



CALIFORNIA ECONOMIC UPDATE

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Lessons Learned from Buying Out of State

As California winds down yet another bull run, many of you will and should consider selling/exchanging some of your marginal properties.

I have ventured out of the state of California four or five times in my real estate investment career. All of those ventures were initiated for different reasons. From each of these experiences came different lessons. Here are three different out of state experiences and some of the lessons I've learned (some of which you can hopefully learn and not repeat).



Grand Junction, Colorado 1984-1990

The Grand Junction investment was initiated to buy bargain properties (80% discount from peak) in the area. My investment career really had just begun when I had an opportunity to buy properties in Grand Junction, Colorado. I was 32 years old when I took this on.

I had a friend named Marty whose father had moved from Riverside, California to Grand Junction. His father was a Realtor. In the early 80s, I went to church with Marty and once in a while I would ask how his father was doing.

When I asked in 1981, everything was great. In May of 1982, it turned not so great. Oil shale left the area and eventually, 15,000 people migrated out of Grand Junction, Colorado.

A few years later, I made a bulk purchase of all of the HUD-owned fourplexes in the area. Each fourplex was selling in spring of 1982 for about \$200,000. I purchased them for \$40,000.

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NEWSLETTER TEAM

Bruce Norris

Aaron Norris

Joey Romero

Rich Durant, *Graphic Design*

Please forward all questions or comments to aaron@thenorrisgroup.com.

Here are four lessons I learned from Grand Junction:

- **Leave your California brain at home.** It was incomprehensible to me that the fourplexes were 50% vacant. I was from California and renting something was pretty easy. Two years later the fourplexes were still 50% vacant. I learned that the type of inventory you own and have for rent really matters. I owned two story fourplexes in marginal areas. What percentage of the potential renters would really be interested in my building? I'd have to say at least 50% passed. When you invest in something out of state, make sure it's desirable inventory.
- **Have a team in place before you buy anything.** Before I purchased anything in Grand Junction, I flew there seven times to put together a team of people. The most important person was my property manager, Mary Simpson. Because of her, I did not have to worry about Grand Junction, at least from a trust standpoint. When you invest in properties in other states, put together a team of people you trust or adopt someone else's team who has already done the work.
- **Be careful of areas dominated by one type of employment.** When oil shale left Grand Junction, the area went into a depression. Prices went down by 80% and people left by the thousands. Be careful to invest where the economy is not dependent on a single industry.
- **Understand how far local people are willing to drive to rent your property.** One of the reasons I was pretty sure we'd rent out the units was that there was a college nearby. Well, at least I thought it was close by. It was about 10 miles away. When I suggested we rent to college students, Mary Simpson said, "You really think they are going to bike ride 10 miles in the snow?" I had not thought of that! Make certain your investment area(s) are close to work centers.

Miami, Florida and Hurricane Andrew 1992-1993

My Miami investments were initiated to buy discounted properties after Hurricane Andrew in 1992. Up until Hurricane Irma, this Category 5 storm was the worst storm in Florida's history. It completely destroyed 63,000 homes and damaged an additional 100,000.

My friend Alex Navarro had moved from California to the Miami area. He ran a "We Buy Houses" advertisement in the local newspaper. Thirty days after Hurricane Andrew hit, Alex's phone lit up with phone calls from people who had damaged homes and had just received their insurance settlement.

There are the lessons I learned dealing with a hurricane in Florida.

- **Insurance companies over-pay for hurricane damage.** After Hurricane Andrew hit, thousands of homes sustained damage. Many people needed an immediate response from their insurance companies as well as the building and safety departments. The system became overwhelmed with the sheer volume of damaged properties that had to be seen. The demand exceeded the supply of experienced inspectors and insurance companies often declared a home a total loss that really just had roof and water damage. I learned from this experience that hurricanes can be a very profitable event for someone in our business.

- **Having your own team of repair people who can react immediately is critical.** My friend and I bought a dozen or so properties at around 20% of value. The former owner received 80% of value from the insurance company and got the remaining 20% from us. We got a deal and they got to move on with life. Everyone in Miami needed contractor work on their house. Everyone needed to relocate from their damaged home to a safe home. We had to fly a workforce in from California to repair the properties. If I owned properties in a hurricane area, I would be already working with a team of repair people and immediately repair the properties before the crush came later.
- **Newly built properties survive much better in hurricanes.** Newer built properties have increased safety and more modern building codes. After Hurricane Andrew, Florida got serious about building code and the enforcement of their codes. If you are going to invest where hurricanes occur, buy something new or at least buy properties built with block; not framed with wood. In 1992, any 3 or 4-bedroom home that was available and undamaged rented for about \$4,000 a month and the insurance company paid for it.

Floridians view hurricanes like Californians view earthquakes. Hurricanes to locals are not a big deal. I think that's because most people have been through a lot of them and have learned to take the proper precautions.

Florida 2017-Present

I initiated my most recent round of investments in Florida because I wanted to sell properties in a marginal area of Moreno Valley and buy brand new properties in Florida.

During the downturn, I was fortunate enough to buy several properties in Moreno Valley. I paid from \$64,000 to \$80,000 for three-bedroom houses. In 2016, their value had grown to about \$275,000. I was interested in selling the properties because I never liked this area of Moreno Valley. It was known for being a high crime area. I was always concerned about having a vacancy, so I never raised rents.

There was only one reason I bought the Moreno Valley homes. I bought them cheaply and I wanted them to go up in value! By 2016, the houses had done their job!

The homes rented for \$1,200. When you have a cost of between \$64,000 and \$80,000, \$1,200 a month rent is a good yield. In 2016, I owned a \$275,000 asset and it still produced \$1,200 rent...not so good.

Although I knew it would be a hassle, I decided to sell the Moreno Valley properties and buy brand new houses in Florida. The exchange worked something like this: Each Moreno Valley home sold for \$275,000 and each new Florida home cost at the time about \$160,000. I was able to get the builder to build me a \$190,000 house for \$160,000 because I bought a bunch of them. I was able to exchange two Moreno Valley properties for three brand new homes in Florida.

My rents for the two homes in Moreno Valley were \$2,400 total. My rents for the three Florida homes were about \$4,000 total. I exchanged something worth \$550,000 and received something worth \$570,000. (The discount price paid for the entire pile of closing costs). I went from owning two older houses in a lousy area to owning three new houses in an up-and-coming area. (This is not rocket science is it?)

