



Investment Newsletter – August 2004

Launch of Expanded Services

After working with many various clients over the last few years, I've realized that people have different approaches to investing and therefore differing service needs. In an effort to better serve our loyal clients, we are introducing a wider range of services and pricing plans. Much of this has been available to customers *after* they've transacted real estate through us. Starting in September all clients will have the opportunity to purchase these additional services whether they've purchased property through us or not. In addition to a revamping our search services for real estate investors, we will now offer our full range of investment advisory services to all clients, including due-diligence on unlisted property, real estate exchanges (sales), retirement/financial planning, and asset management.

Listed Property Searches

Up until recently I've offered only filtered searches to clients. By this I mean that I screen out everything I don't consider a good deal for the client and I focus only on those locations I consider the best for investing. While this is much appreciated by experienced investors with limited time to spend screening properties for themselves, new investors can benefit from seeing a larger set of properties. By seeing the rejects as well as the winners they can get a feel for the market as a whole and learn to recognize what a good deal looks like. My other motivation for providing unfiltered listings to clients is to highlight the value of our screening and analysis services. This new free search service, called Silver Search, is just a notch above what you'd get from other competent commercial real estate brokers. The Silver Search service will be all many of you will want or need – especially when you are first exploring the market and not yet ready to buy. You'll get all listings in a certain price range in our primary markets. In addition you'll receive, on a delayed basis, our property analysis reports for our top picks in these markets.

A property analysis is our unbiased estimate of the property's first year financial results. These help you see which properties are likely to produce good financial results by replacing unreliable operating data supplied by salesmen with consistently estimated projections of expected performance.

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For those of you ready to purchase, but not yet ready for our highest level of search service, you will choose the Gold Search. Clients choosing this option will receive the same listings as Silver Search, but by paying (\$50) for one custom property analysis per month, you are entitled to receive the property analyses for our other top picks before these are distributed to Silver Search participants. If you close a transaction in which Berkeley Investment Advisors earns a commission, then any search/analysis fees incurred will be rebated to you.

The Platinum Search is for those clients who are familiar with the market and who are comfortable enough with the analysis of investments that they are ready to make offers when they see good deals. We send only those properties that meet required financial criteria as well as other client selection criteria and we provide timely analyses showing expected returns in the 1st year of ownership. Platinum service is free for the first 4 weeks or until you've seen 4 candidate properties, whichever is longer. After that, if you sign an exclusive representation agreement (which ensures we will earn a commission from the seller if you close a purchase) the charge for Platinum Search will be \$50 per week or per candidate property (whichever is less). Without an exclusive representation agreement the charge will be \$100 per week or per candidate property (whichever is less). These fees are payable monthly in advance. You can cancel anytime and receive a refund of the remaining retainer. If you close a transaction in which Berkeley Investment Advisors earns a commission, then any search/analysis fees incurred will be rebated to you.

Representation

You can sign an exclusive or a non-exclusive representation agreement with us. Clients with exclusive representation agreements have priority over those that don't. Representation agreements include our minimum commission for your purchase. When we represent you as the buyer's broker in the purchase of a listed property the listing broker will generally split their commission with us and this eliminates any obligation for our buyer. When there is resistance from the listing broker or seller to paying the commission (there's a lot of slippery characters out there), the representation agreement provides us the legal leverage we need to get paid. The bottom line is: you don't pay for expert representation on listed properties.

Unlisted Property Due-Diligence

There may be times when you wish to pursue properties where the seller is not paying any commission but you still want an expert working for you to free up your time and make sure you don't make any mistakes. This situation could also arise on a listed property where you were introduced to the property by another broker but you then realize he's not providing the service you want. For these situations Berkeley Investment Advisors provides "a la carte" packages of due diligence services that you pay for by the hour (**Please see the attached Appendices, A and B, for estimated**

hours for Multifamily and Triple Net Leased properties). Fees are partially rebated when you subsequently close a deal in which we represent you.

