



Real Estate
INVESTMENTS



HARD MONEY
LOANS



TRUST DEED
INVESTMENTS



INVESTOR
EDUCATION

Happy New Year



- **1981: A new beginning for me**
- **Applying for the job**
- **3 reasons why people make it in this business**
 - » They have a big why
 - » Figure yourself out
 - » Get your game face on (because it may matter some day)

Write Goals



- 3-hour, life-changing event
- Intensity & balance
- The power of goals

Write Goals



Jim Valvano

Write Goals



“Our deepest fear is not that we are inadequate. Our deepest fear is that we are powerful beyond measure. It is our light, not our darkness that most frightens us. We ask ourselves, Who am I to be brilliant, gorgeous, talented, fabulous? Actually, who are you not to be? Your playing small does not serve the world. We were born to make manifest the glory of God that is within us. And as we let our own light shine, **we unconsciously give other people permission to do the same.**”

George Foreman

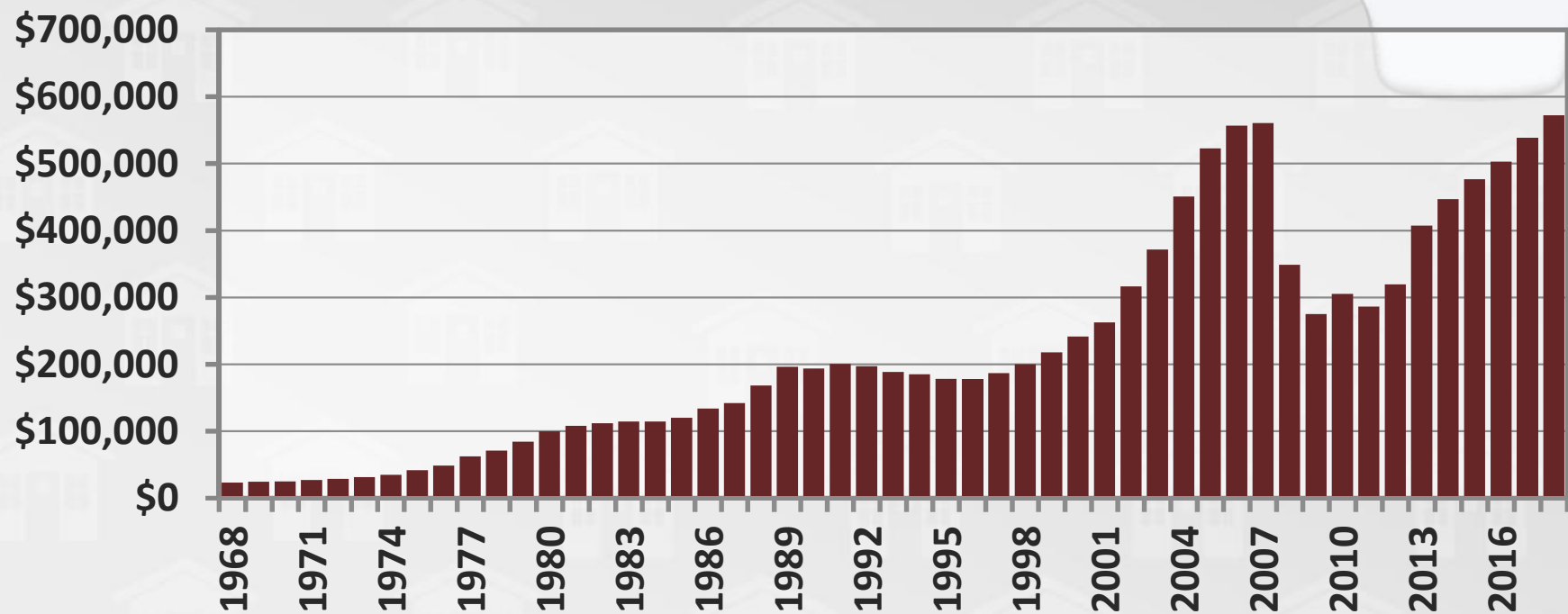


Raise the Bar

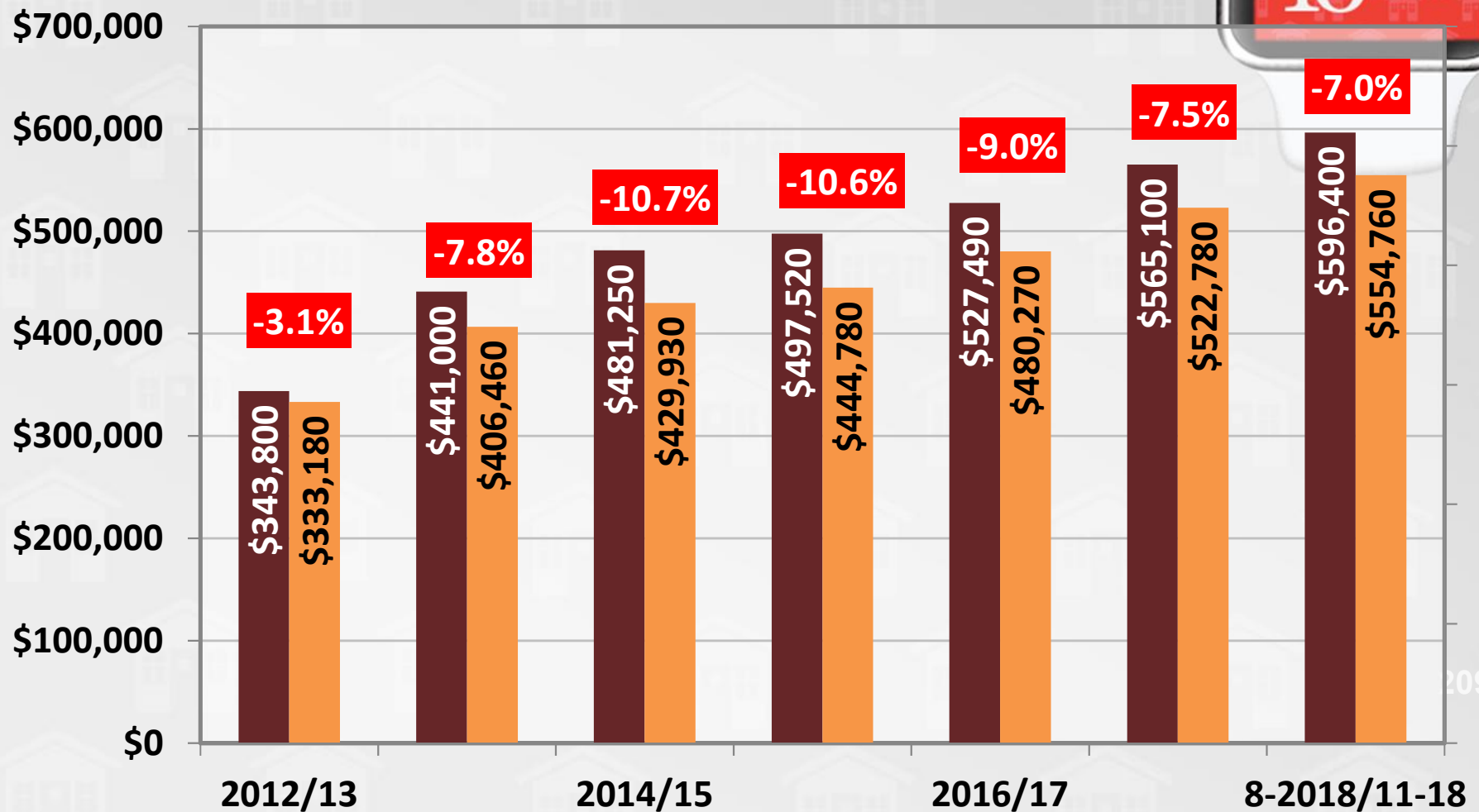


Hang around people
who raise the bar

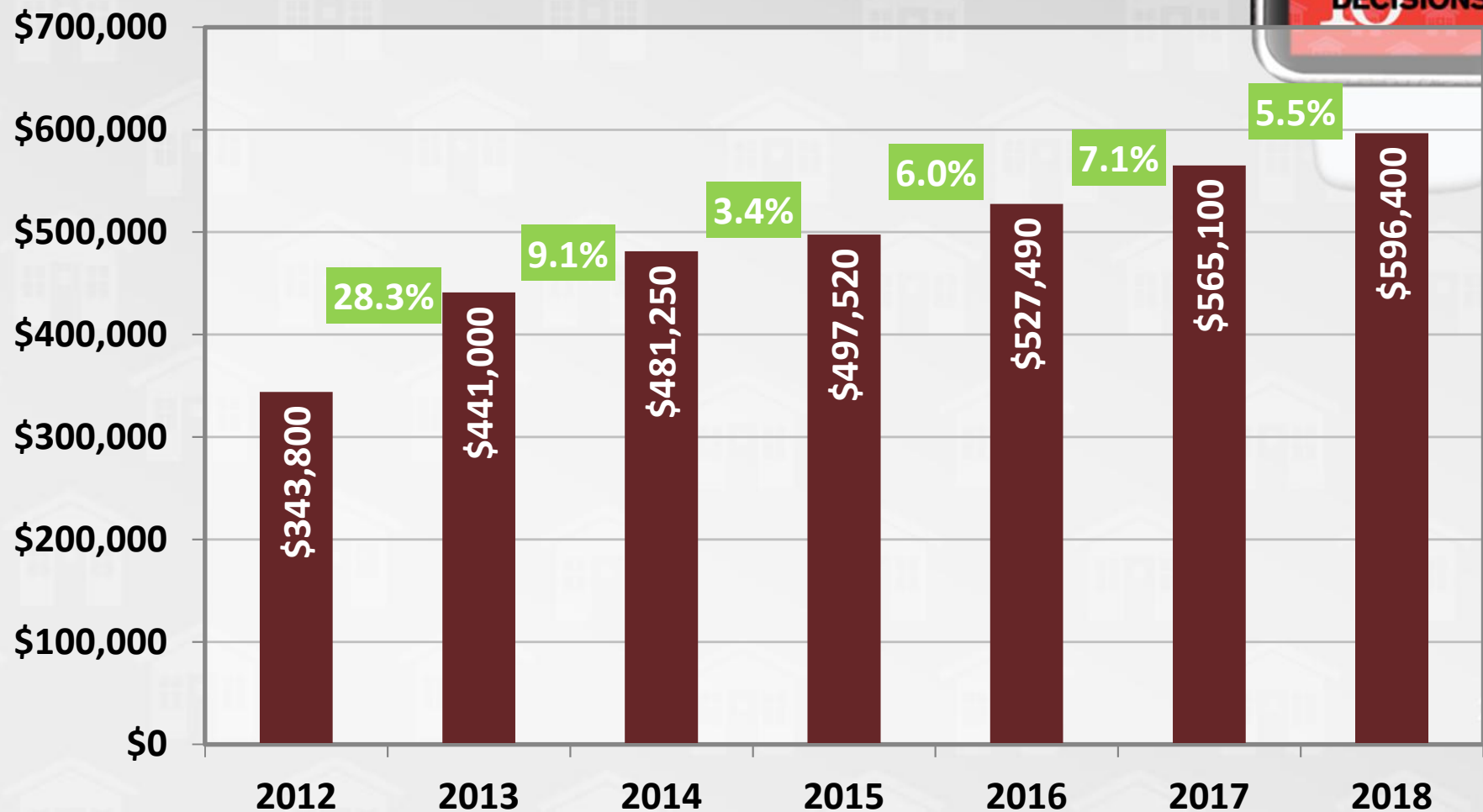
