



Unlocking the Door to a World of Real Estate Wealth

The DuPree Team
Keyes Company Realtors
Phone: 954-752-1986
Fax: 954-845-3335
DuPree@dupreeteam.com
www.FloridaHomeCenter.com



What Will We Cover?

This presentation is designed to inform you of your options regarding residential real estate investments. In it, you'll learn:

1. How real estate compares to other assets for growth potential.
2. What the benefits of real estate investing are.
3. The truth behind the most common myths of real estate investing.
4. How you can optimize your investing power through real estate.

Tenets: My Promise to You

I am committed to providing the highest quality service to you through focus, honesty and integrity. As a CIAS, I adhere to the following tenets:

1. I always do what is best for you, and will never let you close on a bad deal.
2. Real estate should be purchased for cash flow only; appreciation is a bonus.
3. Real estate investing is a non-emotional event; I always do the math.
4. You, as an investor, play a vital role in the real estate market and deserve to be treated accordingly.

About The DuPree Team

- Marta DuPree Licensed Realtor since 1978
- Neil DuPree Licensed Realtor and General Contractor
- Designations include:
 - CIAS (Certified Investment Agent Specialist)
 - CDPE (Certified Distress Property Expert)
 - REO Specialist (Real Estate Owned Specialist)
 - CLHMS (Certified Luxury Home Marketing Specialist)
- 33 years Real Estate Experience
- Team includes 5 buyer specialist, 2 listings specialist, 2 closing coordinators, 1 accounting, 2 REO specialist



Real Estate and Household Wealth

Where is Household Wealth Stored?

- \$6.3 trillion dollars of household wealth is in home equity*
- 11.7% of the *total* wealth in America is in home equity
- 42% of family assets are real estate assets**

*Source: The Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2010*, 13-14

**Source: Bucks, Brian K. et al. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances." Federal Reserve Bulletin, vol. 95 (February 2009), A28.

Real Estate vs. Other Assets

Bonds and Certificates of Deposit

Bond Yields Since 2000	
Year	Yield
2000	6.03
2001	5.02
2002	4.61
2003	4.01
2004	4.27
2005	4.29
2006	4.80
2007	4.63
2008	3.66
2009	3.26
Average	4.46%

Source: Federal Reserve (<http://www.federalreserve.gov/releases/h15/data.htm>)

6-month CD Yields Since 2000	
Year	Yield
2000	6.59
2001	3.66
2002	1.81
2003	1.17
2004	1.74
2005	3.73
2006	5.24
2007	5.23
2008	3.14
2009	0.87
Average	3.32%

Source: Federal Reserve (<http://www.federalreserve.gov/releases/h15/data.htm>)

