



VELOCITY

REAL ESTATE & INVESTMENTS, INC.

Your Partner in Real Estate

Velocity Real Estate & Investments

Investment Process





Purpose of this Packet

- Detail the benefits of performing an in-depth analysis when purchasing investment property
- Show how the team at Velocity takes your needs into consideration as an investor to determine the best strategy for your investment portfolio.

Why Is Velocity The Best Choice For Me?

Investments – The residential investment market is our specialty. Our constant market participation allows us to identify trends and inventory levels better than our competitors. We know where and what to look for when locating an investment property that fits your investment objectives.

Financial Analysis – In addition to researching viable investment properties we fully analyze the wealth generation capabilities of each asset under consideration.

Smooth/Efficient Transactions – We communicate effectively with our clients throughout the complex and tedious transaction process. We achieve efficiency through our experience and work ethic.

Buying - When buying an investment, we are dedicated to finding a property that meets all of your needs and provides exceptional value for your money. We pride ourselves on being extremely efficient and streamlining the real estate process because we value your time. Our main goal is to ensure the transaction is in your best interests and proceeds as smoothly as possible.

Selling – When selling an investment, we want the whole process to go as smoothly as possible, and to sell your property for top market value. Through the implementation of a full marketing campaign we will generate the required exposure to expedite the sale of your investment.

Relationships – Velocity Real Estate and Investments values strong relationships and desires to create sustained communication with our clients. We accomplish this by listening to our client's needs and wants, and taking the time to get to know them personally.



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How Does Property Investment Differ From Stocks?

Property Investors Do Not Buy Indexes and Averages. Speculators seek returns based on short term trends and market momentum. Investors buy specific assets according to their personal investment objectives. A speculator does not capture the long-term asset gains (inflation plus appreciation) that prudent investors earn. Also, purchasing property makes it easier to maintain the tried and true method of buy-and-hold that is necessary in either real estate or stock investing.

Intelligent investors select specific assets for their wealth-building potential. Investors who apply quality research and financial analysis can outperform the average price increases of the real estate market, thus capturing upside, known as alpha.

Inflation Risk: Property Protects Better than Stocks. The economic conditions of the future are difficult to accurately predict. Will the CPI start climbing at an increased rate? The current monetary and fiscal policies in the U.S. point in that direction. During periods of accelerating inflation, most investors are happy to earn returns equal to inflation. Investment property can be used as a hedge against runaway inflation and offer better wealth protection than stocks or bonds.

Low Rates of Appreciation Still Create Big Returns. Assume you acquire a \$100,000 property. You borrow \$80,000 and place \$20,000 down. During the next five years, CPI advances by 50 percent. However, your property, though, lagged the CPI, so its price only increased by 25 percent. Your real wealth fell, right? No, it increased.

Through the use of financial leverage, you now own a property worth \$125,000, but your equity wealth, your original \$20,000 cash equity in the property, has grown to \$45,000 (not counting mortgage amortization of principal). You have more than doubled your money. To have stayed even with the CPI, your equity only needed to grow to \$30,000.

Build Wealth through Amortization. Assume you own a \$1,000,000 apartment building that produces zero cash flows. This means you apply every dollar of net operating income to paying down your mortgage balance of \$800,000. After 20 years, you own the property free and clear. This property experienced no gain in price. It's still worth \$1,000,000. No price gains from inflation, no price gains from appreciation, and no money pocketed from cash flows. This is a very pessimistic scenario, and in most cases the property would have been much more profitable. Yet, over a 20-year period, you grew your equity from \$200,000 to \$1,000,000—a five-fold gain, and an annual compound growth rate of more than 8 percent. Your tenants just bought you a \$1,000,000 property.