California Median Price



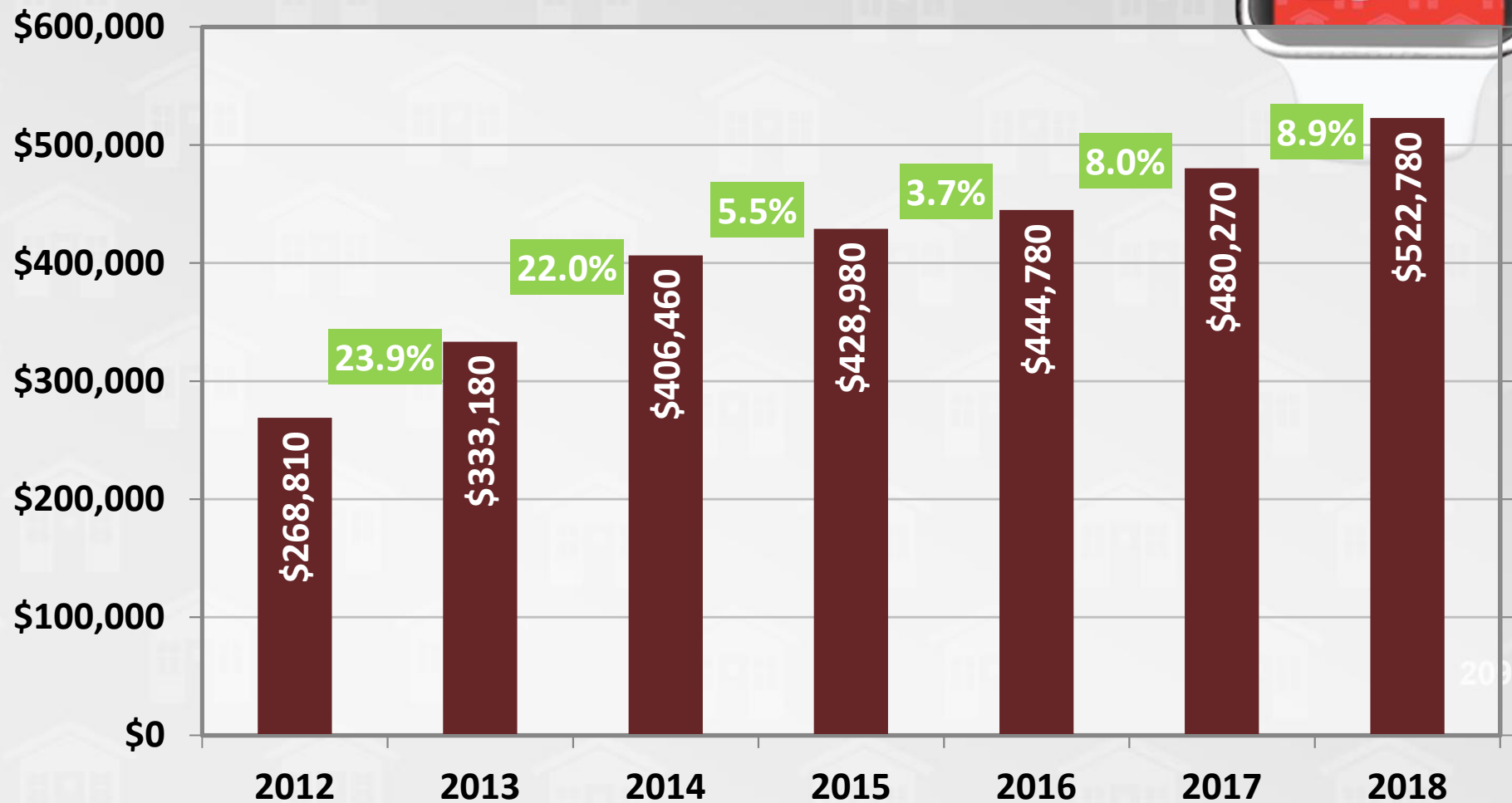
Median Price Comparison: Peak (August) to Trough (February)



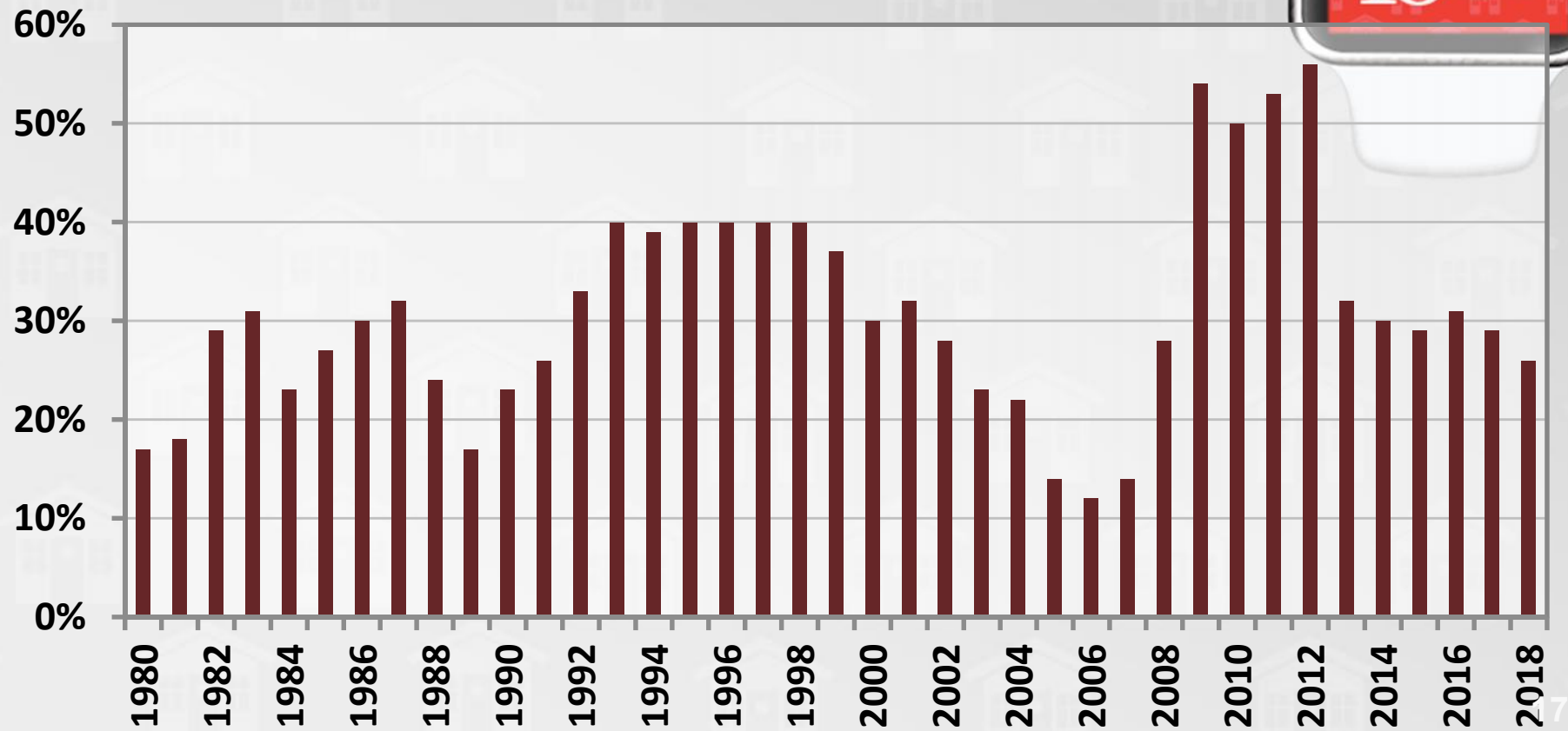
Median Price Comparison: Peak to Peak (August)



Median Price Comparison: Trough to Trough (February)



California Affordability



Affordability



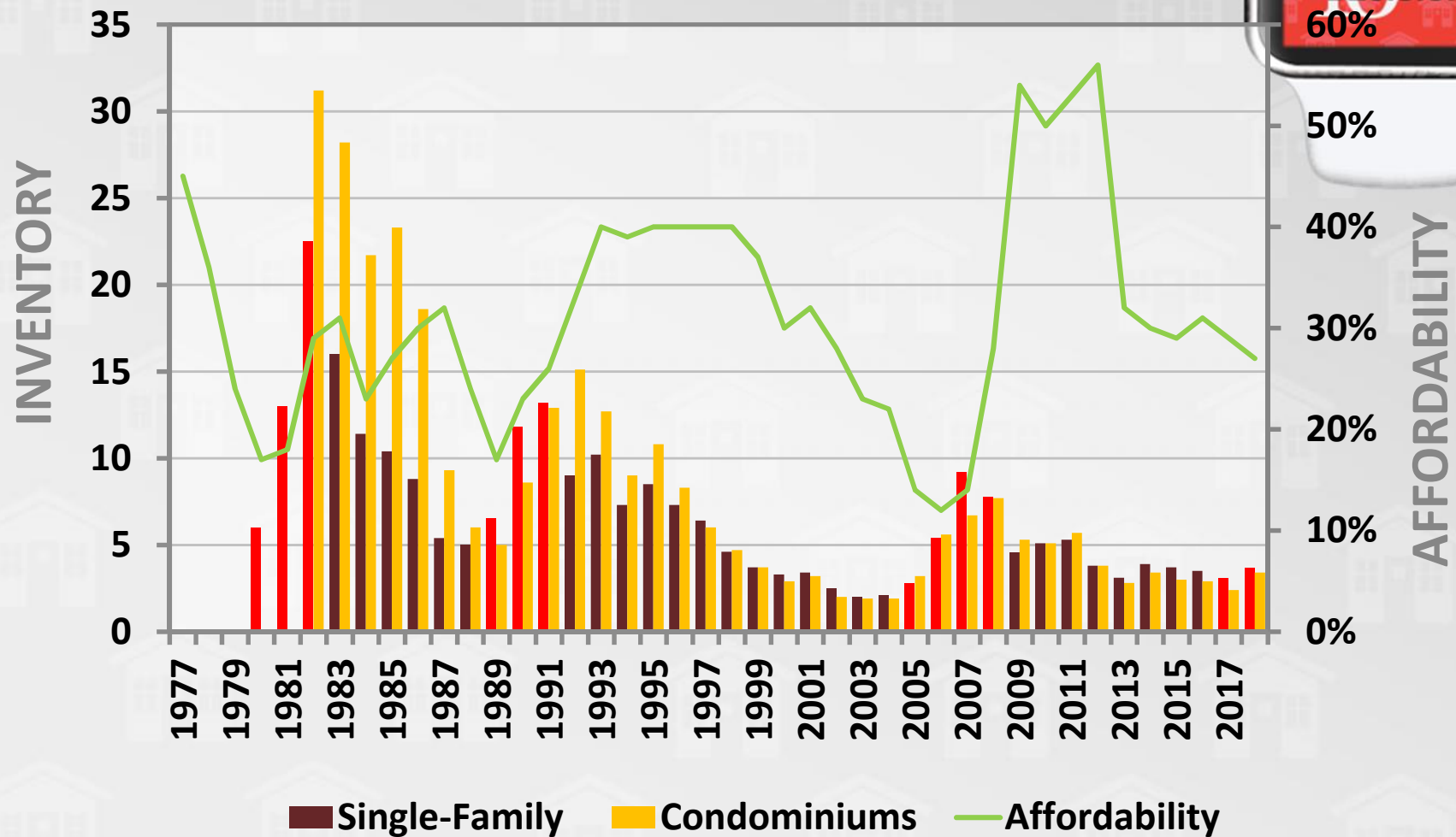
- **For me, the best leading indicator that a downturn is coming**
 - » Although some very smart people disagree
- **For me, it's about a safe exit — not an exact science**
- **This is the question I want answered: Do my conclusions get me out in time in case of a problem?**

Affordability (Cont'd)



- **What do I consider the problems that I want to see coming?**
 - » Months of unsold inventory exploding upward
 - » Trustee sales increasing drastically
 - » Construction of new homes decreasing
 - » Sales declining
 - » Unemployment increasing
 - » Prices decreasing
 - » Inventory desirability changes
- **Is this list worth avoiding?**
- **Being late getting out in a downturn is much more painful than getting in late on an upswing**

California Unsold Inventory vs. Affordability (*inventory in months*)