Bonds and CDs typically have low rates of return

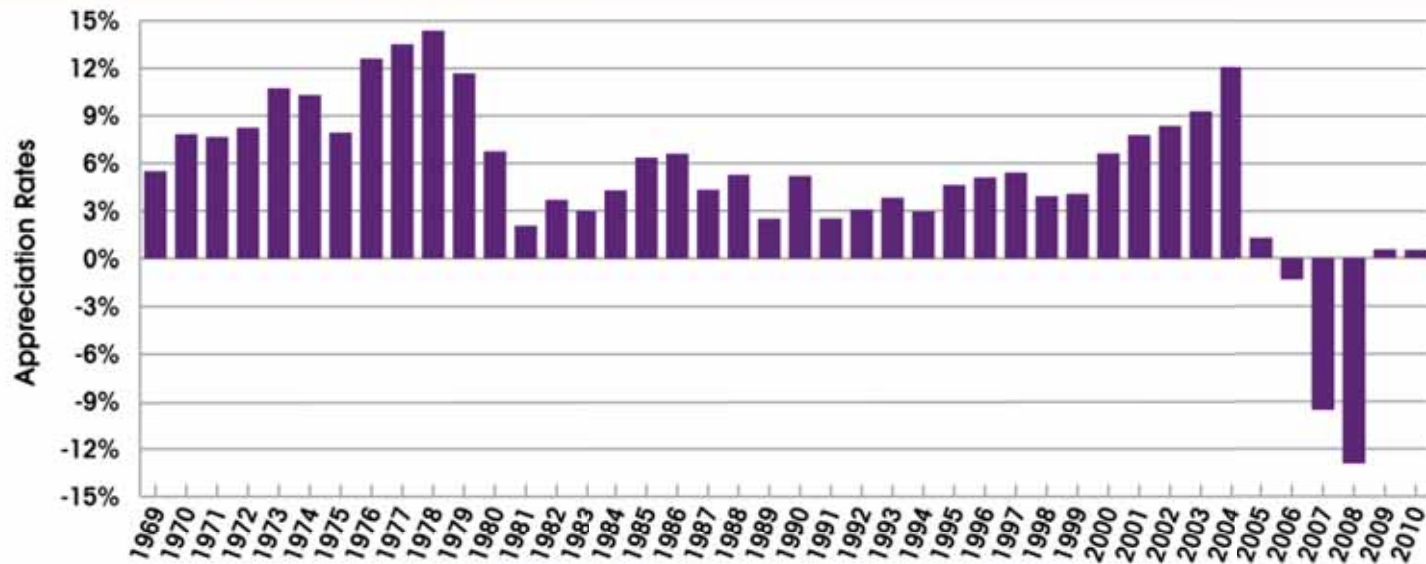
Mutual Funds

- Often underperform the market
- Average 3.66% 10-year return (2000-2010)*
- Managed by someone else
- Dividends reinvested, not paid to investor

*Source: <http://screen.morningstar.com/FundSearch/FundRank.html>

Real Estate

Residential Real Estate Appreciation Rates Over Time

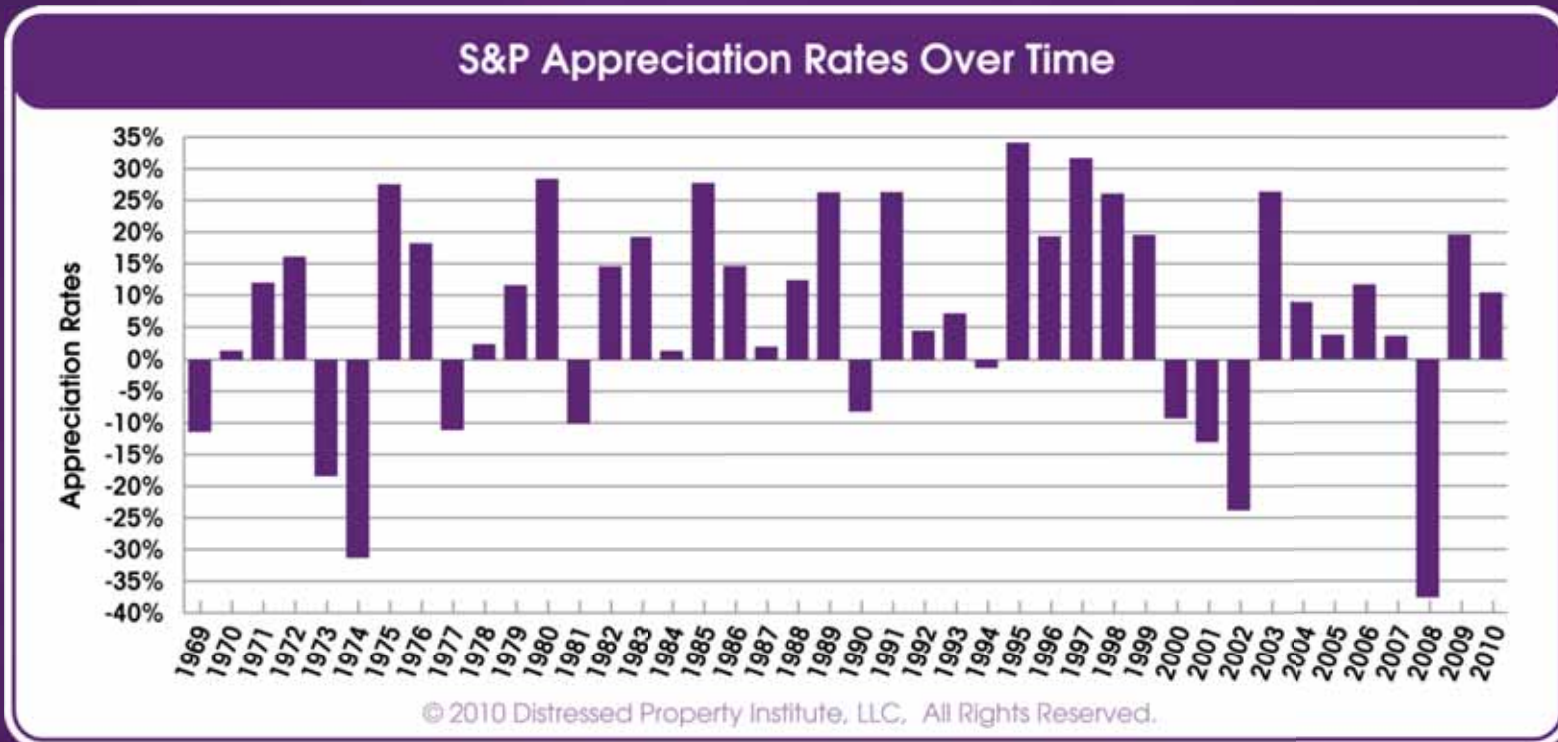


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Real estate has lost value **3** years in the past 41 years

