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Real Estate Rebound: 5 Tips for Right Now

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Real Estate. These days, it's like a dirty word. (Correction: two dirty words.) Despite the soiled veneer the housing bubble has given the phrase, however, there are opportunities in real estate. There is still truth to the old adage that "they aren't making any more land;" the US population continues to grow, which means that demand will begin to catch up with supply. And, in certain markets or for certain types of property, that "future" is already here. To find out how to approach this much-maligned market we turned to a range of real estate experts for some expert advice.

1) A home as an investment. For those simply looking to make their personal homes investments, Gary Malin, resident of Citi Habitats, in New York City, says the first thing to consider is how long you plan to reside in the property. "Because of the expenses someone incurs when purchasing and then divesting real estate, and with no guarantees that the real estate market is going to see any rapid appreciation in the near future, my advice for people is to use the five-year rule," he says. The rule states that if someone plans to reside in a property for five years or less, then it will likely be the better financial decision to rent the home, he says. "If they are looking to stay put for a period longer than five years, then purchasing may be the better decision," he adds.

Malin says homebuyers with an eye on long-term value should also "date their neighborhoods before they marry them." He says you should consider renting to see if a particular area/neighborhood is the right fit without making a big commitment.

In general, if a home seeker is 1) thinking long-term, 2) able to qualify for bank financing or is a cash buyer and 3) knows which neighborhood is the best fit for them, "then this is an incredible time to purchase a property," he adds.

2) Trust but verify. Buying rental properties has been a tried and true way to accumulate wealth. A good property in the right neighborhood can yield a steady income that can pay the mortgage, or more, and can also appreciate in value over time. However, warns, Mark Kreditor, MPM, of Get There First Realty, CRMC, in Dallas, "More than 95% of the owners that come to me lose money because they fail to ask the right questions when looking at rental property."

Too often, the seller's disclosure of what the rent is may be quite different than what is actually collected and reported to the IRS. "Always back up leases with tax returns so you see what is actually being reported as paid. Too often free rent is given up front to boost the lease value, which converts into an inflated sales price," says Kreditor. It is also smart to have a professional inspection done of the real estate before any final negotiations. "In our market you can buy homes for \$30,000 that need \$40,000 worth of work. Very often the copper plumbing has been stolen from under the house, and you never know until you try to turn something on," he says. Therefore, make sure everything works before you buy. Kreditor's final word of caution is related to tenants. "If you're in a market where 20% of the tenants skip and often destroy your home," it can be much more challenging to make money.

3) Have a strategy. Real estate is like any other investment in that you need to have a clear sense of its value and potential and a plan for making money. "Very rarely would you pay a premium for a stock, so why would you pay a premium for real property," asks Lee Wilbur of Hilton Real Estate in Springfield, Missouri. In fact, he notes, the best stock buys are often at 20% discounts, as are the best real property buys.

Another good rule of thumb Wilbur cites is to invest in a market you know well – probably near where you live. "Don't be persuaded into thinking that there aren't values in your market or that you have to invest in another area of the country...Chances are this is a totally different real estate market than the one you live in, and the risk increases exponentially," he says.

4) Buy (really) low. "I run into people all the time who think now is a terrible time to be involved in real estate. The truth is that now is a good time to be involved in real estate as long as you are smart about it," says Nathan Letourneau of River Valley Home Buyers, LLC in Hudson, WI. "I'm not just saying to look for a good deal. I'm saying look for the great deals.... the ones too good to pass up...the ones that it would be hard to lose money on," he stresses.

According to Letourneau, too many people think they've gotten a good deal, only to find out later on that it wasn't so good. These days, the market is unstable. Some experts are claiming prices have reached the bottom and are starting to move upward while others are saying we haven't yet seen the bottom and

to expect more decline. Therefore, it is vital to make sure you purchase the real estate so low that if the market continues to decline, you won't be exposed. "Make sure that no matter what your exit strategy is for the real estate – fix and flip, rentals, etc. – that you are very conservative on your numbers," he says.

If a property needs repairs, make sure you add a little extra funding to your plan. If you plan to re-sell it, make sure you figure in a longer-than-expected time to re-sell it, not to mention taxes, insurance, mortgage, heat, water and electricity. If you're going to rent it, make sure you base your offer on a lower-than-expected rent amount, a higher vacancy rate, and a little-above-expected yearly maintenance. This way, if something unexpected happens (market rents drop significantly, you lose a job or have a medical problem that requires you to sell the property to free up your money) you are more prepared for it.

In addition, Letourneau says you shouldn't use past values as an indication of the kind of deal you are getting. "Too many people think because a property sold in 2008 for \$500,000 and now it is only \$200,000 that they are getting a deal."

"This is NOT true. It doesn't matter what the property sold for one year, five years or 10 years ago. The market is completely different today. What matters is what it is worth today," he says.

5) Take advantage of IRA regulations. Jaime Raskulinecz, founder and CEO of Next Generation Trust Services, LLC, Roseland, NJ, says investors can put real estate in their retirement accounts by making real estate transactions through a self-directed IRA. These retirement accounts allow for a wide array of nontraditional investments-including all types of commercial and residential real estate transactions-with the same tax advantages of typical IRAs.

"Self-direction is a great way for certain investors, who are already knowledgeable and comfortable about making these types of investments, and who wish to make all their own investment decisions, to build a more eclectic retirement portfolio," she adds.

So, with just a little forethought and planning you can dust the road dirt off the term real estate and make the sector work for you once again.