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THE BOCA BEACH REPORT

Interest Rates Affect Prices And Sales Volume

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 \$500,000. That is about \$200 per square foot. A comparable home in the same area of 2,300 square feet might be worth \$460,000 (2,300 square feet X \$200).

That is the basic computation. Since each home has its own amen-

ities, the value might adjust up or down a little based on each home individually.

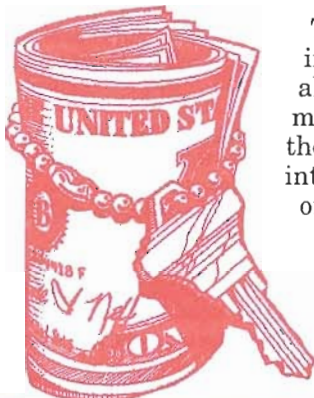
The current interest rates can affect the value also. If rates are very low, a buyer may be willing to pay slightly more since the monthly payment will be lower too.

The value of any home is established by the marketplace. 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.

Home Values And Interest Rates

The biggest expense in owning a home 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.

As an example, ♦♦



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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.

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| <input type="checkbox"/> Checking on current value of my property | |

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

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a \$200,000, 30-year, fixed rate mortgage at 6% has a monthly payment of \$1,210. If the interest rate soars to 10%, 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. ♣

Investigate Thoroughly Before Hiring A 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.

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

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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.

Buying The Lot

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?

Many 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 permanent 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 is 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. ♣

Think Ahead And Avoid A Home Fire

According to The National Fire Protection Association, you are at risk from injury from a fire in your home more than any other location. Yet most homeowners mistakenly think a home fire couldn't possibly happen to them.

Insurance statistics say that the average American will experience two fires in a home in a lifetime. Here are things to do to prevent them in your home:

First, do the obvious—use smoke detectors on every floor, in every bedroom.

Here is some advice from fire experts on reducing the risk of a home fire:

Kitchen. Kitchen fires is in first place as the No. 1 cause of fire in the home.

- Don't leave food cooking unattended on top of the stove or in the oven.
- Avoid under-the-counter appliances such as toaster ovens and coffeemakers which emit heat directly under kitchen cabinets.
- Clean appliances and stove frequently to remove grease build-up.
- Maintain appliances regularly, checking for shorts or leaks.
- Don't overload circuits with more than two connections per outlet.
- Try to use appliances with built-in breakers.
- Don't put metal containers in a microwave.
- Supervise all cooking efforts by children.

Bedroom And Living Areas. Wiring and electrical

problems are a concern where there is a high concentration of entertainment equipment—TVs, VCRs, stereos, radios.

- Don't overload circuits and outlets.
- Don't run cords under carpets or furniture. Check cords for cracking and fraying.
- Keep any space heater at least 3 feet from anything flammable.
- For a fireplace, use a firescreen made of tempered glass and sturdy metal. Don't store combustibles near the fireplace. Never use charcoal lighter or gasoline to start or intensify the fire. Dispose of ashes only in a fireproof container away from the house.

Basement, Storage Or Workshops. A major source of fire can be the home's heating system. Have the furnace checked annually before winter. Always store paint and related products in original labeled cans, making sure lids are snug. If gasoline must be stored, it should be stored outside the house or in detached buildings in small quantities in safety cans.

If you smoke, make sure smoking materials are completely extinguished before going to bed. Don't smoke and drink or use medication in sleeping areas.

Your Home Inventory

In case you do have a fire, be insurance-prepared. Update your home inventory at least once a year, more often when you add major appliances or furniture. Be aware of the value of your furniture, clothing and other belongings. Keep the list along with pictures or video tape in a fireproof place or a safe deposit box. ♣