Partnership Investments

Berkeley Investment Advisors purchases properties that fit our requirements (cash flow, tax benefits, and risk characteristics) for resale as our partnership product. We manage the property and retain an interest in the partnership profits (typically 20%). We also represent you when you wish to buy into a partnership in a property type that we don't sponsor ourselves such as an immigration visa qualified investment. See the May 2004 Newsletter for further information on pooled real estate investments.

Real Estate Exchanges/Sales

As you know if you've read last month's newsletter, (The Case for *Selling* Real Estate in California) or my case study on when to do an exchange, valuations in particular local markets can get so high relative to alternative markets that the pro-active investor must sell and redeploy the capital to capture these better prospects for future returns. I.e. you must sell high and buy low. Given our role as investment advisors, we've focused primarily on helping buyers rather than sellers. Going forward, however, we will also help owners of over-valued property analyze the potential for enhancing returns by selling in this overheated market. As with all brokers, we offer an initial consultation and list of comparable sales at no charge. We also will do (for a fee) a custom valuation and an analysis of the financial benefits of selling or exchanging the property. If you decide to sell, we will charge 4.5% of sales price (2.5% to the Buyer's broker) and give you top priority for finding the replacement property to complete your tax-free exchange. Any fee paid for the financial analysis will be refunded at closing.

Retirement/Financial Planning

Although real estate investing is important, it takes more than a purchase here or there to ensure you achieve your financial goals in time to retire. Berkeley Investment Advisors helps formalize the planning process and uses thorough analysis and planning to develop a financial map to lead you where you want to go. We'll lay out your strategies and show you exactly what needs to happen to meet your goals while minimizing the risks of financial catastrophes. Fees are based on hourly rates with estimates based on the scope of work. Fees are partially rebated when you close a real estate transaction in which we earn a commission. **(Please see the attached Appendix C at the end of this newsletter for the suggested full service package).**

Asset Management

New money management technology developed by Foliofn© now makes it financially feasible for Berkeley Investment Advisors to offer separately managed accounts for customers with relatively modest amounts to invest. Foliofn© is a registered brokerage firm that will have custody of the assets and provide brokerage

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services as directed by Berkeley Investment Advisors. Fees are competitive with mutual funds for accounts as small as \$50,000. We direct investment of your funds in portfolios custom tailored to your return goals, your risk tolerance, and your investment horizon. Most investment management firms typically require \$500,000 to \$1 million in order to provide this level of individual attention. Best of all, the manager, Ray Meadows, has a record of consistently outperforming the S&P 500 over the past 5 years. Assets will be allocated among the following categories.

Risk Level & Time Horizon	Target Return	Types of Investments
Very Low – Short Term	2%	Short term bonds, variable rate preferred stocks
Low – Short Term	5%	Longer bonds, fixed rate preferred stocks, mortgage REITs
Medium – Long Term	8%	Real Estate Investment Trusts (REITs) and Junk Bonds
Higher (Market) Risk – Long Term	11%	Other equities, sector exchange traded funds

We employ specific strategies for each category that are designed to produce above market returns while minimizing downside risk. We will provide further details of our approach to portfolio management to interested clients. We combine low fixed management fees with a share of returns in excess of market benchmark returns. Thus, we make more money when you make more money.

Conclusion

This broadening of our Investment Advisory business will provide our clients with more opportunities to benefit from their relationship with Berkeley Investment Advisors. We hope to be hearing from you about your investment and planning needs in the near future.

Featured Investment Opportunity

Park your liquid assets at Berkeley Investment Advisors while you wait for the right real estate opportunity to come along. We offer separately managed accounts so we can tailor a portfolio to your specific risk and return goals. The portfolio manager's market risk portfolio has outperformed the S&P 500 index every calendar year for the past 5 years. Over the 5 years ended December 2003 cumulative returns exceeded those of the S&P 500 index by 17.7% annualized.

Contact Information

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Multifamily Property: Due Diligence Services

All Due Diligence Services are free when Berkeley Investment Advisors represents you in the purchase of a listed property.