Source: HUD Historical Data: www.census.gov/indicator/www.newsreconst.pdf

S&P 500

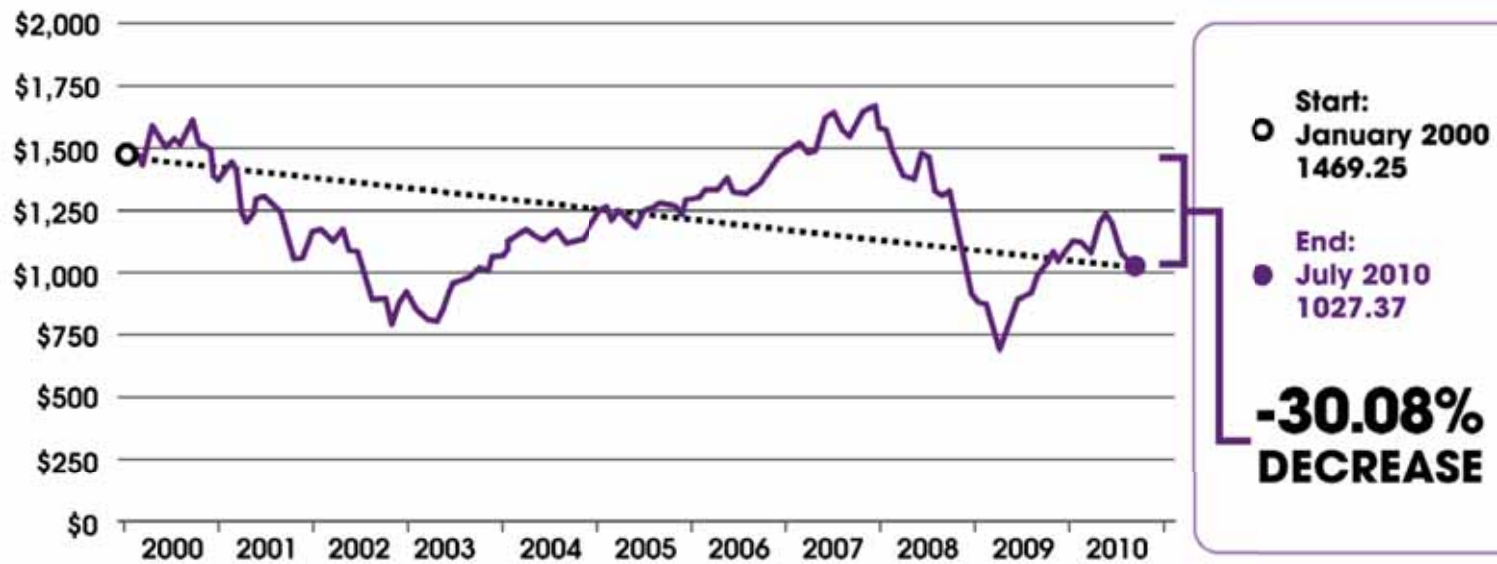


S&P 500 has lost value **13** years in the past 41 years

Source: S&P 500 data: [http://moneycentral.msn.com/stock_quote?symbol=\\$inx](http://moneycentral.msn.com/stock_quote?symbol=$inx)

