December 2017
Volume 13Issue 12

Monthly Newsletter of the Georgia Real Estate Commission

GREC RENews

This Issue

Happy Holidays from the Georgia Real Estate Commission!

[Link to GREC Disciplinary Actions](#)
View Current Suspensions and Revocations

[Link to the Georgia Real Estate License Laws, Rules, and Regulations](#)

Commissioner Dempsey Speaks at the GREC Annual Schools Meeting

Last Friday at the Georgia Real Estate Commission Annual Meeting for Approved Real Estate Schools, Georgia Real Estate Commissioner Lynn Dempsey and Deputy Commissioner Craig Coffee stressed that as a regulatory body the purpose of the Georgia Real Estate Commission is to protect and safeguard the public interest. Commissioner Dempsey also spoke of the national attention that Georgia receives as a good place to conduct business. For the fourth year in a row, Site Selection Magazine has identified Georgia as the Number One state in which to do business. Dempsey emphasized that the real estate industry is at the heart of Georgia's booming economy. Real estate is a major catalyst of economic growth, and the Commission is seeing an increasing number of real estate licensees.

With a current average of 740 licenses issued each month, the Commission continually upgrades operating systems and technology to assist licensees and provide efficient services. The Commission just launched a new telephone system allowing callers to reach an Information Specialist much more quickly than in the past.

With the increasing number of licensees and market activity, there is often an increase in the number of investigative cases. There are currently approximately 74,000 active real estate licensees and 500 pending cases. Both Dempsey and Coffee emphasized that education is the foundation of licensing, and by focusing on education the number of investigative cases can decline. The recent increase of required continuing education hours from 24 to 36, and the 3 hours of required license law topics were implemented to focus on training licensees in violations that are common in the investigative cases. The most common complaint from consumers against licensees is the handling of earnest money and the most common complaint from licensees against other licensees is advertising violations. The Commission reviews and analyzes common violations and encourages education programs designed to minimize those violations in the future.

November 2017 Meeting - Commission Actions Taken	
Cases Sent to the Attorney General for Review and Disposition by Consent Order or by Hearing	1
Cease & Desist Orders Issued	1
Citations Issued	7
Letter of Findings Issued	1
Consent Orders Entered Into	1
Final Orders of Revocation of Licensure	1
Cases Closed for Insufficient Evidence or No Apparent Violation	21
Licensing Cases - Applicant has a Criminal Conviction - License Issued	7
Licensing Cases - Applicant has a Criminal Conviction - License Denied	2
Total	42

Click here to review a legend of the disciplinary actions the Commission may impose.

SUBMIT

Comments & Suggestions

To sign up to receive the GREC RENewsletter Click Here

Online Courses from GREC

$10 each
3 Hour CE Course
Total of 9 Hours CE Available
(Also Approved as Instructor CE, not approved as License Law CE)

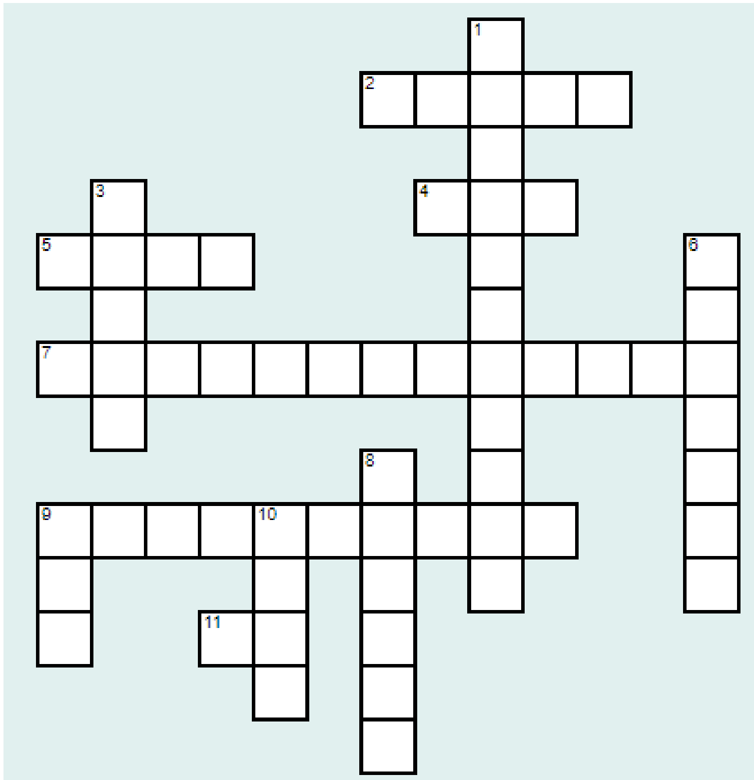
"Avoiding Trust Account Trouble"