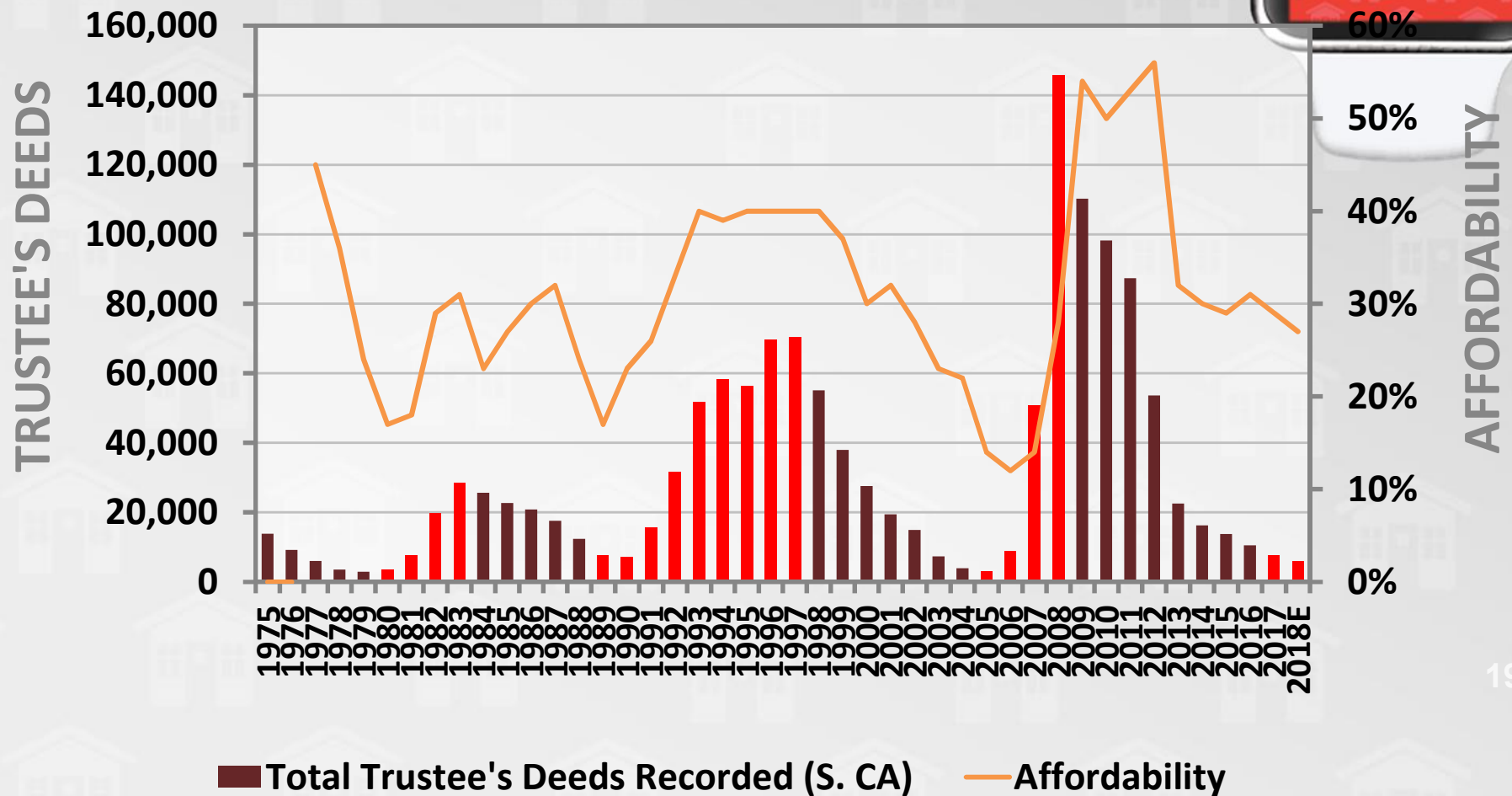


The process of discovery and why I landed on affordability:



- **Unsold inventory for single-family homes exploded from 6 months in 1980 to 22 months in 1982**
- **Unsold inventory for single-family homes exploded from 5 months in 1989 to 13 months 1991**
- **Unsold inventory for single-family homes exploded from 2.5 months in 2005 to 9 months in 2008**
- **Inventory “exploded” from 3.1 months in 2017 to 3.7 months in November 2018**

Total Trustee's Deeds Recorded (Southern California)

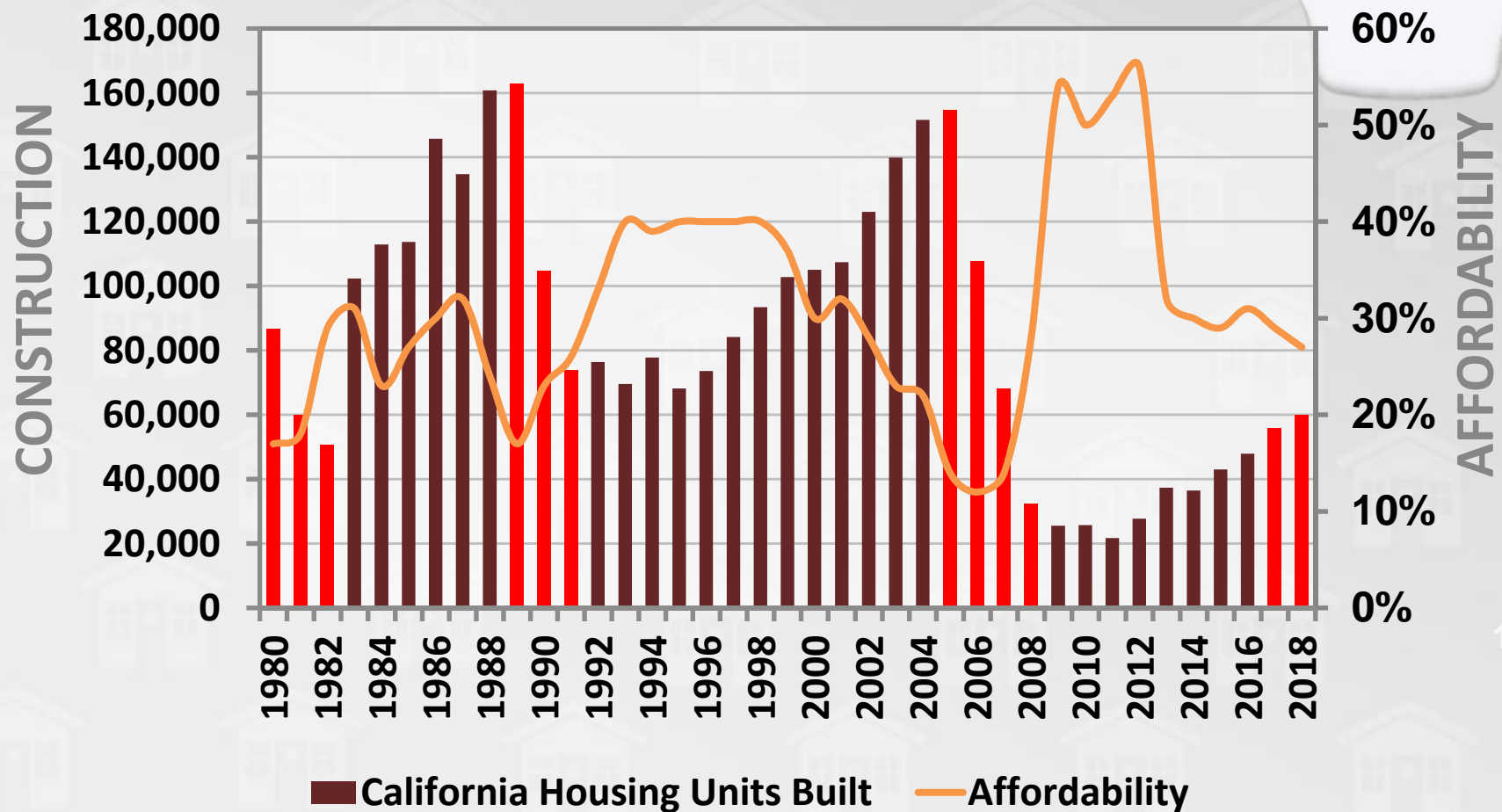


The process of discovery and why I landed on affordability: (Cont'd)



- **Trustee sales increased 814% from 1980 to 1983**
- **Trustee sales increased 406% from 1989 to 1992, eventually tapping out at 902% in 1997**
- **Trustee sales increased 1,627% from 2006 to 2008**
- **Trustee sales decreased from 7,758 to 6,100 from 2017 to 2018**

California Construction New Homes vs. Affordability

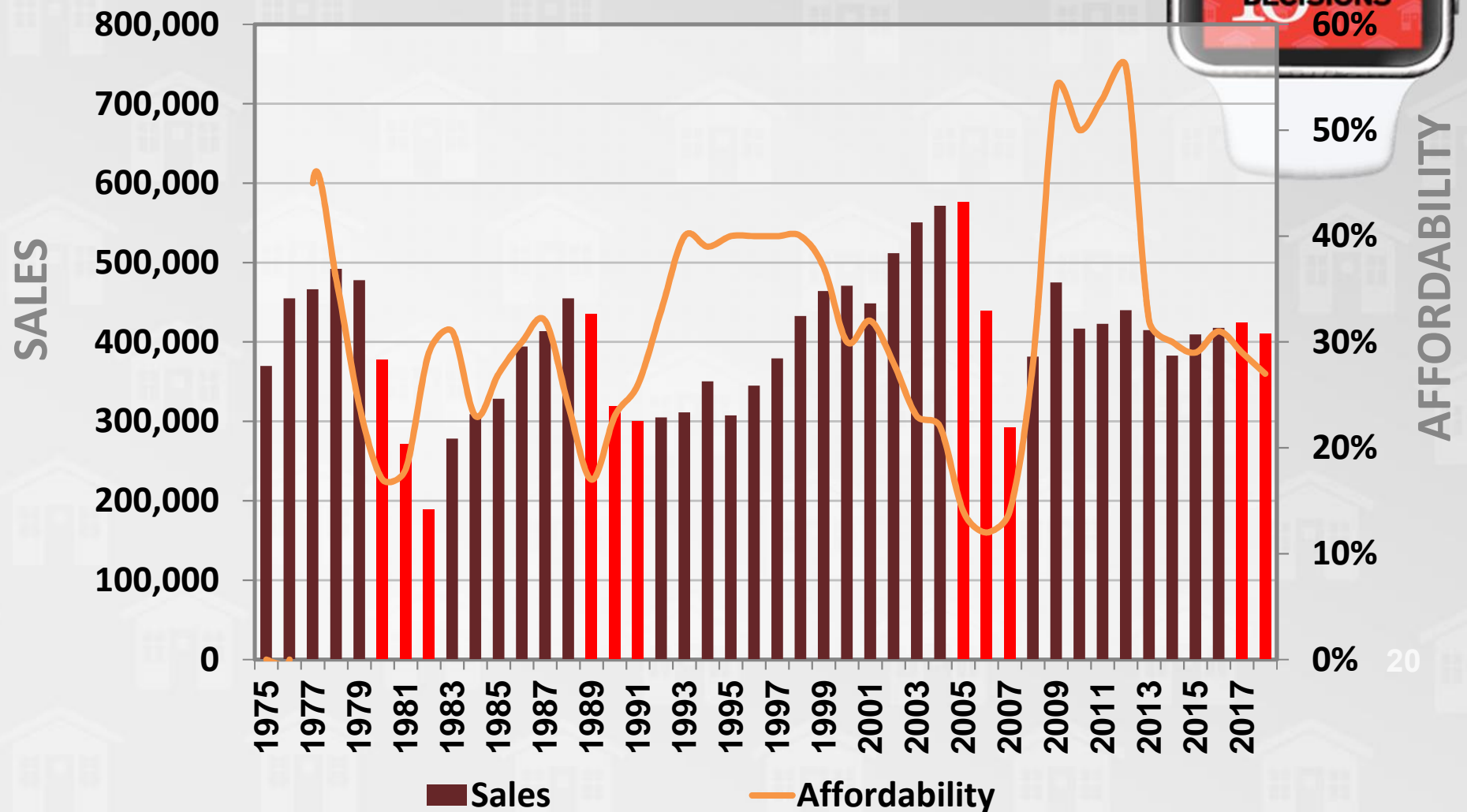


The process of discovery and why I landed on affordability



- Construction of new homes tanked after 1980 for two years, down from 85,000 units to 52,000
- Construction of new homes tanked after 1989 for two years, down from 161,000 units to 77,000
- Construction of new homes tanked after 2005 for three years, down from 155,000 units to 33,000
- Construction of new homes went from 55,779 in 2017 to 60,000 in 2018