Stocks

S&P Index Over a 10 Year Span

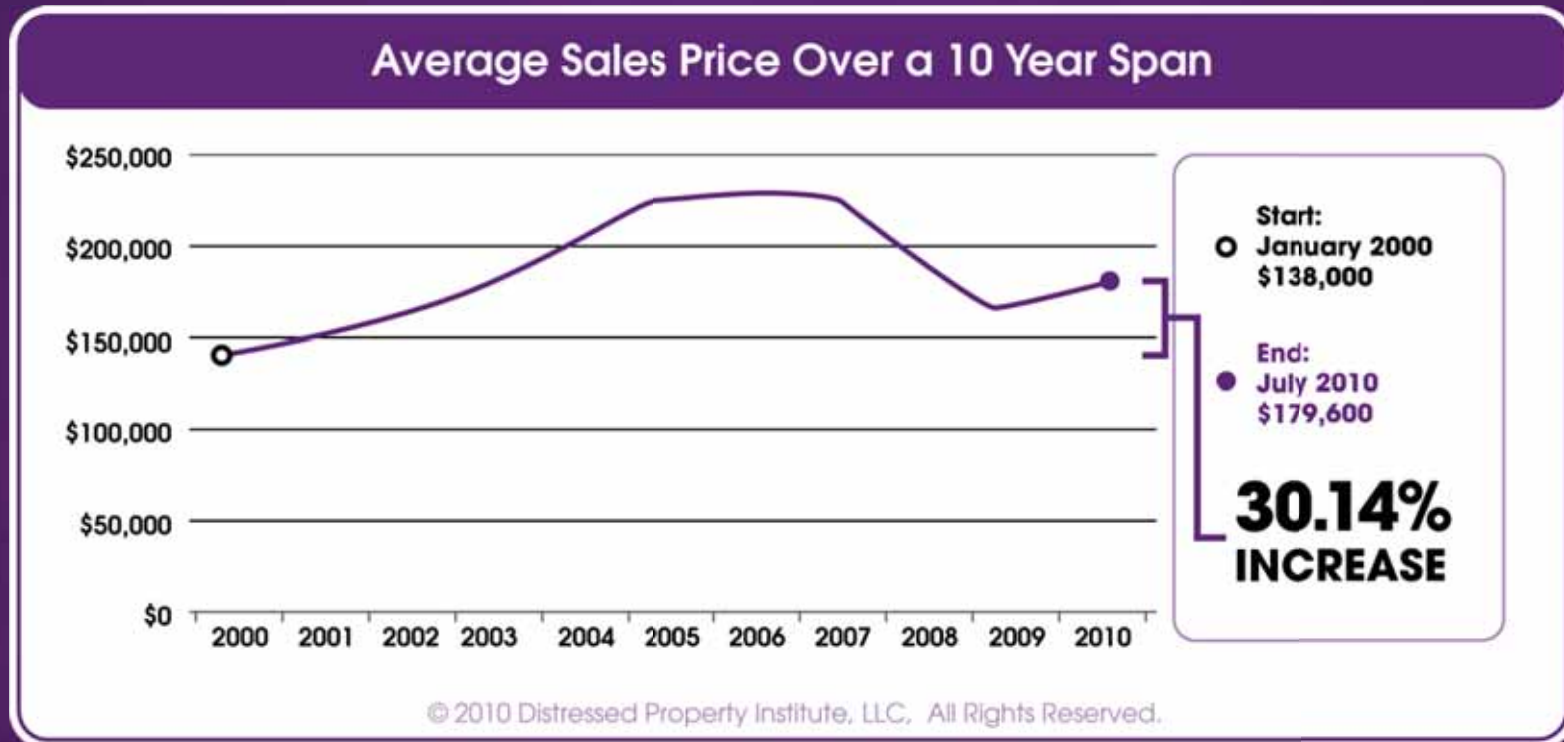


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Stocks in S&P 500 have averaged a 1.82% dividend yield since 2000

Source: S&P 500 data: [http://moneycentral.msn.com/stock_quote?symbol=\\$inx](http://moneycentral.msn.com/stock_quote?symbol=$inx)