"Practicing Real Estate & Staying Out of Trouble"

"Being a Broker and Staying Out of Trouble"

Georgia Real Estate Commission
Suite 1000
International Tower
229 Peachtree Street NE
Atlanta, GA 30303-1605
Phone 404-656-3916

The GREC Crossing Education Terms



DOWN Clues

1. Credential obtained by completing a professional education program and maintaining membership in the organization to use the acronym for the credential.
3. Membership organization in Georgia for real estate educators.
6. Conditional requirement to practice real estate in Georgia.
8. Provider of education that is licensed by GREC to offer real estate courses for credit.
9. Instructor Development Workshops by REEA.
10. National association for real estate educators.

ACROSS clues

2. Agency and Board that regulates licensed real estate appraisers in Georgia.
4. Training Workshop required to obtain a prelicense instructor approval.
5. Real estate licensing agency of Georgia.
7. Evidence of completion of an independent set of standards for a certain course or program.
9. A licensee authorized by GREC to teach prelicense, post license, and CE courses for credit in Georgia.
11. Education required for licensees to renew - 36 hours per 4-year renewal.

Word Bank
GREAB
GREC
IDW
INSTRUCTOR
CERTIFICATION
RENEWAL
REEA
GREEA
DESIGNATION
GIT
CE
SCHOOL

Down: 1. DESIGNATION, 3. GREEA, 6. RENEWAL, 8. SCHOOL, 9. IDW, 10. REEA
Across: 2. GREAB, 4. GIT, 5. GREC, 7. CERTIFICATION, 9. INSTRUCTOR, 11. CE

Focus on Terminology: "Role of the Commission"

As a regulatory body, the role of the Commission is not to protect the industry or the profession that it regulates nor to protect consumers. It is not the role of regulators to be advocates for either a profession or consumers. Instead, the role of the regulators is to protect the public interest. The purpose of the real estate license law, and thus the objective for the members of the Real Estate Commission, is twofold. First, it seeks to protect the public from intentional or unintentional harmful acts of persons acting as real estate licensees by assuring that licensees meet basic levels of competency. Second, it attempts to create a regulatory environment for the real estate industry that is reasonable and allows the licensee to attain economic success. For further information about the role of the Commission visit http://www.grec.state.ga.us/about/grec.html.

The Appraisers Page

Georgia Real Estate Appraisers Board December 2017

Useful Links:

[GREAB Web Site]

[Appraisal Act]

[GREAB Disciplinary Sanctions]

Valuing Residential Income Property

By: D. Scott Murphy, SRA

The United States has the highest owner-occupied rate in residential real estate in the world. Over the past 10 years, we have seen a shift in the market and the percentage of non-owner-occupied homes has begun to rise. The impetus for this change was the mortgage melt down from2008 to 2012. Many homeowners lost their homes and were forced to rent, others were able to get out from under their home but damaged credit caused them to have to rent. The millennial generation, which should have been entering the workforce and buying homes, were held back for lack of employment or the fear of homeownership due to this unprecedented real estate collapse.

