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# THE BOCA BEACH REPORT

## How Options Work

**W**hen you purchase an option to buy real estate, you acquire the right to purchase that real estate at any time within a specified period at the price specified in the option. Usually, you must pay something to acquire the option. What you pay for the option depends on the circumstances, but it will always be small compared to the price of the property. If you fail to exercise the option, you lose only the amount that you paid for it.

### Buying The Optioned Property

When you exercise the option and purchase the property, the amount that was paid for the option is added to the amount paid for the property to determine the basis. The person who had granted the option adds the amount paid for the option to the sale price and that will increase his gain or reduce his loss.

Example: John buys a one-year option to purchase a rental house from Mary for a \$300,000 purchase price. John pays Mary \$15,000 for the option. At the end of one year, John exercises the option and buys the house. His basis for the house is \$315,000 (\$300,000 purchase price plus the \$15,000 option cost). Mary’s full sale price realized from the sale, in the year of the sale, is also \$315,000.

(Since long-term capital gains are over one year, one-year options are usually written for one year and ten days. This gives the principals an opportunity to avoid some tax.)

The buyer of the option controls the property for a year (and ten days). If it increases in value, he gets the profit. The seller of the option usually feels that the property is sold.

### When The Option Expires

When the option is not exercised, its lapse is treated as a sale of the ⇨



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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.

- Purchasing a home or second home       Long distance Relocation  
 Selling a home or second home       Other \_\_\_\_\_  
 Purchasing or selling Investment Property       Please contact me between these hours \_\_\_\_\_  
 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)*

option on the day that it expires. The kind of loss from the forfeited amount paid for the option depends on the nature of the property that was optioned. If the property would have been a capital asset if acquired, the loss is a capital loss. The holding period of the option determines if it is long-term or short-term. When the option expires, the payment is ordinary income for the grantor of the option.

**Example:** In the previous example, let's say that John does not exercise the option, and at the end of the year it expires. Since the rental property would have been a capital asset if acquired, the \$15,000 forfeited is reported as a capital loss. Mary reports the

\$15,000 as ordinary income in the year of the expiration.

### Selling The Option

The gain or loss from the sale of the option has the same character as a gain or loss from the sale of the property. So, if the property would be a capital asset when acquired, gain or loss from the sale of the option is a capital gain or loss. The holding period depends on how long the option was held.

**Example:** In our example, suppose that John sells the option for \$25,000 after six months. The \$10,000 gain is a short-term capital gain. The sale of the option has no tax consequences for Mary. ▲

## Are There Million-Dollar Homes In Your Block?

Have you seen advertisements for homes with a million dollar or more price tag? Of course, they are now commonplace. In many areas most homes for sale are over a million dollars.

We saw one home advertising magazine recently. The featured cover home was a palatial estate with eight bedrooms and 21

baths. The asking price — this is not a typo — \$60,000,000.

This is inflation. Here is what the "real world" was once. In 1803 Jefferson purchased the Louisiana Territory from France — about 500 million acres — for \$15,000,000. Fifty-one years later, in 1854, James Gadsden purchased from Mexico what

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is today the southern portions of Arizona and New Mexico, a total of 30,000 square miles for \$10 million. Then there was the purchase of Alaska. William H. Seward bought all of Alaska — 586,412 square miles — by paying \$7.2 million to Russia in 1867. Seward paid about 2 cents an acre.

In the 21<sup>st</sup> Century, prices have crept higher.

One computer reporting service reported that in one recent three-month period there were 4,976 California homes which changed hands for \$1 million or more. Around most of the country now, it seems that every city and town has properties valued at \$1 million or more.

### What is happening?

As we said, one reason is inflation. The cost of things is measured in terms of dollars. In time dollars buy less than they used to because of inflation, thus it takes more dollars to buy anything. We have all seen prices creep up.

A second reason has been the great amount of wealth that has resulted from a decade of stocks rising on Wall Street. New millionaires have been growing at hyper-speed. It is estimated that a fairly new search engine on the internet went public with a value exceeding General Motors.

Then there is the matter of demand. Since there are more wealthy people, more people with more dollars are competing for the best properties. How much is an average income? Look at the salaries for professional athletes. Even average players in baseball, basketball, and football are now paid tens of millions of dollars. Corporate executives can earn hundreds of millions of dollars per year when stock options are considered. Anyone with these occupations 30 years ago might have made salaries in the five-figure range.

Maybe we just missed it, but we have not seen an ad for a \$100 million house yet. If not, it will happen soon. No doubt Jefferson, Gadsden, and Seward would be impressed. Will you be impressed? ♣

## Wealthy People Invest In Real Estate

**I**s it because they are wealthy that they invest in real estate or does real estate make them rich?

After a person owns a home, maybe an investment in another home would be something to think about. The benefits of having a tenant paying off a mortgage for the owner is very satisfying. It is a “no-brainer”. It’s so simple, if someone else is paying off your mortgage, you get rich!