Real Estate



Appreciation of 30.14% since 2000
despite negative economic factors

Source: HUD Historical Data: www.census.gov/indicator/www.newsreconst.pdf

Real Estate vs. Stocks

Return On Investment: Stock Market vs. Real Estate 2000-2010



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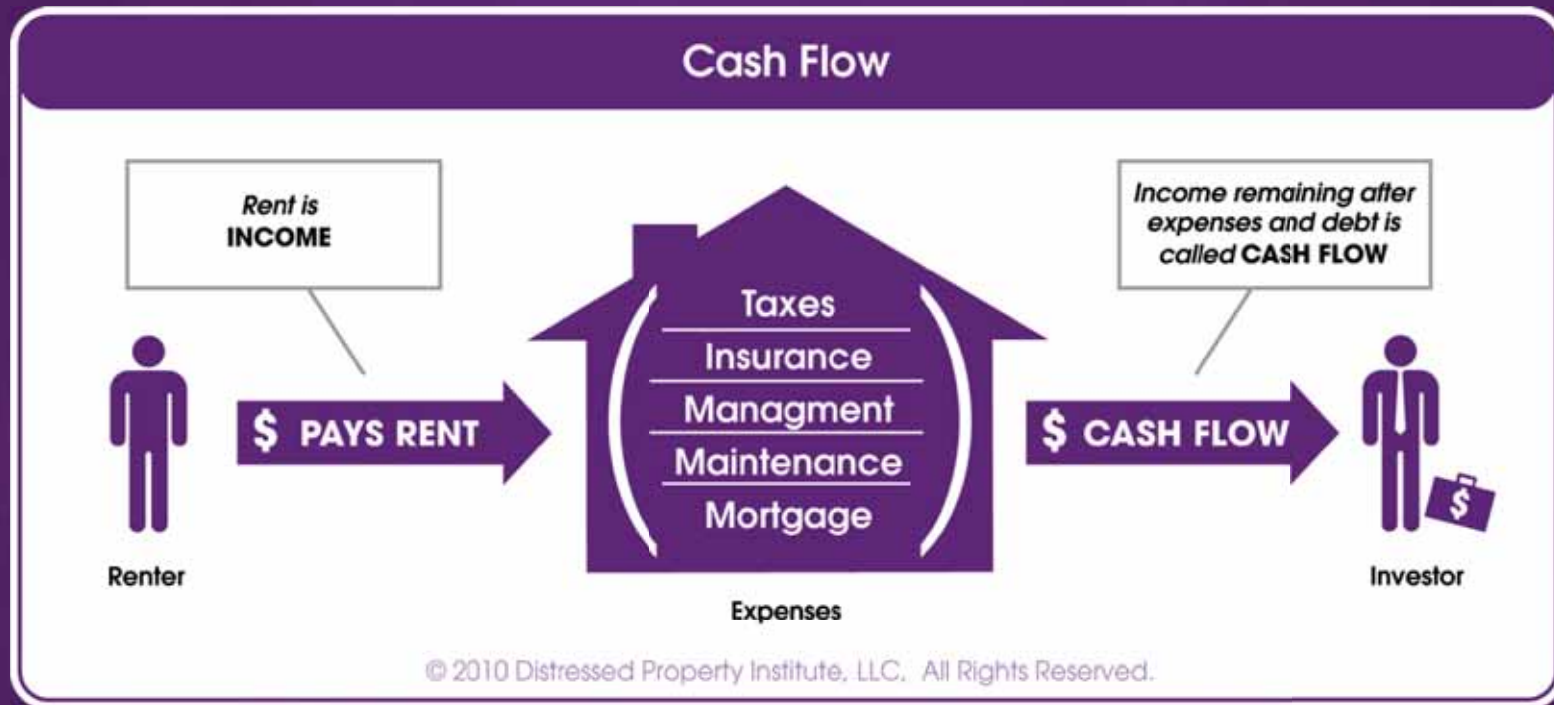
With the benefit of cash flow, a \$100,000 investment in real estate would have doubled from 2000-2010.

Even with dividends, the S&P 500 would have lost 16.8%.

Source: HUD Historical Data: www.census.gov/indicator/www.newsreconst.pdf
[http://moneycentral.msn.com/stock_quote?symbol=\\$inx](http://moneycentral.msn.com/stock_quote?symbol=$inx)

The Benefits of Real Estate

Cash Flow Can Be A Steady & Significant Stream of Income



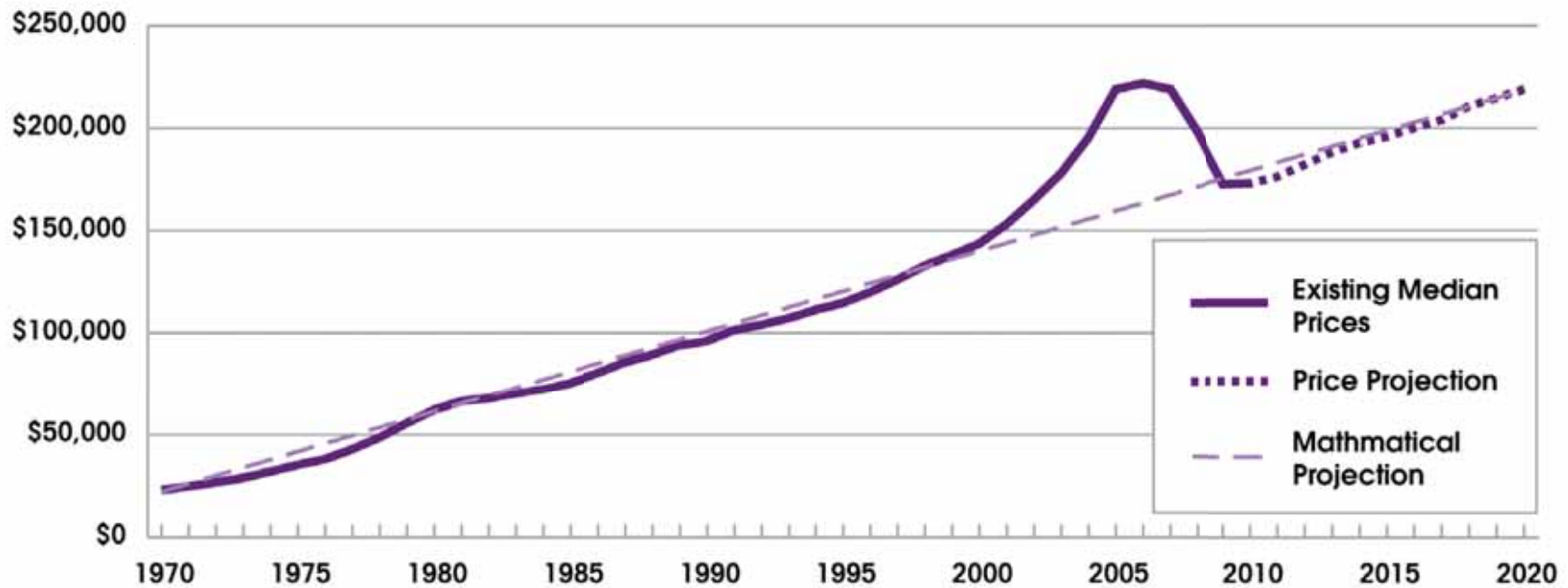
- Most stocks don't provide cash flow
- Cash flow increases over the years
- Cash flow is liquid and can be reinvested

