 due to this one act alone!

You should also look at what type of exterior or common area lighting is being used and how you may be able to reduce costs by changing the type of fixtures and/or bulbs. The same may be true of heating and air conditioning in the common areas.
Also keep in mind that anything you can do to reduce the residents’ cost of utilities will tend to keep them in place instead of having them go elsewhere in search of lower utility costs, thus lowering turnover and therefore unit turnover expenses.

**Preventive Maintenance and Increasing the Life of HVAC Systems:** Better operators make sure that each HVAC unit in the property gets a new filter every two or three months, whether or not anyone thinks it needs one. The filter is replaced by the maintenance personnel as a standard procedure. While they are there, they also check every faucet and every toilet to make sure there are no active drips or running water. If they find a problem, they turn in a work order and then take care of it, thus reducing the water consumption. This also provides management the opportunity to get eyes on every unit every two or three months, allowing a more detailed inspection if warranted by the results of the routine, casual visit by the maintenance personnel.

These are a few ideas that may help you add value to your property or to the next apartment community you buy. Good luck!
What Would You Do?

Mark Johnson, S.E.C., CCIM

How many times have you driven by a property and said to yourself, I think I would like to own that property? Most of the time we do nothing but go about our daily routine. As you casually drive by the property the next time, you notice that the property is listed by a less-than-active commercial real estate agent. You call on the property, kicking yourself the entire time, and you discover that the property is listed for a price that is beyond any realistic proforma value and that the owner is from out of town. You decide to preview the property, basing your decisions on your knowledge of the market and the property type. You determine the price you would like to own the property, and you begin to ask the agent questions about the seller and his or her needs, wants, and motivations. The results of your questions reveal the agent has no answers and really doesn’t care about the seller’s goals and objectives. The sign is up, and the property will sell—one day!

What would you do? You decide to make an offer at the price that makes economic sense within the market and with your long-term expectations. You present the offer and the agent does not respond. After several weeks, when you follow up, the agent tells you that the seller was insulted and will not counter your offer. You scratch your head, but you do not change your price. You know that you never pay a penny more for a property than it is worth!

What would you do? It is now a year later, the property is still on the market, and the seller continues to use the same agent but has reduced the value of the property by $25,000. Do not get overjoyed—the property is still overpriced and the less-than-experienced agent is still in charge. You feel the property still fits with your expectations and long-term goals, so you ask the agent if you can set a meeting at her office and include the broker. You further explain that you are unsure how the value was created, and you believe that it is your responsibility to identify those issues or methods in creating the value. If acceptable, then perhaps you could change your offer for the property. You meet with the agent and the broker, and you ask if they could teach you how the value of the property was generated. You ask for the basic assumptions, such as what and how they see the property being improved to meet the needs of the area, both today and in the future, what rents the new owner could expect, what they believe would be a justifiable occupancy, and whether that occupancy could be achieved within that time period. You are told that the seller set the price. The broker just shakes his head in agreement.

What would you do? Leave the scene of the accident? Stand up and tell them they are idiots? Shake your head and tell yourself that you are the idiot? If you stay in the meeting, you will need to ask more questions and try to get the agent and the broker to understand your offer and your
value. You stay, like an idiot, and you ask “what if” questions to engage your audience in general investing concepts and money. An hour later, you shake your head, excuse yourself, and head back to your office, thankful for the education and your ability to say no. Case closed, and now it is time to move on. There is no cure for stupid—yours or theirs!

What would you do? It is now six months after your last brain-dead challenge, and you get an email from the agent stating that the seller has decided to sell, and he must sell the property within the next three weeks. Motivation? The agent states that three offers have come in on the property, and they are significantly higher than your offer. The agent asks if I want to increase my offer. I explain that I was happy that the seller had come to his senses, but I would not change my offer. She could submit my offer again, and if my offer had to be cash, I would pay cash. She says okay and that she would present my offer, but she does not think it looks good for me because she had other offers. I explain I never pay a dollar more than the property is worth. Offer submitted. I hear nothing.