Two years later, these are the lessons I have learned:

- **Having new houses to rent is a very smart idea.** You have very little competition and you win what I call “tie-breakers.” When both the area is good and the homes are new, you stay rented! Because the homes are new, my repair bills are very small. I am in a growing area (as much of Florida is) and I have very desirable tenants because of the desirability of the properties.
- **New construction means less repairs.** In 2017, I had a hurricane go right over my little tract of houses. I had 20 houses at the time. The total damage was \$5,000...whew!

I have implemented the past lessons learned about hiring a very dependable team to take care of my properties. We have now deal with a very experienced land company, a regional builder, and property manager. Because of this positive experience, I just came to an agreement with a regional builder to build many more homes in Florida.

County Charts

For every county mentioned in this section, we estimated the maximum payment that could be reached for each county. We based that on the median price for the county in the first quarter of 2005. California reached 17% affordability in the first quarter of 2005 and we considered that coincided with a legitimate peak price.

We took the going fixed interest rate in the spring of 2005, took 80% of the median price (20% down) and created a principle plus interest payment (PI payment). This was considered the maximum payment in relationship to the county’s median income. We recently updated all the counties to reflect increased income.

In the first section, you’ll see a peak heading. We used the median price reached in the first quarter of 2005 here. Then you’ll see January 2015 and August 2018. We took 80% of the median price and created a PI payment.

In the second section, you’ll see a series of interest rates and a calculation of the maximum payment for each county. The maximum payment for each county grew as wages increased. Example: See Orange County peak payment of \$3,299 (4/05). We now use the peak payment of \$3,892 as we have updated these numbers to reflect income increases as of 2018. As the chart reflects, as interest rates rise or fall, it changes the price potential of each area.

Example: At a 4% interest rate, Orange County can reach a \$1,019,029 median price. However, if interest rates go to 5%, the maximum price goes down to \$906,260. With the current median price at \$810,000 for October 2018, this county still has room to increase in price.

Contrast that with San Francisco County: The maximum payment for this county started out at \$4,598 at the last peak. That has increased due to wage growth up to a \$6,263 max payment. Their current median price is \$1,600,000. At a 4% interest rate, to get to the \$6,263 monthly payment, price can increase to \$1,639,820. At 5%, however, the price potential goes down to \$1,458,352. With interest rates at about 5%,



San Francisco County is already over the calculated monthly payment max.

Santa Clara County is the other county that is bumping up to the maximum monthly payment.

There are many counties that have plenty of monthly payment room to grow. Among those counties are Fresno, San Bernardino, Riverside, Kern, and Sacramento counties. All of these counties are nowhere close to their former payment ratio.

However, having said that, almost all counties are doing two very unusual things at this point. With state affordability still around 26%, full employment, and extremely low foreclosures to compete with, sales are down, inventories are rising, and prices are getting soft.

At the January 26th event, we'll take this unusual outcome apart and see if it's seasonal or if, in fact, California is now on "borrowed time." See each county starting on the next page.

CALIFORNIA REAL ESTATE: ON BORROWED TIME



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Orange County Potential Price Increases

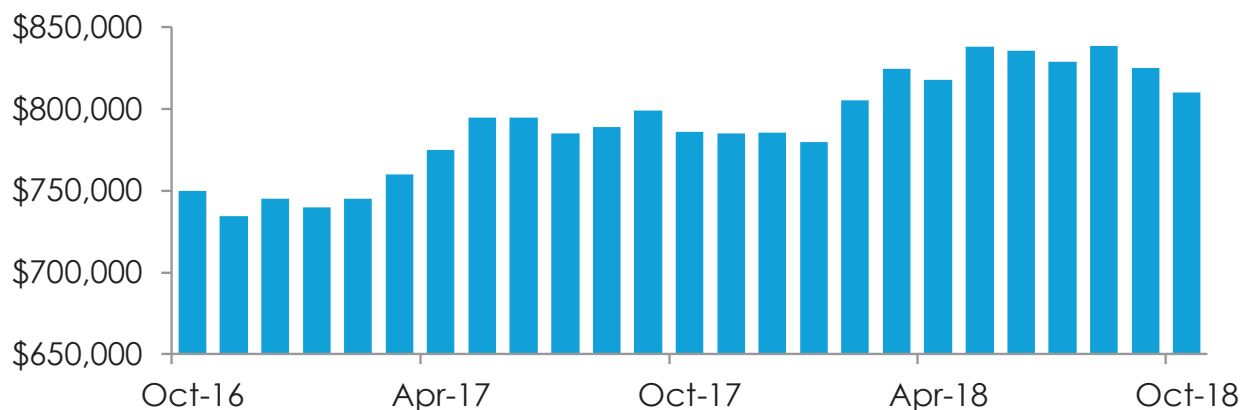
- Assume median income at peak in 2005
- Peak price was \$775,424 due to aggressive lending, assume \$697,798 max price and max payment \$3,299.
- In 2018, update to increase max payment to \$3,892 to reflect increase in median household income (\$593)

	Peak	Jan-2015	Oct-2018
Price	\$ 697,798	\$ 692,390	\$ 810,000
80% loan	\$ 558,238	\$ 553,912	\$ 648,000
Mortgage Payment (PI)	\$ 3,299	\$ 2,644	\$ 3,479

	3%	4%	5%	6%
Median Price	\$ 1,153,926	\$ 1,019,029	\$ 906,260	\$ 811,441
80% of Median Price	\$ 923,141	\$ 815,223	\$ 725,008	\$ 649,153
Mortgage Payment (PI)	\$ 3,892	\$ 3,892	\$ 3,892	\$ 3,892
Potential Upside if Interest Rates Remain at Interest Rate Listed	42.5%	25.8%	11.9%	0.2%

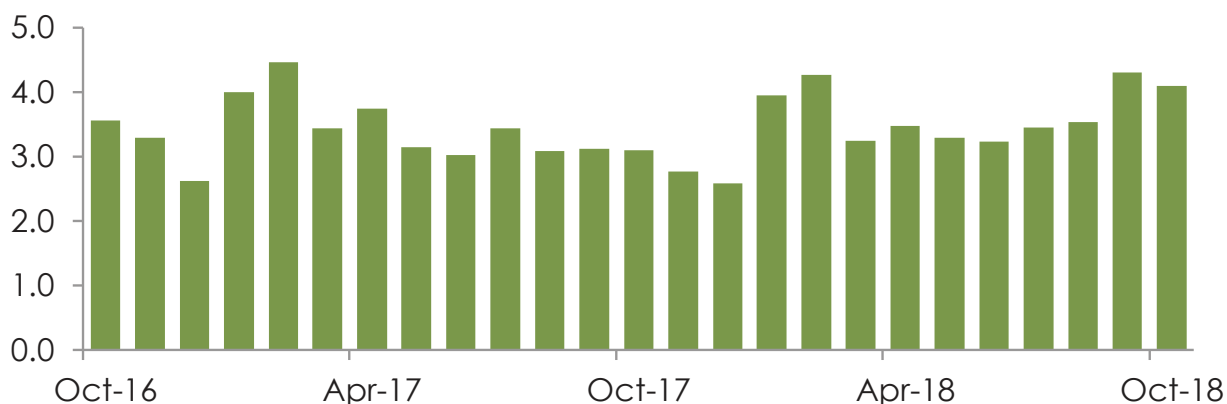
Source: The Norris Group.

