



# Investor Report

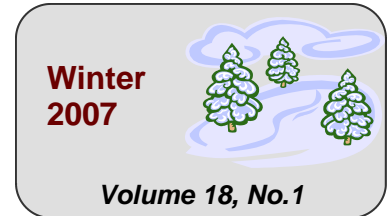
One Call - One Solution from Get There First Realty

## 2006-BAD FOR SALES

Statistics are misleading in that so much focus revolves around the sale of homes or the rental of apartments. They are often manipulated to appear better by Realtors not disclosing sales statistics or on site apartment managers not disclosing rent specials when quoting rental rates to market research firms. Despite this effort to the upside, 2006 was a bad year statistically for home sales and apartment occupancy. North Texas has experienced 7 consecutive months of lower home sale volume which translates into strong leasing demand for single family homes. In 2006, appreciation was 3%, about half the return you'd get in a AAA tax free muni bond if you're in a high tax bracket. It takes 2.5 months on average to sell a home and about 2 months to lease a home after it's in perfect condition. 2006 was a record year for evictions with well over 20% of our inventory experiencing some type of collection breach. So with a high degree of non compliance and 3% appreciation, why did a record number of investors flock to this marketplace creating a record year for home rentals and property management growth? Because on paper North Texas rentals still look good when compared to other markets. But as you prepare your taxes this year for 2006 think long and hard if your investment in rental property was worth it.

There is tremendous volume in our leasing market and that is a great sign so far in 2007. Our better priced, perfectly made ready properties are finally experiencing multiple offers, a trend not seen for nearly 10 years. We are raising some rents again on renewal and your prayers should be for higher interest rates to lock out tenants from home ownership. This is what's best for most landlords.

Activity Statistics Dallas/Ft. Worth Market	
Previously owned homes sold in DFW	Oct 2006 -4%
	Nov 2006 -7%
	Dec 2006 -5%
D/FW New Home Starts	Down 17% in the 4th quarter alone
Total median price trend—2006	+3% your money is <u>better</u> in the bank!
Apartment Demand 2006	Less than half what it was in 2005!!
Apartments Occupancy D/FW	92%, flat and well below ideal
Local inventory for sale 2006	Up 9% 25% foreclosures!
Foreclosures:	Total 38,809
Collin county +61%	Homes +19%
Tarrant +17%	Late Mortgages 5% of total
Dallas +24%	



### Equity Markets 2006-Great Year!

The Dow Jones average was up 16.3% this year finishing with a strong 4th quarter. The S & P 500 rose 13.62% and the NASDAQ was up 9.52%. The bond market was equally strong which is unusual when stocks do this well. The only concern on Wall Street is the decline of real estate which makes up 6% of the gross domestic product, but nobody feels this will slow the bull in 2007. The writing on the wall appears to favor energy and defense investments as our country continues to defend itself on many fronts. I'm a great believer in compounding, and if you look at the long term chart performance of quality dividend yielding equities you will achieve great wealth. My two favorites are Altria and P & G.



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## The Landlord's Edge

I'm often contacted before people invest, and I want to share with you some investment strategies that have worked well in North Texas for my most successful clients. As David Letterman would say, here are the top 10:

- 1) Always try to buy in areas without any more land to be developed; in other words avoid phase one of a 10 phase subdivision. Buy in town, follow demand.
- 2) Try to never pay more than 50 times monthly rent to break even on the rental side of the investment. You certainly can pay more if you're willing to feed the rental in exchange for great appreciation.
- 3) Do not allow financing "specials" to motivate buying a less than desirable investment. The real estate must stand on its own merit and avoid debt whenever possible. Pay down principal every month.
- 4) Renovate your rental to 100% perfection when the market is soft so you reduce time empty. Nothing costs you more than a vacancy.
- 5) Treat all rental relationships consistently and like a business. Rent is due by the 1st, late on the second.
- 6) In a purchase do not only accept advice from the same person receiving compensation. Get third party opinions on everything before you buy.
- 7) Focus on the number of days a rental stays on the market empty when determining the actual net rent you receive. It may rent for \$1000/month but it takes 6 months to find a tenant. That's a \$500/month rental. It's not what you get, it's what you net.
- 8) If appreciation does not appear likely, sell the rental. Your first loss is your best loss and put your money in the bank at 5.25% or in a AAA tax free muni bonds at 4.5%. Appreciation is what makes Donald Trump look so good on paper, not something North Texas is known for.
- 9) Real estate requires deep pockets for the "unexpected," and do not buy if you do not have substantial resources to maintain your property and do make readies to compete in a market that requires nothing less than perfection. Utilities, lawn care, etc.
- 10) Make your money when you buy. Everything must be a steal because I guarantee the unexpected will happen and your basis will keep going up, make ready (skip) after make ready (skip) after make ready....

I have wanted to do this for many years so now you have my best observations from my most successful clients. Only 10% of the people I know who invest make money.

On a national basis, housing prices rose at their slowest pace in a decade with many markets continuing to slide. I believe if you live in a high demand coastal area your attention should be to find bargains in your own backyard. The single greatest difference in the North Texas markets compared to most "normal" real estate supply and demand analysis is we have a tremendous supply of land without any topographical boundaries. I would sooner wager my bet on a foreclosed, ocean viewing high rise in Miami coming back in the years to come than any new home in North Texas ever going up in value. The losses on new home construction investments are the largest I experienced from clients in 2006. Only recently has leasing activity picked up and shortened the usual 2-4 month vacant cycle between tenants. The key to cash flow is occupancy, and as long as I baby-sit over 100 vacant homes each day I say it's soft.

## FINAL THOUGHTS

With the onset of a New Year, everyone looks into their crystal ball to estimate the future. The first weeks of 2007 are the best in over 10 years for leasing activity but can it continue? Interest rates are in a holding pattern, and if they are reduced I feel all the wind in our sail will deflate and tenants will become buyers again. For 25 years I have watched 9 out of 10 people I talk to about their investments tell me how much money they are losing and my answer to their problem is often that they overpaid, the property needs updating, or their rental is in a low demand area. As an investor I personally believe all three of the above stated problems must be solved with the location (demand) always being the most important aspect of success. The Internet has taken over the marketing and presentation of real estate, and it seems all the web search engines we subscribe to are never enough, and there are always more. It's as if a new daily newspaper debuts each week and we are investing in market research this year to better track where our best tenants come from. Across the street from our office is a title company we use. Today I had three closings and I asked the closer why sales and refinancing of loans has slowed. He responded that with all the foreclosures, lenders are tightening lending requirements and that has slowed transactions down. This was the best news a landlord could have hear. Maybe 2007 will be a very good year for all of us. Happy New Year!

A handwritten signature in blue ink that reads 'Mark H. Kreditor'. The signature is written in a cursive, flowing style.

**Mark H. Kreditor, MPM**  
**Broker**