What would you do? It has been two months since I last heard from the agent, and I never heard if my offer was accepted or rejected or if the seller had countered my offer. I never heard if the property sold, but it remains in our local MLS. Should I call her? Does it really matter? The property should have sold by now, based on what I was told and based on the knowledge that the seller wanted to sell the property within three weeks. I drive by the property, which is next to the post office, and there is the for sale sign, confirming the MLS information.

What would you do? What should the agent do? What should I do?

Sometimes things work out, and sometimes they do not. I learned you cannot cure stupid, you cannot bring someone up to a level of education without teaching them, you cannot change a seller’s expectations without a conversation, and you cannot change the fact that you wasted your time and efforts. When do you stop pursuing? How can you help the agent if the agent does not know there is anything wrong?

What would you do?

Mark Johnson

P.S. I received another email from the agent explaining that she has another offer and I should raise my price and submit it again. I said no thanks.
You don’t have to be wizard to see what is coming down the road, no pun intended, but driverless automobiles will soon have a major impact on real estate development, not to mention our lives and the changes that will occur.

I will touch upon some issues, and with a little thought I am sure you readers will come up with more. To start with, parking lots will become things of the past. With driverless vehicles, why do you need to park? This alone will have a major impact on building requirements. Plans can now expand to the extent that a larger building can be built on a smaller piece of property; without the need for parking areas, a building’s footprint can change materially. Existing parking lots and parking areas will offer expansion on existing properties, the likes of which we can only imagine.

The driverless vehicle will open new doors for movement throughout our land. Imagine what a blessing this will be for those who are unable to drive for any number of reasons. Owning an automobile will become thing of the past—as will driving. You will have a monthly subscription to a stable of driverless vehicles, which, upon entering a request on your cell phone, will appear at your front door or office as you leisurely travel, reviewing your plans for the day or the events of the day while returning home.

Naturally, these events will not occur overnight, but those among us who are young should begin to think of the changes that will come about and make plans to financially benefit. If we survive the coming years, I see a bright golden age on the horizon.
**Strategy 22**

**Verbal Exchange Offers Don’t Work**

You are wasting your time to even try to make verbal offers. Professionals call these, “Would-Ya-Takes.” These are sometime used in counseling, but in the field always, and I literally mean always, write down and sign what you actually would do. Not what anyone wants you to say or do but simply write down what you would close on and sign it. The act of signing means you expect the other side to do the same if there is a meeting of the minds. You do not need multiple pages of legalese to get you aimed at a meeting of the minds. There is plenty of time to “fine-tooth” the offer and get the legal work done later. These types of mini forms are available from many sources and take but a few minutes to fill out. Below is a sample.

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**MINI OFFER FORM**

This is a non-binding preliminary proposal presented to parties in hopes that a binding agreement might be reached. It can be rejected by either party at anytime until there is a complete meeting of the minds and the signing of final documents.

Check one: Purchase ☐ Sale ☐ Exchange ☐ Lease ☐ Option ☐ Other ☐

First Party:

Second party:

Identify property(ies) that is/are the subject of this offer:

What are the terms and conditions of this offer:

Attach another page if more space is needed.

Thoughts, data and ideas that are pertinent to help make this transaction go together:

Date:
Owners Name:
Agent:

Acceptance:
Date:
Owners Name:
Agent:
### Strategy 23

**Counseling and Control**

*Counseling leads automatically to control or disassociation with the opportunity to associate at some later date.*

<table>
<thead>
<tr>
<th>SITUATION</th>
<th>POSSIBLE SOLUTION</th>
</tr>
</thead>
</table>
| 1. Counseling is:  
   a) Listening to what is being said and to what is being implied.  
   b) Advising potential clients, partners, or those you are doing business with what the current market conditions permit you to make happen.  
   c) etc.  
2. Counseling is not:  
   a) Getting picked up in the attributes of a parcel of land or a business opportunity.  
   b) Telling the client how great you are.  
   c) etc.  |
| 1. If you analyze what you are being told by the person you are talking to, and match that against what is actually happening in the marketplace, you will have an idea as to whether what needs to be done can actually be done in the current conditions.  
2. At the same time you are trying to analyze whether or not this person has the capacity and the malleability it will take.  
3. Early in my life as an exchangor, I paid for three or four major clients to go to Dick Reno’s six day exchangor’s class to get counseled. It was the complete way to get the job done. I did a lot of business with these people.  
I have used books to help in counseling. The more a person understands the more flexible he or she becomes. |
Summer has arrived, and the S.E.C. Education Foundation is working to provide our members, candidates, and guests with interesting and timely education for the balance of 2018 and into 2019.