8. Median Price – Orange County



Source: California Association of Realtors.

9. Unsold Inventory – Orange County (in months)



Source: California Association of Realtors.



Riverside County Potential Price Increases

- Assume median income at peak in 2005
- Peak price was \$431,713 due to aggressive lending, assume \$389,406 max price with goal max payment \$1,842
- In 2018, update to increase max payment to \$2,139 to reflect increase in median household income of \$297

	Peak	Jan-2015	Oct-2018
Price	\$ 389,406	\$ 322,700	\$ 400,000
80% loan	\$ 311,525	\$ 258,160	\$ 320,000
Mortgage Payment (PI)	\$ 1,842	\$ 1,232	\$ 1,718

	3%	4%	5%	6%
Median Price	\$ 634,185	\$ 560,047	\$ 498,070	\$ 445,959
80% of Median Price	\$ 507,348	\$ 448,038	\$ 398,456	\$ 356,767
Mortgage Payment (PI)	\$ 2,139	\$ 2,139	\$ 2,139	\$ 2,139
Potential Upside if Interest Rates Remain at Interest Rate Listed	58.5%	40.0%	24.5%	11.5%

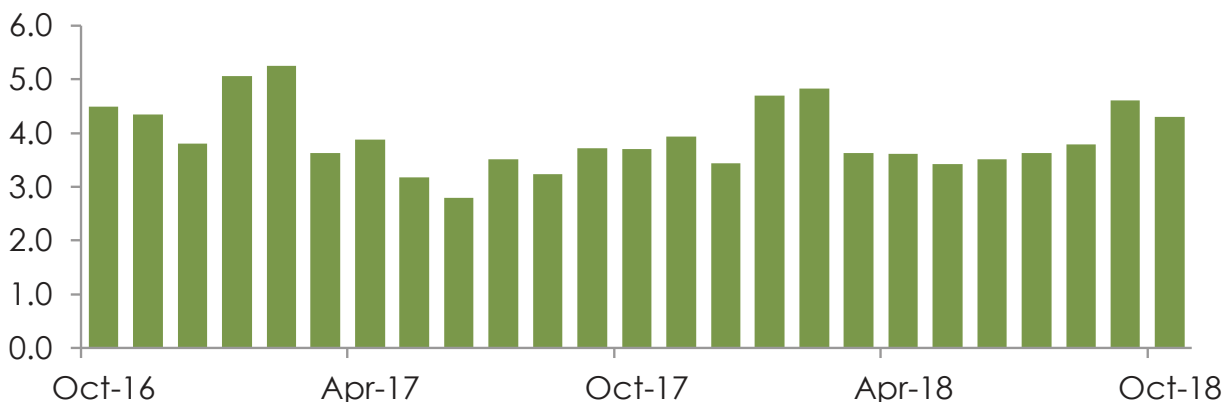
Source: The Norris Group.

10. Median Price – Riverside County



Source: California Association of Realtors.

11. Unsold Inventory – Riverside County (in months)



Source: California Association of Realtors.



Sacramento County Potential Price Increases

- Assume median income at peak in 2005
- Peak price was \$394,450 due to aggressive lending, assume \$369,765 max price with goal max payment \$1,750
- In 2018, update to increase max payment to \$2,051 to reflect increase in median household income of \$301

	Peak	Jan-2015	Oct-2018
Price	\$ 369,765	\$ 270,150	\$ 360,000
80% loan	\$ 295,812	\$ 216,120	\$ 288,000
Mortgage Payment (PI)	\$ 1,750	\$ 1,032	\$ 1,546

	3%	4%	5%	6%
Median Price	\$ 608,094	\$ 537,006	\$ 477,579	\$ 427,612
80% of Median Price	\$ 486,475	\$ 429,605	\$ 382,064	\$ 342,090
Mortgage Payment (PI)	\$ 2,051	\$ 2,051	\$ 2,051	\$ 2,051
Potential Upside if Interest Rates Remain at Interest Rate Listed	68.9%	49.2%	32.7%	18.8%

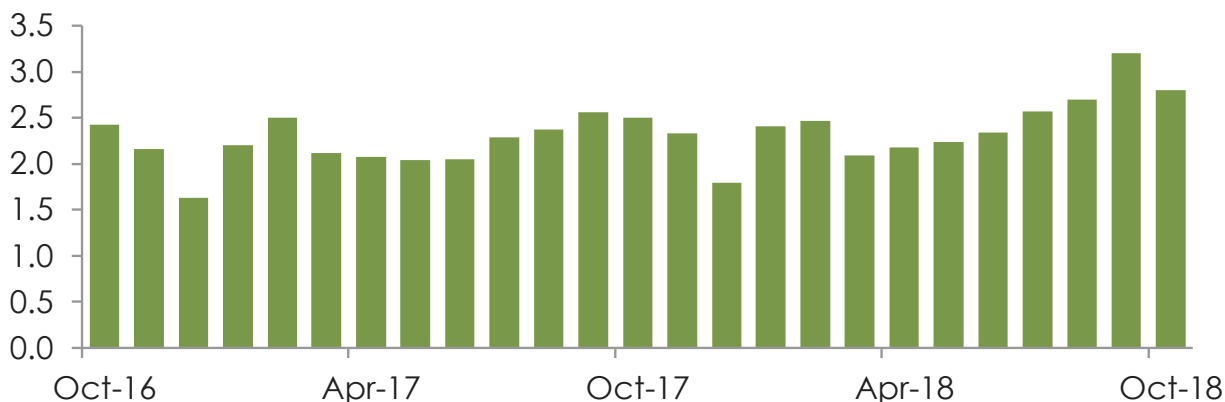
Source: The Norris Group.