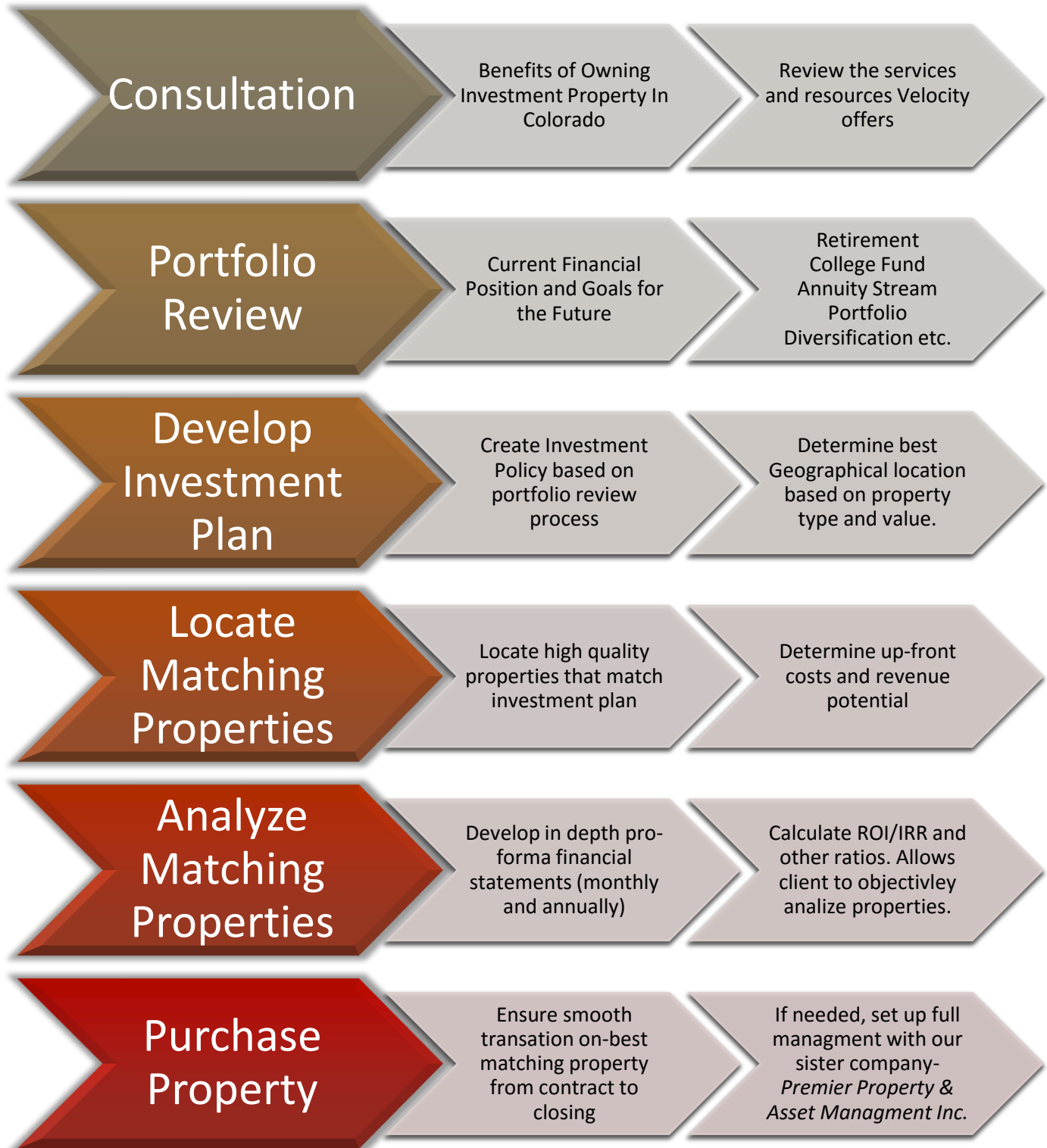
Diversification from Financial Products. Although some investors prefer stocks, those investors would prove themselves wise to diversify part of their portfolio into property. During periods of expected and unexpected inflation, property prices have kept pace with or exceeded the rate of growth in the CPI. Leverage can magnify small price gains into double-digit rates of growth in your equity.

