

2014 Calendar

GREC Brokerage Course & Trust Accounts Class Dates:

- December 3-4, 2014
GAMLS
www.GeorgiaRealEstateSchool.com

GREC Annual School Meeting Date:

- November 21, 2014
Athens, GA

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Crowds of Investors

The real estate licensee is required to be knowledgeable of the changes in the Georgia License Law, Rules, and Regulations. As a professional, he/she is also expected to be familiar with changes in the industry, the marketplace, and legislation relative to the practice of real estate.

Crowdfunding is a current example of how the combination of federal legislation and technology can impact the real estate industry. From a practical viewpoint, it involves obtaining crowds of investors to fund a project, portfolio, startup, etc. Crowdfunding has funded movies, businesses, real estate income portfolios, and more. As expected, there are many regulations, especially such as those implemented and still pending by the Securities and Exchange Commission (SEC), regarding crowdfunding, funding portals, and accredited investors, etc. The purpose of this article is merely to inform the licensees of pending changes in the industry that may lead to opportunities and encourage the licensee to do further investigation and learn more about possible future business opportunities.

What is [Crowdfunding](#)? It is actually an acronym for an Act passed in 2012:

Capital **R**aising **O**nline **W**hile **D**eterring **F**raud and **U**nethical **N**on-**D**isclosure

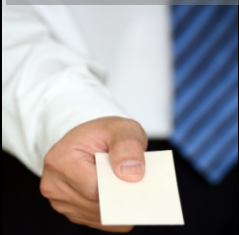
The Jumpstart Our Business Startups (**JOBS Act**) was signed by the President in 2012. Its purpose is to help startups and small businesses obtain funding in relatively low dollar amounts. Through crowdfunding an individual with a small investment could begin or participate in a new business venture or even invest in real estate by owning a share of a portfolio of investment properties. In that respect, crowdfunding may be beneficial to the real estate market, similar to the impact Real Estate Investments Trusts and syndications have had in the past. From a larger perspective, crowdfunding may act as a catalyst to increase the number of businesses and real estate transactions, particularly those in commercial real estate.

There are 2 particular parts (Titles) to the Act that are of particular significance:

1. **Title II** legalizes advertising and general solicitation of accredited investors, which essentially allows raising money from the public. What this means is that it is now possible to advertise on the Internet, social media, emails, street signs, etc. to find investors so long as the funds are invested through a qualified crowdfunding portal. Solicitation was not allowed in the past. By opening the

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Crowds of Investors

solicitation to millions of accredited investors, there should be more money available for investment. In the past, venture capital and private angel investors provided equity for small firms, acquisitions of properties, etc. The larger multimillion dollar businesses, projects, and properties have traditionally been funded by private equity funds, pension funds, insurance companies, and institutional investors. Now the market is virtually opened up to those of the public who are identified as “accredited” investors. The [definition of accredited](#) relates to the net worth or annual income of an individual, business, entity, etc. Accredited investors must be verified by the startup.

2. [Title III](#) of the JOBS Act defines regulations that will allow these types of investments to be “crowdfunded”. Although Title III is still in the final stages, certain aspects are already in place as noted by existing interim [crowdfunding portals](#).
3. The next phase of the JOBS Act further addresses solicitation and access to non-accredited investors. This means investors could self-certify that they meet certain financial requirements based on regulations and a system created by the SEC that will protect against fraudulent offerings. This has more potential to reach the smaller investor.

See [page 3](#) for a discussion on how crowdfunding could impact the real estate industry....



Focus on Terminology: “Funding Portal”

A Funding Portal refers to the method used by web sites to collect money from online investors for the purchase of offerings under CROWDFUNDING. In this context, it is the “portal” for the investment in a crowdfunding.

The Securities and Exchange Commission (SEC) sets regulations and guidelines regarding funding portals. The below excerpt from the SEC web site describes funding portals as a Crowdfunding Intermediary:

1. A funding portal must register with the SEC as a funding portal and not as a broker of securities.
2. Funding portals are subject to SEC examination, enforcement, and rulemaking authority.
3. A funding portal cannot offer investment advice or recommendations.
4. A funding portal cannot solicit purchases, sales or offers to buy securities offered or displayed on its website or portal.
5. A funding portal does not compensate employees, agents or other persons for such solicitation or based on the sale of securities displayed for referenced on its website or portal.
6. A funding portal does not hold, manage, possess, or otherwise handle investor funds or securities.
7. A funding portal does not engage in such other activities as the SEC, by rule, determines appropriate.