Appreciation

- Appreciation should always be considered a bonus
- Yearly home appreciation averaged more than 5% over past 40 years
- You can help property appreciate (improvements)
- Home appreciation less volatile than the stock market

Appreciation

Median Home Prices With Projection



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Source: HUD Historical Data: www.census.gov/indicator/www.newsreconst.pdf

Leverage



Most investments don't offer leveraged buying power

Leveraged Real Estate Purchases Have Increased Buying Power



- Earn returns with other people's money
- Leverage is a key way to increase returns
- Leverage is largely unique to real estate

Tax Benefits

- Depreciation allows yearly deductions on improvements to the property
- 1031 exchanges defer capital gains taxes
- Other benefits

Investors Can Deduct the Following Items Related to Rental Property:

- Advertising
- Cleaning & Maintenance
- Commissions
- Depreciation
- Employees, Contractors, Non-Employed Staff
- Insurance
- Interest
- Legal Fees
- Local Transportation Expenses
- Long distance travel
- Losses
- Professional Services
- Repairs
- Utilities

Investors Can Depreciate Property as Tax Deferred

Improvements Subject to Depreciation

Additions

- Bedroom
- Bathroom
- Deck
- Garage
- Porch
- Patio

Lawn & Grounds

- Landscaping
- Driveway
- Walkway
- Fence
- Retaining wall
- Sprinkler system
- Swimming pool

Miscellaneous

- Storm windows, doors
- New roof
- Central vacuum
- Wiring upgrades
- Satellite dish
- Security system

Heating & Air Conditioning

- Heating system
- Central air conditioning
- Furnace
- Duct work
- Central humidifier
- Filtration system

Plumbing

- Septic System
- Water heater
- Soft water system
- Filtration system

Interior Improvements

- Built-in appliances
- Kitchen modernization
- Flooring
- Wall-to-wall carpeting

Insulation

- Attic
- Walls, floor
- Pipes, duct work

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Source: IRS Publication 527: Residential Rental Property, 5. (www.irs.gov/pub/irs-pdf/p527.pdf)

How Depreciation Works

- 1) Purchase a property worth **\$100,000**. **\$85,000** worth is attributed to the improvement (house).
- 2) The basis for depreciation is **\$85,000**.
- 3) Calculate the first year's depreciation based on the month of purchase.
- 4) Every year afterwards (until 27.5 years), deduct **3.636%** from the basis.
- 5) Every year, deduct **\$3,090.60** in taxes.

Leveraging Your Retirement

- Most Americans have less than \$25,000 in savings
- You can use a Self-Directed IRA (Individual Retirement Account) to purchase real estate
- Your IRA grows tax-deferred
- You can choose a standard, Roth, or SEP Self-Directed IRA

