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NEI's Real Estate Report

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Renting for Monthly Loss Could Result in Long-Term Gain

by M. Anthony Carr

I received an email from a reader in Santa Barbara County, Calif., regarding the sale of her house that, once selling fees and closing costs are paid out, she would have to come to the table with a check to get out of the property.

"Right now, I believe my house to be worth around \$550,000. I need to move, and cannot decide whether selling at a loss, or leasing out for a couple years is the best move," she writes. "There are still many properties on the market in my town. I will only be able to recoup a little more than half of my [monthly] payment in rent each month.

"If I can afford to make up the difference for a year or two, would it be better to wait and sell when it has appreciated more? Right now, I would have to incur a loss just selling, as I would not even cover the costs of the Realtors fees. And the loss would not be tax deductible, as opposed to turning it into a rental and then deducting all losses next year or in the next few years. I am not a real estate investor, just a person with a house to sell because I am moving."

Well, there are a couple ways to look at this scenario, and I need you to follow along with me and twist your real estate investing paradigm with me.

The first step is to analyze the sale of the property. If you sell it at \$550,000 and must then deduct all your cost of sale and come out in the red ~ that doesn't sound like fun at all. Plus, it's a definite loss with no gain in the future. The only gain you would have realized here would be the tax deductions over the last couple of years. So, how much of a loss is it? \$10,000? \$25,000? \$100,000? The amount of the hit may determine if you sell, tuck your tail and run, or stand firm and wait it out.

On the rental side, again, let's analyze it. What's your monthly payment vs. your projected income? If you were to take the hit each month, how much would that amount be per month? \$500? \$750? \$1000? And can you sustain that "loss" every month for a couple of years?

Now, how much of a "loss" is that in a couple of years? \$5,000? \$10,000? \$15,000?

As you see, I keep highlighting "loss" inside parentheses. That's because in the traditional sense of real estate investment, most will tell you that you want to have a monthly cash flow ~ not cash negative (such a non-positive term). But that's assuming the only way to make money in real estate is through cash flow each month.

I would bet you don't look at your 401K in that fashion, do you? Most of us are more than willing to put in hundreds of dollars a month into that fund as a means of preparing for the gain at the time that you are going to retire. It's not a "negative" is it? It's an "investment."

But for some reason, many believe that if they are putting money into a real estate investment each month (collecting \$1000 in rent, but paying out \$2000 per month) that for some reason, I'm now taking a "loss" each month ~ to the tune of \$12,000 per year.

Consider this. If the market is turning around nationally (like I believe it is) and your property is about to increase in value each year over the next several years, then wouldn't it be prudent to put out that "negative" for a couple years if you could walk away with a huge gain later? That's exactly what we do with the stock market. (Search RealtyTimes.com for more comparison of stock vs. real estate investing.)

If that \$550,000 property would grow by 5 percent per year over the next couple of years, it would result in a capital growth of \$56,375 in two years. Now how does that \$1000 "loss" look per month, especially when you may be doubling that money in just two years?

If you can carry it, consider these questions: Where's the economy headed in your area? Up, down, sideways? If it's headed upward (new jobs, more commercial development), then compare that against how much real estate is on the market (local inventory) and how long it will take to absorb it. Are listings headed up or down for resales? Have builders pulled out of projects? If the prices have settled and are not continuing a downward trend, it may make sense to let it ride and hope for a gain on the back side.

Above all, check with an accountant for your particular situation. It may make sense to go ahead and take the short-term hit instead of waiting out the market.



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'Top Ten Things to Look For In A Realtor'

by Broderick Perkins

Choosing a full-time real estate agent isn't about anti-competitive behavior or shutting out part-time discounters. It's about obtaining full-time service for the full-time job of selling or buying what's likely the owner's or buyer's greatest asset.

With full-time service, comes value that offsets savings customers expect from a discounter.

If someone represents a client ever so often, how can they negotiate with someone who is out there looking and negotiating week after week?

In order to have knowledge about the market you must be always involved. An agent who is seeing new properties every week, and or looking on the weekends, will offer that advantage to a buyer or seller.

With a full-time agent as the No. 1 quality to seek in a real estate agent, here's a look at the "Top Ten Things to Look For In A Realtor."

Get a licensed agent working full time. Full service means the agent is working for you whenever you are in need. Full time agents are best prepared to resolve problems that crop up during negotiations and inspections as well as those that occur after the purchase.

"How can you possibly advise someone on an offer price when you haven't seen many of the homes that sold recently? It makes sense that someone who is doing something full time can offer more than someone who is part time or with a partial commitment to this industry.

Get an agent with passion, enthusiasm and dedication. This is the agent who goes the extra mile to get the best results, even with the going gets tough.

Get an agent with market savvy. Consistent sales in a given neighborhood reveals geographic market smarts that can save money. Knowledge is key.

Get an agent who is creative. Look for someone who can write purchase offers that excite a seller and satisfy the buyer. A primary concern in today's market is tighter lending requirements. Buyers need to be schooled in their risks and obligations to lenders.

An experienced agent will know the right questions to ask and have strong relationships with lenders they trust.

The point is to avoid having a client get into trouble. There is a delicate way of speaking about money and it is crucial that a serious talk is had before moving forward.

But money isn't everything.

Money is not the only solution to every problem. There are many things a seller can offer to make a hesitant buyer reconsider ~ time, financing conditions, offering personal property in the deal, making property adjustments that aren't costly but a time saver for the buyer. Each situation is different. A list of motivators can help sort out options that keep the deal together.

Get a tech-savvy agent. Most home transactions today begin on the Internet. All eventually get a technology assist.

In this day and age, people expect information the moment that it becomes available. Imagine, for instance, that your dream home comes on the market on a Monday evening. Now imagine that three or four days pass before your agent becomes aware. That gives other buyers just enough time to get their offer in and possibly take away your shot at that perfect home.

Get a team player. A real estate agent with a network of professionals at his disposal can take the screws out of finding a good handyman, insurance agent, mortgage broker, home inspector or a variety of other home buying and owning professionals you will need.

Get an agent with a licensed right hand man or woman. You'll often need someone to talk to when your agent isn't available. The assistant should have knowledge of the pertinent facts related to your transaction.

A full time agent has more than one client. It is no different than an experienced attorney or doctor. In order to be available for clients every day, an assistant is necessary. For example, a listing appointment could last for three hours and during that time someone could call to discuss an offer on your property. Would you want that call to go unreturned for hours? It is crucial that this kind of call be returned immediately.

Get a well-respected agent. Other agents make deals with agents they respect, trust and with whom they enjoy working.

Get the scoop on your agent. Ask to speak to past and present clients and ask to review multiple listing service (MLS) reports of his or her sales.

"Everyone understands the value of referrals. The MLS details will show what in fact that agent has sold and when those sales occurred.

Get an agent you trust.

It is imperative to select a Realtor who understands you, one that you respect and with whom you feel comfortable sharing your thoughts and concerns. Without a level of trust the client will not experience the full benefits of a full-time Realtor.



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