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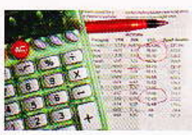
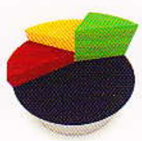

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Property Payoffs

By Carlos Gonzales

If you look around major cities and look at newspaper ads, it would look like the real estate market is still on the upswing. Some analysts think however there may be a supply glut especially in residential condominiums. With increasing inflation, slowing economic growth, and decreasing purchasing power, demand from both local and overseas Filipinos could wane. The smart real estate investor though knows how to make money in good markets and bad. If you're new to investing in property, you have plenty of options you can try, from the easiest to the riskiest.

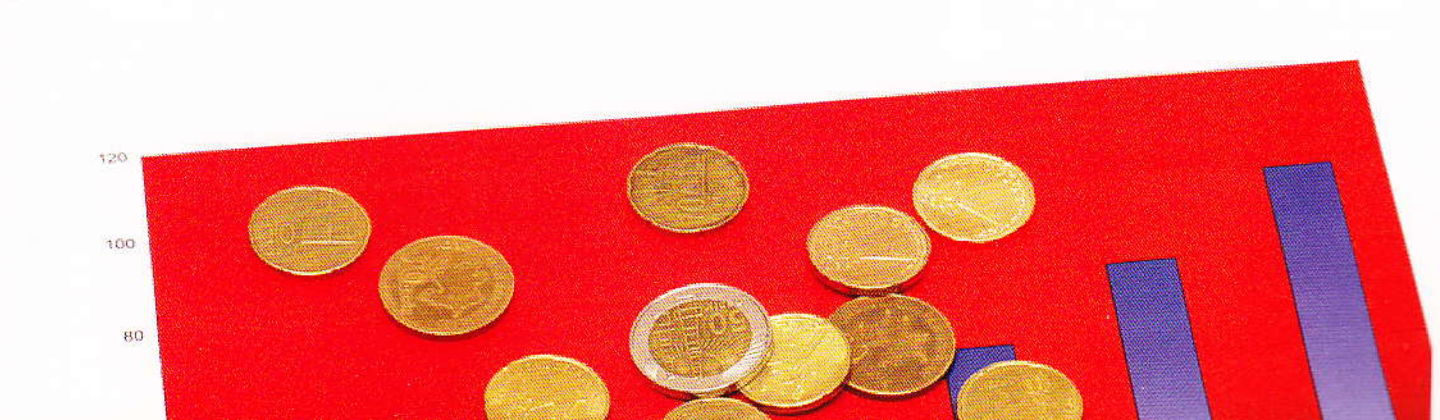
Property Payoff #1: Buy and rent out
You act as: a landlord
You make money through: cash flow
Potential return: medium
Potential risk: medium
Skills required: finding good locations, managing rental properties
Attitude needed: patience
Capital required: 30% of the appraised value
Rental properties are common in the Philippines where most people rent instead of own (no thanks to low disposable incomes, relatively high interest rates, and required down payments). And you probably know someone who owns an apartment or condo unit that she rents out to expats and local working professionals.

Robert Kiyosaki has spawned a legion of fans around the world, including the Philippines. Local counterparts such as Trace Trajano, Larry Gamboa, and Bo Sanchez are espousing real estate investing, especially rental properties, as a sure-way to wealth. Now everyone wants to be Donald Trump.

The lure is enticing. "You get income (which can be passive if you structure your deal properly), equity build up (that is your loan gets paid down by your tenants), and appreciation," says Trace, a real estate investor and co-author of "Think Rich Quick" (www.ThinkRichQuick.com). Cynthia Palad-Yap, president of Real Estate Movers, Inc., says rental income from condo investments, for instance, provides better yields than time deposits or Treasury Bills. "Conservatively, I am looking at a yield of 10% for condominium investments," she notes.

When looking for potential rental property, Trace says you have to consider five factors: price, location, property condition, financing, and seller motivation. He explains, "You have to buy a property below market value. A property located close to schools, hospitals, and a lot of development ensures the property value will appreciate." You should also ask questions like: "Does the property need repairs or is it in move-in condition?" and "Can you buy the property no money down? Can you get good financing ensuring the property has positive cash flow?" Lastly, to get the best bargain, find a motivated seller. "A seller who needs to sell or desperate to sell will likely sell the property to you at good price or good terms," Trace says.