12. Median Price – Sacramento County



Source: California Association of Realtors.

13. Unsold Inventory – Sacramento County (in months)



Source: California Association of Realtors.



San Bernardino County Potential Price Increases

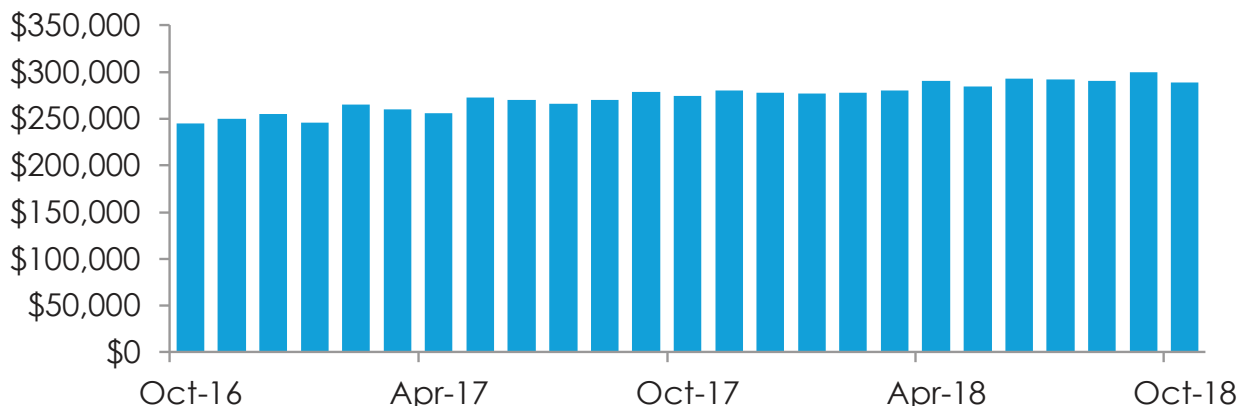
- Assume median income at peak in 2005
- Peak price was \$350,288 due to aggressive lending, assume \$301,799 max price with goal max payment \$1,432
- In 2018, update to increase max payment to \$1,711 to reflect increase in median household income of \$279

	Peak	Jan-2015	Oct-2018
Price	\$ 301,799	\$ 208,080	\$ 289,000
80% loan	\$ 241,439	\$ 166,464	\$ 231,200
Mortgage Payment (PI)	\$ 1,432	\$ 795	\$ 1,241

	3%	4%	5%	6%
Median Price	\$ 507,289	\$ 447,985	\$ 398,410	\$ 356,726
80% of Median Price	\$ 405,831	\$ 358,388	\$ 318,728	\$ 285,380
Mortgage Payment (PI)	\$ 1,711	\$ 1,711	\$ 1,711	\$ 1,711
Potential Upside if Interest Rates Remain at Interest Rate Listed	75.5%	55.0%	37.9%	23.4%

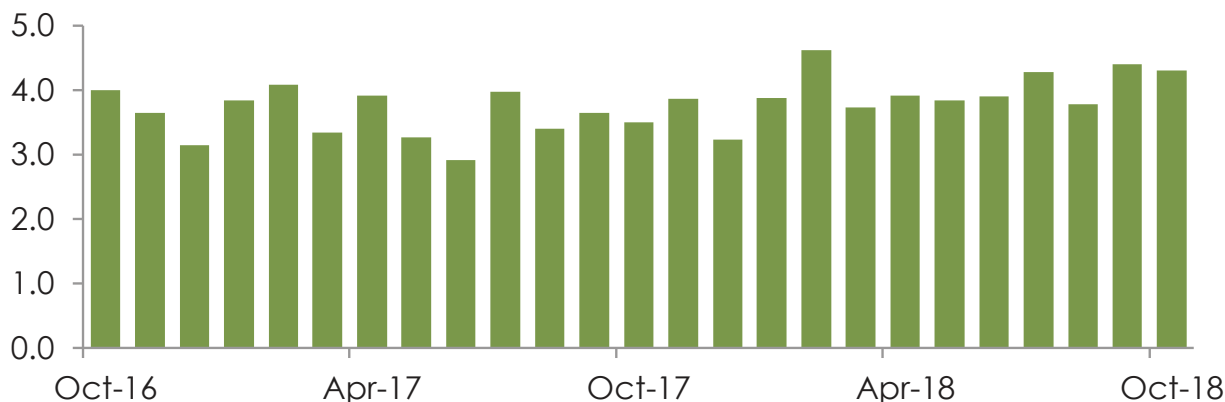
Source: The Norris Group.

14. Median Price – San Bernardino County



Source: California Association of Realtors.

15. Unsold Inventory – San Bernardino County (in months)



Source: California Association of Realtors.



San Diego County Potential Price Increases

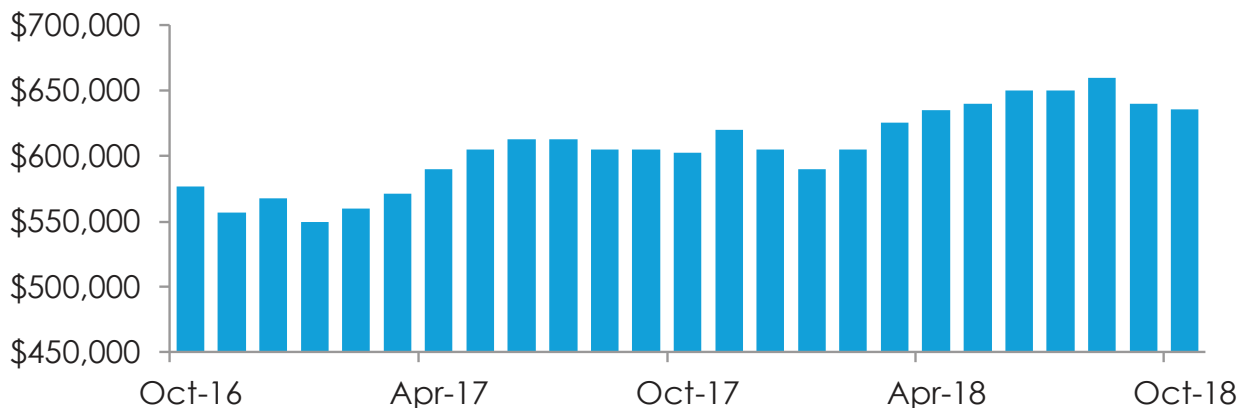
- Assume median income at peak in 2005
- Peak price was \$622,378 due to aggressive lending, assume \$593,601 max price with goal max payment \$2,808
- In 2018, update to increase max payment to \$3,351 to reflect increase in median household income of \$543

