

## The Art of Contrarian Investing Why it Makes Sense to Buy Real Estate Now!

Many real estate pundits and investors say that they are waiting for prices to come down, before they purchase an investment property. That may make sense for investors, because they want the property to have a positive cash flow right away (be profitable as a rental). If, however, you are a buyer wishing to own a home to live in, it makes tremendous sense to buy now, when others aren't buying. This technique is called contrarian investing, in other words, buying when others are selling instead of buying when everyone is trying to buy.

### Here are the major benefits to buying now...

- Lots of Sellers (including Banks and owners who are upside down), are highly motivated to sell.
- Sellers are offering incentives, like paying for closing costs, interest rate buy downs (to help the buyers get better financing), seller financing, price reductions, paying for HOA dues or club memberships, parking fees, etc., in order to get buyers to bite.
- Lenders now have to operate in this more restrictive and competitive market and are offering incentives to get buyers to use their services. Some lenders are offering to pay for appraisals, waive fees, waive prepayment penalties and give other cost saving considerations.
- Little competition from other buyers means less chance of paying too much (this competition caused buyers to probably overpay during the last rising market frenzy).
- Historically low interest rates are here now, but they may be higher in the future (Fed Governor, Frederick Mishkin, was quoted in USA Today on November 6<sup>th</sup> as saying, "the rate cut could be reversed, if the economy performs well or inflation intensifies").
- Buyers will be living in their own home, benefiting from pride of ownership, future appreciation, and will probably experience a better quality of life. They will not be paying rent (for something that will not appreciate for them, as renters).

- Buyers may receive mortgage interest write offs... for income tax savings.
- Market downturns affecting value, would be on paper only. The lower value of property, in a flat market, has minimal or no adverse impact, unless the buyer decides to sell during that time.
- You will get the inviting prospect of significant gains when a rising real estate market returns (as it has done multiple times in the past). Buyers should plan on holding property bought now, for at least five to ten years to further ensure profitability (the more time the home is held, usually means more equity and profit when selling).
- Though Stock and Real Estate investments are both good, the stock market is likely to have more frequent and unpredictable changes. (An article by Jason Hartman in Broker Agent News, 2007, had this - "That's because the stock market is a fickle thing, unpredictable, intangible asset that has little, if any, tax benefits. Real estate, on the other hand, is far less volatile, has superior tax benefits, significant cash flow and a high degree of leverage").

### Additional considerations for buyers are:

- Use a licensed Realtor, to help protect you and find listings suitable for your needs.
  - Get pre-approved (not just pre-qualified), by a couple of professional and experienced lenders.
  - Review the statistics from the San Diego Multiple Listing Service (MLS), to help you determine market time and average/median list and sold prices.
  - Visit: [www.sandicor.com/statistics](http://www.sandicor.com/statistics)
- Ask your Realtor to find the homes that have been listed the longest (these sellers are most likely very motivated).
  - Try to buy without emotional attachment to a particular home... you can always turn one that isn't your first choice, into your dream home.
  - Get a home inspection done, to see needed work.
  - If repairs are needed, get a licensed contractor to give you an estimate, in writing, to submit with your offer.
  - Get your own buyer appraisal... an article in the Washington Post by Kenneth Harney, February 3<sup>rd</sup>, 2007 had this... "A new survey of the national appraisal industry found that 90 percent of appraisers reported that mortgage brokers, real estate agents, lenders and even consumers have put pressure on them to raise property valuations to enable deals to go through". It makes sense then, to have an appraiser working for you, not the seller, before you buy.
  - Use a cover letter, summarizing your market trend statistics, appraisal information, loan approval, home inspection results, contractors estimate etc., with your offer, to show the seller that your offer is sound. (A sample cover letter is attached)
  - Ask your Realtor to deliver your offer, in person, to the listing agent, to improve your chance of getting it accepted.
  - Remember to compare lender financing options and pricing, on an "apples to apples basis", not just on the rate quoted.

Remember this quote... "**Be willing to do today what others won't do, so you'll have what others won't have tomorrow**".

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# *SAMPLE LETTER*

## ***Offer to Purchase Memorandum***

We are very interested in buying the property at

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We are attaching our own appraisal (A), a licensed home inspector's report (B), a contractor's estimate of needed repair costs (C) and a market trend analysis summary for the subject property zip code from the San Diego MLS (with support documentation) (D).

We know that there are \_\_\_\_\_ months of inventory in the \_\_\_\_\_ zip code and an *average* market time of \_\_\_\_\_ (see circled items on #D support documentation). The cost for maintaining this listing will increase over time, so we are willing and able to close in 60 days or less. Our financing is in place (E) and we will provide other information as needed.

We feel that based on the attached information and in this declining market, our offer of \_\_\_\_\_, is fair and reasonable. We do want to purchase this property, so please accept our offer or counter, so we can negotiate further.

Sincerely,

Name

Phone

Email address