California Sales vs. Affordability

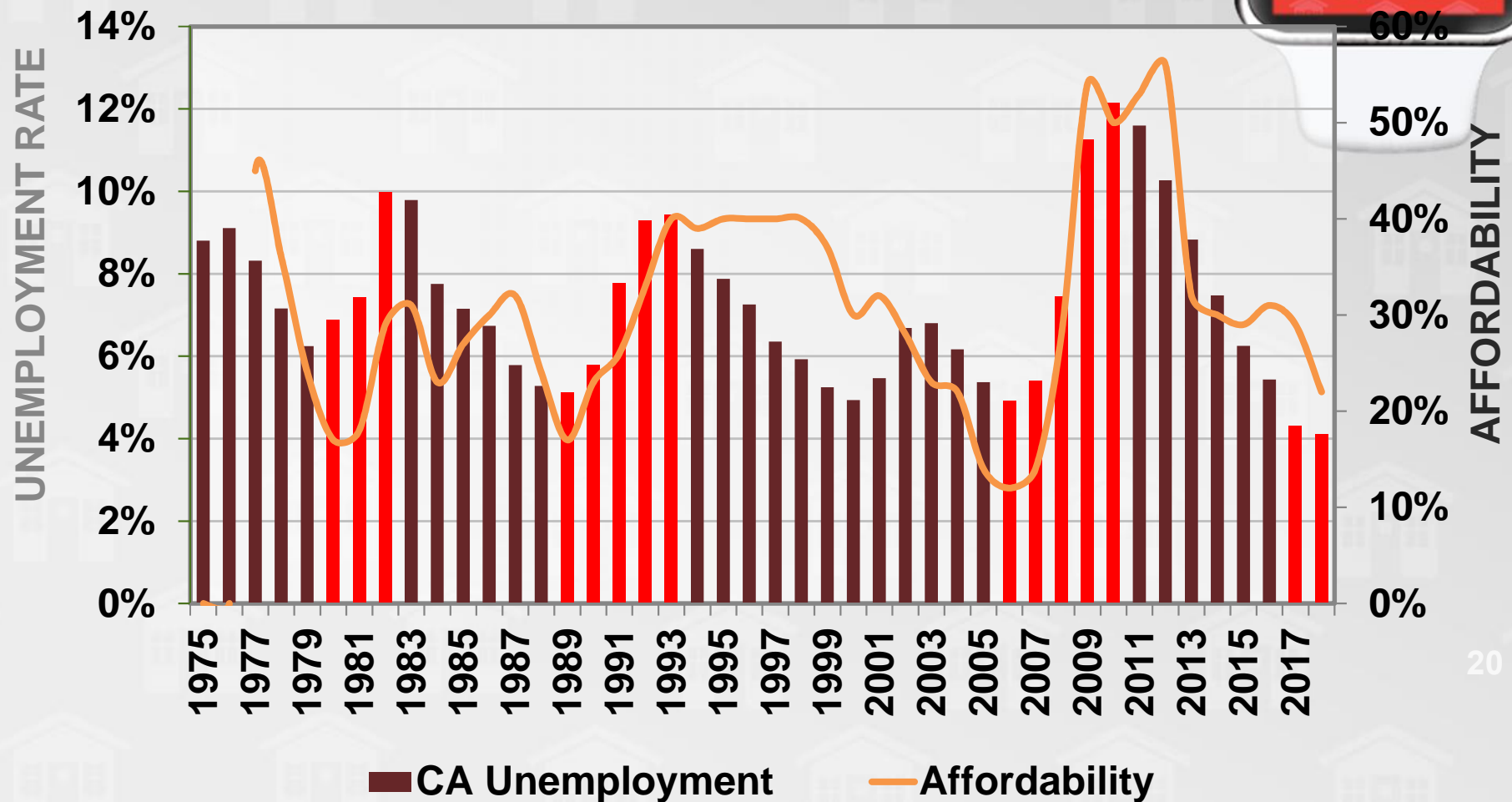


The process of discovery and why I landed on affordability



- Sales declined from 377,664 to 189,345 between 1980 to 1982
- Sales declined from 435,521 to 300,020 between 1989 to 1991
- Sales declined from 576,240 to 292,420 between 2005 to 2007
- Sales declined from approximately 424,100 to 410,000 between 2017 to 2018

California Unemployment vs. Affordability

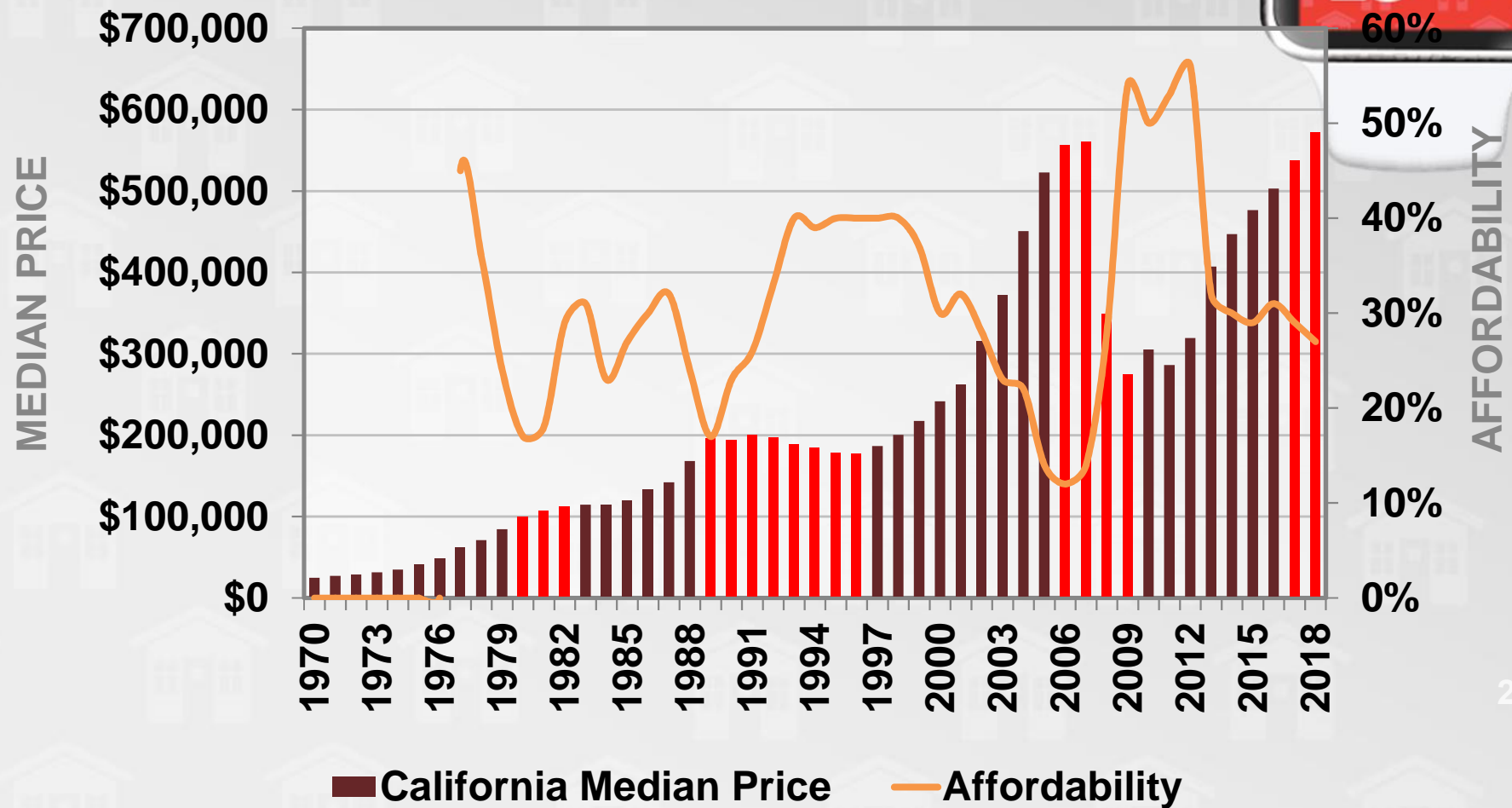


The process of discovery and why I landed on affordability



- Unemployment goes from 6.9% in 1980 to 10.0% in 1982
- Unemployment goes from 5.1% in 1989 to 9.4% in 1993
- Unemployment goes from 4.9% in 2006 to 12.1% in 2010
- Unemployment goes from 4.8% in 2017 to 4.1% in 2018

California Median Price vs. California Affordability



The process of discovery and why I landed on affordability



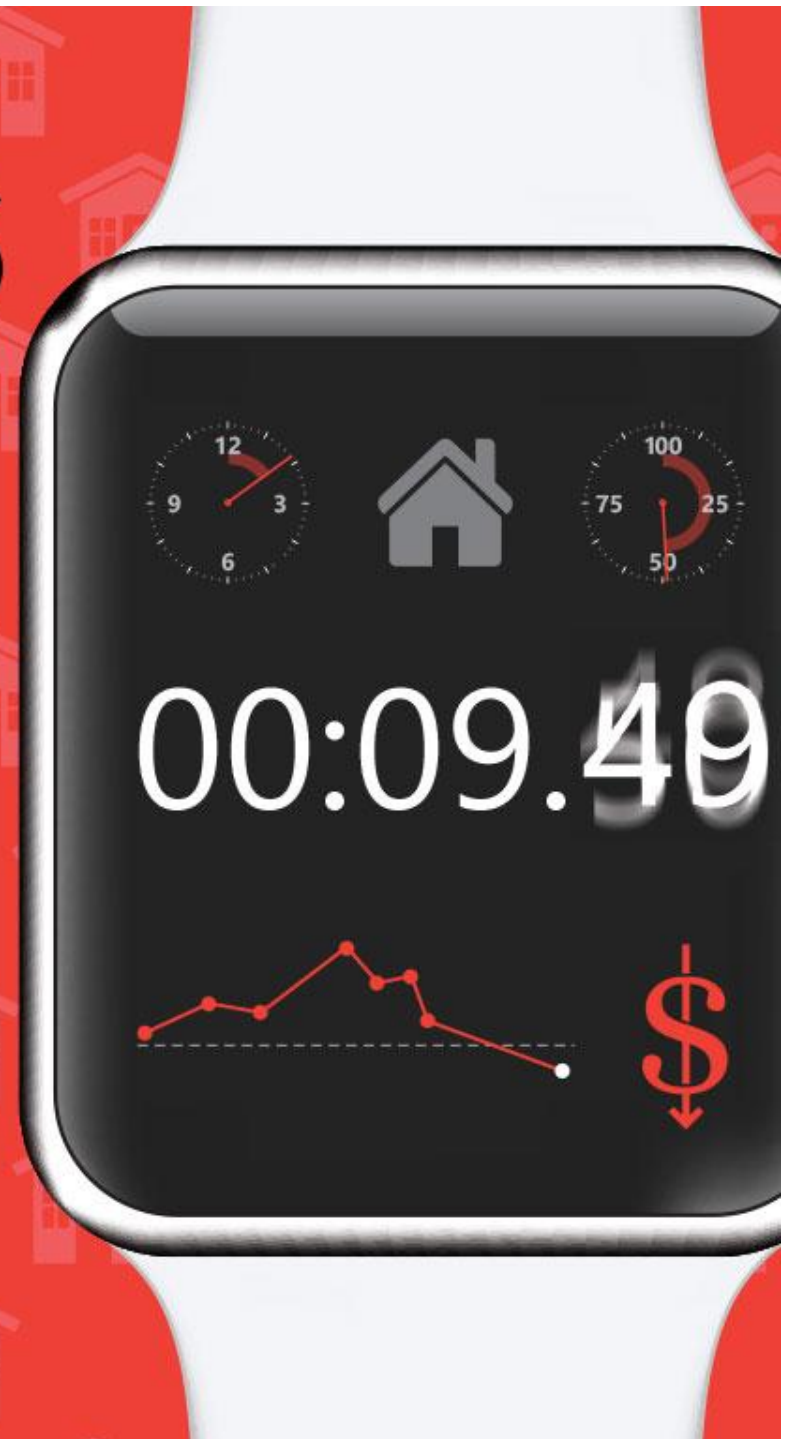
- Median price in California went from \$99,600 in 1980 to \$111,800 in 1982
- Median price in California went from \$196,000 in 1989, to \$200,000 in 1991, to 177,000 in 1996
- Median price in California went from \$580,000 in 2006 to \$280,000 in 2009
- Median price in California went from \$537,860 in 2017 to \$572,000 in 2018