We are planning an economic tour in Detroit, on Sunday, September 23, 2018. The bus will leave the hotel at 9:00 a.m. and return at 3:00 p.m., and lunch will be included. More information will be sent soon, but make sure your travel plans allow you to attend.

Gary Vandenberg, S.E.C., CCIM, will present “Exchange Magic” on November 11, 2018, in Fort Lauderdale, Florida. Gary taught the course in Louisville in May, and he received fantastic reviews from the attendees.

Our invitation-only Moderator Course was held in May in Greenville, South Carolina. This course is an invaluable tool for marketing meeting attendees who wish to serve as moderators. Brandon Sanders and Wes Dingler taught twelve attendees how to maximize each presenter’s time at the podium to help them receive interest and offers.

The educational classes for the upcoming S.E.C. meetings are posted on the S.E.C. Observer Upcoming Events webpage as we confirm them. We are working to schedule education courses in regions where we will host S.E.C. meetings next year. Our goal is to have an education session locally several months prior to our meetings to expand our presence and identify local people who may be potential guests.

The S.E.C. Regional Directors are available to help you bring education and marketing to your region. Contact the S.E.C. Office if you are interested in exploring the possibility of hosting a class or marketing session.

We look forward to expanding our reach to new marketing groups, professional organizations, and individuals who are interested in bringing the best creative real estate education to their regions.
Please visit our website, www.secedfoundation.com, to learn more about the courses and programs we sponsor.
S.E.C. National Invitational Marketing Session
Detroit, Michigan
September 23–26, 2018

The S.E.C. National Invitational Marketing Session will be held at:

MGM Grand Detroit
1777 3rd Avenue
Detroit, MI 48226

Call (877) 888-2121 to make your reservation. Make your hotel reservations early, as we have a limited number of rooms available. The cutoff date for reservations is September 13, 2018.

Visit www.mgmgranddetroit.com to learn about the hotel and www.visitedetroit.com to learn about the area.

Visit www.secounselors.com and click on the Society Marketing Meetings menu tab for more information. Please contact the S.E.C. office (sec@secounselors.com) if you have any questions about the upcoming meeting.
The S.E.C. Education Foundation and the Society of Exchange Counselors are pleased to announce that we are arranging an economic bus tour of Detroit on Sunday, September 23.

More information will follow soon, but please note:

- The bus will leave the hotel at 9:00 a.m. and return at 3:00 p.m.
- A box lunch will be included in the cost of the tour
- Properties in and around Detroit in various stages of development will be on the route
- A knowledgeable tour guide will provide information throughout the tour
- Plan to arrive on Saturday night if you wish to attend the tour
- Space will be limited, so please reserve your seat as early as possible!
- *The price of the tour is yet to be determined.*

Attendees do not have to be licensed or invited to attend; it is open to everyone, and you may register online at [www.secounselors.com](http://www.secounselors.com) by accessing the Education Only link on the homepage.

Mark your calendars now! Please visit the *S.E.C. Observer* at [www.secoobserver.com](http://www.secoobserver.com) and click the Upcoming Events menu tab to access the calendar of events and view a brochure for the course.
S.E.C. National Invitational Marketing Session  
Fort Lauderdale, Florida  
November 11–14, 2018

The S.E.C. National Invitational Marketing Session will be held at:

Embassy Suites Deerfield Beach  
950 South Ocean Drive  
Deerfield Beach, FL  33441

Call 954-428-0478 to make your reservation. Make your hotel reservations early, as we have a limited number of rooms available. The cutoff date for reservations is October 19, 2018.

Visit www.deerfieldbeach.embassysuites.com to learn about the hotel and www.visitflorida.com to learn about the area.

Visit www.secounselors.com and click on the Society Marketing Meetings menu tab for more information. Please contact the S.E.C. office (sec@secounselors.com) if you have any questions about the upcoming meeting.
Exchange Magic  
Fort Lauderdale, Florida  
Sunday, November 11, 2018

The S.E.C. Education Foundation and the Society of Exchange Counselors are pleased to announce that Gary Vandenberg, S.E.C., will present “Exchange Magic” in Fort Lauderdale, Florida, from 9:00 a.m. to 5:00 p.m. on November 11, 2018.

