

HK LUXURY REALTY

— Get Smarter Faster —

Scared First-time Home Buyers, Investors and More Succeed

Conveniently search, learn and buy downtown Chicago property all-in-one place

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If you were staring at four deals, how would you know which one was priced best? Hint: it's not necessarily the one with the lowest sales price.

Before we reveal this profitable answer, consider this problematic fact. Since 2010, simple real estate has been turned on its head forever. Namely because of these four reasons. For starters, puzzling paperwork mandated by the regulators nearly requires a master's law degree to decipher. Secondly, access to good deals is vanishing like the endangered panda bear species. Thirdly, the *spreads* are so thin, that oftentimes sellers can't price their property at realistic buyer market levels. Lastly, and most importantly, the mainstream public (because of the nonsense perpetuated by most, if not all, *professionals*) continues to price residential real estate with a single notorious method. Here's the full scoop...

Dodd-Frank Hits Home

You might think that as an every-day residential property buyer, somehow Dodd-Frank regulation doesn't apply to you. Well, it definitely does. If you're obtaining a loan to buy a property, the origination of that loan is under a new set of regulations. The second way Dodd-Frank affects you as a buyer is: thru the Seller. Why does that matter?

The reason why this matters is because—if a seller has restrictions on how they can bring their property to market—you'll have fewer quality opportunities to choose from. Take seller financing as an example. Seller financing is where a property owner sells you their property, and where the seller extends the buyer financing. There is no bank involved in the transaction, because the seller is the "bank." Seller financing used to be a straightforward process. What many consumers (and professionals) don't know is: Seller financing is now regulated under Dodd-Frank; so is *rent-to-own* (if the tenant/buyer makes an initial down payment).

Therefore, the friendly neighbor who wishes to sell you their property with seller financing attached, is now regulated and penalized under the same rules as the big banks. This poses a compliance obstacle for unaware sellers, who defer and hold-off selling, while they *figure-out* the new rules of the game.

Here at HK Luxury Realty, we can guide the entire buyer transaction—including seller financing the buyer—because we utilize the tiny handful of professionals in America, that actually know how to meet or exceed the requirements set forth by the (CFPB) Consumer Financial Protection Bureau.

Foreclosure Discount Illusion

Near zero percent interest rates allowed big banks to squat on foreclosure inventory—for the benefit of Freddie, Fannie & FHA. Whereas in decades past, holding costs led banks to unload property faster than a dump truck, nowadays, banks slowly trickle these assets out. And not at the typical discounts that bargain shoppers would expect of repossessed inventory. Therefore, it's not uncommon in this new norm, to find bank sales (foreclosures) trading at retail prices. Whereas traditionally, foreclosures would trade at 80 cents or less on the dollar.

Plus, the government has imposed deed restrictions on bank foreclosures. A deed restriction is a regulation that prohibits you from buying a bank foreclosure today, and selling it tomorrow. In fact, you can't resell the property for 90 days. As if that wasn't enough, the regulations also flagrantly discriminated as to which buyers can initially access foreclosure inventory. Currently, only government sanctioned entities and nonprofits can access new foreclosure inventory, while in the first 15-days on market (called the "Exclusive Period"). After the 15-day exclusive period has ended, then everyday private investors like you can access/buy.

Here at HK Luxury Realty, we can help you access foreclosure inventory, but more importantly, identify *if* the foreclosure is legitimately priced. Or if it's just an illusion.

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Diminishing Spreads Can Be Solved

If there's not enough money for a seller to pay all the closing costs (including broker's commissions), then: "...it (*the sale!*) ain't gonna happen."

The *spread* is the difference between the prices at which a seller sells you the property, minus what they owe for the property, including their closing costs.

How many times do you see a property languishing on the market, and not selling? It occurs more often than not. The question is: why? The answer as to 'why' often has to do with the fact, an emotional seller is desperately attempting to sell a property, at price levels unacceptable to buyers: *the market*. An obvious reason why sellers choose to live in such denial is because—if they sold the property at legitimate market levels, the seller would yield less.