10 DECISIONS

**for Real Estate
Investors to Make
Before the Next
Downturn**

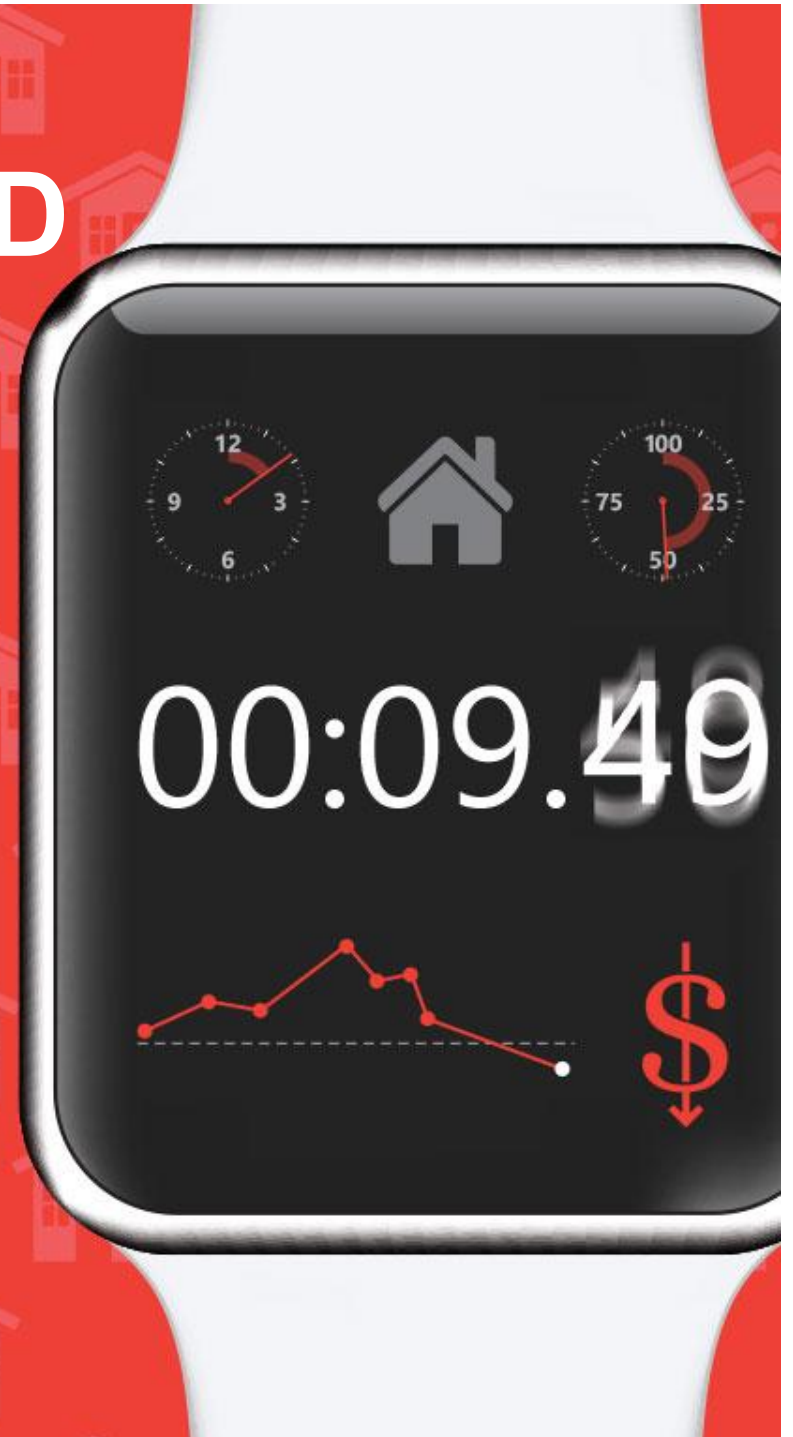


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1

**UNDERSTAND
MAKING
DECISIONS
EARLY IS
SAFER THAN
LATE**



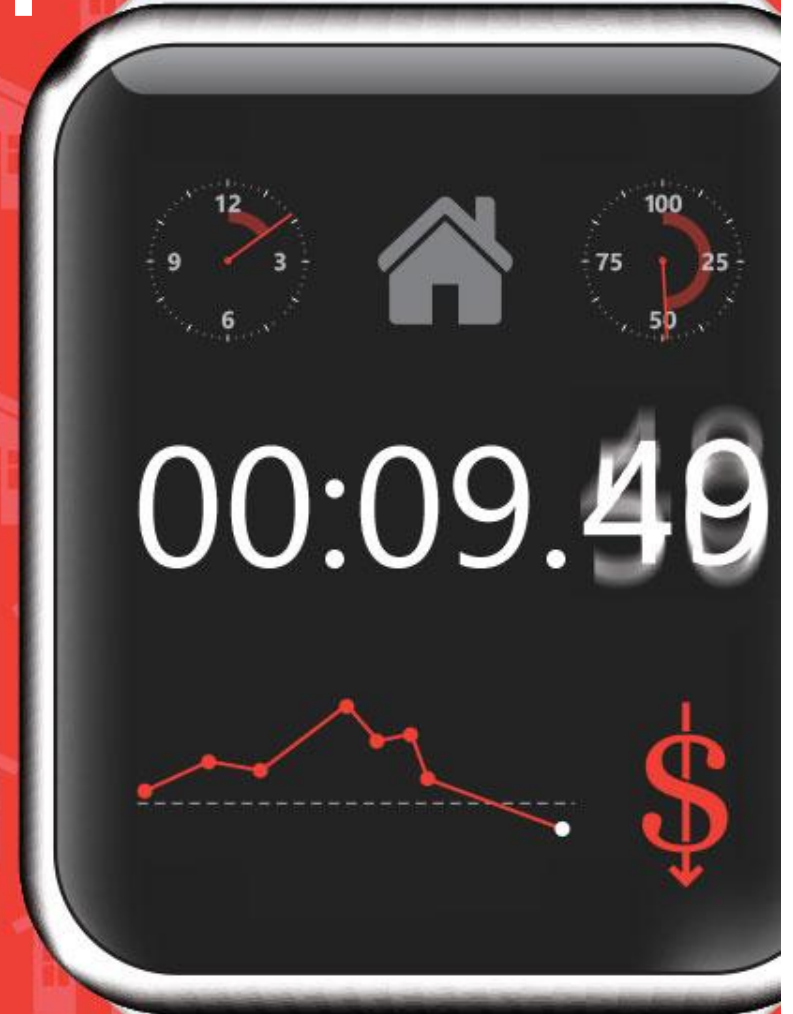
1. Make a decision early



- **Sequence of negative events**
- **Affordability getting too low kicks off negative charts**
- **Probably in the top of the 8th inning**
- **Interest rate hikes locked and loaded creates tipping point**
- **Making decisions this year better one year from now**

2

EXIT OR STAY AWAY FROM FLAWED INVENTORY



2. Avoid Flawed Inventory

- Railroad, dirt road, main street



2. Exit/Avoid Flawed Inventory



- **In a hot market, people ignore those flaws**
 - » 1988 – Palm Springs lots
- **As the market changes, those flaws are not ignored**
 - » 1990 – Custom homes Palm Springs
- **In a hot market, the deals you find are often flawed inventory and they sell anyway**
 - » In the bottom of the 9th inning, they don't sell!

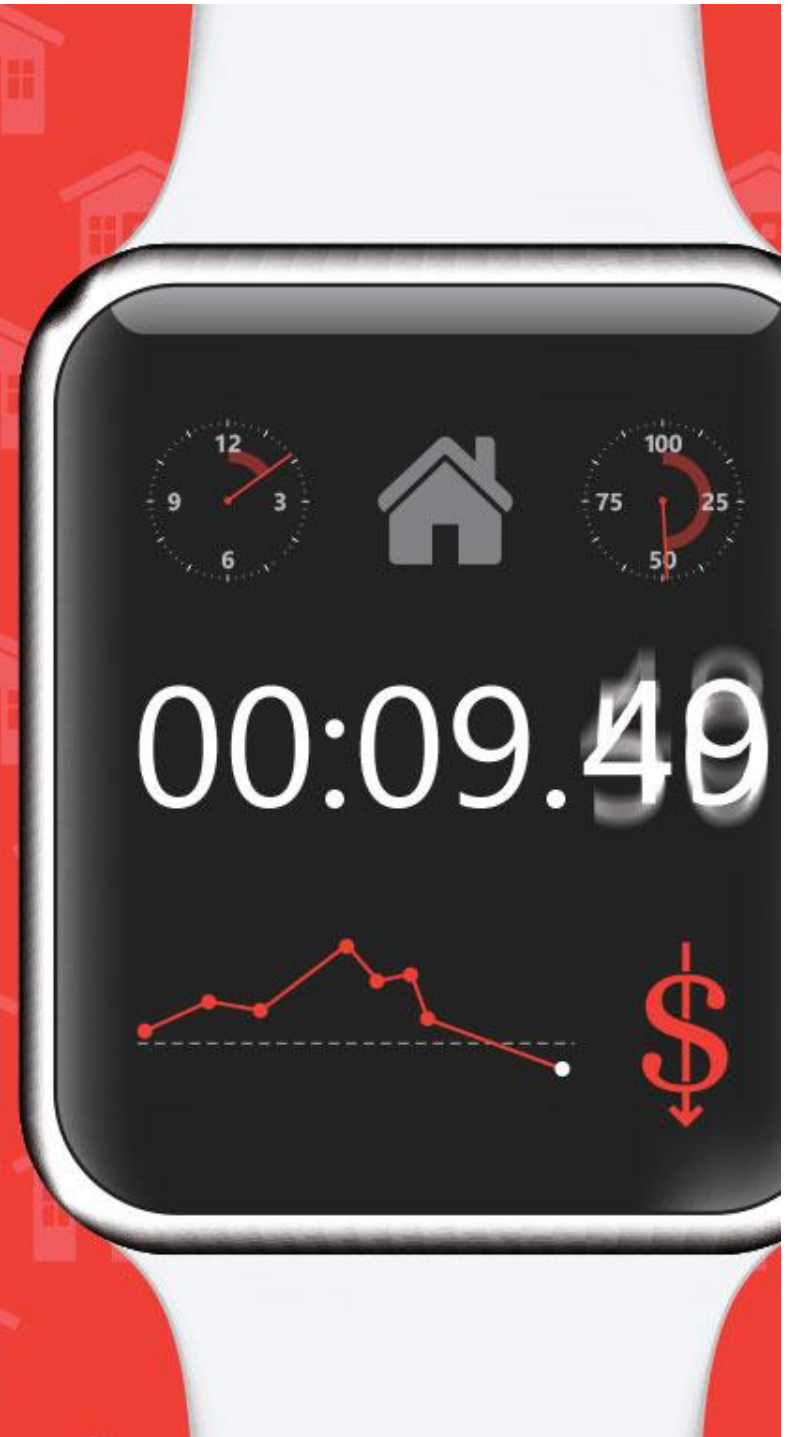
2. Exit/avoid flawed inventory



- **Flawed inventory naturally eliminated a certain percentage of buyers**
- **Kiss of death? Multiple flaws simultaneously.**
 - » Most expensive inventory
 - » Second-home area
 - » Leased land
- **Negative trumps positive**
 - » Homes were in a great area
 - » They were new homes
 - » Gated

