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## THE BOCA BEACH REPORT

### Real Estate —Your Investment In 2004

**T**he values of homes are continuing to increase in most parts of the country. Don't you wish that you had purchased one or two homes in your neighborhood as an investment a few years ago?

In many parts of the country, residential condos continue to increase in value at a rate twice that of single-family homes.

One of the reasons for the increase in values is the increase in transactions by the owners who are "serial sellers", taking advantage of the \$250,000 or \$500,000 tax free gain on the sale of a personal residence after two years of occupancy. In addition to the turnover in homes, lot prices are increasing as owners buy to build the next home to live in for 24 months.

Many homebuilders are now building the home that they and their family will live in for two years when it is completed. Some builders have purchased or optioned lots, preparing and planning for their home building and moves for many years in the future.

Historically, one of the best invest-

ments for anyone has been an investment in real estate. For the novice real estate investor, I always recommend a starter investment of another house or small apartment near the home or vacation home that is owned now.

Real estate offers many advantages over savings accounts and other investments. Here are some of them.

- **High Leverage.** Real estate can be purchased with a small down payment. That can multiply the return. For instance, if you buy \$100,000 worth of real estate, putting down 10% or \$10,000, a 10% increase in the value would result in a pre-tax yield of 100%. If you paid cash for stock worth \$10,000, a 10% increase would yield just \$1,000 (10%). ➔



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

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## 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)

• **Source of funds.** Your money in savings can be invested. Or you can use equity in a home or other property. Suppose you already own a \$400,000 property with an existing \$75,000 mortgage. You can refinance to get more cash—tax free. If you sold stock that appreciated in value to get cash, you would have to pay a capital gains tax on any gain.

• **Management.** With real estate you have control over the investment. You can improve the property to increase its value or make changes in the usage. As a stockholder in a corporation, you have little control over management decisions.

Here are a few real estate investments to consider:

1. **Your own home.** The beginning. This is one of the best investments that anyone can make. A solidly built home, located in an excellent neighborhood can be a incredible savings plan, a valuable investment that can be free and clear of loans by the owner's retirement.

2. **A rental home.** If your own home is an excellent investment, then how about a second or third house as a rental. The income from the rents can pay the expenses and mortgage.

3. **A fixer-upper.** This takes some care and professional help (I can help). A run-down home in a good or improving neighborhood and be fixed up to sell at a much higher price. While examples one and two allow wealth to build slowly, this can be the quickest way to make big profits.

4. **A lease-option purchase.** Perhaps a riskier way to invest, but with the highest return. Combine the fixer-upper with a no down payment or very low down. You control the property with the lease and can purchase it at a pre-agreed price with the option. If property value increases through your efforts, exercise the option and sell the property at a profit, or keep it as a rental. If value falls, you can bow out with little expense.

### Investment Decisions

I can help you with the things you must know to make the decisions in small real estate investments. For instance, you need to know:

- Market trends in your neighborhoods of interest.
- The true market value of individual properties.
- Methods of improving property values.
- Ways to use your growing equities to trade up into larger and more productive properties.
- Ways that you can refinance to gain cash to reinvest in other property and increase your estate.

This is one time that sitting on the sidelines can be expensive. Knowing what your opportunities can be in a residence, second home or for an investment property can shape your long-term planning. I can help you to formulate those plans. Give me a call—let me help you. ✪

## Refinancing Near The End Of A Loan Term

**O**ne home owner we know had only a few years left on his home loan. Since the current rates were lower than the interest he was paying, he looked for the least expensive way to refinance his relatively small balance. He only owed \$30,000.

Since most of the payment during the latter years of an amortized loan goes to the principal and less to interest, the actual amount of money each month that is paid to interest is much lower than during the first few years, when most of the payment goes to interest. If you do nothing except keep paying each month, your annual interest paid would not be too large of an amount of money.

The old interest rate was 8 1/2%. Refinancing, even for a short five-year period, always has costs, points, etc. The owner might investigate how much these would total. If the new loan would be at 6%, he might save about \$50.00 a month during the first year. He compared this with the costs and decided.

Here was his solution. There was a risk. He applied for a home equity line of credit for an amount of \$30,000 or higher. Many lines of credit from a bank have no fees at all or as little as \$50.00 total. His line of credit had no costs. The interest rates are as low as 4% in some parts of the country. As soon as he got the line of credit check book, he wrote a check for the amount owing on the 8.5% loan, paying it off. Now he owed the same amount as before, but at a much lower interest rate.

Here's the risk. Home equity loans have a variable interest rate. The interest rate could go much higher than today's rate during the next five years. However, if you put your interest savings toward the principal of the

loan (continue to make the higher monthly payment), you might pay it off in less than five years.

### Saving By Prepaying Your Mortgage

Since we are talking about saving money, there are different ways to save money on a mortgage. Here is an idea in mortgage management.

With a little mortgage management, sending in a little extra with your monthly payment on your fixed rate mortgage can save more money than a savings account. Even though mortgage rates are low now, the amount of interest you can receive from savings is much lower.

Look at this example: if you have a 7% loan, every extra \$100 you use to reduce the principal saves you \$7 a year from then on. A guaranteed 7% return on invested capital. Interest rates on savings accounts might be at 3% now.

Remember, when you make an extra payment on your principal, say \$100.00, or any amount, the lender cannot charge interest on that amount ever again during whatever is left of the 360 months of a 30-year loan.

With a fixed-rate mortgage, once you pay anything on the principal, you owe less interest, and with your payments staying level, more can go toward reducing the remaining debt each month than was originally planned. Sending in the equivalent of one extra full payment each year, with instructions that it be used entirely to reduce principal, can cut a 30-year loan down to less than 23 years.

Suppose the full payment, principal and interest, is \$2,000 a month. Cutting that seven years from a loan is a savings of \$168,000. (7 years x 12 months = 84 months x 2,000 = \$168,000.) That is a real savings account!

Don't worry about losing some of your income tax deduction for mortgage interest. It's never worth spending money just to get a deduction, anytime.

Be sure and try this at home! ♣

## Home Insurance Update And Improvements

**Y**our home insurance should cover what it would cost to replace or rebuild your home if it is damaged or destroyed. That is why it is important to update your insurance policy when you make any home improvements.

What if the replacement cost of your home was originally \$320,000 and you made a \$50,000 addition. You would need additional insurance

coverage. In fact, you might need more insurance than you think. If you haven't recently reviewed your original policy, you may find that you are not fully covered on even pre-improvement replacement costs. If you are not, you'll want to increase your coverage by more than the \$50,000 for the improvement that you are now making.

**Remember also to increase your personal coverage if you add new furnishings to the new addition.** ♣