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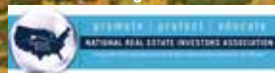
November/December 2012

Price \$5.95 US \$6.95 CAN



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MASTER INVESTOR

Mike Hambricht of Evolution Properties & HomeVestors®

BY SCOTT C. SECKEL

St. Louis, Gateway to the West, home to explorers, gangsters, Budweiser, poets and riverboat captains. About 2.8 million people live in the metro area now, united by love of the St. Louis Cardinals, their pizza and Gateway Arch.

The building of Gateway Arch is a fascinating story, a triumph above just about every problem that can exist with building something, let alone the world's biggest stainless steel structure. A civic booster came up with the idea in 1933. The arch was completed in 1965. Building a pyramid would have been easier. They had to relocate railroads. Nothing was easy. It even poured rain the day it was dedicated, canceling an outdoor ceremony with the vice president.

"To understand us, think we are the westernmost eastern city and at the same time the northernmost southern city," one resident said recently in an online message board

dedicated to St. Louis. Commodity shipping by river, manufacturing and large corporations like Enterprise Rent-A-Car, Anheuser-Busch, Edward Jones Investments, Energizer and Monsanto all make up the local economy.

Josephine Baker, Chuck Berry, Daniel Boone, William S. Burroughs, T.S. Eliot, Tennessee Williams, Miles Davis, Betty Grable, Scott Joplin, William Tecumseh Sherman, Meriwether Lewis and William Clark have all called St. Louis home.

St. Louis ranked 10th among the top residential real estate investment markets, according to a report from Realtor.com released in March. The local market is outpacing the national average in the length of time a home is on the market, moving 11.21 percent faster, at an average of 103 days. While prices still are falling in the St. Louis market

St. Louis

Gateway to Wild Returns

"If you send a damned fool to St. Louis, and you don't tell them he's a damned fool, they'll never find out."

— Mark Twain, "Life on the Mississippi"

*"Meet me in St. Louis, Louis,
Meet me at the fair,
Don't tell me the lights are shining
any place but there,
We will dance the Hoochee Koochee,
I will be your tootsie wootsie,
If you will meet in St. Louis, Louis,
Meet me at the fair."*

— Lyrics to "Meet Me In St. Louis"

"I never, in all my life, had anything whatever to do with robbing any bank in the state of Missouri."

— Cole Younger

(with a median list price of \$159,000) and demand is still in the recovery phase, St. Louis didn't lose as much value and fared better than most larger markets during the housing bust, according to the report. It cited a strong local economy as the main reason.

Local investors saw it a little differently, but not much.

"It didn't fare any better during the crash than any other market out there," said Joe Ord of Amoso Properties, a full-service turnkey real estate investment company in metro St. Louis. "Compared to the coasts, our property values didn't dip as much. We did see a definite drop in values, but it wasn't the 40 to 50 percent drops. Sub-prime foreclosures really hurt us."

Investors are finding the buys of a lifetime, said Jim Heisserer, president of the St. Louis Real Estate Investors Association. It is the oldest and longest-lived non-profit real estate group in St. Louis.

"It's great for investors," Heisserer said. "Out of the 25 years my wife and I have been investing, this is the best time. If you have money and there's some way you can get your hands on financing, great deals are there to be made."

How great of a deal? In North County, investors are buying homes at \$5,000 to \$20,000, putting another \$5,000 to \$20,000 into them, and renting them for \$800. "Some of them are paying them off in under five years, and it's all positive cash flow," Heisserer said.

Let's take a closer look at the Gateway to the West.

STATE OF THE MARKET

Local Market Monitor analyzes conditions in 100 U.S. markets, using such economic data as home values, employment growth and population growth.

"Our outlook for St. Louis looks a lot more positive than other markets we cover," said Local Market monitor chief operating officer Carolyn Beggs. "The rent forecast is a 4 to 5 percent increase in rent each year. If you're an investor and looking to rent out a property, that's pretty strong

... The real value of the property will go up, and you can expect the rent to go up."

Heisserer has already seen rents rise.

"We're seeing our rents go up a couple of hundred dollars in the past few years, because of the demand," he said. "A property we were getting \$1,000 for, we can now get \$1,200."

Unemployment is down to 7.5 percent.

"Good, but not great," Beggs said. "Job growth isn't great; it's moderate there. The housing boom was more moderate, so the recession was more moderate. They didn't have the hit like other markets had ... St. Louis is a good pick if you're an investor."

LMM's latest report on St. Louis forecast rents to increase 15 percent over the next three years, to an average of \$831 per month, partly due to higher inflation.

"It's very good here for investors in St. Louis," Heisserer said. "A number of us feel the bottom has been hit, but there are still a lot of REOs and foreclosures ... They need to sell and get out right away. We've bought a lot of them that way. They're good people; they just can't pay \$1,500 a month on a mortgage anymore. They can pay \$1,000. We're getting much better renters now, because they're former homeowners. We're getting the best tenants we've ever had."