3

EXIT FLIP PROPERTIES WITH ONLY ONE SOLUTION



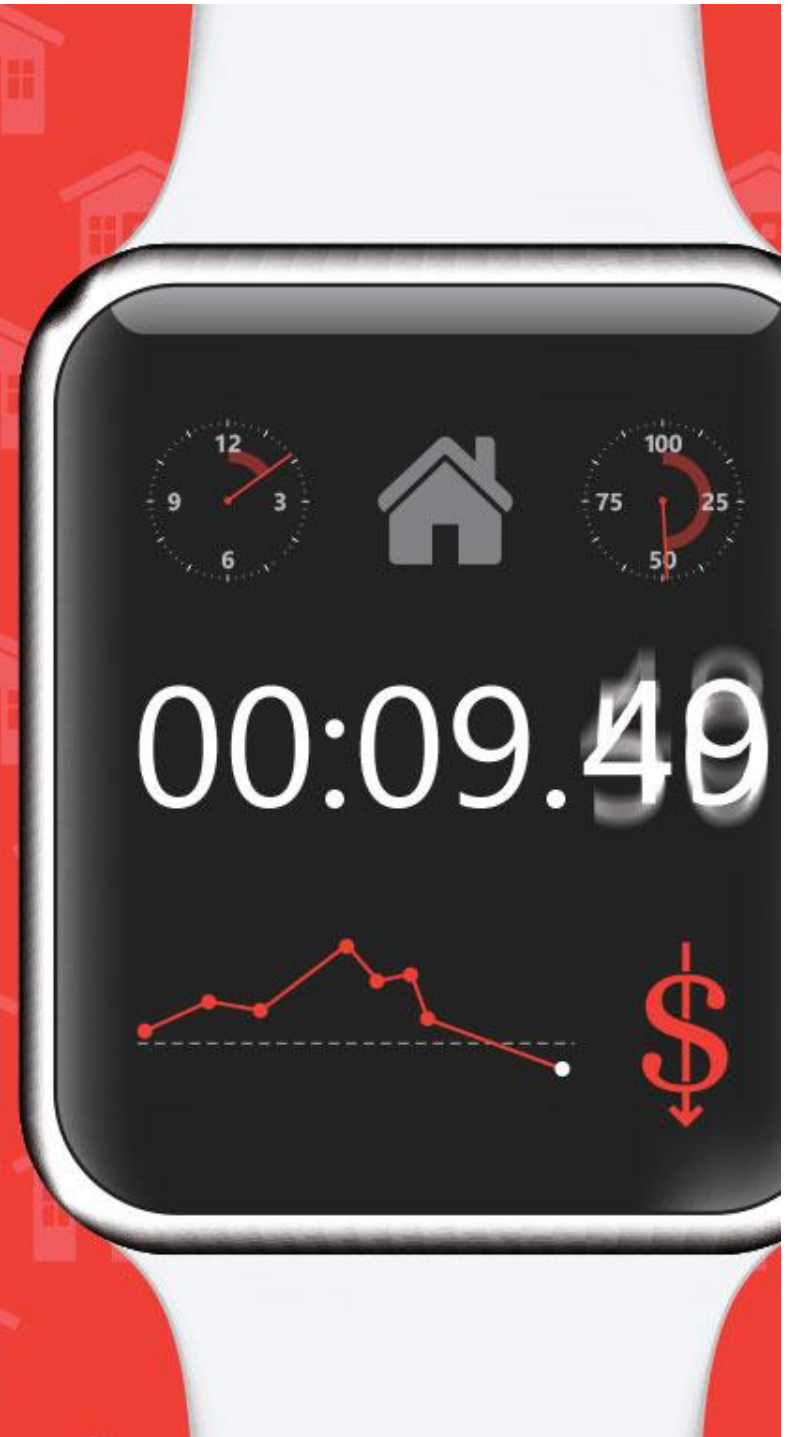
3. Exit Flip Properties – Limited Demand

- High dollar inventory dangerous
- Makes no sense to rent and have to sell in a tough market



4

1031
EXCHANGE
IN THE NEXT
12-MONTHS
OUT OF
RENTAL
INVENTORY
WITH FLAWS



4. 1031 Exchange



- Old inventory
- Deferred maintenance
- Remote locations
- Inventory spread all over the place
- Inventory that becomes management headaches



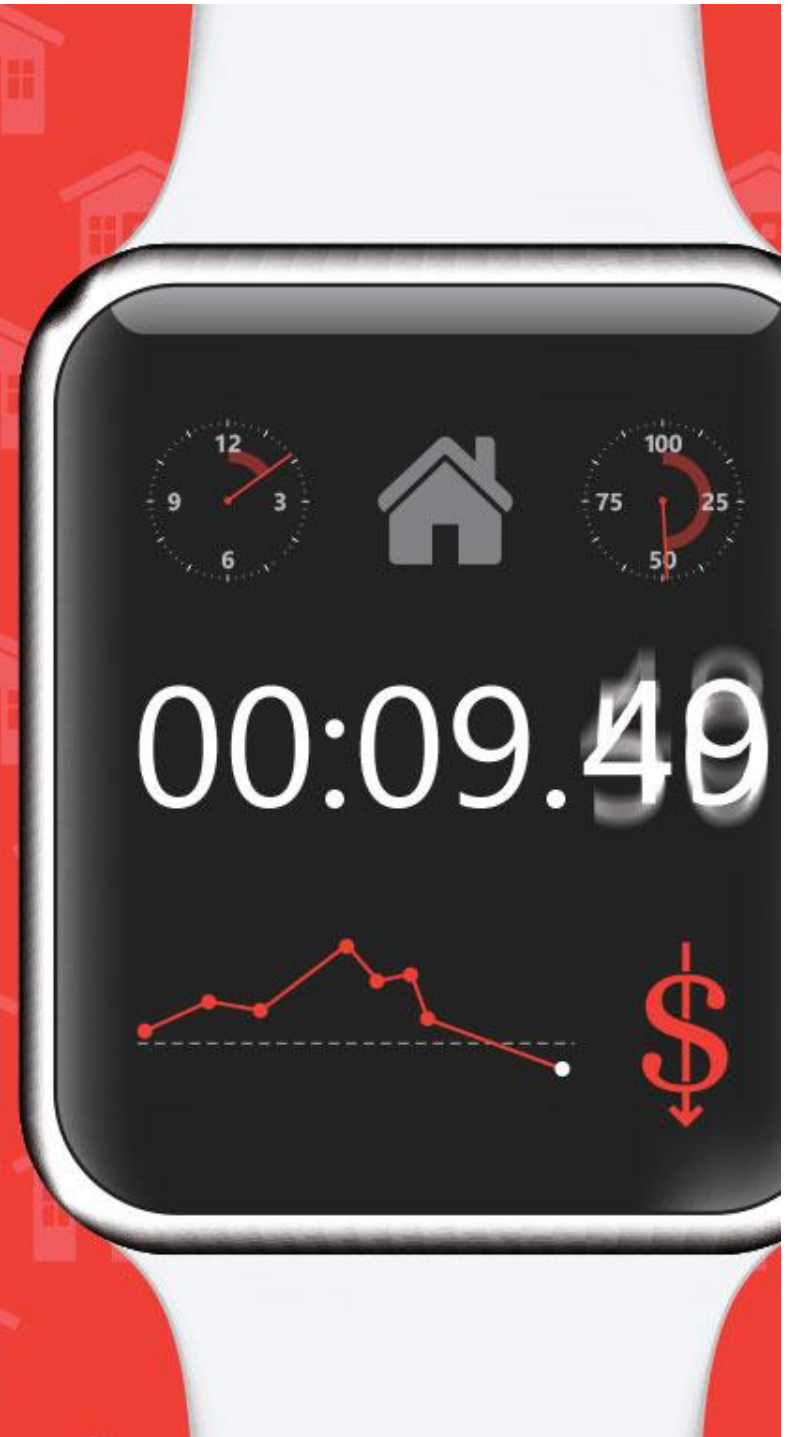
4. 1031 Exchange



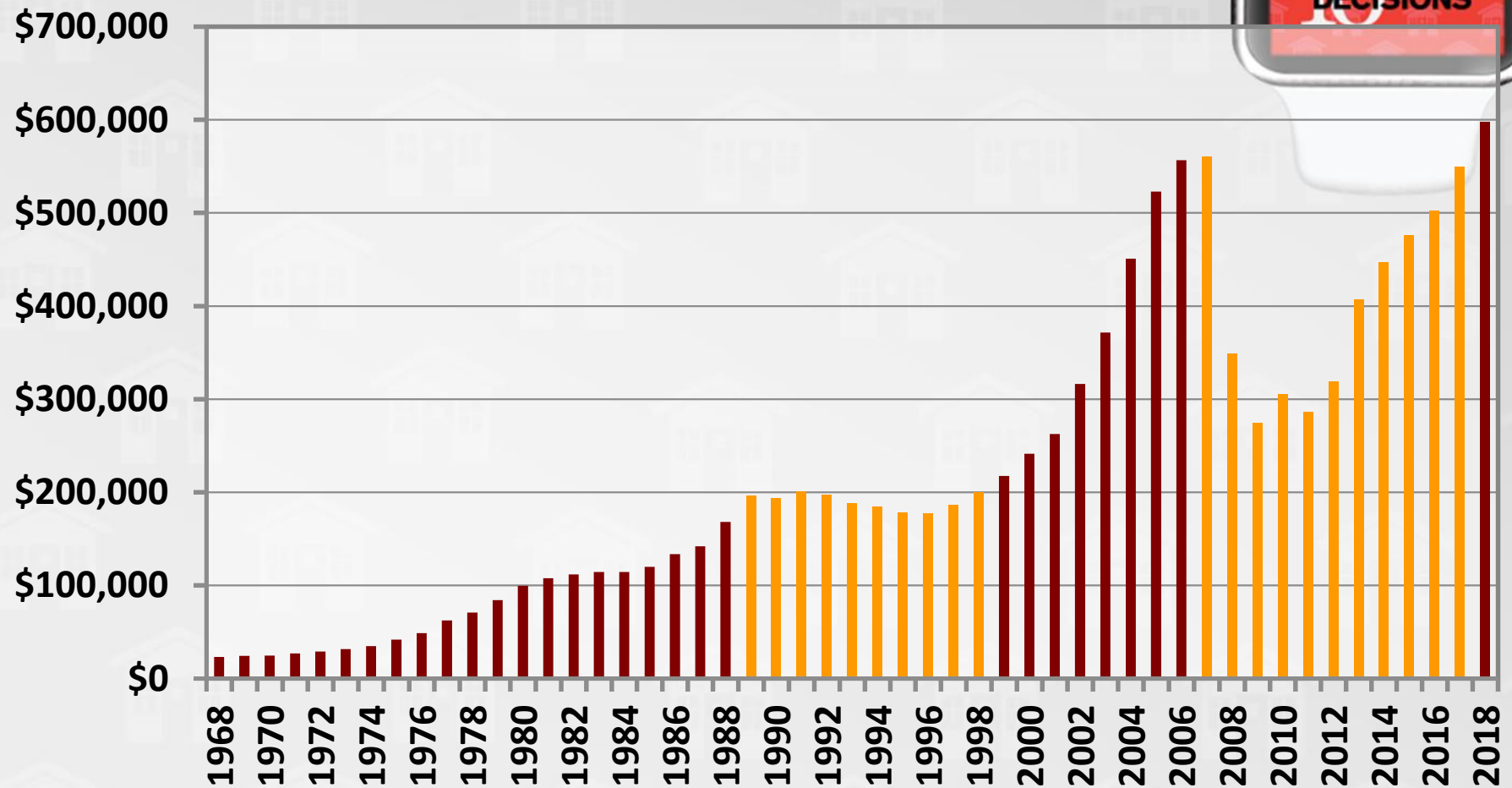
- Would you live in the area where you hold your rentals?
- Why did you buy it?
- Has it done its job?