In fact, the boom in the real estate market in the past few years, particularly in the residential condominium sector, has been fueled by wannabe local and overseas-based Filipino landlords. If you want to buy property that you can rent out, you can choose among condos, apartments, townhouses, duplexes, and even single-family houses. However, given the relatively high interest rates, it's a challenge to generate positive cash flow (i.e. rental income exceeds your monthly amortization, maintenance costs, and other related expenses). You can look for cheaper properties that don't cost tens of thousands in amortization (no wonder studio condo units are popular rental properties), increase your equity to further lower



your cash out, furnish the unit to justify higher rent, and the like.

Being a landlord comes with headaches – dealing with bad tenants, fixing the toilet in the middle of the night, etc. – but you can hire someone to take care of these.

Trace is not a big fan of keeping rental properties. He says "buy and hold" is the riskiest of all strategies "because you have to deal with tenants and liability." He prefers wholesaling – buying a property and quickly passing it on to another investor, not an end-user (which is retailing), to make a fast buck.

For condos, it's not going to be a major issue since many offer property management. Cynthia cautions though, "Make sure that the developer is committed in the appreciation of property values of the condo or subdivision development through good property management. Good property management will be reflected through efficient maintenance and security of the common areas, efficient garbage collection, and proper maintenance of the amenities like the swimming pool, gym, function rooms, etc."

Property Payoff #2: Fix and sell
You act as: a rehabber
You make money through: a price increase
Potential return: medium
Potential risk: high
Skills required: selecting bargain properties, negotiating, finding good contractors, selling
Attitude needed: aggressiveness
Capital required: 30% of the appraised value
This is a little like flipping properties except you add value to the "product" by making improvements such as repainting the walls, fixing the plumbing, or including furniture. Rehabilitating (or "rehabbing") an old product and repackaging it to an improved version will of course justifies a higher selling price. You do add to your expenses since, aside from your down payment on the property, you have to spend for fixing it up.

You need to be able to find "diamonds in the rough," properties that are beat up or run down but can be fixed and prettified at a reasonable cost. Often, you can find these "fixer uppers" through foreclosures. Banks have a list of them and you can participate at an auction and buy one or two for a discount. You can also do your own sleuthing to find motivated sellers who still own their homes but want to sell.

Trace points out: "By buying a property in foreclosure, you buy it cheap. By buying a property cheap or well below market value, you can rent it and generate cash flow, or you can fix it and re-sell it for big cash or just pass it to another investor and make a quick wholesale fee." He says you can make 20% profit from fixer uppers. "For instance, for a P10,000,000 property, you should make P2,000,000 profit," he illustrates.

There are of course risks aside from not selling the property fast enough (though you can alternately rent it out in the meantime). For fixer-uppers, it's usually underestimating the repairs. "You can't sell a property half-fixed and it will be half-fixed if you run out of money to fix it," Trace says.

So to minimize these risks, he explains, first learn how to estimate repairs properly. He adds, "You also need to raise more than enough capital to ensure you have enough cash to buy the property, pay for the repairs, and pay for the carrying costs."

Property Payoff #3: Buy and flip
You act as: a wholesaler
You make money through: quick profits
Potential return: high
Potential risk: high
Skills required: selecting bargain properties, negotiating, selling
Attitude needed: aggressiveness
Capital required: little or no money down
Buying a property at a bargain then quickly turning around to sell it for a quick profit is not widely practiced in the Philippines. Also called wholesaling, it's a popular concept in the States as espoused by the likes of Robert Allen who popularized the term "no money down."

The potential return is high because you put in little or no equity, so even a few tens of thousands of pesos in price difference when you flip a property is already a huge return. You do need to be good at finding bargain properties, which means looking for highly motivated sellers who desperately want to get rid of their property fast.

It's just that you are taking on a lot of risk, specifically not being able to sell the property fast enough. Trace says underestimating the holding period is the major risk: "If you can't sell the property quick enough, your holding or carrying costs could eat up all your profits."

The trick, of course, is to find a buyer first even before you purchase the property. Trace stresses, "You should learn how to develop a buyers' list first, so that even before you buy [a property], you already have potential buyers to buy the property from you."

Trace co-runs the Think Rich Pinoy Millionaire Network (he says the founders have 40 years of experience in real estate, having done P100 million of renovation and over P1 billion property acquisitions in the Philippines and the US), where they teach franchisees how to do online and offline marketing so that they will generate a pool of buyers.

He shares, "One franchisee, for instance, our first real estate millionaire Jessie Racquel has over 1,000 buyers on his list. Imagine if he can buy properties for just 10% of his list, that's a phenomenal 100 properties! Jessie routinely makes P500,000 to P1 million per property. And to think that Jessie has been doing this for only one year!" It takes a lot of guts, perseverance, and negotiating skills to pull this off. Not for the faint-hearted.