	Peak	Jan-2015	Oct-2018
Price	\$ 593,601	\$ 493,000	\$ 635,500
80% loan	\$ 474,881	\$ 394,400	\$ 508,400
Mortgage Payment (PI)	\$ 2,808	\$ 1,883	\$ 2,729

	3%	4%	5%	6%
Median Price	\$ 993,527	\$ 877,381	\$ 780,287	\$ 698,648
80% of Median Price	\$ 794,822	\$ 701,905	\$ 624,230	\$ 558,919
Mortgage Payment (PI)	\$ 3,351	\$ 3,351	\$ 3,351	\$ 3,351
Potential Upside if Interest Rates Remain at Interest Rate Listed	56.3%	38.1%	22.8%	9.9%

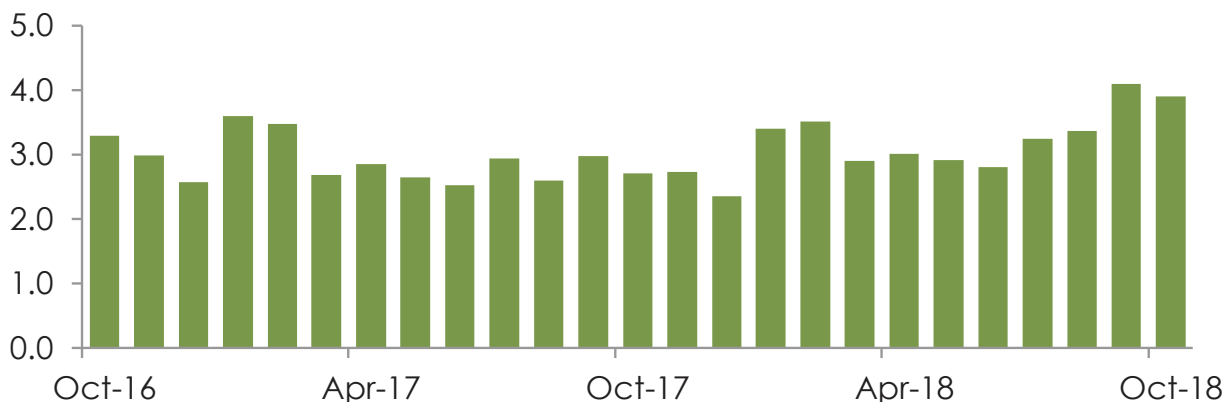
Source: The Norris Group.

16. Median Price – San Diego County



Source: California Association of Realtors.

17. Unsold Inventory – San Diego County (in months)



Source: California Association of Realtors.



Los Angeles County Potential Price Increases

- Assume median income at peak in 2005
- Peak price was \$625,812 due to aggressive lending. Going to use \$500,000 as max price with goal max payment \$2,365
- In 2018, update to increase max payment to \$2,858 to reflect increase in median household income of \$493

	Peak	Jan-2015	Oct-2018
Price	\$ 500,000	\$ 477,600	\$ 614,500
80% loan	\$ 400,000	\$ 382,080	\$ 491,600
Mortgage Payment (PI)	\$ 2,365	\$ 1,824	\$ 2,639

	3%	4%	5%	6%
Median Price	\$ 847,359	\$ 748,300	\$ 665,491	\$ 595,863
80% of Median Price	\$ 677,887	\$ 598,640	\$ 532,393	\$ 476,690
Mortgage Payment (PI)	\$ 2,858	\$ 2,858	\$ 2,858	\$ 2,858
Potential Upside if Interest Rates Remain at Interest Rate Listed	37.9%	21.8%	8.3%	-3.0%

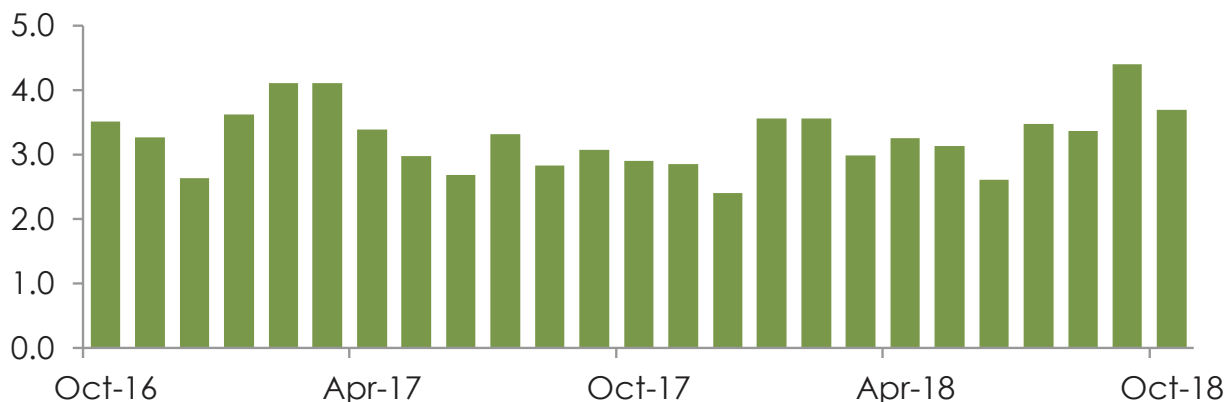
Source: The Norris Group.

18. Median Price – Los Angeles County



Source: California Association of Realtors.

19. Unsold Inventory – Los Angeles County (in months)



Source: California Association of Realtors.