Why do you think sellers are flocking to *for-sale-by-owner* strategies in droves? Namely, to save on paying a sell-side commission. One key for you as a buyer, is to find *for-sale-by-owner* sellers before they hire a broker. By doing this, you unlock a stealth opportunity to capitalize on wholesale prices (assuming you know how to price the asset).

If you were to covertly acquire the information, from insider resources, you would then be able to locate and attract property owners that might be interested in selling. Chances are, you won't know where to find this hidden information; unless you're a professional investor/marketing specialist. Thus, the next best thing is to hire a broker that expertly employs these James Bond like marketing methods.

Here at HK Luxury Realty, we target and attract off-market opportunities before they hit the MLS. As one example, a seller recently contacted us in response to our covert marketing efforts. It's a 2,746 square foot condominium unit located in the upper floors of The Four Seasons Hotel in downtown Chicago. At the moment, it's currently

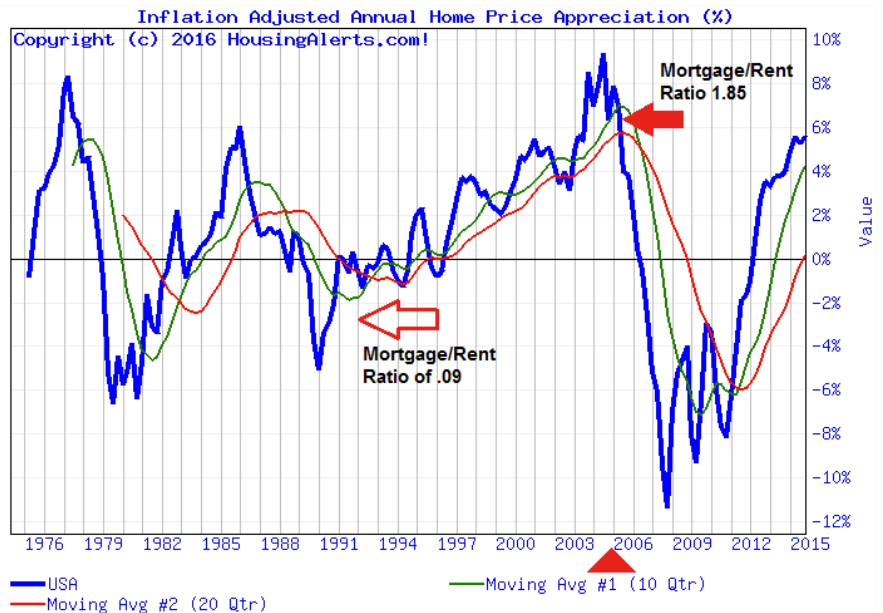
undergoing a full-makeover. And will be ready for delivery in a couple months. As a for-sale-by owner, this asset will trade for more than \$2,000,000. As you can imagine, the real estate agent/broker fees on this sale shall be hefty. Naturally, sellers attempt to defray this marketing cost by increasing the list price. Easier said than done—because buyers aren’t fools. And with our guidance, you can safely bid on these assets like a pro. Before your competition learns about them.

Another example is a 1-bedroom condo on McClurg in the Streeteville neighborhood of downtown Chicago. Retail, this unit trades for roughly \$220,000. Again, this opportunity was a seller responding to our covert target marketing efforts. By saving on paying a sell side commission, this seller would be able to offer this property to our buyer at a better price. These are just two real examples of how finding sellers before they hit the MLS, increases your chances of grabbing a well-priced opportunity.

Pathetic Pricing Not Allowed

As you know, residential property is priced using the “Sales Comparison Approach.” If you wish to use the loser’s way to buy property, simply use this method alone. Here at HK, we use four methods to assess (evaluate!) the value of residential real estate. We always cross-check the sales comparison approach with: (i) the income approach; (ii) the replacement cost approach; and (iii) the mortgage-rent-ratio.