Highlights and topics are listed below.

This course will cover three parts to successful exchanging:
● Pre-counseling
● Marketing
● Closing after marketing

The following components as well as much more will be explored:
● Why and how people make decisions
● How we educate clients
● Why people buy and why people sell property
● Requirements for success

Attendees do not have to be licensed or invited to attend; it is open to everyone, and you may register online at www.secounselors.com by accessing the Education Only link on the homepage.

Mark your calendars now! Please visit the S.E.C. Observer at www.secobserver.com and click the Upcoming Events menu tab to access the calendar of events and view a brochure for the course.
REALTORS® FORGE INTERNATIONAL CONNECTIONS AT MIPIM

By Alex Ruggieri

In March, an Illinois REALTORS® delegation traveled to Cannes, France, to attend MIPIM, one of the largest international real estate conferences in the world.

Ten REALTORS® with an interest in international real estate applied for and received stipends through the Illinois REALTORS® Global Business Council to cover some of their traveling costs. Three REALTORS® who attended MIPIM for the first time share their thoughts about the experience.

BETTY MILAM
Broker with Berkshire Hathaway HomeServices
KoenigRubloff Realty Group
Illinois REALTORS® Consulate General Liaison to Ecuador
NAR President’s Liaison to Ecuador

I was honored to be a part of the delegation representing Illinois REALTORS® at this year’s MIPIM conference.

With more than 360 speakers, 100 conference and panel discussions, and 3,100 exhibiting companies, MIPIM is the premier event for any organization involved in global real estate.

This year’s event drew more than 27,000 attendees, including 5,000 investors and more than 8,000 CEOs and C-level professionals, representing more than 100 countries from around the world.

The National Association of REALTORS® (NAR) and Illinois REALTORS® understand the importance of MIPIM as a strategic stage to market U.S. real estate opportunities to foreign investors and developers. For several years now, the two organizations have organized a strong presence at this fabulous event.

In addition to promoting greater awareness of global investment opportunities in Illinois, our attendance at MIPIM allowed us to identify and build new relationships for future business opportunities.

As a participant, I met with groups representing investors, developers and company executives from places such as Dubai, Abu Dhabi, France, Germany, Japan, England, Brazil and China – just to name a few of the groups looking for investment opportunities.

From the discussions and presentations concerning global real estate opportunities, it was clear that market stability makes the U.S. a top location for foreign investors.

In the end, the Illinois REALTORS® who traveled to MIPIM saw their commitment pay off with an entirely new clientele list for both commercial and residential opportunities.

Personally, I look forward to attending MIPIM next year to continue my networking, increase my knowledge about the different global markets and, most important, identify new business opportunities.

ANDY VELEKME
Senior Commercial Broker with
Caton Commercial Real Estate Group
Illinois REALTORS® Consulate General Liaison to Latvia
NAR President’s Liaison to Latvia

After hearing rave reviews from colleagues who had attended MIPIM in previous years, I had very high expectations before I embarked on the overseas journey to Cannes. What surprised me most was that MIPIM thoroughly exceeded my expectations and solidified my belief in my decision to build a career focused on global commercial real estate.

As one of 10 Illinois REALTORS® to receive a stipend to attend the conference, I was excited to share the advantages of expanding business and investment in the state of Illinois. I knew that awareness of several key differentiators was essential to attracting interest in Illinois globally.

From an investment standpoint, the attractive capitalization rates of Illinois compared to the coasts was paramount. Illinois’ talented workforce, the low cost of doing business and the state’s central location—combined with ease of access by air, train, truck and water—makes business expansion into Illinois a very logical and defendable choice.

As the 2018 Chair of NICAR’s Commercial Global Business Network, Illinois REALTORS® Consulate General Liaison to the Republic of Latvia and the NAR President’s Liaison to the Republic of Latvia, I had other reasons to attend an international conference in Europe.

One of my clients, Medici Living Group, is based in Germany and undergoing worldwide expansion.