Source: <http://www.sec.gov/divisions/marketreg/tmjobsact-crowdfundingintermediariesfaq.htm>

Real Estate Investment Trusts (REITs)

“A [real estate investment trust](#) (“REIT”), generally, is a company that owns – and typically operates – income-producing real estate or real estate-related assets. REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership – without actually having to go out and buy commercial real estate.” Source: <http://www.sec.gov/answers/reits.htm>

What Might Crowdfunding Mean for Real Estate?

Whether it comes from Internet funding portals or individual transactions, the buying and selling of real estate is good news to real estate licensees. More transactions means more money and the increased velocity of money mean future sales.

Most commercial properties cost in the millions, but if an investor could purchase a percentage of equity in the form of partial ownership for much less, for example \$10,000, investing is opened up to many more buyers. Crowdfunding provides a means for *Joe Public* to invest in commercial real estate by enabling a smaller monetary commitment, especially when it is fully opened up to non-accredited investors. By pooling investors for large transactions, the overall volume of transactions will increase.

The firms creating the offering must buy properties to meet investor demand and that results in many more sales for listed commercial properties. The REIT (Real Estate Investment Trusts) must continually keep investing in real estate or pay dividends to stockholders, so they often use preferred brokers, licensees, and consultants to provide real estate brokerage services. Crowdfunding will likely follow the same trend encouraging investments in commercial properties and thereby increasing the volume of sales or exchange of real estate assets.

Similar to the popularity of real estate syndications or REIT (Real Estate Investment Trusts) in the '70s and '80s and 90's that allowed smaller investors to participate through stock ownership of professionally managed real estate portfolios; crowdfunding could be a significant catalyst to moving the real estate market forward at a faster pace. The important difference is that crowdfunding has the ability to solicit and raise funds through the Internet. It has already begun in commercial real estate, as there are several online funding platforms already in existence. One company boasts of raising over \$390 million in 9 months. The online funding platforms will evolve as will the regulations to regulate them and further protect the public and individual investor.

Crowdfunding opens up opportunities for licensees with listed properties by introducing more demand into the real estate market. Clearly, more transactions and turnover increases the availability of money in the marketplace which results in a boon to real estate.

This article only summarizes portions of the JOBS Act. To view the detailed wording or to obtain further information visit the SEC website at www.sec.gov or the Code of Federal Regulations site at www.ecfr.gov and search crowdfunding.

Real estate licensees are not permitted to advise the customer without risk of practicing dual agency, and the licensee should avoid giving advice to clients regarding investments and their potential for profit.

Purpose of the SEC and The Securities Exchange Act of 1934

"The Securities Exchange Act of 1934, which created the SEC, was designed to restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing. The main purposes of these laws can be reduced to two common-sense notions: www.sec.gov

Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing. People who sell and trade securities – brokers, dealers, and exchanges – must treat investors fairly and honestly, putting investors' interests first."

Source: http://www.sec.gov/about/whatwedo.shtml#U_lbGfldXnh



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The Appraisers Page

Georgia Real Estate Appraisers Board

October 2014

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[GREAB Web Site](#)

Use These Four Tips To Make Your Home Appraise For More

By: D. Scott Murphy, SRA

[Appraisal Act](#)

[GREAB Disciplinary Sanctions](#)

Use these four tips to make your home appraise for more and increase its appeal to potential buyers.

Many sellers are disappointed when the appraisal for their home comes in much lower than expected. While it's easy to blame the appraiser, it's more effective to learn about the complicated appraisal process and the areas where you truly have influence.

Quite often homeowners ask me what their house is worth as soon as I complete my inspection of the property. Unfortunately, a real estate appraisal is not that simple. While appraising is a science and has a quantitative component, it takes more than a physical inspection of the subject property. I tend to say "this is the easy part of the process...", now that we have confirmed the physical

condition of the subject, made note of upgrades and overall quality, we need to compile that data, research comparables and analyze the results. This is where the art of appraising happens. The ability to truly immerse ourselves in the market and interpret the actions of buyers and seller; the ability to filter the comparables and use the most appropriate sales and extract the proper adjustments from the market to arrive at the most accurate estimate of market value.

