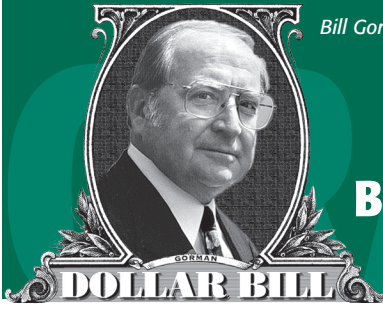


Bill Gorman helps investors become financially independent by showing them how to recognize decision making opportunities.



BILL GORMAN'S

ORANGE COUNTY HEADS UP!

W.R. Gorman & Associates | P.O. Box 325, Brea, CA 92822 | (714) 255-9998 | wrgorman.com | Spring 2006

The EIGHTH WONDER of the WORLD OPTIMIZING THE COMPOUNDING FACTOR

Working with the Sweet Spot of the Real Estate Cycle

THOSE WHO HAVE ATTENDED MY WORKSHOPS KNOW that one of my favorite stories is about a college professor who asked how long it would take to have one million dollars if you put one dollar in the bank and then, every day thereafter, your deposit doubles by just going to the bank? The answer: 21 days. However, if you get sidetracked from your task and only visit the bank every other day, you end up with \$512. **Quite a difference.**

The same principle applies to your real estate investments. If all you do is hold, then you will probably have a nice, safe nest egg, but you will never be rich.

To successfully “compound” in real estate, you need to look at three factors – (1) the appreciation rate, (2) what “re-leveraging” can buy, and (3) the holding period.

The table below shows how – in the right markets with the right timing – compounding can take you from the ownership of a property that generates a \$1,167 per

	2006 Orange County	2006 Exchange into Growth Area	2011 Exchange into Growth Area
Property Value	\$950,000	\$2,800,000	\$7,000,000
Loan	\$250,000	\$2,100,000	\$5,250,000
Annual Appreciation Rate*	2%	6%	6%
Appreciation	\$19,000	\$168,000	\$420,000
Annual Rate of Return on Equity*	2.71%	24%	24%
Percentage of Cash-Flow from Equity	2%	8%	8%
Annual Cash Flow	\$14,000	\$56,000	\$140,000
Monthly Cash Flow	\$1,167	\$4,677	\$11,666

**These rates are not absolute. Use whatever numbers apply to your situation. For my last 11 properties, which I held an average of 2½ years each, my rates were actually higher.*

month cash-flow into one that generates \$11,666 per month, **all in just five years!**

The Appreciation Rate

When seeking to optimize the compounding effect, you need to look at the appreciation rate – both in terms of what is happening in the market where you currently hold property and in markets that are in different phases of the Real Estate Cycle.

Orange County apartments are at or just past “the top of the market.” Thus, over the next seven to ten years, the rate of appreciation is apt to slow considerably and possibly decline or remain stagnant for quite some time.

Remember 1988 and what followed? There was a point during that time when I wondered if I would need to return to Chippendales. I called a fellow Realtor and asked him if his business was slow. He replied, “No. It has stopped.”

Prudent investors, even though they may not get top-of-the-market dollars, should consider selling now and applying the equity gained to markets that offer better opportunities for rising appreciation rates, i.e. markets at the bottom or just starting into the upside of the cycle.

What Re-Leveraging Can Buy

The real challenge is to seek out the right opportunities for re-leveraging. Sometimes you can ride the wave right within your own market; but, as that market starts to crest, the rate of appreciation slows and you then need to locate opportunities with more potential.

Be forewarned that just finding a market in a favorable phase of the Real Estate Cycle is not necessarily enough. To optimize the compounding effect, you need to

(continued)



WORKSHOPS & SEMINARS

IS OUT-OF-STATE PROPERTY FOR YOU?

- *Who should go out of state? When? Why?*
- *Locating the right market opportunities*
 - *Working with out-of-state brokers*
 - *What support groups do you need?*

Thursday, March 9, 2006

11:30 a.m. – 12:15 p.m.

Apartment Association of Orange County
35th Annual Trade Show

Orange County Fairgrounds – Exposition Center

Call (714) 255-9998 for Two (2) FREE Tickets

(continued from front)

carefully research the purchase opportunities in that area and apply all of the principles of good due-diligence. The property should meet your personal investment parameters and offer the strongest likelihood of enabling you to meet your financial goals.

The Holding Period

When someone says that they doubled their money – the real question is *how long did it take?* Holding too long can erode the value gained, especially if reinvesting would have doubled your money in half the time.

At the heart of the compounding effect is the ability and willingness to re-leverage. To maximize the return on your investment, you need to pay close attention to the Real Estate Cycle and know when to make your move.

As the chart on the front page demonstrates, by exchanging out of a market with a 2% annual appreciation rate into one where properties are appreciating at a 6% rate – then repeating the process five years later – there is a significant increase in your net worth and your cash flow increases nearly ten-fold.

The key is in compounding, which can take the form of exchanging (or simply selling and buying a new property) or refinancing and reapplying a portion of the equity gained from another investment. Multiple property ownership affords you optimal flexibility at any point in your personal investment cycle.

For more information regarding opportunities to Optimize the Compounding Effect, contact W.R. Gorman & Associates at (714) 255-9998 or send an e-mail to bill@wrgorman.com.

W.R. Gorman Goes ELECTRONIC

This is a critical time for those who own property in Orange County and are thinking about investing elsewhere. At W.R. Gorman, we are closely watching several markets. However, relying upon letters is too slow a means of communicating with our clients – so we are going to start sending updates via e-mail.

To make sure that you receive postings on new listings (both local and out-of-area), workshop announcements, “just sold” recaps and other information on marketplace trends and real estate investment opportunities, please make sure we have your e-mail address.

If you have not been receiving e-mails from us, send an e-mail with your name and address to bill@wrgorman.com, or register as a VIP Buyer or Centurion Club member at www.wrgorman.com

All information provided to W.R. Gorman, including your e-mail address, is held in strict privacy. If, at any time you no longer want to receive e-mails, just let us know.

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Complete this form and fax to (714) 255-8489 or mail to W.R. Gorman & Associates, P.O. Box 325, Brea, CA 92822 or register online at www.wrgorman.com