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# THE BOCA BEACH REPORT

## Investors Are Buying Real Estate

**T**he word is out all over the country. Polls now show that over 60% of Americans now distrust the stock market and particularly the officers of large corporations. The money from the stock market investments is now moving into equity in real estate and businesses.

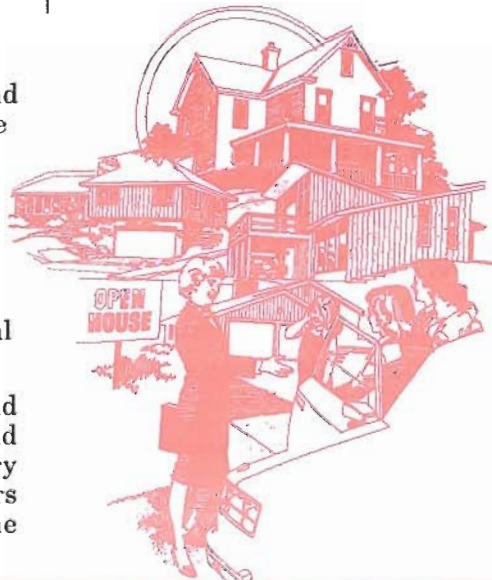
Real estate has been booming. Look at the equity in your home or other real estate.

Most everyone has a loan of some kind on their home or second home. Some have a second or a third note on the property. A very few owe large amounts on the property, but have no loans recorded against it. These owners may work for a large corporation or bank that advanced the money against the executive's personal account within the company.

If anyone could have a home free and clear of encumbrances, you would normally think it would be the very rich. However, most wealthy owners have all real estate mortgaged to the

maximum. This gives them additional cash invested in their business or investments, with a return higher than the interest rate on the loans.

If an owner has title to a total value of \$250,000 in real estate that increases in value by 10% in one year, the increase in equity is \$25,000. If he increases his overall holdings to a value of \$750,000 using leverage, the increase of 10% could amount to \$75,000, even though the owner's equity is just the same in both examples! ➔



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information about  
your real estate*

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

### In This Issue

- Investors Are Buying Real Estate
- Retirees - Tap The Wealth Hidden In A Home
- Final Touches on a House Before Listing
- 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 _____                                 |
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If your property is now listed with a broker, please disregard this offer. We will cooperate with other brokers.

(Continued)

Using \$200,000 in cash in a 25% leverage position could quickly mean an ownership of \$800,000 worth of property. This could be a \$200,000 down payment on an \$800,000 apartment or diversified into several properties, such as \$50,000 down on each of four \$200,000 rental houses.

The long term trend in real estate has always been higher prices. When we see the threat (or opportunity) of inflation still in the future, we must consider the possibility of using whatever means that we have to control more real estate. Our existing equity can be an answer.

### Your Home Equity

If you have owned your home for a few years, you may be surprised at the amount of equity that you have accumulated. Your wealth in equity builds up from the loan reduction from monthly payments and from increases in value. While inflation has not been in the news, most homes have been increasing in value. Real estate owners who have not had great amounts of ready cash before may find that they might easily have access to \$50,000, \$100,000, \$200,000 or more.

When you borrow money on something you already own, the proceeds of the loan is not taxable that year as income. There will be a normal tax liability on the gain, if and when the encumbered property is sold at some later date. (Check with your tax advisor.)

The borrower can use the borrowed money for

anything. Some have invested in higher education to increase income. Others have used it to go into business. Many property owners borrow on one property for the purpose of acquiring other real estate. If one property can make you wealthy from appreciation, why not own two, three, or more?

This kind of financing can be a good use of the equity in a home that the owners wish to keep. With other properties (like a rental you already own) there are other possibilities. Here are some ideas.

1. Sell the property and use the proceeds to purchase other real estate using leverage to the best advantage. On a rental, the tax may be low.
2. A second and perhaps a better idea. Exchange the equity up into a different leveraged position in another property, resulting in more income. (This can be a tax free event if handled for you by experts.)

Sometimes, option #1 (sale) can be done, without tax problems. In one case, the sale of the taxpayer's residence, it might be tax free. With the new tax law in effect, you may get up to \$500,000 of gain free of tax. Most of the cash from the sale can be retained, with no tax liability. Invest the proceeds in down payments on another primary home and in down payments on other investment properties.

Check with your estate planner, tax advisor and attorney before taking any action in using equity to increase your estate. ♣



# Retirees - Tap The Wealth Hidden In A Home

**T**here are retired people all over the country who are receiving a retirement income that is less than they would like. Many of these couples own a home that is free and clear of loans or nearly so. They often struggle along on a very small income when they literally have untapped wealth all around them in their home every day. There are ways of using this home equity for additional income monthly for life.

## Parents Sell To Children

Here is a transaction that we heard about recently. It was a solution that a tax planner proposed for an older couple and their children.

The retired parents needed cash so the tax planner suggested that the children buy their home from them on an installment basis and then lease it back to them at fair market rent. The parent's gain will probably be sheltered from tax by the \$500,000 exclusion for home-sale profits available to persons in the 1997 tax law.

The transaction can be structured so that the installment payment is higher than the rental payments the parents make, giving them extra cash income each month. The children can afford to funnel the extra money to the parents because of the possible tax benefits received from the property.

There is an extra bonus because the parents' estate tax liability is cut because the house is removed from the estate.

Another suggested strategy had the parents giving the house in trust while retaining the right to live in it. This could possibly be done at a low gift-tax cost, and it removes the house and any future appreciation on it from the parents' taxable estate.

## Reverse Mortgages

The Federal National Mortgage Association, known as Fannie Mae, is now offering "reverse mortgages," which enable senior citizen homeowners to convert the equity in their homes into income.

The "Home Keeper Mortgage" is available to over 80% of older Americans who own their home, according to a spokesman for Fannie Mae.

"With staying in one's own home a major goal for older homeowners, the Home Keeper Mortgage can provide crucial funds for a senior who may wish to remain financially independent," he added.

The reverse mortgage is an adjustable-rate loan that allows seniors to borrow against the value of their home. The amount available depends on the number of borrowers, their ages and the value of their homes.

The funds are available for most personal financial needs, such as health care, home repair or a monthly income supplement. The difference between this and a traditional home equity loan is repayment would not be due until the borrower died, moved, sold the property or transferred title to another individual.

A borrower also could not be forced to sell or vacate the property to pay off the loan, even if the total of mortgage payments plus interest exceeded the value of the home.

If these types of ideas could fit your situation, be sure to discuss it with your own tax planner and attorney before taking any action. ♣

# Final Touches On A House Before Listing

**W**hen you are selling a home, you do not just put it on the market without some kind of a pre-marketing fix-up. A few people put a "junker" for sale "as is" but this is rare. Whether it is a complete remodel and upgrade or just a thorough cleaning, there will be some preparation.

Most everyone has heard all of the hints about the gardening, the painting, fixing faucets, etc., so here a few hints that you may not have heard before.

- Add a window or a skylight to a dark room. If you do not want to cut holes, at least add a new light fixture.
- Home offices are hot. Why not show one of the bedrooms furnished as a home office.
- Use closet organizers. They give up to twice as much usable space. Most important, they make the space look larger.
- Get rid of the "pack rat" look in any room by removing excess furniture. A room packed with furniture looks smaller than it is.
- Visit the "open houses" that our office holds for our "for sale" clients. We will be glad to go over various rooms with you and show you what is right and wrong about a home being shown. ♣