There are however, a number of simple suggestions I have for homeowners who want to maximize the value of their home.

Here are four tips that will help homeowners to get a better understanding of the appraisal process, raise the appraisal value of their home, and learn more about getting a home ready to impress potential buyers.

1) Focus on the curb appeal.

Whether a buyer is viewing potential homes online or driving by them, a good "curb appeal" will go a long way to getting more buyers in your home.

Curb appeal is a term that generally describes how your house looks from the street. I suggest that sellers start by actually standing in front of their house to look for potential issues. While this seems obvious, many people don't do it. If there is a shutter, which is kind of hanging off of your house, fix it! Curb appeal is more than just landscaping; it's everything from the color of your house to furniture on your porch. It might be that your landscaping is over grown and needs to be removed or cut way back. This is very common in homes 15+ years old.

While improving curb appeal might include some landscaping, do not to go overboard. Don't spend \$10,000, \$20,000 or more on landscaping. This generally does not yield a high return as buyers typically do not want to maintain a mini Calloway Gardens in their front or back yard.

2) Don't give buyers an upgrade allowance.

One school of thought is for sellers to give the buyer an allowance rather than make improvements like removing wallpaper, changing out carpet, and painting walls. Their rationale is that the new buyers would rather pick out their own colors and styles.

In my opinion, it's not a good idea to give an allowance to the buyer. You won't get as big of a return. You want those buyers to come into your house and be wowed.

While it might be nice to give them a choice of colors, the renovation effort involved often outweighs the benefit. Just pick out a neutral color and they're going to be happy with it. Buyers right now don't want to do a lot of work when they move in and many lenders will not allow them to do escrows. For you to do things in advance like change the carpets and change the paint—it's going to make a real difference when the buyer goes to get their mortgage.

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3) Consider the real return on high-cost improvements.

High-cost home improvements can be a real gamble. Like anything meant to add worth to your home, it only has value if it is consistent with what other buyers would expect in that area.

Some higher cost additions that you can do to raise the value include adding things like new kitchen appliances and kitchen countertops. Again, those are going to have a good return as long as you are consistent with the market.

We live in a multi-cultural society where people relocated to Georgia from all over the world. Once settled homeowners want to make their house feel like home. We all want to feel

comfortable in our own home but I caution home owners to consider the impact their choices will have on the resale value of their home. They sell granite in a million different colors. It's going to cost you \$5,000 to put a new countertop in your kitchen whether it's sea foam green or a more traditional earth tone that's appealing to a typical buyer. You want to appeal to the broadest market that you can.

The best way to get in touch with what is appealing in your market before you spend any money is to get advice from an experienced real estate agent or tour other homes for sale in the area.

So what are some high-cost improvements that aren't ultimately a good investment? Since we are talking about homes on Georgia, pools would have to be very high on the list. However, before pool installers start sending me nasty letters, the value of a pool can vary significantly based on the value and location of the house. If you installed a \$40,000 pool in a \$100,000 home in a swim tennis neighborhood, most likely the return on investment would be next to nothing but if it were a million dollar home on an estate lot the rate would be much higher – possibly 100%. What I tell most people considering a pool it to look at their competing market, see how many homes have pools and if a pool is impacting the marketability of those homes. Also consider how long you plan to stay in the home. The longer you stay the greater your percentage of return will be.

Green renovations are another high-cost home improvement that doesn't necessarily translate into higher home values. I hate to say this but its true. While buyers are looking for energy efficient homes, the market is slow to embrace green technology. Again, consider how long you plan to stay in this home. The longer you do the more you will return on your investment.

4) Kitchen and bathrooms.

I left the most commonly suggested improvement for last. Many will tell you the best money you can spend on your home is to improve the kitchen and bathrooms. While, in general, this statement is true, sellers should look at the overall condition of their home and make the kitchen and bathroom improvements in concert with updating the entire house. All too often I see a home with just an updated kitchen; new granite counters and stainless steel appliances. The bathrooms and rest of the house is original.

While the kitchen may be the best place to start, its usually the most expensive, have a comprehensive plan. Door hardware, lighting fixtures, carpet and paint are very important and generally lesser expensive improvements.

Hopefully these items will help agents and sellers better prepare their properties for sale. I welcome your feedback and would love suggestions of topics you would like to hear more about. Emails can be sent to

appraiserspage@grec.state.ga.us.