As non-owner-occupied rates rise, it is important for real estate professionals to understand the home rental market. The dynamics of the transaction change when you have an investor purchasing the property. An investor's primary concern is return on investment (ROI). This return is based on rental income, expenses and appreciation. Cash flow, which is based on income and expenses of the property, is general the primary determinant in purchasing a property, followed by future return, which is appreciation.

Agents need to educate themselves as to which feature of a home appeal most to the investor, which locations appeal most to the investor and what are the most common target prices that appeal most to the investor. While many of these are similar to what a typical owner-occupant might be looking for, many are not. There are also relatively narrow ranges of value that can provide the optimal return to an investor.

There is a relationship between the amount a home can rent for and its value. In residential real estate, that factor is called the Gross Rent Multiplier (GRM). The GRM is typically calculated by dividing the purchase price of a property that is being rented by its monthly rent. This factor represents the number of months it would take to repay the original cost of the home.

GRM = PP / monthly rent

GRM = months of rent to pay for home

Sometime GRM is calculated on an annual basis

GRM (annual) = PP / annual rent

GRM (annual) = years of rent to pay for home.

If you are looking at a property that is currently rented you can take this factor, multiply it by the rent to arrive at an estimate of market value. GRM's can vary significantly based on investor reaction to homes in that particular are and price range. Technically, as rents go up, the total value goes up. Therefore, the GRM should be relative

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similar from one part of town to another. The price range causes the GRM to fluctuate. As the price of the home increases, there is a point at which the rent does not keep pace and begins to trail off. Therefore, there is a sweet spot in a given market, a point before the rent trails off where the investor can maximize his return. This has to do with the demand. As demand increases, rent increases. Each market has different limits to optimal rent. In very high-priced markets, a monthly rent of $5000 might be a good deal. In another market, the most a typical renter will pay might be $2500 per month. After this optimal point, the amount of rent decreases as compared to the sales price. Here is an example:

> If a $300,000 property rents for $3000/month, it has a GRM of 100 - $300,000 / $3,000 = 100

This does not mean that a much larger, $600,000 property will rent for $6,000. This is due to a decrease in demand for the larger more expensive home. There is no set price limit or amount of rent. This will vary from market to market. Other factors that affect the GRM are the expenses. These can be property taxes, insurance rates, interest rates, HOA fees and anything else that will decrease the NET rent. Realize that the GRM is calculated based on the GROSS monthly rent. Another term typically associated with the valuation of income producing real estate is called a Cap Rate. The Cap Rate is the standard used in valuation of commercial property. It differs from the GRM in that is uses annual numbers and considered the NET operating income (NOI).
Cap Rate = Purchase price / NOI

“The capitalization rate is the rate of return on a real estate investment property based on the income that the property is expected to generate. The capitalization rate is used to estimate the investor's potential return on his or her investment” wikipedia

Investors (buyers) want to have a high cap rate, meaning the value (or purchase price) of the property is low. Conversely, landlords (sellers) want to see a low cap rate because the selling price is high. ... Even though Property A has a higher net operating income (NOI), the interest is higher.

The common measure of rental real estate value based on net return rather than gross rental income is the Capitalization Rate or Cap Rate. In contrast to the GRM, the Cap Rate is not a multiplier but a rate of annual

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return. A similar multiplier to the GRM derived from net return would be the multiplicative inverse of the Cap Rate

Purchase Price/Gross Rents = GRM

NOI/Purchase Price = Cap Rate

In order to corroborate Capitalization Rate you must review the past two years of profit and loss to confirm the expenses used to build the Net Operating Income. This often can be rather difficult to do and there is a greater possibility for manipulation of the numbers, thereby decreasing the reliability. On the other hand, the GRM that uses monthly rental amounts, which are very easy to verify, does not take into consideration the expenses involved with owning the property.
For residential valuation of like properties, the GRM is the preferred method. The assumption would be that most all the expenses are going to be similar and therefore mostly a moot point. Commercial properties are almost always very different from one to another, therefore it is imperative to analyze the expenses, and property include them in arriving at an NOI.

I welcome your comments and feedback. Please send me ideas for future articles.

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