Budget Package: Key Items - Estimated Hours: 24*

1. Financial Analysis of Property: detailed 1st year cash flow and return analysis
2. Obtain bids and coordinate scheduling of 2 inspections to minimize amount at risk (add 1 hour for each additional inspection)
3. Attend contractor inspection and investigate location
4. Review leases, rent roll, and operating statements
5. Negotiating/Recommending Financing Terms: reset period, reset index, maturity, prepayment penalties, amortization, etc.

Major cost here is travel time for #3 which depends on location

*** Based on Southwest location + there will also be a charge for actual travel costs**

Risk Reduction Add On Package - Estimated Hours: 10

1. Identifying risks/issues of purchase contract
2. Review insurance coverage
3. Evaluate issues in preliminary title report
4. Research local market rents and vacancy.

Market Research and Long Run Analysis - Estimated Hours: 13

Evaluate local economy and demographic trends. Solicit insurance bids. Prepare 10 year forecast of property financial performance.

Loan Application Process - Estimated Hours: 12

Compiling loan application materials. Soliciting financing bids from lenders and brokers. Follow up on mortgage underwriting issues.

Other Work

Selecting local manager – estimated hours: 5

Setting up holding company – estimated hours: 3 (+ actual filing costs)

Managing the whole due-diligence process – estimated hours: 10 per month

Triple Net Leased Property: Due Diligence Services

Budget Package: Key Items - Estimated Hours: 17

6. Financial Analysis of Property: detailed monthly analysis for 10 year forecast period
7. Obtain bids and coordinate scheduling of 2 inspections to minimize amount at risk (add 1 hour for each additional inspection)
8. Review of lease terms
9. Evaluate strength of NNN tenant: review of financial statements
10. Evaluate location to assess re-leasing risk
11. Negotiating/Recommending Financing Terms: reset period, reset index, maturity, prepayment penalties, amortization, etc.

Risk Reduction Add On Package - Estimated Hours: 16*

5. Identifying risks/issues of purchase contract
6. Attend contractor inspection and investigate location
7. Review insurance coverage
8. Evaluate issues in preliminary title report

Major cost here is travel time for #2 which depends on location

*** Based on Southwest location + there will also be a charge for actual travel costs**

Market Research - Estimated Hours: 12

Research local market rents and vacancy. Evaluate local economy and demographic trends. Report on likely impact on property performance

Loan Application Process - Estimated Hours: 12

Compiling loan application materials. Soliciting financing bids from lenders and brokers. Follow up on mortgage underwriting issues.

Other Work

Selecting local manager – estimated hours: 5

Setting up holding company – estimated hours: 3 (+ actual filing costs)

Managing the whole due-diligence process – estimated hours: 10 per month

Retirement Planning

Tasks

Define needs: budgeting for retirement
Inventory Current assets and analyze savings rate

Determine return requirements and risk tolerance

Develop Model Portfolio: asset allocation

Model portfolio performance and adjustments through time.

Analyze risks: inflation, returns

Evaluate current investments: expected after tax returns and risks

Analyze current debt and future obligations

Analyze tax return information to look for ways to reduce taxes

Develop asset preservation strategies:
Insurance, Limited Liability Companies,
Trusts, Family Partnership

Develop Comprehensive Written Plan for
Achieving Goals

Details

Location planning is key here

Look at current budget and income: look for ways to enhance savings

Model after tax inflation adjusted asset growth

Factors to consider: liquidity, diversification, taxes, inflation effects, time to retirement, risk tolerance

Develop investment management and tax management strategies.

Identify risk reduction (hedging) strategy

Optimize use of retirement accounts such as Roth IRA, 401K, and other tax deferral or elimination strategies

Optimize debt structure and align cash flows to meet obligations

Search for missed deductions, income shifting opportunities

Set up protection against unexpected events and litigation; minimize estate taxes.

Highlight action plan and timing

Full Service: \$4,500 (\$2,250 rebate with close Property purchase)