5

CONSIDER
THE NEXT
DECADE, NOT
JUST THE
NEXT COUPLE
OF YEARS



California Median Price



Source: California Association of Realtors.

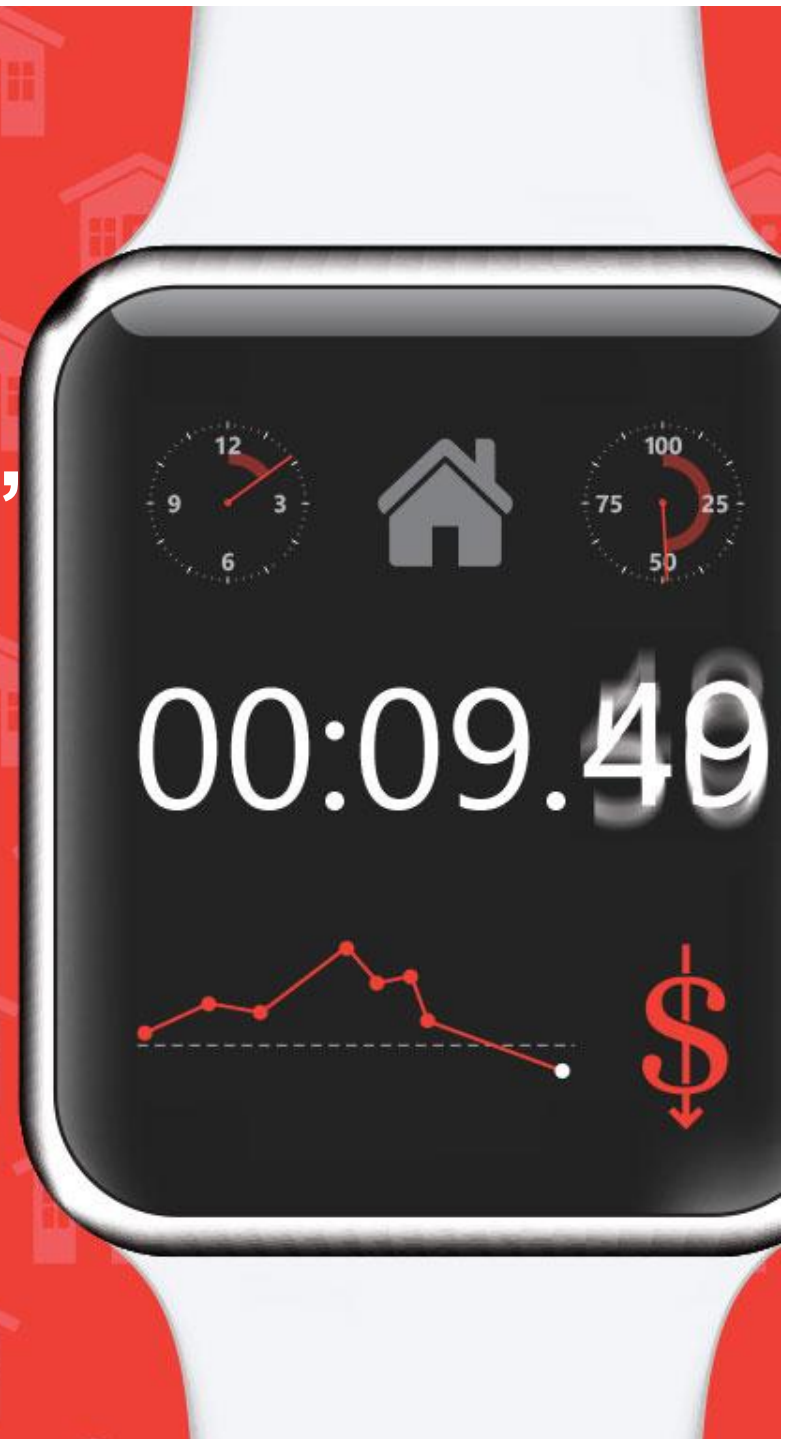
5. Consider the next decade not just the next couple of years



- California is very likely to experience one of these “break-even” cycles
- Would you like to own your California inventory at a close to break-even price for an 8-10 year period?
- Would you intentionally do that?

6

**CONSIDER
OWNING LOW
MAINTENANCE,
DESIRABLE
PROPERTY
WITH NO
FLAWS AS
RENTALS**



6. Consider owning low maintenance, desirable property with no flaws as rentals

- **New**
- **Single story**
- **Wins tie-breakers**
- **Gets occupied regardless**
- **Consider the equity positions you have and what that could translate to in an affordable state**

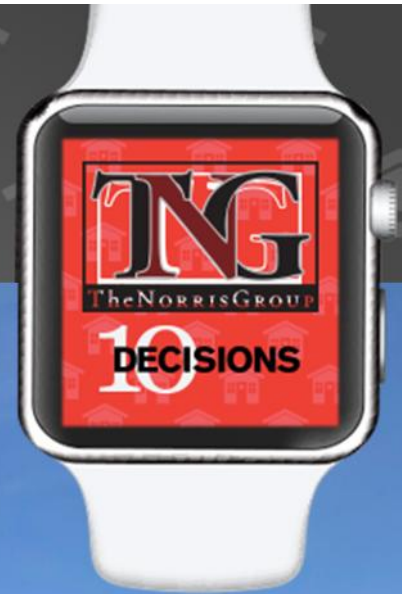


6. Consider another state

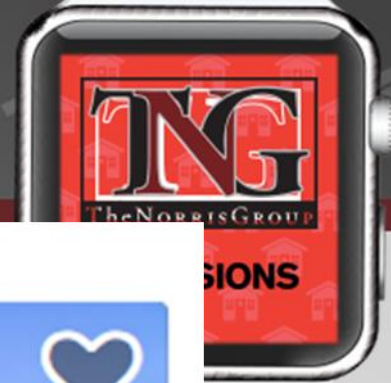
- **What \$200,000 buys in the fastest growing area in Florida**



