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THE BOCA BEACH REPORT

SEPTEMBER 2018

*Privileged
information about
your real estate*

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

Purchasing An Option

When 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 is purchased.

When The Option Expires

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



(continued)

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.

In any complex transaction that might result in changes in any owner's legal or tax situation, we always recommend consulting with your real estate agent, attorney and or tax advisor during the planning and closing of major real estate transactions ❖

Some Tips From “Professional House Flippers”

Most of us have heard about “house flippers”. They are the people who buy, remodel and resell houses for quick profits. They want to resell as soon as possible, without spending much money on the fix-up so they have found the best and most inexpensive ways.

Even if you are not a “house flipper”, but are just wanting to sell your home, here are some essential things that should be done.

Surveys show that it's not necessarily the most extensive remodeling projects that return an excellent profit. The secrets of the flippers might help you to make a home improve in appearance before a sale netting a lot more money.

Rather than spend a fortune to give a home appeal, go for the tricks these professionals use that makes the money spent on renovation go farther.

Doors Are The First Things That Visitors See

A new front entry door, minor kitchen and bathroom remodels, creating an attic bedroom and replacing the garage door are among the low-budget yet high-yielding home improvement projects.

Most houses have been occupied by the same family for years or decades so when they prepare to sell, it's very dated. The key

is to modernize elements of what is outmoded. It could be as simple as a fresh, neutral-toned paint job, changing the knobs on the kitchen cabinets, or replacing a vanity top. Changing the window coverings or getting rid of them.

Clean the window screens and repair or replace any that are damaged.

Clean Like You Have Never Cleaned

Buyers are attracted to homes that are stain-free, look new and are move-in ready. If there is wallpaper of any kind, anywhere, get rid of it. Removing wallpaper, painting walls, changing light fixtures and doorknobs, adding hardware to cabinets, and cutting the clutter helps update a house and makes it more appealing to potential buyers.

In kitchens, replace the laminate counter-tops with quartz or granite. You may avoid the expense of changing kitchen cabinets by changing the cabinet doors or painting them. New appliances are a must. A modern kitchen makes the whole house look good, while an old kitchen ruins the appearance of everything.

If the house has an attic that can be converted to a bedroom, it can be the best thing that you can do. It is one of the most valuable additions to any home – it adds living space! You are utilizing space that is already there. ❖

Looking For A New Home?

Real estate experts say that the three most important things in the value of a home are, "Location, location and location". This is very true. Here are some things to keep in mind when looking for a new home.

- If new homes are being built in the area, they should be more expensive and more attractive than the existing homes. The neighborhood is being upgraded rather than downgraded.
- Streets are well lighted, clean, and are in good condition.
- Good schools. Are the schools well equipped and well staffed? How do the students rate on college aptitude tests? Are these schools close enough to the home you wish to buy?
- Easy access to shopping. Is your chosen

neighborhood close to schools, churches, recreational and entertainment facilities? What are the particular interests that you have that you want to be near?

- A neighborhood with clean streets that are lined with trees. Most of the lots have been improved, with very few vacant lots.
- What is the overall appearance of the neighborhood? There would be danger signs if there were cars, boats or trailers jacked up in the street or driveways.
- The crime rate in the area should be low.

When we show you through a neighborhood to choose a new home, you will be aware of all of these "location" characteristics. When we show a home, all of the important places that are a part of the neighborhood are also shown so that you can make an intelligent decision. ❖

Hidden Water Leaks In Your Home

Hidden water leaks in your home or condominium can be a dangerous and expensive thing. Leaking pipes within the walls can cause mold, destroy insulation, and rot wood. Dripping pipes within the walls behind appliances can be a fire hazard and leaking irrigation water systems can cause lawn damage. These are just the tip of the iceberg.

Fixing easily detectable leaks like dripping faucets and toilets that malfunction and 'run' can be very inexpensive and easily fixed with a trip to the hardware store. This type of common leak wastes 800 to 1100 gallons of water a day.

Home water leaks waste about 1 trillion gallons of water per year and at least 10 percent of American homes have leaks that waste 90 gallons of water a day, according to the EPA.

Uncovering hidden water leaks can not only be important to your budget, but also to your safety and for the protection of your home investment.

Be proactive and make periodic inspections around your property, on the outside and inside. Check your irrigation system by

walking around your yard looking for signs of leaks in the drip system, or leaking sprinkler heads.

Inspect around the water heater for moisture and check all connections.

Look under the sink in the bathroom and kitchen for any leaks or loose pipe connections and check the wall next to the dishwasher for moisture.

Watch your water meter bill for any unexpected spike that could indicate a problem.

An older home has older pipes and water systems that may be prone to water leaks as they age, but new homes aren't immune to problems either. Pipes and soldering can fail at any time whether the home is brand new or 100 years old.

Whether you live in a high rise condominium or in a single residence, being aware of the hazard of water leaks can save you a lot of problems and help the environment.

There are smart home technology companies that specialize in water leak detectors. Look in the yellow page in your area. ❖

Investing In An Additional Property For Wealth?

Wealthy People Invest In Real Estate. Is it because they are wealthy that they invest in real estate or does real estate make them rich? We think owning real estate can make you rich.

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

Rather than buy a house or apartment property as a rental property, it might 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 future.

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 older, retired 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.

After the recession, the demand for starter houses has remained strong well into 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 condos and townhouses.

Call me to get started on your plan for increasing wealth. Now may be the best time in decades. ❖

Your Real Estate Brokers

How can we be of service to you? When you are buying or selling a home, of course. At other times, we can handle property management for any properties you might own. Let us help in determining the value of your home, anytime you need to know.

Call this office when you need services of an expert in this community's real estate. We have the records of all properties for sale at all times. Today's interest rates, availability of loans, and any other financial information that can affect your property is as close as your phone.

Keep our newsletter as a file of useful real estate information and to remind you to call us whenever you need "Professional Service".



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