Santa Clara County

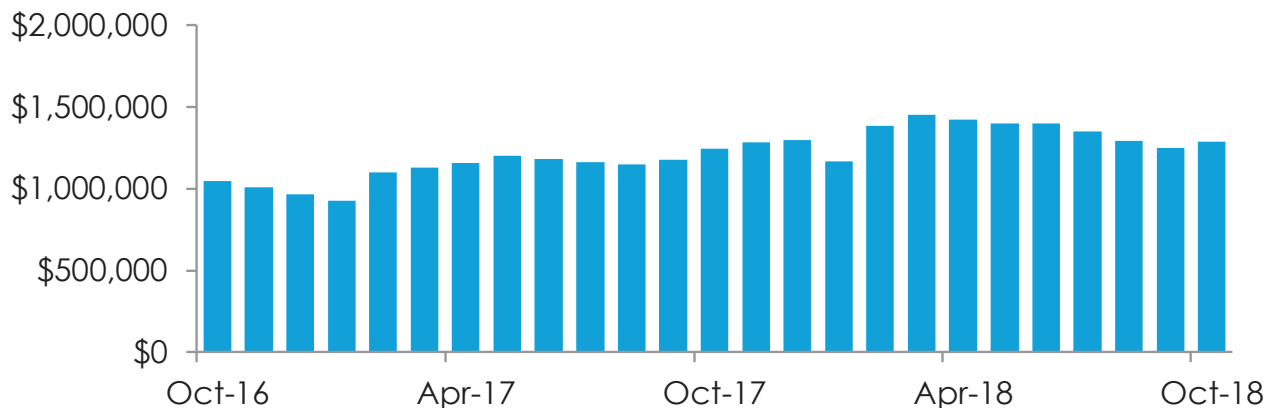
- Assume median income at peak in 2005
- Peak price was \$865,000 due to aggressive lending, assume \$865,000 max price with goal max payment \$4,092
- In 2018, update to increase max payment to \$5,341 to reflect increase in median household income of \$1,249

	Peak	2015	Oct-2018
Price	\$ 865,000	\$ 951,000	\$ 1,290,000
80% loan	\$ 692,000	\$ 760,800	\$ 1,032,000
Mortgage Payment (PI)	\$ 4,092	\$ 3,632	\$ 5,540

	3%	4%	5%	6%
Median Price	\$ 1,583,536	\$ 1,398,416	\$ 1,243,663	\$ 1,113,543
80% of Median Price	\$ 1,266,828	\$ 1,118,732	\$ 994,930	\$ 890,834
Mortgage Payment (PI)	\$ 5,341	\$ 5,341	\$ 5,341	\$ 5,341
Potential Upside if Interest Rates Remain at Interest Rate Listed	22.8%	8.4%	-3.6%	-13.7%

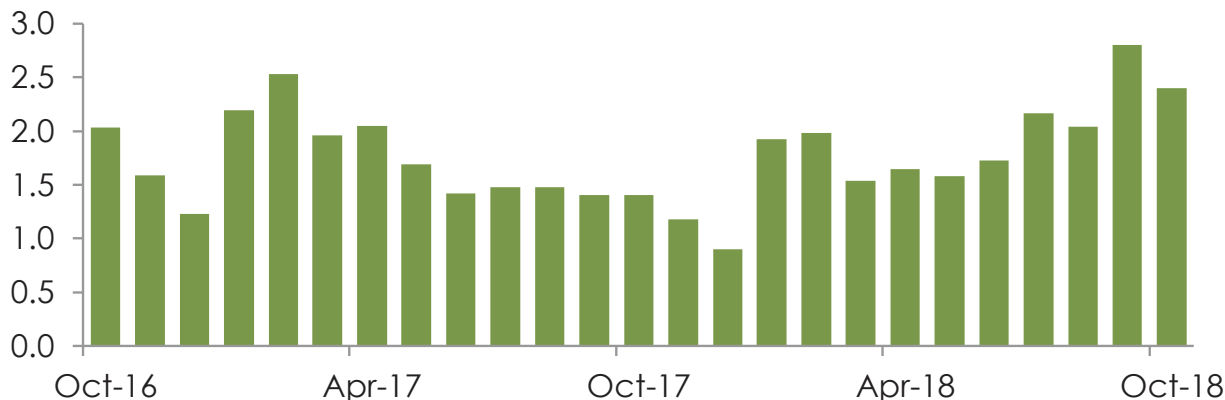
Source: The Norris Group.

20. Median Price – Santa Clara County



Source: California Association of Realtors.

21. Unsold Inventory – Santa Clara County (in months)



Source: California Association of Realtors.



San Francisco County

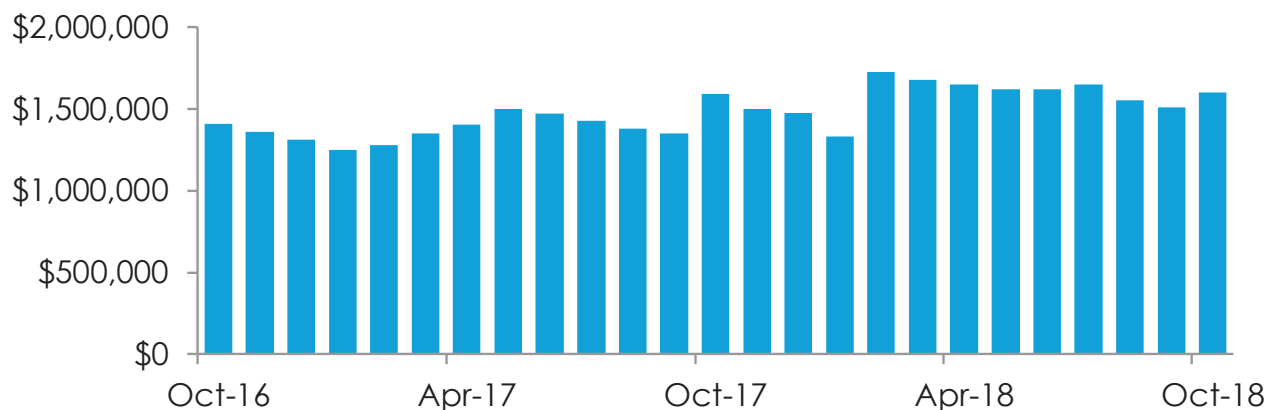
- Assume median income at peak in 2005
- Peak price was \$972,010 due to aggressive lending, assume \$972,010 max price with goal max payment \$4,598
- In 2018, update to increase max payment to \$6,263 to reflect increase in median household income of \$1,665

	Peak	2015	Oct-2018
Price	\$ 972,010	\$ 1,250,000	\$ 1,600,000
80% loan	\$ 777,608	\$ 1,000,000	\$ 1,280,000
Mortgage Payment (PI)	\$ 4,598	\$ 4,774	\$ 6,871

	3%	4%	5%	6%
Median Price	\$ 1,856,896	\$ 1,639,820	\$ 1,458,352	\$ 1,305,770
80% of Median Price	\$ 1,485,517	\$ 1,311,856	\$ 1,166,682	\$ 1,044,616
Mortgage Payment (PI)	\$ 6,263	\$ 6,263	\$ 6,263	\$ 6,263
Potential Upside if Interest Rates Remain at Interest Rate Listed	16.1%	2.5%	-8.9%	-18.4%

