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THE BOCA BEACH REPORT

June 2014

This publication is not a solicitation but is an information service from this office.

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When ideas in tax and other legal areas in this publication seem to fit your situation, it is recommended that you discuss them with your professional advisor before taking action.

Buying The Building Site And Hiring A Contractor

When you buy a lot to build your new home, the seller may carry back part of the value in a loan secured by the land. The lot may have a value of \$50,000 and you pay \$25,000 down payment. You then have a loan of \$25,000 on the lot that you owe to the previous owner, often the developer.

Suppose you plan on building on the lot next year. Should you pay down or pay off the loan on the lot or save for a down payment on the house?

Most lenders want you to have at least a 20% equity in your home. If you have paid off the lot loan and your new home will be valued at least 25% more than the cost of construction, then the lender’s 20% equity requirement will be satisfied. Your lot serves as equity, which is the same thing as lenders are looking for in a down payment.

Building on a paid-off lot is common, and life is always easier when you simplify bank paperwork. You would have to pay off the note on the lot when you acquire perma-

nent financing on the property anyway. One common procedure establishes a credit line as a construction loan, then converts it into a conventional mortgage after the home in completed. This cuts closing costs on two loans. However, you may wish to use two different lenders.

As a practical matter, you ought to have some ready cash as a cushion, in addition to the paid-off lot. At the very least, before granting a construction loan the bank will want to see a construction contract and blueprints, which will entail a cash outlay for design expenses. In addition, try to build up a cash reserve for the unexpected bills. You will usually have them.

The Contractor

Recently we were asked to recommend a contractor for a new building construction or a remodel. Since we are in the real estate business, our opinion is based on some experience as we are around construction people, architects and contractors quite often. ➡

(continued)

However, in such a serious subject, don't stop with one opinion. Ask around. Do you or any of your friends know anyone who has had the same type of work performed? Were they satisfied?

Look farther than that. Look in the yellow pages. If you are using an architect or designer, get their suggestions and recommendations. You may also be able to get opinions from a city or county building department; inspectors know who does good work. (While you are there, you can check into permit requirements for your job.)

Once you have compiled a list of prospects, interview the top few on the list. Even if you have found well-recommended contractors, you have to test and see if the chemistry between you is right. Also, get references from them.

In checking those references, ask questions about:

- Workmanship. The most important question.
- Timeliness. Did he or she do what was promised, when it was promised? Was the contractor polite, knowledgeable, clean?

The cleanliness issue is important and sometimes overlooked. A clean and orderly jobsite is so important. A contractor might leave a pile of rubble behind and leave you with an expensive clean-up problem.

Essentially, what you are looking for is at least a success record of a few years, with a record of fulfilling commitments, both in his contract and as called for by common sense.

When you have a list of a few contractors, you are ready to start the bidding and contract negotiations. ❖

Interest Rates Affect Sales Volume

The biggest expense in owning a home for most people always has been the monthly payment on the home loan. When interest rates (the cost of money) go up, they should have an impact on home prices and values.

Interest is a huge factor. With somewhat of a recovery starting in real estate sales, interest rates will increase quickly.

As an example, a \$200,000, 30-year, fixed rate mortgage at 6% has a monthly payment of \$1,210. If the interest rate soars to 10% (as it did a few years ago), the monthly payments jump up to \$1,768, an increase of \$558! Many possible buyers could no longer afford the home.

This shows that low interest rates enable more people who have been renting to buy homes. Therefore, you might think that interest rates going down would cause home prices to rise and increasing interest rates would lead to falling home prices.

That is not the way that people think, though. No matter what the economic conditions may be, they think that the dollar value of the home is the same as it was when other comparable properties in the neighborhood were selling.

This is why a sudden sharp increase in interest rates will cause a marked slowdown in home sales. The effect is to make homes overpriced compared to what they sold for before the rate increase. The slowdown in the market will continue

until buyers get used to what their monthly payment will buy.

The Marketplace Establishes The Value

When the seller of a home sets the asking price, it is not necessarily the market value of the property. It may be just what that seller would like to get. The market value depends on what the buying public has been willing to pay for a similar property. For a house, that means recent selling prices of like homes in the area.

An appraiser or knowledgeable broker will compute the selling price per square foot of comparable homes that have sold recently. For example, a home of 2,500 square feet sold for \$700,000. That is about \$280 per square foot. A comparable home in the same community that is 2,300 square feet might be worth \$644,000 (2,300 square feet X \$280).

That is the basic computation. Since each home has its own amenities, the value might adjust up or down a little based on each home individually.

The current interest rates can affect the value also. If rates are very low, a buyer may be willing to pay slightly more since the monthly payment will be lower too.

The marketplace establishes the value of any home. Once the home has been exposed to the market for a reasonable time, the real value is determined by how much a buyer is willing to pay. The amount that buyer is willing to pay is in part determined by the monthly payment which is determined by the interest rate. ❖

The Buyer For Commercial Property

When we represent a seller of a commercial property, we try to determine, as soon as possible in the marketing process, what type of buyer is most likely to be interested in this particular property. We then focus the main appeal on those elements that are most important to that type of buyer.

Types of Buyers

Normally there are three types of buyers for commercial property:

- Investors, who seek an income-producing investment in which to place their surplus funds.
- Speculators, who buy so they can sell when the market goes up.
- Users, who seek sites for their businesses.

The seller's agent will appeal to the special interests of each of the three types of buyers. Advertising and marketing materials should develop each appeal and furnish supporting facts, realistic projections, and professional information.

The Appeals

For the primarily income-seeking buyers, we

focus on the financial data, concentrating on rentals from the property, terms of the leases, maintenance charges, mortgage information, and net income. We will also demonstrate the probability of income growth from the property.