If you were to only use the Sales Comparison Approach when buying residential property, you would never know if you were overpaying, underpaying or getting a fair value for property. Worse yet, you’d fail to recognize soon-to-pop market bubbles. Here’s live proof of the terribly unsafe bubble you’ll get trapped in, when solely relying on the sales comparison approach:



And to answer that opening question, on how we know which deal is priced best: **by running our internal HK Value Analysis.** When you’ve narrowed your property search down to your final favorites, you’ll get a simple 1-page comparison (rank!) analyzer, clueing you to hidden value. Here’s a glimpse of our special tool.

	Clear	Clear	Clear	Clear	Clear
INPUTS ARE DESIGNATED BY BLUE CELLS	Property 1	Property 2	Property 3	Property 4	Property 5
Address	111 W. Maple	88 W. Schiller	303 W. Ohio	600 Armitage	600 Kingsbury
Price	\$194,500	\$215,000	\$215,000	\$320,000	\$249,000
Sq Feet	700	822	700	1,600	770
Initial Capital Improvements	\$0	\$12,000	\$0	\$0	\$0
Total Initial Capital Outlay	\$48,236	\$65,320	\$53,320	\$79,360	\$61,752
Total Rent (Monthly)	\$1,650	\$1,890	\$1,610	\$2,960	\$1,810
Other Income (Monthly)	\$0	\$0	\$0	\$0	\$0
Vacancy (%)	5%	5%	5%	5%	5%
Management (%)	10%	10%	10%	10%	10%
Taxes (Annual)	\$2,500	\$3,300	\$1,700	\$6,000	\$2,649
Insurance (Annual)	\$600	\$600	\$600	\$600	\$600
Maintenance (annual)	\$3,840	\$9,276	\$2,868	\$2,160	\$4,236
Other Operating Expenses (annual)	\$1,650	\$1,890	\$1,610	\$2,960	\$1,810
NOI (Monthly)	\$687	\$351	\$804	\$1,539	\$764
Mortgage Payment (Monthly)	(\$688)	(\$761)	(\$761)	(\$1,132)	(\$681)
Cash Flow (Monthly)					
Cap Rate	4.24%	1.86%	4.49%	5.77%	3.68%
Pre-Tax Cash/Cash	-0.04%	-7.63%	0.96%	6.15%	-2.28%
Gross Rent Multiplier (GRM)	9.82	10.01	11.13	9.01	11.46
\$/SqFoot	\$277.86	\$276.16	\$307.14	\$200.00	\$323.38
Payback period	Negative	Negative	103.85	16.25	Negative
Debt Coverage Ratio (DCR)	1.00	0.46	1.06	1.36	0.87
Break-Even Ratio	100%	126%	97%	84%	108%
Average Rank	2.83	4.17	2.57	1.00	4.33
Median Rank	3	5	2	1	4

Do you know why a 15-year mortgage is a more dangerous loan product, than a 30-yr mortgage? If not, you'll learn exactly why when you buy here. www.hkbuyproperty.com

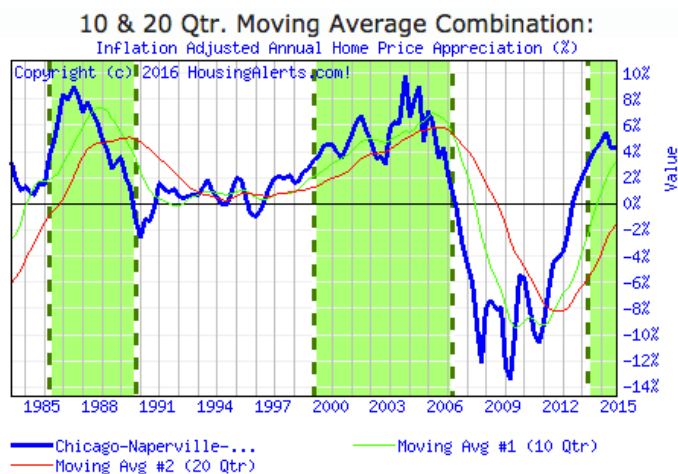
Here at HK Luxury Realty, we're the only brokerage in town that utilizes this lethal pricing model, to hone-in on residential real estate prices as accurately as a laser guided missile. And we always initiate our comparable sales search inside the MLS. Wisely running your analysis requires accurate data. Hands down: the MLS is the most reliable source.