Rather than buy a house or apartment property as a rental property, it could be wiser to invest in a condo or a townhouse, or more than one, if possible. It appears that the demand for these properties will be strong well into the 2010s and beyond.

There are reasons for this demand for condos and townhouses. Here are some of them:

1. There has been a trend for young people to stay single longer and wait to get married.
2. There is an increase in the numbers of

nontraditional households (single parent, singles-not-married, married two-income, no children) that should create a demand for smaller houses, condos and townhouses.

3. The elderly people who have increased dramatically in numbers will have a major impact on the market for real estate for many decades to come. Many of these will try to remain close to family and friends. The convenience and good locations of many of the condo developments will make them desirable to this group.

4. As the population ages, the trend is for them to move to the South and the West. These areas of the country will need more housing that will be of the type that older Americans will prefer - usually the condo or townhouse.

The demand for starter houses will remain strong in the next decade. The pool of households headed by young (under 35) adults is increasing. This results in demand for the small house, and increases the demand for the condo and townhouse.

Call me to get started on your plan for increasing wealth. ♣

# Boca BEACHFRONT Availability

The following is a summary of the available and pending residences located on the East (BEACH) side of OCEAN Blvd. (A1A) in Boca Raton.

## North Beach

(North of Palmetto Park Road on North OCEAN Blvd. - Listed from North to South)

Condo Name	Address	AA	List Price Range	SF	Br	Ba	PC
Mizner Del Mar	2500	1	6.9M	7,000	5	6.5	0
Aegean	2150	0		TEMPORARILY SOLD OUT			0
Athena	2070	0		TEMPORARILY SOLD OUT			0
Ocean Reef Towers	2066	2	995K - 1.399M	2,100 - 2,209	3	2.0 - 2.5	0
Brighton	2000	2	1.65M - 1.799M	2,435	3	3.0 - 3.5	0

## Boca Beach

(South of Palmetto Park Road to the Boca Inlet on South OCEAN Blvd. - Listed from North to South)

Condo Name	Address	AA	List Price Range	SF	Br	Ba	PC
Marbella	250	8	799.9K - 2.25M	1,600 - 3,510	2 - 4	2.0 - 4.0	1
Boca Mar	310	1	589K	1,300	2	2.0	0
Beresford	350	0		TEMPORARILY SOLD OUT			0
Excelsior, The	400	9	3.595M - 7.75M	3,687 - 4,784	3	3.5 - 5.0	0
Chalfonte, The	500-550	13	599.9K - 2.75M	1,351 - 3,605	1 - 4	2.0 - 4.0	1
Sabal Shores	600	4	495K - 1.395M	1,180 - 1,865	1 - 3	1.5 - 2.5	2
Sabal Point	700	0		TEMPORARILY SOLD OUT			0
Sabal Ridge	750	0		TEMPORARILY SOLD OUT			0
Presidential Place	800	2	3.495M - 3.875M	4,747 - 4,947	4	5.5	0

## South Beach

(South of the Boca Inlet on South OCEAN Blvd. - Listed from North to South)

Condo Name	Address	AA	List Price Range	SF	Br	Ba	PC
Cloister del Mar	1180	2	469K - 589K	1,300	2	2.0	0
Cloister Beach Towers	1200	10	499K - 1,195M	1,360 - 2,006	2 - 3	2.0 - 2.5	0
Addison, The	1400-1500	11	1,295M - 3.5M	2,156 - 4,312	2 - 3	2.5 - 3.5	0
Placide, The	1800	5	699K - 1.15M	1,597 - 2,190	2 - 3	2.0 - 2.5	1
Whitehall	2000	8	650K - 2.2M	1,432 - 3,458	2 - 4	2.0 - 4.0	0
Aragon, The	2494	6	2.75M - 6.495M	3,764 - 8,500	3 - 6	3.0 - 8.5	1
Luxuria, The	2500	4	5.1M - 11.5M	4,665 - 8,319	3 - 5	4.5 - 7.0	0
Stratford Arms	2600	8	1,025M - 1,295M	2,101 - 2,134	3 - 4	2.0 - 3.0	0
Whitehall South	2800	10	724.9K - 1,499M	1,423 - 2,173	2 - 3	2.0 - 3.0	3
Three Thousand South	3000	4	650K - 998.5K	1,350 - 1,782	2 - 3	2.0	0
<b>TOTALS:</b>		<b>110</b>					<b>9</b>

**Key:** AA = Number of Apartments Available For Sale. SF = Range of Living Area Square Footage.  
Br = Range of Bedroom. Ba = Range of Baths. PC = Number of Apartments SOLD and Pending Closing

This information is compiled from RMLS, Inc., on July 22, 2006. This representation is based in whole or in part on data supplied by the RMLS, Inc. RMLS, Inc. does not guarantee or is not in any way responsible for its accuracy. Data maintained by RMLS may not reflect all real estate activity in the market.