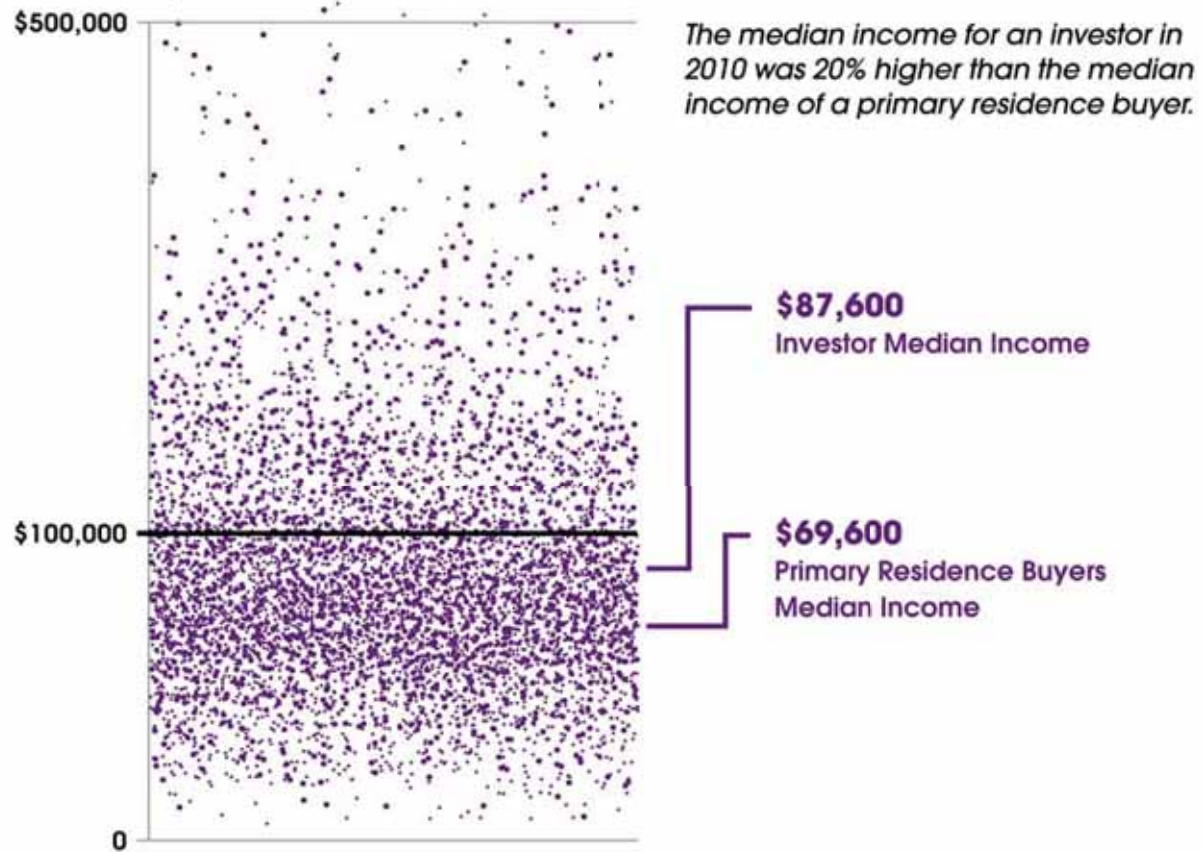
Real Estate Investing Myths & Reality

Myth: Real Estate Investing Is for the Wealthy

Reality: You don't have to be rich to invest in real estate. In fact here are some telling stats:

- 2009 median income for investors was \$87,600
- 39% made *less* than \$75,000
- 58% made less than \$100,000

Income of Investors and Primary Residence Buyers



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Source: 2011 NAR Investment and Vacation Home Buyers Survey, 6.

What the Average Investor Really Looks Like

Portrait of the Investor



- Median income \$87,600
- 39% of investors in 2010 made less than \$75,000
- 56% of investor households have dual income
- Half of investors are less than 45 years old

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Source: 2011 NAR Investment and Vacation Home Buyers Survey, 6.

Myth: Real Estate Is Too Expensive

Reality: The median investment property price in 2010 was \$94,000.

There are different ways to invest in real estate including:

- Leveraging
- Self-Directed IRAs

Myth: Real Estate Is Too Expensive

Reality: Real estate always has great deals through:

- Short sales
- REO properties

Myth: Real Estate Investments Are Mostly Resort Properties

Reality: Only 7% are resort properties. Most investment properties are rural, suburban, or in small towns.

What the Average Investment Property Really Looks Like

Portrait of the Investment Property



- 75% of investment properties are in small towns and rural or suburban areas
- Most investment properties are within 20 miles of the investor's primary residence
- 63% of investment properties are single-family detached
- 93% are not resort properties

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Source: 2011 NAR Investment and Vacation Home Buyers Survey, 6.

Optimizing Your Investment



How will you pay for college?