Eagle's Eye Market View

Whether you're a first-time home buyer or investor, prior to buying any property, one of the wisest factors to initially consider is: the local market wealth cycle. If it's your intention to live in a property for 20-30 years, then this metric is less critical, because your strategy is long term—and timing market fluctuations becomes less relevant.

Otherwise, if you're intending on buying any property with the intention of holding it for less than 10 years, then it's vital to determine what wealth phase the property's local market is riding.

Take this example of two well-known, yet distinctly different local markets: Chicago & San Francisco.



The shaded areas between the dashed lines indicate when a local market is in its wealth phase. If you notice, Chicago's local market entered its most recent wealth phase starting in 2014.

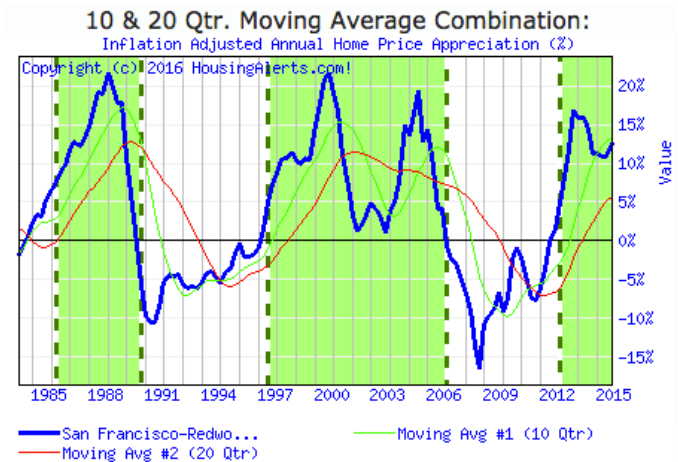
The reason wealth phase momentum indicators are pivotal; is because *one* of the DNA traits associated with a newly emerging wealth cycle is: a local market where home prices are minimally inflating at 3% per year. If annual home price appreciation is negative, flat or below 3% per year, then using the evil arrows of debt financing to buy a property: will undesirably unlock *negative leverage*.

This is analogous to buying Google stock shares with borrowed money, when the stock is only paying you a 3% per year dividend, while your loan is costing you 4% (or more) in interest. Clearly, you wouldn't borrow money from a bank to buy stock, when your cost of capital outweighs your stock's expected return.

Yet, people blindly dig their own graves with home loans daily. Borrowing money to buy property, while using the poison of negative leverage.

Here's another subtle crux.

Take a glimpse at San Francisco's wealth phases here. You'll notice a couple things. For starters, San Francisco entered its latest wealth cycle in 2012—two years ahead of Chicago. Not only that, look at the magnitude of San Francisco's yearly appreciation relative to Chicago.



It's plain as day: San Francisco's annual home price appreciation peaks often double the magnitude of Chicago's. San Fran climbs into the high-teens;

while Chicago tops near 10% annual market appreciation.

And now for the subtle crux: how can you expect to get the same output using a national bank loan, in two markets that have totally different potentials?

In other words, if you're borrowing money to buy a property, then that bank loan will be a nationally advertised mortgage rate—say 4.2%. It's the same interest rate for the bank located in Chicago, as it is for the bank located in San Francisco.

But, as we just showed, the market potentials are not the same. So how can you expect to get the same output (bang!) for your buck, with that same loan in two different markets? Answer: you can't.