Property prices show much less short term volatility than securities and bond prices. The recent recession, surfeit of foreclosures, and price downturns for many properties seem mild compared to the periodic drops in stock prices. Cash flow positive real estate investments provide great portfolio diversification while earning handsome returns. Real estate investment also provide access to today's low cost of borrowed funds.



Flow Chart

The outline below is the typical process our brokers take clients through when determining the type of property, location, and financing terms that will best suit their needs. Velocity is a full service broker, meaning our agents accompany you through every step of the process from initial consultation through closing. We can even arrange property management if required. Each step is explained in more detail on pages 5-10.



Step 1: Consultation

The first step in our investment process consists of a brief consultation in order to understand your objectives in real estate ownership, particularly in Northern Colorado. The consultation is generally done over the phone and kept fairly brief. Our brokers take the lead in this meeting and spend the bulk of it detailing current trends in real estate and relevant demographic information. The bullet points below explain some of the high-level factors we talk about in the first meeting to give potential investors the most accurate information about the Colorado real estate market. We also discuss the benefits Velocity provides with a general purpose real estate agent. Our quantitative financial analysis models and ability to recognize qualitative characteristics are superior to that of the average agent just looking for commission. The goal is to begin building a lasting relationship and begin the investment process positively and productively.

Investment Tip #1 Avoid Rental Vacancies Like the Plague

High vacancy rates can turn a profitable property into a money-loser faster than almost anything else. It is extremely important to be proactive when searching for tenants and marketing your property. Here are a few tips on how to keep vacancy to a minimum:

- Respond to tenant calls immediately
- Clean thoroughly before a walk-through
- Do some light staging, it will set your property apart from the others
- Hire a property management firm to take care of everything for a small fee
 - Velocity provides management through *Premier Property and Asset Management*. We can take care of all your management needs

Throughout the consultation, our brokers will explain the current state of Colorado's real estate market and ask general questions:

- What are you expecting from a real estate investment?
- Where Colorado's real estate market is headed over the next 10+ years
- The financial tools we use to match your individualized investor profile to investments that maximize return
- General considerations that should be made before beginning your search for a property

We also encourage potential investors to voice any concerns or questions regarding real estate investments.

- What if the economy dips into another recession?
- Why should I invest with a specialized real estate broker rather than a traditional agent or doing it myself?
- Can I really afford my own investment property?
- What sort of time commitment is required for maintenance, marketing etc.?
 - How can I reduce this commitment?



Step 2: Portfolio Review

After you have determined that real estate is the right investment, it is time to take the next step. The portfolio review process requires careful review of investors' financial position and goals to determine how to move forward with an investment strategy. This is one area where Velocity delivers much more value than a traditional real estate agent. All of our brokers have a minimum of a bachelor's degree and years of experience dealing with investment real estate in Colorado. Velocity's brokers spend a great deal of time trying to understand not only the investors' financial position, but also their personal aspirations. This is important because it gives us a more complete picture of your objectives, while saving valuable time and money later in the process.

All of our brokers have a slightly different strategy and set of questions throughout this process, but their final goal is the same: To meet your investment objectives.

Below is a short list of some of the things we review before developing an investment plan:

- Current Financial State
 - Monthly Liabilities
 - Total Assets
- Future Financial Goals
 - Monthly cash flows required?
 - Risk tolerance
- Why are you investing in Real Estate?
 - Annuity Stream
 - College Fund
 - Retirement
 - Diversify Portfolio, etc.

Investment Tip #2 Understand the Different Types of Lenders and Secure Funding First

Before you start scouting potential properties, it is imperative that you secure funding for your investment. At Velocity we carefully look at your financials and long term goals to determine how much you can afford to invest. We help you determine optimal funding scenarios and funding sources.

Prior to securing funding, make sure you understand everything so you end up with favorable terms. We always recommend getting multiple quotes from different banks, and having a third party look over all offers (like a broker or lawyer) before signing any agreements or looking for property.