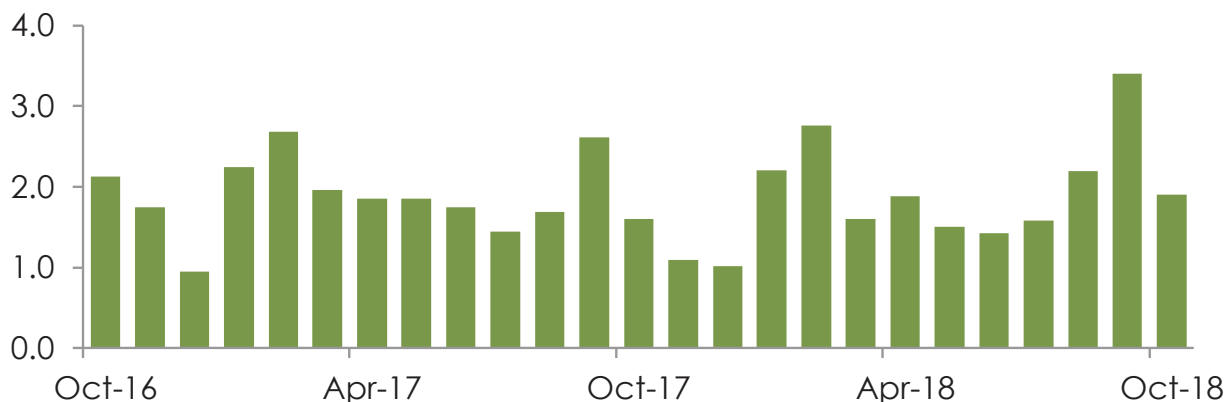
Source: The Norris Group.

22. Median Price – San Francisco County



Source: California Association of Realtors.

23. Unsold Inventory – San Francisco County (In months)



Source: California Association of Realtors.



Kern County

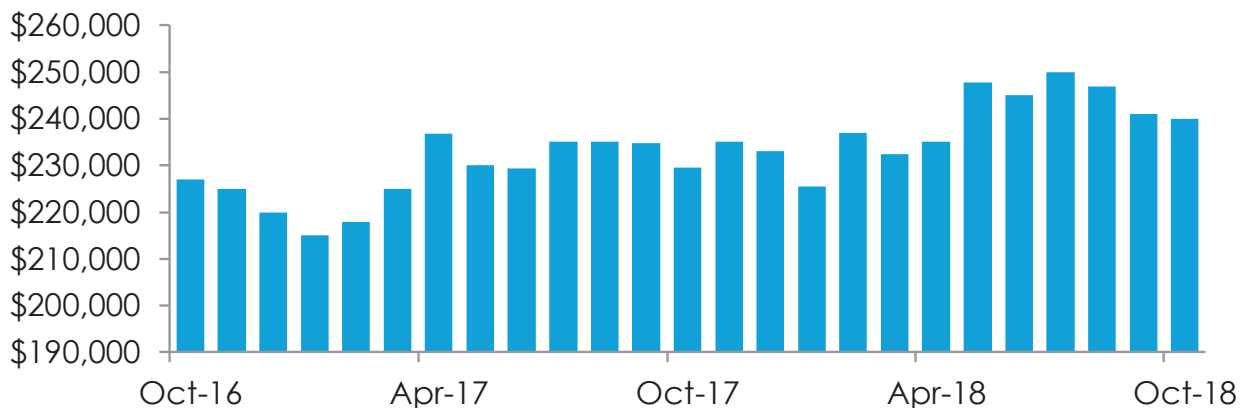
- Assume median income at peak in 2005
- Peak price was \$299,925 (6/06) due to aggressive lending, assume \$260,141 max price with goal max payment \$1,231
- In 2018, update to increase max payment to \$1,593 to reflect increase in median household income of \$362

	Peak	2015	Oct-2018
Price	\$ 260,141	\$ 219,900	\$ 240,000
80% loan	\$ 208,113	\$ 175,920	\$ 192,000
Mortgage Payment (PI)	\$ 1,231	\$ 840	\$ 1,031

	3%	4%	5%	6%
Median Price	\$ 472,303	\$ 417,090	\$ 370,933	\$ 332,124
80% of Median Price	\$ 377,843	\$ 333,672	\$ 296,747	\$ 265,699
Mortgage Payment (PI)	\$ 1,593	\$ 1,593	\$ 1,593	\$ 1,593
Potential Upside if Interest Rates Remain at Interest Rate Listed	96.8%	73.8%	54.6%	38.4%

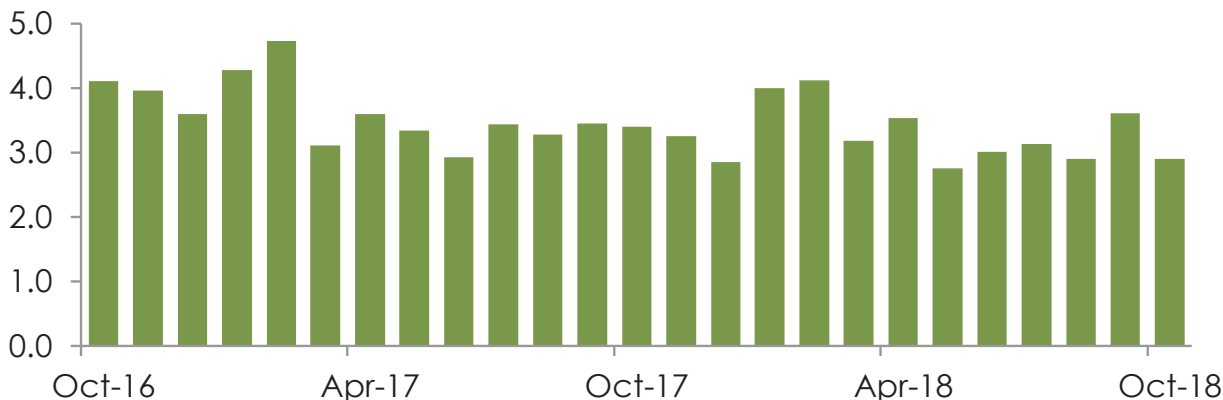
Source: The Norris Group.

24. Median Price – Kern County



Source: California Association of Realtors.

25. Unsold Inventory – Kern County (in months)



Source: California Association of Realtors.