Florida



San Diego



Brokered by Keller Williams SD Metro



House for Sale

\$965,000

3 bed 2 bath 1,512 sqft

3769 Herbert St, San Diego, CA 92103

Los Angeles



Brokered by HOME TEAM REALTY

New - 20 hours ago



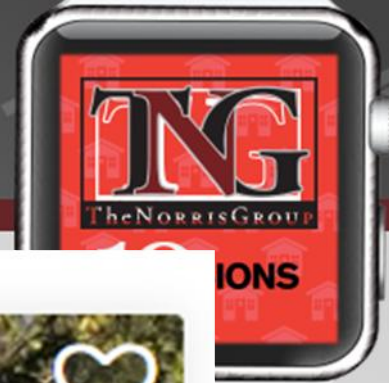
House for Sale

\$490,000

3 bed 2 bath 1,373 sqft

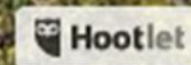
710 Anzac Cir, Compton, CA 90220

Riverside



Brokered by Century 21 Masters

New



House for Sale

\$375,000

3 bed 2 bath 1,237 sqft

5491 Palm Ave, Riverside, CA 92506

Orange



BERKSHIRE
HATHAWAY
Home Services
California Properties

Brokered by Berkshire Hathaway HomeServices



3 bed 2+ bath 1,653 sqft

2125 Palmilla Ct, Costa Mesa, CA 92627

Oakland



Brokered by Winkler Real Estate Group

New



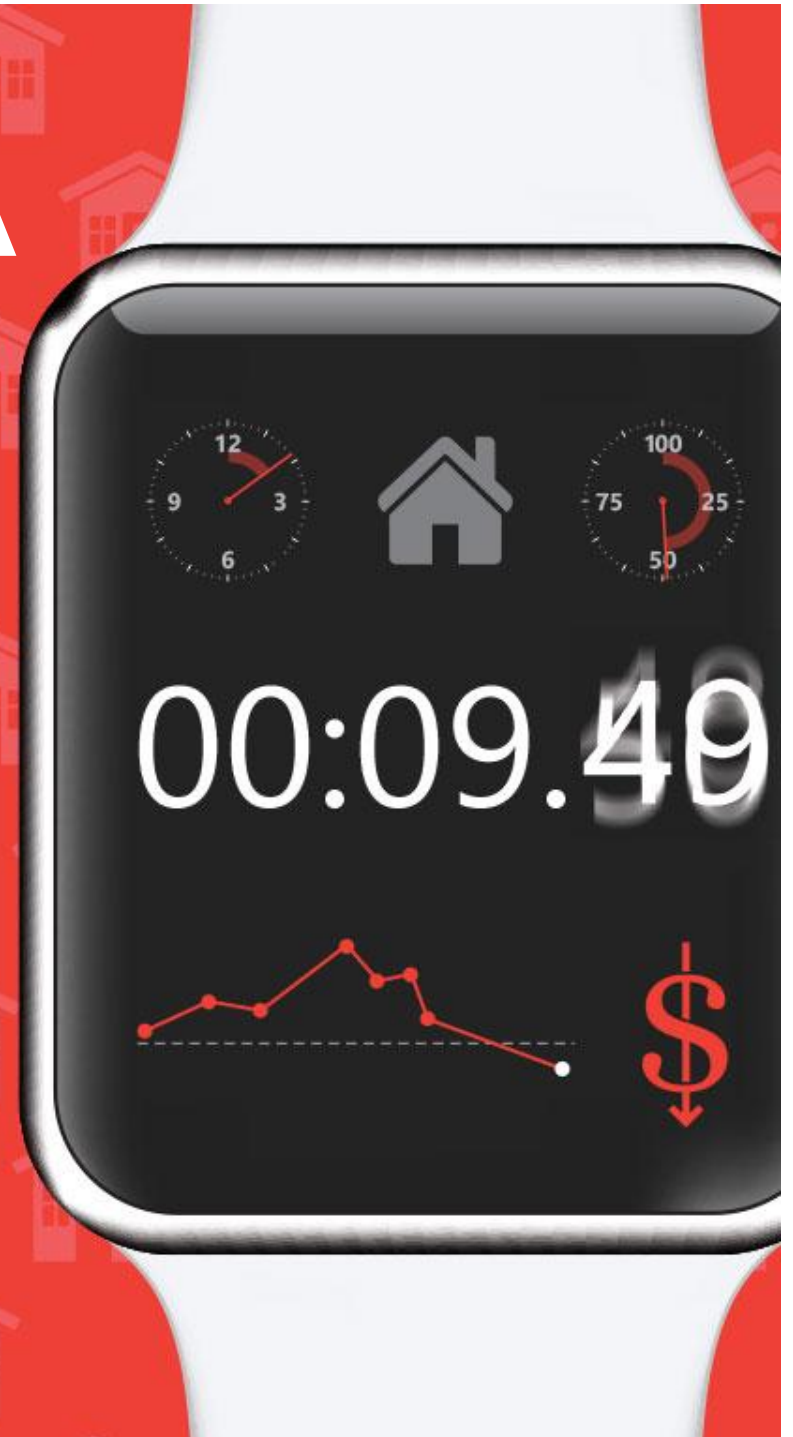
House for Sale

\$1,090,000

3 bed 2+ bath 1,770 sqft
1432 Wood St, Oakland, CA 94607

7

ASSEMBLE A TEAM YOU TRUST



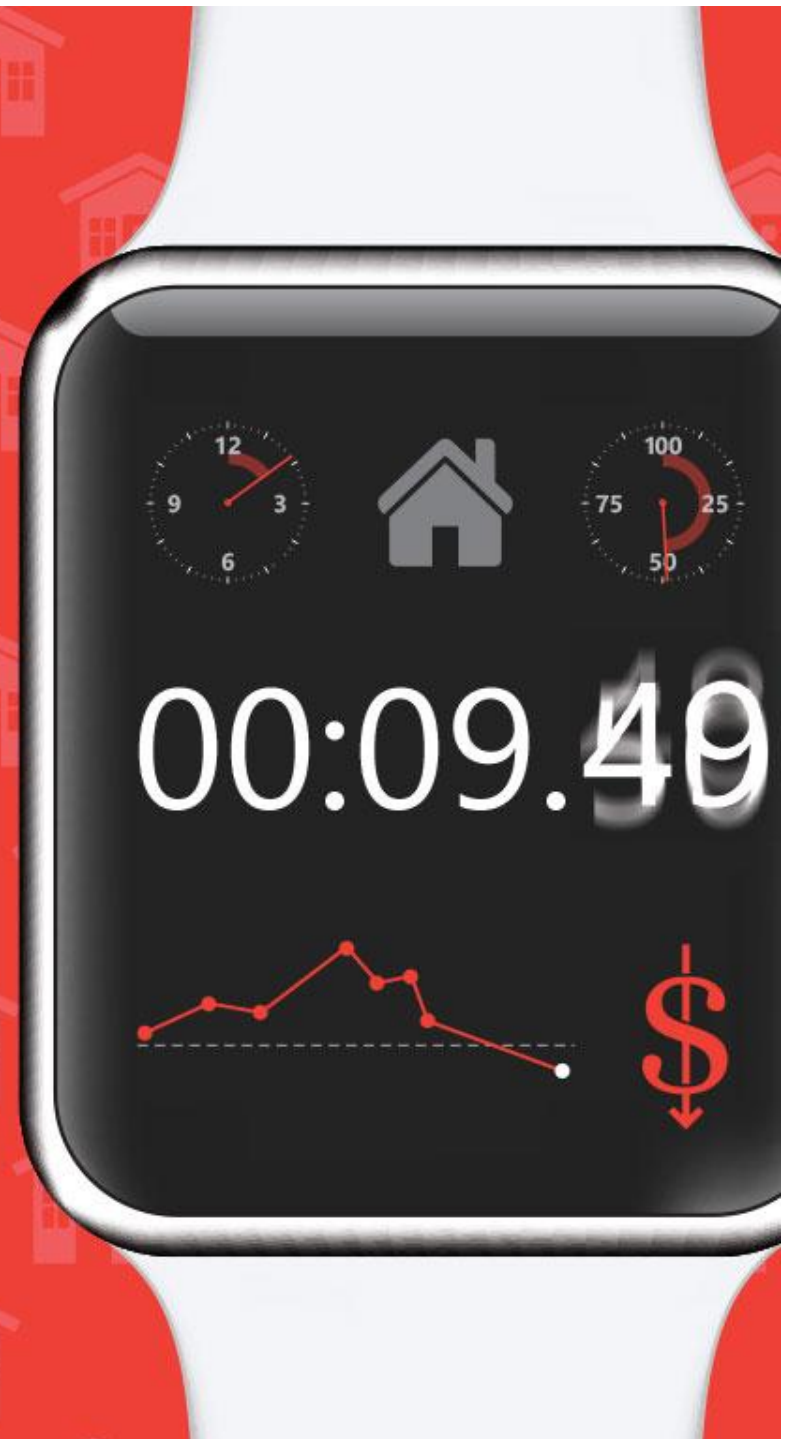
7. Assemble a team you trust

- Financial advice
- 1031 Exchange advice
- Retirement planning advice
- Inventory to purchase
- Financing
- Property management



8

BE WILLING
TO GO
THROUGH A
TRANSITION
YEAR



8. Be willing to go through a transitional year

- This transition takes planning
- It takes gradual execution
- Very doable but knowing you need a year is important

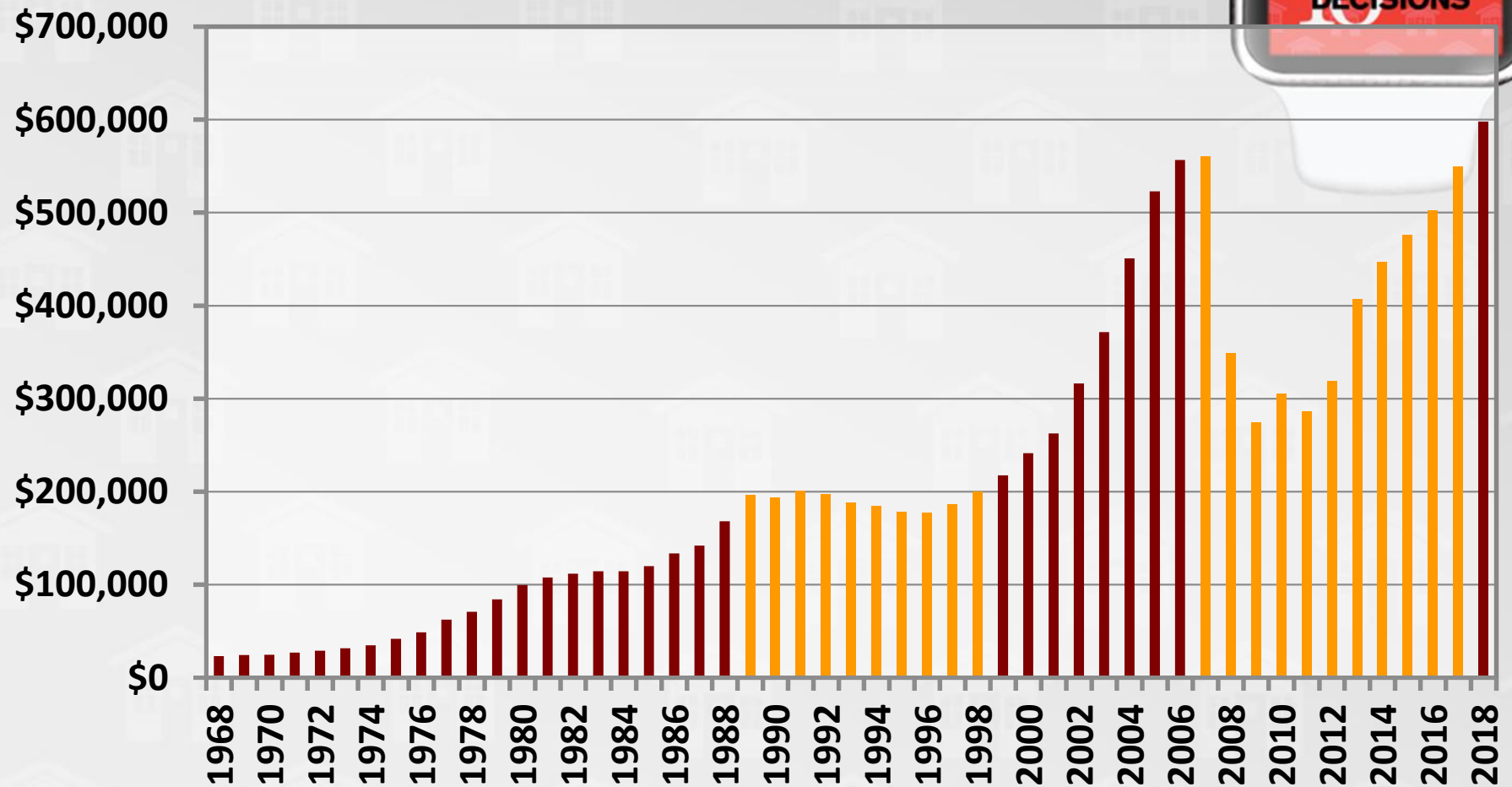


9

CONSIDER
ANOTHER
STATE TO
MIGRATE
YOUR MONEY
TO FOR THE
NEXT DECADE



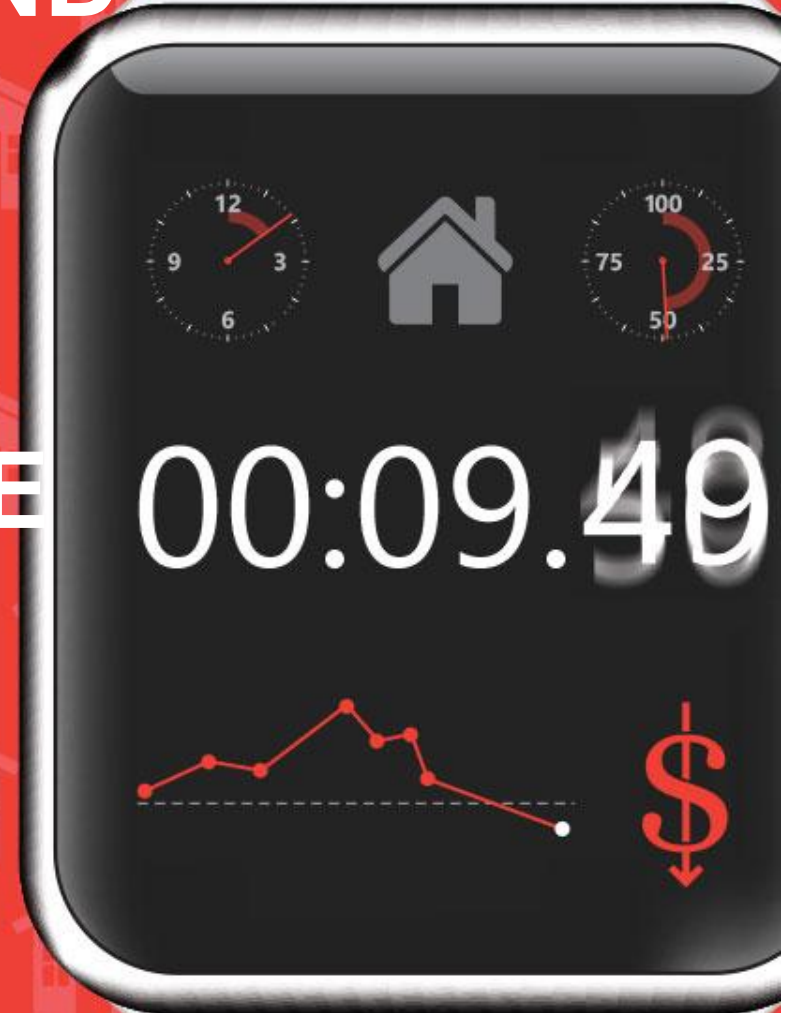
California Median Price



Source: California Association of Realtors.

10

UNDERSTAND
WHAT
MAKES A
STATE
ATTRACTIVE
FOR THE
NEXT
DECADE



10. What makes it attractive

- **Affordable real estate**
- **Affordable living costs**
- **Attracts positive migration**
- **Favorable state taxes**
- **The main employment source is likely to grow not contract**



10. What makes it attractive



- **The main reason I like Florida: Seniors**
- **As people age, they need care-takers**
 - » At 65 you need 2 care-takers
 - » At 85 you need 7 care-takers
- **For every senior that gets older or moves to Florida, 350% more care takers will show up in the next 20 years.**
- **It's the safest business model I know; betting on someone getting a year older every year!**

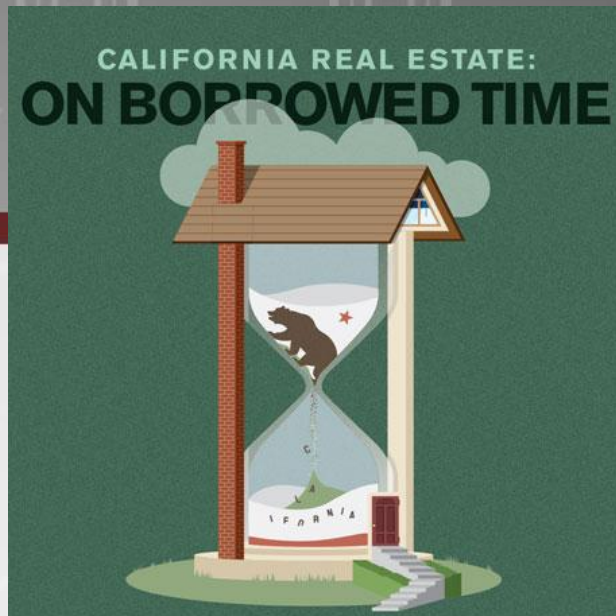


CALIFORNIA REAL ESTATE ON BORROWED TIME

New Market Timing Report by Bruce Norris



JANUARY 26, 2019
RIVERSIDE, CA



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