We understand that every investor is different. This is why we encourage clients to be as detailed possible and comfortable throughout the portfolio review process. Even events and goals that may seem insignificant can have a large impact on your ability to meet liabilities. Full disclosure ensures that we can develop a very accurate risk-return profile that is individualized for each investor and property purchase.



Step 3: Develop Investment Plan

Once we develop a comprehensive investor profile we use the information to determine which investment would achieve a consummate risk-return profile. This step allows us to maximize the cash flow and equity growth potential.

You may be surprised by how many 'professional' real estate agents do not develop a financial plan for potential investment properties. At Velocity we build the foundation for our plans based on the stability and security of real estate investment. We explain how the basic principles of finance apply to your personal real estate investment options. To understand the basic structure of our Investment plan, it is important to have an understanding of the following five key elements of real estate investing:

1. **Real estate never goes out of business** – There are places in the world where people are still living in homes that are hundreds of years old. Buildings have life cycles, and sometimes old structures are updated or replaced with newer buildings. But the important thing to remember is the land is finite and holds intrinsic value.
2. **Real Estate offers four main return components** –
 - a. Cash Flow
 - b. Equity growth from amortization
 - c. Equity growth from appreciation
 - d. Tax benefits
3. **Hedge against Inflation** – Virtually everything increases in price over time because of inflation and real estate is no exception.
4. **Applying leverage** – Debt purchasing allows real estate investors to magnify returns from cash and appreciation. A lower down payment increases the effect of this magnification.
5. **Tax Benefits** – The non-cash expense of depreciation is the greatest tax benefit of owning real estate. Also, real estate profits can be re-invested into additional properties without paying taxes using the IRS 1031 exchange form.

This is just a brief outline of some of the factors we consider while creating the investment plan. The process is generally much more involved and varies widely on an individual basis. Please contact Velocity if you have any questions about the portfolio review process and developing a personalized investment plan.

Investment Tip #3 Invest in Real Estate Located in Good School Districts

Homes in bad school districts are much harder to rent and sell, they also tend to appreciate slower than comparable homes in good districts. Luckily for investors in Northern Colorado, the area is home to some of the best school districts and universities in the state. Make sure to always research area school districts before buying.



Step 4: Locate Matching Properties

After the investment plan is finished our broker will know exactly what sort of property they should be looking for. This includes the location, price, type (single-family, multi-unit, condo etc.), and ideal tenant. Many people do not consider their ideal tenant before purchasing their investment property, but it is extremely important to maximize your return. College students will generally not be as concerned with overall condition of a home as a family. This means if you are purchasing near a college campus with the intent of renting to students you can be less concerned with high-end features.

Depending on your specific needs outlined in the investment plan, there could be anywhere from just a few to literally hundreds of matching properties. Our broker's comb through a number of popular MLS systems and use local connections to find properties that match your investment plan. Properties are then ranked by how closely they match your profile. After the properties have been ranked we use proprietary software to run a variety of financial analysis calculations. The next page explains exactly what our software does and why it offers a competitive advantage over traditional analysis techniques.

Investment Tip #4 Know Your Financial Goals

It is important for investors to know how much they are willing to spend on an investment property and how much they expect to make off of the property as well.



Left: Horsetooth Reservoir, Fort Collins



Right: Apartments seen from Lake Loveland, Loveland



Step 5: Analyzing Matching Properties

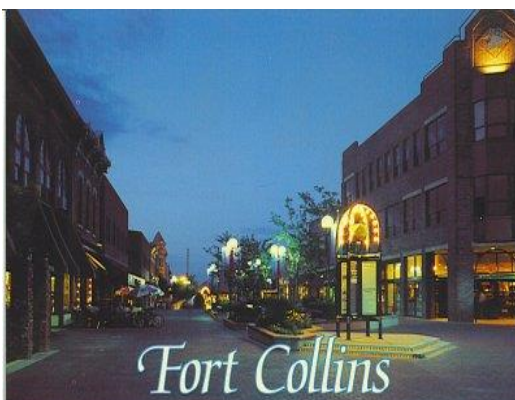
Velocity's proprietary and analysis tools offer a significant competitive advantage over the financial analysis performed by a typical agent. This state does not require real estate agents to have a Bachelor's degree, but all of our brokers at Velocity have graduated with degrees in business, real estate, finance, and other related fields of study. Our focus is analyzing and purchasing real estate for the specific purpose of income and wealth generation. We begin the analysis with certain assumptions on expenses with regard to the specific properties in consideration and the investor's individual financial situation.