Ord primarily buys sub-prime foreclosures.

"We still have a large inventory of foreclosures on the market," he said. "Buyers are supposed to be coming back in, but I'm not seeing it."

He estimates several more years before inventory is back on balance. "The shadow inventory is still out there," Ord said. "It's just going to take time."

WHAT TO INVEST IN

Matt Kastner is an investment real estate consultant at St. Louis Real Estate Society. He also develops properties on the side through Threshold Properties. When he isn't representing investors in the purchase or sale of multifamily properties, rehabs, foreclosures and other income-producing properties, he takes on rehab projects himself. He lives in South St. Louis and has been in the real estate business since 2004.

"I've come to the point where I look at single families as the most likely avenue to find good returns without having to spend a lot," Kastner said.

Heisserer and his wife concentrate on single-family homes. "They're less management-intensive. There's more challenge to management when you have multiple units."

He is a very specific investor: wood floors, three-bed/two-bath and a basement.

"Most people want basements in St. Louis," he said. "That's unique to the Midwest, I guess. They grew up with basements. They know they can store a lot of stuff in them. They can make it into a room for the kids to hang out in. If they're renting, they want a basement. If you get someone from California, they don't know."

Recent properties in which AMOSO has invested include one purchased for \$17,500, rented for \$820 and producing income of \$3,100. That figure includes a 10 percent vacancy rate. Actually, it contains more than that. Unlike many turnkey providers, Ord's numbers include real-world expenses like property tax, insurance and maintenance.

"My pro formas include everything," Ord said. "I don't fool around. We take 30 percent off of rent and put it aside for insurance, taxes, vacancy and maintenance."

And as the housing crash continues to reverberate through the economy five years later, people come looking for decent housing.

"We don't have any shortage of Section 8 tenants," Ord said. "We're basically renting to the same people who owned these houses before ... They still need a place to live ... It seems as soon as we get one rehabbed, we get it rented. Half the time we have them rented before the rehab is done. Currently we have three in rehab, and all three are rented."

WHERE TO BUY

Where to buy investment property in metro St. Louis is a debate like medieval theological discourse. (Everyone knows where they stand, that works for them, and we'll burn you alive after lunch if you disagree.) City versus county is a raging subject in St. Louis in general, even if you're settled and not investing.

"We like to invest in the South County area where we live, within 15 minutes of our home," Heisserer said. "Most of our properties I can drive by on the way to work, and that's nice. We look for areas that are solid state, middle-class with good schools. That's what we do because of the type of tenants we're going to get."

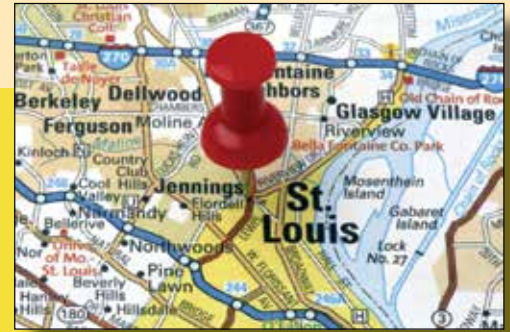
Ord does most of his investing in North County.

"The primary reason why I do that is the housing market is depressed enough up there where we can make these excellent buys," he said. "But you can command a higher rent than in the city. You're buying the properties more cheaply, and you're getting more rent."

ST. LOUIS AT A GLANCE

- **St. Louis metro area (which includes 16 counties, eight each in Illinois and Missouri) is the 19th largest city in the United States**
- **Population: 2.8 million (Greater St. Louis or Metropolitan Statistical Area); 318,069 (City of St. Louis)**
- **Total labor force in Greater St. Louis: 1.4 million**
- **Unemployment rate: 10%**
- **Local income tax: 1% for St. Louis City residents (in Missouri); no local earnings tax in Illinois**
- **Property tax: In Missouri, residential property assessed at 19% of true or fair market value; commercial and industrial property, 32%. In Illinois, real property assessed at 33.3% of market value**
- **No. 8 on Forbes' "America's Best Housing Markets" list (2010) based on low foreclosures, rising home prices and affordability**
- **No. 8 on Money magazine's list of "Best Cities for Home Buyers" (2011)**
- **St. Louis firsts: first beer distributed nationally by rail (Budweiser, introduced in 1876), first successful parachute jump from a moving airplane (1912), introduction of iced tea (1904 World's Fair), invention of ice cream cone (when a 1904 World's Fair vendor ran out of cups and used rolled-up waffles instead), first slave state to free its slaves (1865), arrival of first train of the Atlantic-Pacific Railway, which became the St. Louis-San Francisco Railway, or "Frisco" (1870), arrival of first steamboat to take the Mississippi River as far North as the Ohio River (the Zebulon M. Pike, 1817)**
- **Home to the tallest man in documented medical history (Robert Pershing Wadlow – 8 feet, 11.1 inches)**
- **Named 13th among 35 cities on Creative Cities International's 2011 Vitality Index that analyzed and evaluated assets and distinctive features**
- **Percentages of residents with bachelor's degrees and master's degrees each surpasses the national averages**
- **Proportion of scientists and engineers is more than twice the U.S. average**
- **Productivity level of manufacturing workers is 18.7 percent higher than the U.S. average**

