

Letter from the Editor

We hope you had a wonderful 4th of July holiday! This year is flying by... it's hard to believe that we're already midway through the summer. We want to welcome Renee and Steig Granrud as new investors. Sam has known the Granruds for many years.

June was another solid month for loan originations. We originated four loans, all of which were First Trusts. July will be a slower month.

CHUCKLE'S CORNER

"Experience is the name everyone gives to his mistakes." Oscar Wilde

Food for Thought

We have launched the Clear Sky Lightning Fund. This is a 506(c) fund opened to accredited investors. It is a debt offering. Please call or email with questions if you want to participate. It is very similar to your investment in Clear Sky Financial. The Clear Sky Financial monies will be automatically moved to a 506(b) fund. There will be no changes on your part as to the interest payments received. We will have some updated paperwork for you to fill out. You should be getting this soon.

We have one new investor who is starting out with their investment into the 506 (b) fund. The difference between the 506(c) and 506(b) is that we can advertise the 506(c) fund. The 506(c) fund is only opened to accredited investors. The 506(b) fund cannot be advertised and can accept up to 35 non-accredited investors (we currently have 14).

An accredited investor is defined as:

A. One who has earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year,

OR

B. One who has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

In This Issue:

- + Letter from the Editor
- + Food for Thought
- + Which is Better? Flipping Versus Holding
- + Cash Looking for a Home
- + Deal of the Month
- + June Deals



Which is Better? Flipping Versus Holding

Some investors focus on flipping - that is, turning properties over quickly, rather than keeping them long-term. In some cases, holding property generates more long-term wealth for you than flipping. Therefore, you may consider flipping some properties and holding others. On the other hand, you may consider using the flipping strategy for a while, and then begin holding properties later. The big question is, "When should you hold versus when should you flip?"

The Advantages of Flipping - The main advantage of flipping is that you get your cash out immediately rather than later. For many people, the certainty of getting a check right away is highly appealing. Flipping takes the real estate market per se out of the equation. If you buy a property correctly, whether the market is rising or falling is almost irrelevant, except for how long it will take you to resell the property. (Of course, if you buy cheap in a soft market, you can afford to hold a property longer.)

The Advantages of Holding - Property holders can generate true wealth over the long term. Historically, property values appreciate at a rate greater than the rate of inflation in the United States. If you buy in the right neighborhoods, your annual appreciation may reach double digits. You can use properties with equity as collateral. You can provide rental income for your retirement years, and you can pass property down to the next generation. Once your rental properties are owned "free and clear," you have passive income from rents paid that gives you an income even when you're not working.

What's Right for You?

The important question isn't whether flipping is better or worse than holding, but which strategy is right for you. To discover the answer for yourself, ask these questions:

- * Am I in a high-income tax bracket that would be adversely affected by more income now?
- * Do I need additional income now or in the future?
- * Does my local real estate market present opportunities to acquire bargains, yet still command high rents that would cover my expenses if I need to hold on to the properties?
- * Do I have other income or savings that I could tap into in case my rental properties become vacant or need major repairs?
- * Is the local real estate market rising or falling at this time?
- * Does bringing in income now or later fit into my short-term and long-term financial goals?

Most investors start out flipping houses, and then gradually work into managing rental houses or becoming involved in larger, more complex real estate projects. Some people don't have the temperament to deal with tenants and the headaches that come with rental properties. Some look for side income by flipping. Others want to quit their jobs and make flipping houses their full-time business.

As you can see, many investors were once in your shoes making these decisions. Be sure to consider all options, including a mixture of flipping and holding properties. Reevaluate your financial goals on a regular basis and adjust your real estate strategies to support these goals.

Cash Looking for a Home

There are a lot of capital-seeking investment opportunities in the DMV. This is pushing down yields on a variety of real estate asset types and making it increasingly difficult to find value investments. We have examined the local market in depth in the last couple of months and found examples of reduced yield. Tax sale results, property auction results, and commercial real estate pricing are all showing very clear indicators that the market is awash in capital.

On July 16th and 17th, the DC Office of Tax and Revenue held their annual real property sale. This sale is designed for the DC government to get private investors to take over the role of tax collection on real estate property with delinquent taxes. There were many more buyers than in prior years and the buying was aggressive. The government was selling tax liens with an 18% interest rate, and anyone who bid over the face amount of the lien reduced their potential yield. There was enough money in play that people were bidding amounts resulting in a 4% yield. If an active investor is willing to accept a 4% yield, that is a certain indicator that there is a lot of capital in the market.

Real estate trustee's auctions are awash in aggressive buyers. There maybe a few people buying these houses that believe prices have a lot of growth in them; however, most real estate investors recognize that the market has either stabilized or topped out. We are seeing buyers at the auctions who are deploying their money for very little returns. They are buying flips for the purpose of either keeping their work-crews busy or keeping their money deployed in the market. These are not sound investing strategies. The best approach is to continue to seek value buys. They are increasingly rare. The high cost of renovations is putting a squeeze on most buyers who have acquired assets in the last six months. With full employment in the regional economy, the cost of construction labor and materials are reaching new levels. Several flippers that we are dealing with have invested heavily in their assets and have only marginal returns for months of effort. We continue to advise our borrowers to buy conservatively and wait for value opportunities.

Anecdotally, we have looked at many commercial opportunities. This year we had the good fortune to locate two small commercial investments priced at value points. However, most of the yields we see for performing assets offer cash on cash returns (cap rates) between 5 and 7 percent. There is plenty of market risk and asset risk/depreciation in the system. Accepting a 5 percent long term yield on a fixed asset doesn't look as good to us as keeping your money on the sidelines or waiting for much better opportunities.

We view these market trends as the reason to stay patient and wait for great opportunities. High yields maybe far from the norm, but they certainly still exist. We continue to encourage our hard money borrowers to scrub every deal and make sure that their profit margins are acceptable. Our borrowers' success is vital to our long-term strategy so we spend a lot of time evaluating assets with them.

Deal of the Month

The deal of the month involves a wholesale deal done by Charlie's son, Cory Einsmann. He found a couple of houses to wholesale using a system called the "Hidden Market". It was a course that we sent him to via our affiliation with TRACTION REIA. He wholesaled two deals last month. One was very complicated in finding the owners. Both houses were vacant with overgrown lawns. He had to hire a skip trace to find the owners (brothers living separate). It was a very good wholesale deal as he wholesaled it to one of our courthouse auction bidders (competitor). It was actually a deal that he purchased and flipped a week later. CSF provided the TRANSACTIONAL FUNDING for a week. Congratulations, Cory, on a job well done!

June Deals



7131 Rock Creek Dr.



3030 Nutwood Drive



6103 Gettysburg Dr.



9107 5th Street