My business relationship with the company led to one of those moments that characterize what MIPIM is all about.

At one meeting I explained to a delegation from Toronto, Canada, that I was a first-generation Latvian with dual U.S.-Latvian citizenship, representing Illinois and a German client and
was interested in discussing business opportunities in Canada.

In retrospect, a Latvian American, discussing his German client’s concept with a major Canadian city while in France may not have been as common of an occurrence as it seemed at MIPIM that day in Cannes.

And that is the takeaway: from the global business perspective anything is possible while at MIPIM.

VICKY SILVANO
Broker with Century 21 SGR
Illinois REALTORS® Consulate General Liaison to the Philippines
NAR’s 2018 Global Real Estate Committee Liaison

Coming in as a first-time attendee, I didn’t know how big the MIPIM conference is. With an attendance of over 20,000 real estate professionals, developers, attorneys and people from other real estate-related industries from all over the world, it was overwhelming and intimidating.

Exhibitors from some participating cities and countries have huge tents, and there were five floors of exhibits showcasing a wide range of developments from the private and government sectors.

Illinois REALTORS® contingent was a mix of first-timers and repeat attendees. To prepare us for MIPIM, there had been a briefing with Intersect Illinois, the state’s public-private economic development partnership. We left that meeting well prepared to answer the question, “Why Invest in Illinois?”

The state’s transportation network, logistics, manufacturing base, educational institutions and capitalization rates are among some of the reasons Illinois offers a variety of investment opportunities that other states can’t.

I met with the cities and states in the NAR pavilion to take advantage of the referral network within the industry.

I also saw familiar faces from FIABCI, both from the U.S. and other countries as well. I attended some educational sessions focused on growing economies in Africa, Eastern Europe and India.

This experience reinforced this – the world is small, business opportunities abound and people from other countries have the same wants and needs. MIPIM provided an experience to forge new relationships to grow into future business.

About the writer: REALTOR® Alex Ruggieri, CCIM, CIPS, CRE, SEC, is a senior investment advisor with SVI-Ramshaw Real Estate in Champaign. He is a member of the Illinois REALTORS® Global Business Council and the Commercial/Industrial/Investment Committee. He is a member of NAR’s Commercial Committee. He can be reached at alex.ruggieri@sw.com.
In the Spotlight

A. News from Canada

News from Canada
Darryl McCullough, S.E.C.

Editor’s Note: Although Darryl has not been traveling to meetings as much recently, he wants everyone to know that he still cherishes his Society of Exchange Counselors (S.E.C.) membership. He has been busy just north of the border working on a new website to benefit commercial real estate brokers and agents. Below is an excerpt from a memo he sent to S.E.C. Members a few weeks ago.

I am forever thankful for the benefits I’ve received from my S.E.C. family.

We all know when it comes to real estate fundamentals, the only difference between Canada and the U.S. is a line on a map.

Therefore, as part of a long-held passion to add value to others in Canada, I have recently introduced “PUTTING THE PIECES TOGETHER,” a new, solution-based real estate resource.

The purpose is to offer time-tested creative formulas to share information with real estate brokers, counselors, developers, asset managers, financiers, investors, consultants, planners, educators, and so on.

Each month we release a new article to this large and growing network. These articles are assembled on our website to be freely offered as an ongoing resource as needed.

We welcome anyone in our extended S.E.C. family, and S.E.C. Observer readers, to join the network by visiting www.darrylm.ca. Simply scroll down to the bottom and enter your name and email address. You will then be sent an opt-in email to confirm your address. Please be sure to click the link in the email to complete the process.

Going forward, you may have a creative transaction article to share to this new network. If so, let me know. I always need all the help I can get!

Thank you, and we look forward to seeing all very soon.

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Make Haste Slowly

C. Charles Chatham, S.E.C.

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Most of us agree that if we thoroughly understood a client or prospect—understood his desires, his dreams, his actual needs, and his motivations—closing a real estate transaction would be a comparatively simple matter.

Yet why is it that we grab a prospective client or customer by the hand and attempt to whirl him through a series of showings, transactions, or possibilities without having taken the time and effort required to understand him? Why is it that we are more content with having rushed hither and thither all day without success than with spending an hour or two or three with him? We dismiss him, then, for the time being and spend the balance of the day researching the market to find an acceptable problem-solving solution.