For the speculator-buyer, the stress is on the potential for a resale profit. We might show that the property is in the line of future development (new public transportation is planned or being built, or there are other newly built or renovated commercial properties as neighbors). Demonstrate that the property is in a growing, vital locale.

Since income is of only a secondary interest to the speculator-buyer, we'll go no further than the current income status. The focus will be on the potential for profitable resale.

The location will be of greatest interest to the user-buyer. Is it right for the user's business? Is the building in good physical condition, or must it first be remodeled, improved, or up-dated? We must demonstrate the wealth and habits of the surrounding population.

With each type of potential buyer, the marketing effort will focus where it is most likely to produce a prompt, successful sale. ❖

True Expertise In Real Estate

Your investment in your home or other real estate is probably the most important investment of your life. It should not be trusted to just anyone that you might meet.

Helping the people of the community with their real estate purchases, sales, trades, leasing, acquisition of rentals and other transactions is what I do on a full time basis. It is not just a job, but also my career.

You need up-to-date information on real estate at your primary home or at a second home investment in order to maximize the benefits that are received from the ownership of these properties. Since real estate is my only business, I stay current on all tax laws, local ordinances and anything else that will affect your investment. I am able to pass on this information that you just do not have the time to look up for yourself.

When you need to buy or sell a property, I am here. If you want to trade up or down from your present home to another, I can handle both ends of the transaction and coordinate the closings to your satisfaction. You can expect my assistance in setting correct prices that will result in the fastest and most profitable sale. My firm's marketing techniques will insure the maximum exposure to the marketplace in the shortest time.

When you receive a purchase contract, I can help you evaluate all of the terms and conditions so that the final acceptance will be satisfactory to you. Prices and terms in an original offer can be changed with a simple counter proposal. A minor change in terms might make the amount of money you receive, after taxes, much more satisfying.

Call on me for real estate assistance. ❖

Boca BEACHFRONT Availability

The following is a summary of the available and pending residences located on the East (BEACH) side of OCEAN Blvd. (A1A) in Boca Raton. 0.1% to 3.9% is Low Inventory * 4.0% to 6.9% is Balanced Inventory * 7.0% to 9.9% is High Inventory * 10.0% + is Excessive Inventory

North Beach

(North of Palmetto Park Road on North OCEAN Blvd. - Listed from North to South)

Address	Condo Name	TA	AA	%A	ADOM	Price Range	Average	PC
2150	Aegean	8	1	12.5%	24	1.3M	1.3M	0
2070	Athena	4	1	25.0%	234	3.2M	3.2M	0
2066	Ocean Reef Towers	55	4	7.3%	125	510K to 795K	613K	0
2000	Brighton	39	0	0.0%	0	SOLD OUT	N/A	0
S/T	North Beach	106	6	5.7%	126		1.159M	0

Boca Beach

(South of Palmetto Park Road to the Boca Inlet on South OCEAN Blvd. - Listed from North to South.)

Address	Condo Name	TA	AA	%A	ADOM	Price Range	Average	PC
250	Marbella	155	9	5.8%	267	275K to 1.3M	774K	2
310	Boca Mar	38	2	5.3%	89	179K to 465K	322K	0
350	Beresford	53	1	1.9%	15	1.45M	1.45M	0
400	Excelsior, The	27	6	22.2%	347	2.795M to 4.75M	3.857M	1
500&550	Chalfonte, The	378	3	0.8%	47	625K to 895K	723K	5
600	Sabal Shores	125	8	6.4%	136	365K to 859K	683K	2
700	Sabal Point	67	4	6.0%	177	529K to 1.75M	1.190M	1
750	Sabal Ridge	31	0	0.0%	0	SOLD OUT	N/A	0
800	Presidential Place	42	0	0.0%	0	SOLD OUT	N/A	0
1000	One Thousand Ocean	52	3	5.8%	203	2.995M to 6.75M	4.565M	1
S/T	Boca Beach	968	36	4.5%	134		1.619M	12

South Beach

(South of the Boca Inlet on South OCEAN Blvd. - Listed from North to South)

Address	Condo Name	TA	AA	%A	ADOM	Price Range	Average	PC
1180	Cloister del Mar	96	3	3.1%	170	469.9K to 999K	656K	0
1200	Cloister Beach	128	0	0.0%	0	SOLD OUT	N/A	1
1400&1500	Addison, The	169	5	3.0%	126	999.9K to 2.599M	1.769M	2
1800	Placide, The	54	1	1.9%	131	700K	700K	2
2000	Whitehall	164	2	1.2%	76	950K to 1.3M	1,125M	3
2494	Aragon, The	41	6	14.6%	181	1.95M to 6.495M	3,464M	0
2500	Luxuria, The	24	1	4.2%	489	6.99M	6.99M	1
2600	Stratford Arms	120	1	0.8%	86	750K	750K	2
2800	Whitehall South	256	6	2.3%	123	675K to 1.149M	901K	2
3000	3000 South	80	3	3.8%	55	520K to 1.199M	773K	1
S/T	South Beach	1132	28	2.5%	142		1.784M	14

Totals	June, 2014	2206	70	3.2%	136		1.646M	26
Totals	June, 2013	2206	90	4.1%	219		1.846M	25

Key:

TA = Total Number of Apartments in Development * **AA** = Number of Apartments Available For Sale
%A = Percent of Apartments in Development For Sale * **ADOM** = Average Number of Days on Market per Listing
PC = Number of Apartments SOLD and Pending Closing

This information is compiled from FlexMLS on May 17, 2014. This representation is based in whole or in part on data supplied by FlexMLS. FlexMLS does not guarantee or is not in any way responsible for its accuracy. Data maintained by FlexMLS may not reflect all real estate activity in the market.