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THE BOCA BEACH REPORT

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.

As an example, a \$200,000, 30-year, fixed rate mortgage at 6% has a monthly payment of \$1,200. If the interest rate soars to 10%, the monthly payments jump up to \$1,755, an increase of \$555! 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 ♦♦



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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. ♦

Make An Older Home Shine Without Spending Big Money

An older home may be going on the market for sale. In another area, a buyer may have just purchased a used home that needs attention. Each may completely remodel or rebuild the home to make it like new. Or, there are some fairly inexpensive fix-ups that can make the older home look almost new. Some of these may need some professional help, but most can be done by the homeowner.

The Kitchen: If you want a complete professional

renovation, you may need about \$100,000. However, you might be able to make it look almost new with a do-it-yourself job. Paint the cabinets with good quality enamel. You can replace the countertops with pre-made sections from a building supply house. Install a new sink, range, refrigerator and dishwasher. Install a new floor using do-it-yourself hardwood. The whole job may cost only \$15,000 to \$20,000.

Replace downspouts and gutters: Old aluminum gutters get to look shabby. The new vinyl gutters are efficient and look great. The segments snap together and are easy to install. There are simple mounting brackets. The whole job for an average sized house can be done with simple hand tools and will cost only about \$950.

Redo the Bathrooms: You can replace the old ♦

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style sink with a modern pedestal sink or a full vanity. If you add a vanity with drawers for storage, you can remove the old medicine cabinet from the wall. This leaves room for a full-wall-width mirror that will make the room look twice as big. This should cost around \$1,500 per room.

Replace Outside Doors: When you walk up to a home, you see the front door first. Replacing it with a new door, perhaps with a stained glass window in the top half, will change the appear-

ance of the front of the home. Newer doors can be built in with better seals, fit snugly and save energy. This might be \$500 to \$800 each.

Use Wallpaper: There are new pre-pasted wall papers that are easy to install. These can transform a room from just a room into a dazzling showplace with a riot of color. This can cost from \$400 to \$450 per room depending on the size and the quality of the paper used.

These changes, along with the obvious ones, new carpets and painting, can transform an older home without breaking your budget. ♣

Buying The Lot 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 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.

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.

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. ♣