And that's the reason why you must dually justify the borrowing of money to buy any property with (1) the local market cycle and (2) how long you intend on holding or residing in the property.

If you fail to do so, and you're not living in the property for three decades, then don't be surprised to find your wallet in the meat grinder, when you decide to sell seven years after-the-fact.

Here's a snapshot at more insider data that we monitor:

Chicago-Naperville-Arlington Heights, IL (MSAD) - Annual Home Appreciation Rates

	Appreciation Rate (%)	Inflation Adjusted (%)
Last Qtr.(Annualized)	5.4	5.7
2 Qtrs Ago .(Annualized)	5.5	2.1
Last 12 Months	4.3	4.3
3 Yrs. Ago	-2.2	-4.1
5 Yrs. Ago	-4.4	-5.5
10 Yrs. Ago	9.5	4.7

San Francisco-Redwood City-South San Francisco, CA (MSAD) - Annual Home Appreciation Rates

	Appreciation Rate (%)	Inflation Adjusted (%)
Last Qtr.(Annualized)	18.7	19.0
2 Qtrs Ago .(Annualized)	17.7	14.2
Last 12 Months	12.6	12.6
3 Yrs. Ago	3.3	1.4
5 Yrs. Ago	0.3	-0.8
10 Yrs. Ago	17.6	12.9

Note: snapshot as of January 26, 2016

Here at HK, we routinely monitor how our local market is performing, relative to other similar market types, while simultaneously cross-checking the U.S. Treasury bond rates, with the Federal Reserve's overnight interest rate.

Whether you're a first-time home buyer or investor, you can use our flight plan to safely—and conveniently—navigate your wallet away from the Bermuda triangle.

Total Market Mastery

Before we unveil an alternate way to maximize returns for real estate investors, let's quickly outline one final metric that helps first-time home buyers, investors and even sellers alike. This key metric is called: absorption rate.

Whereas technical analysis momentum charts provide you the fighter jet pilot's view of the earth, absorption rates are like your boots on the ground. If you hire a well-informed broker (soldier!), you'll deftly dance past any mine field.

By definition, the absorption rate merely indicates how long (how much time) it would take for all actively listed inventory in a given area to sell—assuming no new homes were added to the market. In other words, the *pace* at which all currently listed homes would be absorbed by buyers—if no new homes were added.

An absorption rate below 6 months is indicative of a seller's market; while a rate above 6 months would indicate a buyer's market. Technically, you could assume an absorption rate between 5-7 months to be a *balanced market*.

Here’s what you need in order to calculate the absorption rates in your area:

- 1. a timeframe (I use 12-months back)
- 2. # of closed sales within that timeframe
- 3. # of active homes currently for sale on the market

Now you might be asking, is that it? And the short answer is: kind of. And here’s why. If I were to simply calculate the absorption rate for your desired area at this present moment, then all you would have is a snapshot of the absorption rate, at a static moment in time. But what does that really tell you of what’s been happening in that area, over a period of time? The answer to that is: it tells you nothing.

However, when you calculate the absorption rate in a given area—on the same day—each and every month, then you’ve established an intelligent data series across time: a Trend! Now it’s not merely a snapshot. It’s a story. Here at HK, we track our sweet spot (downtown Chicago) as diligently as a starving lion tracks its prey. And as we mentioned earlier, we privately source our seed data from directly inside the MLS broker database.

Here’s a snippet of proprietary data that we routinely gather and document monthly:

60611 Zip Code	Absorption	Days
January 2015	4.4	98
January 2016	4.0	141
2 E. Erie	Absorption	
March 2015	2.8	
January 2016	2.0	
TRUMP TOWER	Absorption	
March 2015	6.11	
January 2016	3.21	

Another variable to equally consider alongside the absorption rate is: *the average number of days on market that it takes to sell property in your area.*

You might be thinking that it’s the sort of trivial information that only sellers would need. But as a

buyer, knowing absorption rates and average days on market are key indices to check—in order to decipher where the market is *trending*.