SOURCES: St. Louis Convention and Visitors Commission, St. Louis Regional Chamber & Growth Association, 50states.com, historyengine.richmond.edu





The median sales price for homes in St. Louis is \$74,840 (based on 163 sales from June to August 2012 and an increase of 4.5% from the same period a year earlier). The average price per square foot is \$74 (up 8.8% from a year ago). Some of the most popular neighborhoods and average listing prices include Central West End (\$490,238) and Tower Grove South (\$145,194).

SOURCE: Trulia

Rents are \$100 lower in the city, Ord said. "It doesn't make sense to me to invest there when you can get higher rents in North County," he said.

Chris Dannenfeldt of Property Partners I likes the City of St. Louis, particularly downtown and its outskirts. That fits with the business model the company uses in any market it enters.

"We look for large, metropolitan areas where there are plenty of jobs," he said. "We also look for a diverse employment base with no single company being the dominant factor in that city's economy. And we like to be hooked up to remodeled downtown areas ... good, vibrant areas."

Property Partners I goes after large, depressed areas so the company can redevelop entire neighborhoods, providing the best properties in the area at the lowest price point and keeping occupancy high.

St. Louis' downtown area provides a strong base of low-level government and service sector employees, the market his company targets as renters, with the goal of turning them into owner-occupiers.

"No matter how the bad the economy may get, none of my investors has missed any checks," Dannenfeldt said, "because those employees keep working; those jobs don't go away in a recession or a bad economy."

Like Ord, Kastner is drawn to the higher price points of North County: "\$100,000 houses selling for \$25,000; you rent them for \$850."

Kastner said there are a lot of retirees being put in retirement homes from homes that used to be worth a lot of money, but foreclosures have since pushed the values down. "You can get something so cheap," he said.

Kastner, like most St. Louisians, has his own personal preferences.

"My personal preference would be South St. Louis and North County (not North City)," he said. "There is potential there. The North County stuff, anything from Page north is probably a good cutoff. In South City, anywhere from I-64 south is the zone. There's an old neighborhood called Dutchtown in South St. Louis. Dutchtown was always a holdout of people who stuck it out and kept the neighborhood good. Then all the neighborhood diehards aged. So many neighborhoods that used to be crime-riddled and rundown I'm seeing significant renovations and improvements. I'm talking \$200,000 on a building. It's ironic that so many neighborhoods that used to be worse are better, and Dutchtown is down now."

Anything in South City will be the best bet to get great returns, Kastner said. "Those areas, you're going to get rented soon, and you're going to get great returns, especially with a five-year window. If you go south of Page, the houses get too expensive. Stick in the city or go to North County."

CITY VERSUS COUNTY

Every municipality in St. Louis County outside the City of St. Louis has different standards, Kastner said.

"When you get outside the city, I find it frustrating dealing with all the different municipalities and all the rules they have,"

he said. Some of these towns are the size of a modern subdivision." Kastner cited University City as an example.

"It's kind of a hip spot to go," he said. "It's got all this housing in the north of the city that is ripe for rehab. It's stable. It's ripe. It's everything you could ask for. I never met an investor who did a project in that area who didn't say 'Never again' when they were done. The inspectors there are hard even if you're doing everything up to code. They're even tough on owner-occupants. It's so hard to close a deal, your profit margins are thrown out the window ... In the city you hear a lot of complaints, but I think it's just because people don't like to get permits ... They're pretty easy. They're pretty flexible as long as you're not taking down a load-bearing wall ... I went down to City Hall all nervous the first time; I've found there are no major issues if you're doing everything to code ... Don't assume because this city here lets you do something, the next city over will do the same thing."

WHAT INVESTORS NEED TO KNOW

"My investment model is based on income," Ord said. "We're not in it to

make a killing on these places five, 10 years down the road."


That should apply to any residential real estate investment in St. Louis.

"They have to get out of the 2006-2007 mindset," Ord said. "You should not buy and anticipate a quick appreciation. You should not buy for that expectation. Buy on the income generated immediately. St. Louis is a great place to be doing that now."

Knowledge of St. Louis's 78 neighborhoods is essential, Heisserer said.

"Know thy neighborhood.' Different neighborhoods produce different results. What are your long-term goals if you're an out-of-town investor? Part of that is your exit strategy. You need to know the quality of the school districts; St. Louis is very diverse.

"Know the high-crime areas. Some areas have very little crime ... They need to spend some time in St. Louis with a good Realtor® ... Rents are not as high as on the East and West Coasts. They need to get used to that ... I'd get with a Realtor who understands investors.

Get a Realtor who works in different neighborhoods, who's not just pushing North County or South County or West County." 

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