Goal: College Fund

Assumptions

Property Price: **\$100,000**

Debt Service Assumptions

of Years: **15**

Rate: **6.75%**

% Down: **20%**

Closing Costs: **\$3,000** (using 3%)

Payment: **\$8,495** (annually)

Assumptions

Appreciation Rate: **5%**

Goal: College Fund

	Cash Flow	Appreciated Value
Year 1	\$2,005	\$105,000
Year 2	\$2,005	\$110,250
Year 3	\$2,005	\$115,763
Year 4	\$2,005	\$121,551
Year 5	\$2,005	\$127,628
Year 6	\$2,005	\$134,010
Year 7	\$2,005	\$140,710
Year 8	\$2,005	\$147,746
Year 9	\$2,005	\$155,133
Year 10	\$2,005	\$162,889
Year 11	\$2,005	\$171,034
Year 12	\$2,005	\$179,586
Year 13	\$2,005	\$188,565
Year 14	\$2,005	\$197,993
Year 15	\$2,005	\$207,893
Year 16	\$10,500	\$218,287
Year 17	\$10,500	\$229,202

CASH FLOW + APPRECIATION

\$175,277

TOTAL AVAILABLE AFTER SALE

\$280,277

TOTAL

51,075

\$229,202

Building Real Estate Wealth with Leverage: The 5 x 5 Model

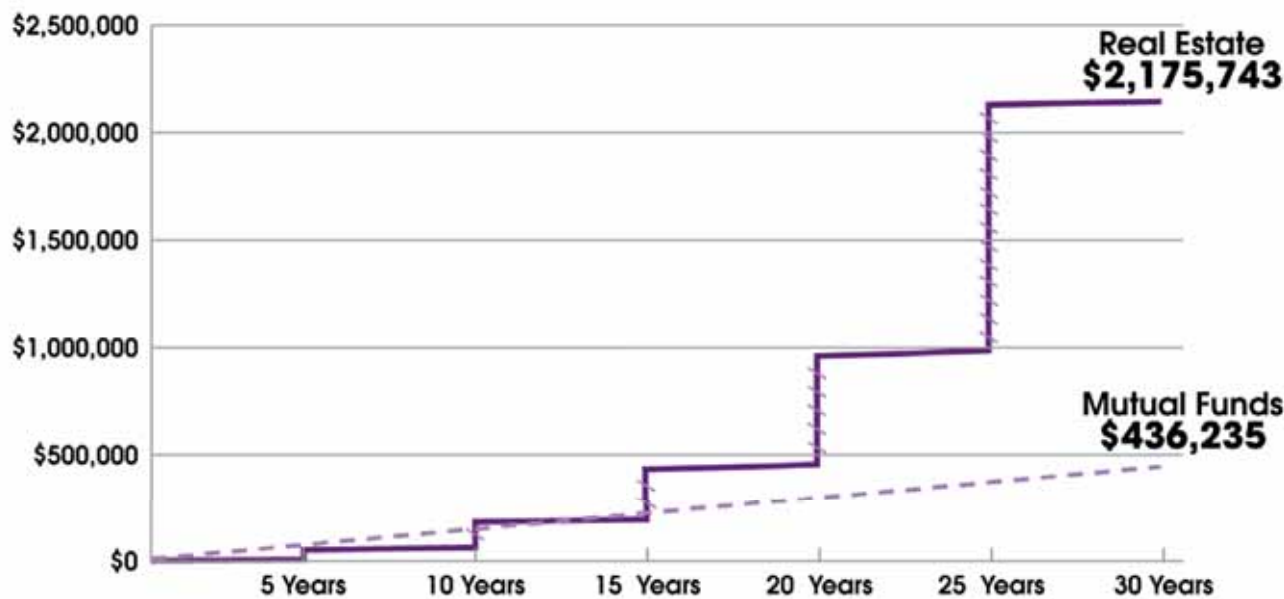
- **Start:** Invest **\$25,000** in a **\$100,000** property (25% down).
- **Finish:** By year 30, equity = **\$2,175,743** (not including cumulative cash flow).

5 x 5: The Steps

- 1) Year 5: equity = \$52,628. Re-leverage into a \$210,512 property.
- 2) Year 10: equity = \$110,789. Re-leverage into a \$443,156 property.
- 3) Year 15: equity = \$233,224. Re-leverage into a \$932,896 property.
- 4) Year 20: equity = \$490,966. Re-leverage into a \$1,963,864 property.
- 5) Year 25: equity = \$1,033,545. Re-leverage into a \$4,134,180 property.

5 x 5 Model

5 x 5 Model



This graph shows the different returns from re-leveraged real estate and mutual funds over 30 years. If re-leveraged five times and assuming a static 5% appreciation rate, real estate has the potential to far outpace mutual fund performance.

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Thank You!



Marta DuPree

The DuPree Team
Keyes Company Realtors
South Florida
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