The Gift That Keeps On Giving

What’s the simplest way for investors to earn safer and more predictable yield? One answer is by owning real estate; but without the hassles of actually owning the property.

If there’s such an investment, that captures and safely delivers monthly cash flow to your bank account, then what would it look like? What are some of the characteristics that it should possess?

Namely, we’ve identified two: safety and simplicity.

In other words, it can’t go to zero. And it should be simple and convenient. So that all you have to do is sit back in your favorite chair; while money finds its way into your bank account monthly.

If you’re interested in learning more about how your wealth can be diversified in a way that’s:

- Safer
- Simpler

Then here’s one logical alternative to consider...

If you were to buy a condominium or luxury house in a highly desirable Chicago, San Francisco or New York neighborhood, and rented it out for cash flow, you would reap a modest dividend (1%-4%).

Take these two real examples. Both units located in Trump Tower downtown Chicago. Candidly, you can conduct a similar analysis on any property type: including single family homes and townhouses.

Mathematically, the myth to unravel for Class A property is whether it’s better to own the property; or a quality note secured by the property.

Let's compare the results of buying the property and subsequently renting it out for cash flow; versus owning the secured note for cash flow.

In this first example, investor purchased unit 41H with *all-cash* for \$1,610,000.

CLSD	401	N	Wabash	Ave	41H	8008	\$1,610,000
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As you know, when you own property, there are costs associated with doing so. For simplicity, we'll consider the two main costs: taxes and condo fees.

Unit 41H above has an \$18,449 per year property tax obligation; and it has a monthly assessment of \$1,287 per month (aka. \$15,444/year condo dues).

Simple math reveals that unit 41H minimally incurs \$33,893/year in costs.

In this second property example, the investor purchased unit 82G with *all-cash* for \$770,000.

CLSD	401	N	Wabash	St	82G	8008	\$770,000
CLSD	401	N	Wabash	Ave	84G	8008	\$780,000

Unit 82G has a \$9,100 per year property tax obligation; and it likewise has a monthly condo assessment of \$1,094 per month (aka. \$13,128).

Our basic kindergarten math reveals that unit 82G minimally requires \$22,228/year for its costs.

If you were to know what each of these units could realistically fetch in rental price, you could easily calculate how much yearly cash flow you'd capture. Luckily, we do know the comparable rent prices.

If you notice in this broker analysis data provided by HK Luxury Realty, unit 82G was actually rented shortly after its purchase; for \$4,400 per month.

RNTD	401	N	Wabash	Ave	30G	8008	\$4,300
RNTD	401	N	Wabash	Ave	82G	8008	\$4,400
RNTD	401	N	Wabash	Ave	76E	8008	\$4,800
RNTD	401	N	Wabash	Ave	48F	8008	\$5,900
RNTD	401	N	Wabash	Ave	58D	8008	\$6,000
RNTD	401	N	Wabash	Ave	63D	8008	\$6,200
RNTD	401	N	Wabash	Ave	61D	8008	\$6,400
RNTD	401	N	Wabash	Ave	42H	8008	\$7,200

Not only that, we also know that unit 41H could likely fetch \$7,200 per month rent; at the time of acquisition. We know this because its identical twin (42H) located one-floor above rented for that.

Therefore, unit 41H could produce $\$7,200 \times 12 = \$86,400$ /year in rent (assuming it was rented at all times). Minus \$33,893/year costs. Equates to \$52,507 Net Income. Result: **3.26%** yearly yield.

While the unit 82G could produce $\$4,400 \times 12 = \$52,800$ /year in rent. Minus \$22,228/year costs. Equates to \$30,572 Net Income. Result: **3.97%**.

An alternative way to achieve a higher, safer and more predictable yield on the same type of luxury asset is: via owning a quality real estate mortgage.

