

GTF, INC. Investor Report

One Call - One Solution from Get There First Realty

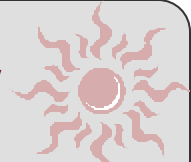
EVERYTHING IS BIG IN TEXAS

The biggest fallacy about Texas real estate is that it has anything to do with the rest of the country. Real estate is a hot investment on both coasts, and seminars are given throughout California by promoters touting the great values in Texas. Value we have, tenants we do not. What is the point of any investment if there is nobody available to consume the product or service? Though the volume of leasing activity increases, it does NOT keep pace with the amount of investment inventory available. For the first 6 months of this year the number of empty homes has increased 30% while the median rental value decreased 3%! The average rental remains on the market nearly 3 months. This lowers the bar on what you should pay and raises the bar on the required property condition, making it very unlikely any investor will profit in this competitive environment. GTF spends most of its time inspecting vacant properties for our owners and conveying what is cosmetically wrong with these properties. At the same time our owners spend most of their time delaying needed cosmetic improvements hoping to find a tenant willing to lease their property "as is." There are no quality tenants in this marketplace for defective properties. Every apartment gives free rent, new paint, great maintenance, so good luck.

I am a pessimist because I believe you should not invest to lose. I have clients for over 20 years still waiting for their properties to be worth what they paid. Not everything goes down, but whatever it might go up could never recoup your monthly and annual losses when you factor in the time empty and the cost to maintain. Texas is rated at the bottom of most lists of places to invest. There is land every way you look and construction costs remain constant. 42% of new home buyers finance 100%.

Activity Statistics Dallas/Ft. Worth Market		
Previously owned homes sold in D/FW	April 2005	-7%
	May 2005	-2%
	June 2005	+2%
YTD sales trend		+5%
Median price trend		+2%
Average days selling a home		72 days
Homes for Sale in D/FW		43,600!!
Home foreclosures	Texas is #1. Dallas and Tarrant counties are both up 23%!	
Rental occupancy	Fallen to 89% Rents are down 3%	

Summer
2005



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Stocks Stink Too

For the first 6 months of 2005 the Dow is down 4.7% and the NASDAQ is down 5.5%. The only good news is rising interest rates and the opportunity, especially in the challenged automobile sector to find high bond returns. Even Warren Buffett warns of the overvalued housing bubble and recommends quality, dividend yielding utilities. I always listen to the richest people in the world, and as long as oil rises, many industries will be challenged. But truly the word on Wall Street is the debt we Americans have accumulated, especially in real estate. For those of you holding mortgage debt on your challenged rentals, get rid of it and reduce your losses. Pay cash in life.



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Get There First Updates

The North Texas area as with most of Texas is a land where people move here for “new.” Even with 30% office vacancy rates and 40 million feet empty, 7-11 Corp. and Fluor Corp. both chose to build new corporate headquarters. It’s the same with buyers and renters; they want NEW, or something that looks new. Mortgage banking lobbyists have succeeded in making every dead beat tenant you have a homeowner prospect. Unless they are OVER 30 days delinquent in their rent (they would be given a notice to vacate within 3), they get a good landlord reference. A recent Fed loan officers’ survey showed that mortgage lending standards have fallen 13% in the last three years.



North Texas has 44,000 new homes under construction. This will require 90,000 new jobs to be created to absorb these homes but the workforce commission estimates only 50,000 jobs will be created. How do they sell those homes? By making it easier for your tenants to qualify, and by getting existing homeowners to move and this once again feeds the flooded rental market. It’s a never ending overbuilt market with occupancy constantly being traded up at the sake of the landlord. Even California developers are buying empty office buildings downtown and turning them into empty housing units. One investor has bought three empty high rises and plans to convert these to housing units this year!

A recent report by The National Association of Realtors estimated 23% of home sales are being made to investors. This also adds inventory to the rental market by adding homes to the rental market that would otherwise be owner occupied. There is a tremendous shortage of tenants to occupy all these rentals.

Dallas has the highest crime rate of large cities and our residents are the least charitable. Plano was voted the best city for women, and Houston is the nation’s fattest city. From 1994 to 2004 the percentage of home owning households went from 64.2% to 69.2%.

In our analysis of lease defaults we find one in five default. Our eviction filings are up 37.5% this year ,and we have set out 56% more tenants this year.

Real estate investing requires “deep pockets” and the ability to spend money to lose less money. Too often our debt ridden society lures investors into buying real estate without ever disclosing all the facts. Recently one of my smartest investors purchased a duplex where the disclosed rent included illegal cash payments the tenant was making outside their HUD lease. They are now stuck with a reduced rental return because nobody talked to the tenant before closing to uncover this deception. If you invest in real estate the most important aspect is the tenant relationship and how long it takes to find a tenant. This greatly reduces your expected yield and what you should pay. The #1 reason my clients have lousy property investments is they paid too much for the property.

INDUSTRY TRENDS

In this fierce marketplace of oversupply you must take care of the customer. This generally means avoiding home warranty policies at all costs. Nothing angers a tenant more than delay of service and most home warranty companies take too long to get out to a service call, analyze the repair, discuss it with headquarters, order the part, etc. For the cost of the deductible GTF can usually find a contractor to make the repair the same day. They make absolutely no sense if your goal is to keep tenants.

In October new federal bankruptcy laws will take effect in this country removing many of the delay rights tenants have had in using this tactic. This should raise the importance of the landlord in the decision making process of filing for bankruptcy. Between now and October there will be a flurry of bankruptcy filings before the changes.

High end home appreciation in neighborhoods out of land is the sweet spot of our market. The rest of the outer areas where most rentals exist seem to be going DOWN in value. Buy the neighborhood, not the market and try to never pay more than 50 times the monthly rent if you want to break even from a cash flow perspective. This is perhaps one of the most challenging times we have faced as more homes continue to flood this market. In closing, remember the most important person to preserve/attract is the tenant.

A handwritten signature in black ink that reads 'Mark H. Kreditor'.

Mark H. Kreditor, MPM
Broker