It would seem that most of us are content to go home at night with the feeling “Boy! I’ve been busy today!”

Apparently, the feeling of having been busy is more important to us than actual accomplishment.

How did this concept of a real estate operation come into being? Can we blame the public for our present image of being rated ten points below Honest John, the used car salesman? What are we doing to raise the rating?

In an effort to increase our productiveness, to build an image of dignity, and to earn our self-respect, why don’t we try a new tactic? Why don’t we change the real estate business image from that of the jungle to that of the professional?

Let’s resolve to sit down with each prospective client or customer and try to find out what his motivations are, what his requirements are, why he is here, and what he knows that we should know to make our efforts in his behalf successful.

Anybody can show property—doesn’t everyone? Let’s prove that our expertise exists in knowing our client or customer so thoroughly that only one or two showings are necessary, either to sell his property or to purchase one for him.
In the more complicated field of exchanging, this knowledge of the client is even more important. One has to know not only why he really doesn’t want what he owns but also what would benefit him more—provided it is obtainable out in the real world. In other words, in an exchange, we must know both sides of the coin.

**Needs Doing? Do it!**
Perhaps the most valuable of all education is the ability to make yourself do the thing you have to do when it ought to be done, whether you like it or not!

Thomas Huxley said it. And it’s worth a dozen degrees simply because it symbolizes the reason for education.

That person is truly educated who can complete any assignment, any task—no matter how laborious or disagreeable—because it needs doing. And that person is worth knowing, for he is valuable to himself, his family, and his community.
At some time in their careers, many real estate practitioners take paper in lieu of cash fee or buy paper (notes, mortgages, trust deeds, or contracts) at a discount. Often, this is done to build a steady cash flow. The idea is to build a monthly cash flow because most real estate people normally do not get paid on a monthly basis—sort of “chicken today, feathers tomorrow.”

The acquisition of good paper is a wonderful technique to maintain a clear and positive mental attitude. This allows the licensee to pay monthly obligations when the obligations are due. However, what happens when the licensee needs to raise a lump sum of cash and conventional bank financing is not possible?

Normally, the broker will take a note and discount it to an investor to raise the necessary cash. The formula works, but the broker has lost a certain percentage forever; the discount reduces his overall net worth.

A typical example of this loss would be if a broker needed to raise $5,600 in cash. He might take a strong $8,000 trust deed and sell it for $5,600 and suffer the $2,400 paper loss. This paper loss is a reduction in his overall net worth. What formula could be developed to eliminate this loss on his financial statement?

Some would be tempted to say, “Borrow against the paper.” Many banks will not loan against junior paper such as second mortgages and trust deeds. Also, when borrowing, the broker has one other problem: he has to pay back the loan, and this establishes a negative cash flow. Borrowed funds have to be returned, and this becomes most difficult if the borrowed money is not used for investment but rather is used to pay a short-term obligation.

Let’s review another technique that might solve the overall problem. If a broker needs $5,600 cash for non-investment purposes, he might use the “Discount without Loss Technique.”

Take a trust deed in the face amount of $15,000 and sell it for the same discount outlined in our original $8,000 trust deed example—30% discount. If a broker discounts a $15,000 trust deed
30%, he receives $10,500 in cash. He has at this point suffered a $4,500 loss on his financial statement. However, the broker has $10,500 in cash, of which he needs $5,600, and has $4,900 net cash to reinvest. Add $100 to make this an even $5,000 cash.

Now, he uses the $5,000 cash to buy another trust deed at a discount for the largest discount possible. If the best trust deed he can purchase is $8,000, he would pick up $3,000 and suffer a net loss of only $1,500 on his statement. This difference between the $1,500 loss in this technique and the $3,000 loss in the other is not $1,500, it is 50%.

Under certain circumstances, it is possible to pick up the total loss. The broker should be looking for investors who do not require such a large discount as 30% and for sellers of paper who will sell for discounts larger than 30%. Under these circumstances, the broker would not have to suffer a net loss in his financial statement or net worth at all.

Other than the technique involved, the concept is to instruct any estate building broker to think out methods to avoid taking losses, to raise cash, and to maintain cash flow.