



Richard L. Dusik
President



FLORIDA BEACH REALTY
and Financial Services, Inc.

1515 N Federal Hwy, Suite 300, Boca Raton, FL 33432-1994 (USA)
Bus: 561.391.9196 • TOLL FREE: 800.817.6957 • Fax: 561.391.0219
Website: www.FloridaBeachRealty.com • E-mail: RLD@FloridaBeachRealty.com

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THE BOCA BEACH REPORT

The Hot, Hot Second Home Market

Do you want a great holiday stocking stuffer? How about a **Second Home for the family?**

Since 1999 – 2000 the number of people buying second homes has doubled. In 2002, nearly 460,000 families acquired a second home. Now one in 10 Americans own more than one house.

Buyers are taking advantage of low interest rates and the big increase in equity in their primary homes to fund the down payment and payments on the new homes.

Perhaps it is an extreme response to the explosive nature of the stock market or maybe a desire to reunite scattered families in a vacation setting, but second homes are the choice investment today with baby boomers, the ones with the most disposable income.

Real estate has always been a top investment for Americans, but the second home is unique. It is real, something you can see and use, not an intangible like stock. You and your family can enjoy it. You can rent it out. It can give you the benefits of an investment return on rental income and appreciation on the investment. You own it and control it. There is a move away from things we can't control, such as the stock market.

The most popular locations are at recreation areas near water usually with golf courses and tennis courts. Top choices - at the seashore, lakes in mountain areas, ski resorts. Exercise is vital to the baby boomers, hiking trails are a must, with pools and fitness centers.

When choosing



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information about
your real estate*

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- NEWS FROM OUR AREA



Please Clip and Mail or Call Me for More Information

As your real estate professional, I am available to assist you in your planning. Simply complete and return the following request for information or contact me today for immediate assistance.

- | | |
|--|--|
| <input type="checkbox"/> Purchasing a home or second home | <input type="checkbox"/> Long distance Relocation |
| <input type="checkbox"/> Selling a home or second home | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Purchasing or selling Investment Property | <input type="checkbox"/> Please contact me between these hours _____ |
| <input type="checkbox"/> Checking on current value of my property | |

Name: _____

Address: _____

City _____ State _____ Zip _____ Phone _____

E-mail: _____

If your property is now listed with a broker, please disregard this offer. We will cooperate with other brokers.

(Continued)

the second home, the commute is a big factor. Owners want to have a four-hour trip or less, by car or plane. Any further and it is too far away to use on week-ends.

Here is some data and stats about second homes:

- In the past 30 years numbers of second home owners in the U.S. grew from 2.8 million to 6.4 million
- Most owners are married with no children under 18. The average age of the buyer is 52.
- Between now and 2010, projections indicate Americans will purchase nearly 1,000 second homes per day. Eighteen percent of second homes are valued at \$300,000 or more.
- Only about half of second home purchasers take out a mortgage. The rest pay cash.

Using The Recreation Home As A "Primary"

Has your employer given you the "work at home" option? This is what many employers in the 21st century are doing. It frees the worker from most of the problems of the daily commute. Computers, modems, fax machines, electronic mail keep the employee in touch almost like working at the office.

Employers Are The Real Winners

The employee might save money on travel,

clothes or car expense, but the employer could be the big winner by being able to downsize office space. Saving the monthly rent on thousands of square feet could add a substantial amount to the balance sheet.

Employees, Entrepreneurs Work Where You Play

Many employees of companies that are still in downtown areas are aggressively looking for ways to transfer their office desk to their home, wherever it might be. If they can make the change, they might choose a remote area, a vacation resort.

When people pick a place for a second home or vacation home, it is at the one place in the country where they would like to live the year round. Many plan to retire there—someday. It may be a mountain resort, a lake, at the seashore.

The employee who works out of a home will probably still have to appear occasionally at the office, so must stay within a certain commuting distance. A daily commuter might want to live within 10 to 25 miles of the office, but someone coming in once a week might think 75 to 200 miles would be fine.

Entrepreneurs in certain lines of work can literally live anywhere. Computer program designers need only a computer and modem to be in a multi-million dollar business. Publishers, advertising agencies and many other telecommuters have relocated to resort areas all over the country. ➤

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Financing The Resort Home

If you are selling the home in a metro area and moving to the country, financing should not be a problem as it is a primary home. But obtaining financing for a second home can sometimes be different.

A lender views loaning money on a second home somewhat differently than loaning money on your primary home. His thought is that since you have a primary home, should financial problems arise, you might forsake making payments on the second home in order to preserve the equity on your primary home. That's why most qualifying and underwriting guidelines are stiffer on second-home loans.

Also, the secondary market where the lender sells the second-home loan has different requirements for loans on second-homes.

Requirements and Qualifying

Most second-home loans require a 20 percent down payment. This would be for both an

existing home and for a new second home that you will build. This 20 percent down applies to both fixed-rate and adjustable-rate mortgages.

Qualifying for a second-home mortgage can differ because the lender will count not only your loans such as cars and credit cards, but the payment you're making on your first mortgage as well. This can disqualify the potential borrower or at least minimize what he/she can qualify for.

One suggested tool could be putting 10 percent down, applying for a 75 percent 1st loan and ask the seller to carry back a 15 percent 2nd loan. This is allowed by the secondary market that purchases second-home loans and will allow you to avoid private mortgage insurance (PMI) because your first mortgage of 75 percent is less than the amount of loan requiring PMI.

Check in advance what the lender will require if you use any creative combination of traditional and second mortgage financing. ♣

Values – Informal Electronic Or Formal Appraisals

If you are going to make a real estate transaction, you want it to be as quick and smooth as possible. A big help is to get familiar with the value of your home if you are a seller and the values of the homes in your target area if you are buying.

Some banks have an electronic page on their web site for an estimate of value. Enter the address – get an instant estimate. It is often very close. Close enough, in some cases, for the bank to use it for equity loans without a formal appraisal. Try it – it is a good place to start.

No buyer wants to pay more than a property is worth. A seller must list a property near its market value in order to sell in a reasonable time. If it is too far overpriced, no one will look at it and agents will be unlikely to show it.

Here is the definition of market value, to be used by loan examiners, according to the statement by federal regulators:

The most probable cash sale price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently

and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- *Buyer and seller are typically motivated (i.e., motivated by self-interest).*
- *Both parties are well-informed or well-advised and acting in what they consider their own self interest.*
- *A reasonable time is allowed for exposure in the open market.*
- *Payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto.*
- *The price represents the normal consideration for the property sold unaffected by special or creative financing or sale concessions granted by anyone associated with the sale.*

One of the reasons that buyers and sellers should have an experienced agent representing them is that a good agent can help them with prices and values. Using the guidelines that are commonly used in real estate, the experienced agent can show by comparable sales of similar properties what market values should be.

The exact value is important. Call me. ♣