When you own the secured note:

1. You don't pay the property taxes. The property owner does.
2. You don't pay the monthly maintenance fees. The property owner does.
3. You don't have to hire a broker to find a new tenant each year. Your worthy borrower is your permanent tenant.
4. You don't get phone calls in the middle of the night about a leaky bathtub.
5. You can drive by the property. Behold, it's a real asset. And it can be insured.

Here at HK, we can offer investors who were considering buying property for investment, the ability to own private real estate notes instead.

Now imagine this alternative investment further. What if you indeed chose to extend financing to a worthy borrower, for the (\$770,000 or \$1,610,000) amount of money?

Mathematically, how differently would that look?

Basic Mortgage Payment Calculator	
Amortized or Interest-Only	Fully Amortizing
Loan Amount	\$770,000
Num Payments per year	12
Years	30
Interest	5.00%
Monthly Payment (P&I)	\$4,116.37

For instance, assume borrower qualifies for a 30-year fixed mortgage with interest at 5%. You would collect monthly payments (principal and interest) of \$4,116 and \$8,606, respectively.

Note Yields: **\$770,000 scenario = 6.34%/year**

Yield Calculator	
Amount Invested	\$770,000.00
Annual Interest Income (you collected)	\$49,392.00
Lender's Fees to You (if any that you collected)	\$0.00
Expenses (you paid for loan)	\$600.00
Borrowed Money Interest (you are paying out)	\$0.00
Net Operating Income (NOI)	\$48,792.00
Gross Yield on Capital Invested	6.41%
Net Yield on Capital Invested	6.34%

Note Yields: **\$1,610,000 scenario = 6.38%/year**

Yield Calculator	
Amount Invested	\$1,610,000.00
Annual Interest Income (you collected)	\$103,272.00
Lender's Fees to You (if any that you collected)	\$0.00
Expenses (you paid for loan)	\$600.00
Borrowed Money Interest (you are paying out)	\$0.00
Net Operating Income (NOI)	\$102,672.00
Gross Yield on Capital Invested	6.41%
Net Yield on Capital Invested	6.38%

Clearly, the Note yields are far superior for these luxury assets; versus the land-lording alternative.

First-time home buyers, investors, tenants and more. Call us and get started today:
(312) 283-8100

Ironically, unit 41H in the \$1,610,000 example above, actually rented for \$7,800/month. Thus, its updated result is: **3.71%** yearly yield. Here's the follow-up proof from the licensed database:

RNTD	401	N	Wabash	Ave	46H	8008	\$6,900
RNTD	401	N	Wabash	Ave	42H	8008	\$7,200
RNTD	401	N	Wabash	Ave	51F	8008	\$7,000
RNTD	401	N	Wabash	Ave	43J	8008	\$7,000
RNTD	401	N	Wabash	Ave	60D	8008	\$6,900
RNTD	401	N	Wabash	Ave	38K	8008	\$7,300
RNTD	401	N	Wabash	Ave	73B	8008	\$7,500
RNTD	401	N	Wabash	Ave	41H	8008	\$7,800
RNTD	401	N	Wabash	Ave	53F	8008	\$7,500

Unfortunately, it lingered for 207 days on market before renting at this price point! Do you really wish to wait 7-months to attract a paying tenant?

Owning cash flow notes (secured by real estate) is a true passive investment. Instead of buying a quality property, you can choose to own a quality secured mortgage. It's much more convenient.

This type of opportunity would be particularly suitable to a cash investor for 3 reasons:

- Super convenient (no property manager)
- Predictable (land-lording is more risky)
- 1st lien position safety (we can foreclose)

Time to Get Buying

Clearly, excess paperwork, limited access to inventory, tightly priced deals and outdated pricing methods have made buying property a maze. As well as, a black hole for your time and money. If you wish to expertly navigate the downtown Chicago real estate market, simply hire us. We'll take on the heavy lifting—and make the complex stuff simple. I look forward to your call.

Sincerely,
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