Fresno County

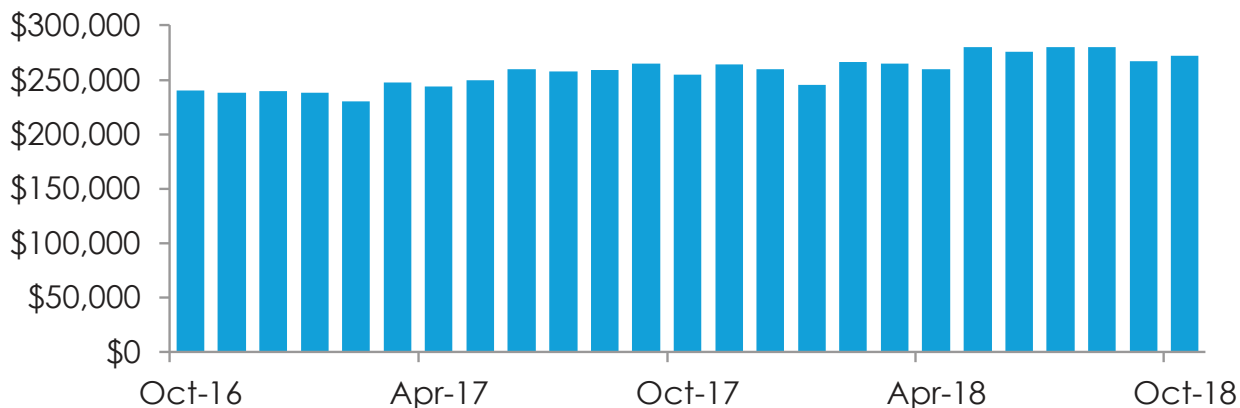
- Assume median income at peak in 2005
- Peak price was \$306,936 (3/06) due to aggressive lending, assume \$270,652 max price (4/05) with goal max payment \$1,280
- In 2018, update to increase max payment to \$1,540 to reflect increase in median household income of \$260

	Peak	2015	Oct-2018
Price	\$ 270,652	\$ 219,000	\$ 272,000
80% loan	\$ 216,521	\$ 175,200	\$ 217,600
Mortgage Payment (PI)	\$ 1,280	\$ 836	\$ 1,168

	3%	4%	5%	6%
Median Price	\$ 456,590	\$ 403,213	\$ 358,592	\$ 321,074
80% of Median Price	\$ 365,272	\$ 322,570	\$ 286,874	\$ 256,859
Mortgage Payment (PI)	\$ 1,540	\$ 1,540	\$ 1,540	\$ 1,540
Potential Upside if Interest Rates Remain at Interest Rate Listed	67.9%	48.2%	31.8%	18.0%

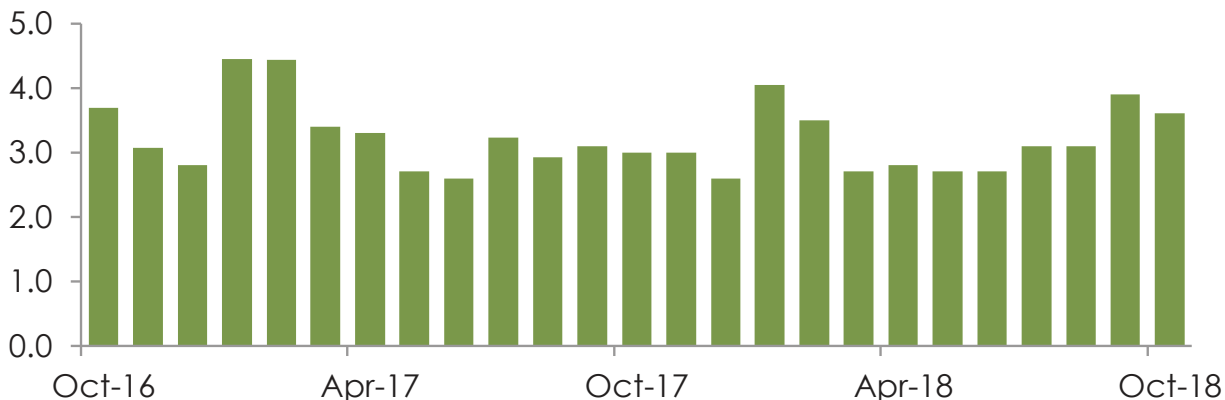
Source: The Norris Group.

26. Median Price – Fresno County



27. Unsold Inventory – Fresno County (in months) 2.8 month

Source: California Association of Realtors.



Source: California Association of Realtors.

BRUCE NORRIS' CALIFORNIA REAL ESTATE PREDICTIONS FOR 2019 TO ???

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2019 and Beyond.



CHAPTER OF THE REPORT

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	 FOR SALE		 FOR SALE		 FOR RENT		 FOR SALE	
	REHABBER/FLIP PROGRAM		REHABBER/FLIP PURCHASE PRICE		REFINANCE/RENTAL PROGRAM		BUILD TO FLIP PROGRAM	
	CA	FL	CA	FL	CA	FL	CA	FL
Term	1 YR (1 year extension avail.)	1 YR	1 YR (1 year extension avail.)	1 YR	3 YR	5 YR	1 YR	1 YR
Rate	11.5%	11.5%	8.9%	8.9%	6.9%	8.9%	11.9%	11.9%
Loan to Value	Up to 90% LTC & 100% Rehab	Up to 90% LTC & 100% Rehab	Up to 75% Purchase Price	Up to 75% Purchase Price	Up to 65% Loan to Value (LTV)	Up to 60% Loan to Value (LTV)	Up to 65% Future Value	Up to 60% Future Value
Prepay Penalty	None	None	None	None	1 YR	2 YR	None	None
Points	2pts	2pts	2pts	2pts	2pts	2pts	2pts	2pts
Fees	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095
Appraisal	\$375-\$400	\$375-\$400	\$375-\$400	\$375-\$400	\$375-\$400	\$375-\$400	\$375-\$400	\$375-\$400
Building Inspection	Inspection for repair releases.		N/A	N/A	N/A	N/A	Managed by funds control. Cost varies based on draws.	
Notes	70% ARV Max. Entities & Trusts OK in California. Registered FL entity require for FL loans.		Entities & Trusts OK in California. Registered FL entity require for FL loans.		Rental purchase program available. Call for details. We can assist with 1031 exchanges!		For build programs, investor must own lot free and clear and have approved construction plans and permits.	

* Loan rate assumes direct deposit. All loan programs subject to appraisal & vetting. See website for full details.