

Valley of the Sun Real Estate Update

February, 2003

Investing in Real Estate: Is Now the Time?

For most of us, buying or selling a home is one of the biggest financial decisions we will make, but still we have a tendency to look at homes as functional objects, not as investments. Historically, real estate has been a very solid investment and the continuing slowdown of the financial markets makes this a good time to consider the investment potential of real estate. Beyond the widely appreciated value of owning your own home, how can you take advantage of the current market conditions to improve your investment portfolio?

There are two common approaches that attract investors to the real estate market. The first, the "buy and hold" style, is probably the most popular approach for first-time investors. The process is very similar to the normal residential buying process: identify the desired characteristics of the home – say, location, features, and price – choose a specific property, negotiate a contract, and secure a loan for the purchase. The difference is that the buyer does not plan to live in the home, but rather to rent it out for some period of time before selling it. If the buyer has done a good job of researching the market, this approach offers the advantage of allowing for significant long-term appreciation of value, while using rental income to minimize out-of-pocket expenses or maybe even provide some positive cash flow. Additionally, many investors appreciate the tax advantages of owning an investment property. However, this does require a long-term financial commitment, as well as the responsibility of acting as a landlord (or the cost of hiring someone to do it for you.)

The second approach, the "buy and flip" style, involves locating homes that are available below market price and reselling them at a profit. These homes usually have several cosmetic and/or structural issues that need to be addressed before they can be re-sold, and may be bank-owned or in pre-foreclosure. The primary advantage of this approach is that it is usually a short-term project; typically, just a few months from acquisition through re-modeling to re-sale. This allows investors to see a quick return on their money, and to use the profits to bankroll the next project. Downsides include the extensive research needed to identify suitable properties, the unpredictable costs of repairs and upgrades, and the need for substantial cash investment to cover these improvements.

Current economic factors make both approaches more attractive now than they may be in the future. If you are planning to buy and hold, low interest rates dramatically increase your buying power and cash flow, and thus your potential gains. A rental home in the South Tempe area might sell for \$150,000 and rent for \$1200/month. Putting 5% down (\$7500) leaves \$142,500 to finance. At 6.75% for 30 years, the monthly payment for Principal & Interest (P&I) comes to about \$925. Taxes, insurance, and other costs can add another \$200 monthly, but that still results in a small positive cash flow (maybe \$75/month). At a conservative 4%/year appreciation, this home would be worth about \$182,000 five years later. After accounting for costs, you could be looking at a profit of \$14,600 – almost a 200% return in just 5 years. Including up to \$4,500 in positive cash flow over that time, the profit is closer to \$20,000.

However, if interest rates climb even modestly – say, by 1½% - the picture changes dramatically. Your P&I payments now come to about \$1070/month; adding in other expenses leaves a *negative* cash flow of \$70/month. In this case, the value of appreciation would be diminished by as much as \$4,200 over 5 years, leaving a net profit of \$10,200 – about half of what you could have earned if the home had been purchased at today's very attractive interest rates.

Current economic factors also favor investors looking to buy & flip. Interest rates are less important here, since you won't be holding on to the property long enough to make many payments. However, the downturn in the economy has led to an increase in bank-owned homes, pre-foreclosure homes, and other "distressed properties" that can be purchased for below market value. It is difficult to generalize about this segment of the marketplace because it is so unpredictable, but you might expect to net \$10,000 in three or four months once you can locate a suitable property. As economic conditions improve, the pool of available homes will dwindle, making it harder for you to get the quick turn-around that makes this approach desirable.

Of course, each investor has unique goals and needs, and real estate is not the right investment vehicle for everyone. Always consult with your financial planner or tax advisor before making investment decisions. If you are curious about how real estate might fit into your financial future, please give me a call. I will be happy to discuss the possibilities with you.

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Recipe of the Month

Mimi's Chocolate Mousse

Here's a quick-and-easy treat that my grandmother taught me how to make. It doesn't take much work at all, and it will make a memorable finish to a special meal. Try it on Valentine's Day and impress your sweetheart!

12 oz semi-sweet chocolate chips
4 tsp sugar
2 eggs, beaten
12 oz milk

1. Heat the milk almost to boiling.
2. Combine all ingredients in blender; blend for about a minute.
3. Pour into 6 custard cups or other small serving bowls.
4. Chill in the freezer for 4 hours or until firm.

Here are a few tips to make sure the mousse turns out right. First, remember that it will take time for the mousse to chill to the right consistency, so be sure to put them in the freezer well before you plan to serve dessert. Second, keep your eye on the milk – it will make a big mess if you let it boil over. Use a saucepan with plenty of extra room, and remove from heat as soon as the milk starts to bubble up. Lastly, my grandmother liked to replace 2 oz of the milk with 2 oz of rum; you might enjoy experimenting with your favorite liqueur. I like to add Grand Marnier.

Babysitter Classes Offered

Lucas Realty Group sponsored CPR/ Babysitter classes are now going to be scheduled on the first Saturday of every month. Classes last from 8:30 to 4:30.

Classes are taught by Patti Luttrell, RN, MS. The cost of the class is \$30.00. Upon completion, students receive an American Safety and Health Institute CPR card.

Class size is limited so call today. Please register through Lucas Realty Group at 480-940-7100.



On the Home Front

Wow – I can hardly believe how fast the time flies by. Jill and I really enjoyed the holidays, as we got to spend lots of time with family and friends here and in Colorado.

We spent much of the last few weeks preparing for, and playing in, one of the biggest Ultimate Frisbee tournaments in the country, hosted right here in Tempe for the 21st year in a row. We had 56 teams from all over the country in town for the first weekend of February, so there was a lot of work to be done. Fortunately, our local organization has lots of great people in it, and all the volunteers did a great job. Neither of our teams won the title, but we had a good time playing, and we're really proud of how well the event was put together.

Our next big project will be a bit closer to home – in fact, the project *is* our home. We are in the final planning stages of a big flooring project, and with a little luck we will soon have beautiful hardwood and slate throughout much of the house. Maybe we will have a party to celebrate when all the work is done - stay tuned for details!

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How much is my home worth?

If you would like a free Current Market Analysis of your home, please fill out this form:

_____ I'm not thinking of selling my home. I'm just curious about value. Please send me a complimentary current market analysis.

-OR-

_____ I'm thinking about selling my home. Please send me a complimentary current market analysis plus a Home Seller's Handbook with information about Lucas Realty Group, our "Common Sense Commission Plan", "Aggressive Marketing Plan", and other money-saving tips.

Home Description:

Stories: _____ Sqft: _____ Beds: _____ Baths: _____ Pool: _____ Garage Size: _____

Other features and upgrades: _____ Condition of home: _____

Send this form back: fax: 480-940-7111 mail: 9880 S. Rural Rd. #8 Tempe AZ. 85284 e-mail: Ken@LucasRealtyGroup.com

Name: _____ Address: _____

Phone: _____ Fax: _____ E-Mail: _____