Purchase Price	Percent Down	Loan Amount	Interest Rate	Mortgage Payment	Mgt. Fee
Insurance	Taxes	Maintenance	Utilities	CAPEX	Appreciation Rate

We then enter revenue assumptions based off of rental rates of comparable homes and appreciation rates in the neighborhood. Other important revenue variables/assumptions include:

Vacancy Rate	Cost Appreciation	Tax Deductions	Interest write-offs	Other Income
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To more accurately identify profitable investment properties we perform a sensitivity analysis that incorporates the standard deviation of rental rate and property appreciation rates in the area. The sensitivity analysis model shows our brokers how the properties price and rental rates will change in the event of unexpected swings in the real estate market. One property may look like a clear choice based on ROI and ROE calculations, but the level of risk determined through the sensitivity analysis can make alternative properties competitive. For some investors, the right move is to invest in a defensive property that may generate slightly lower cash flows but protects against downside risk. For more information on how we perform our sensitivity analysis and return calculations we encourage you to contact a broker.



Investment Tip #5 Keep an Emergency Fund

We always advise clients to set aside at least a few months of mortgage payments (or around \$3,000) in the event of an unexpected problem. Homes are very expensive assets and it is very important to deal with any potential problems quickly, and without putting too much strain on financial security. Foregone repairs can also result in losses from vacancy or low rental rates.



Step 6: Purchase Property

The final step in the process is to purchase the property that best fits your investor profile. This can be the most daunting step when trying to purchase property on your own, but at Velocity we make it as streamlined and stress-free as possible. Because all of our brokers have dealt with numerous purchases they understand complicated legal paperwork that is difficult to fully understand for most individuals. People who try to tackle the process alone tend to pay above market value and end up with unfair terms of sale. Our years of experience and extensive market knowledge means we always pay a fair price for your investment and acquire it as fast as possible, so you can begin generating cash flows.

The process of purchasing an investment property is no different than any other home purchase. Below is a brief overview of the steps taken from escrow to closing:

- 1. Go into escrow/open escrow account**
 - a. After signing purchase agreement
- 2. Await bank appraisal**
 - a. Bank providing mortgage will do their own appraisal of the property
- 3. Secure Financing**
 - a. You should already be pre-approved before making an offer but the bank issues a good faith estimate of loan amount, interest rate, etc.
 - b. This good faith estimate can be negotiated
- 4. Approve sellers terms**
- 5. Inspections**
 - a. Home, pest, environmental, etc.
- 6. Obtain hazard/homeowners insurance**
 - a. Flood insurance in high-risk areas etc.
 - b. Required by lender until mortgage is paid off
- 7. Obtain title report and title insurance**
 - a. Make sure there is no lien against property (protects you from legal issues)
 - b. Also required by lender
- 8. Final Walkthrough**
- 9. Review HUD-1 form**
 - a. Final statement of loan terms/conditions
- 10. Close Escrow**
 - a. Sign paperwork, pay down payment etc.

After making your investment, the most important thing to do is maintain your asset and keep vacancy rates minimal. A major cause of lost revenue among inexperienced investors is deferred maintenance problems that intensify and poor marketing/tenant selection. Because of this, we strongly encourage clients to leave their asset under control of a property management company. Property management companies charge a small fee to market and maintain your real estate investment. Listing with a management company will generally maximize your rental potential so the small monthly cost is offset by larger more consistent cash flows.





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Image: Twin Peaks Mall Redevelopment Plan –
Longmont